



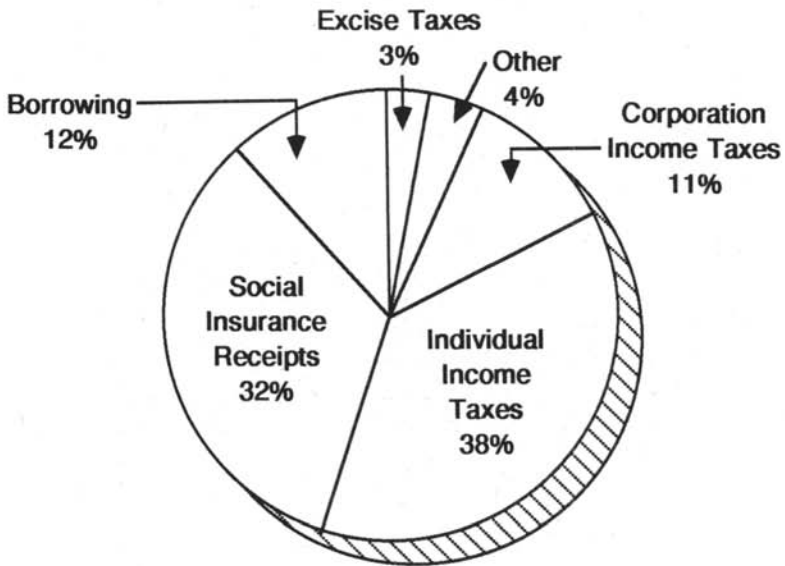
EXECUTIVE OFFICE OF
THE PRESIDENT
OFFICE OF MANAGEMENT
AND BUDGET

THE
UNITED STATES
BUDGET
IN BRIEF

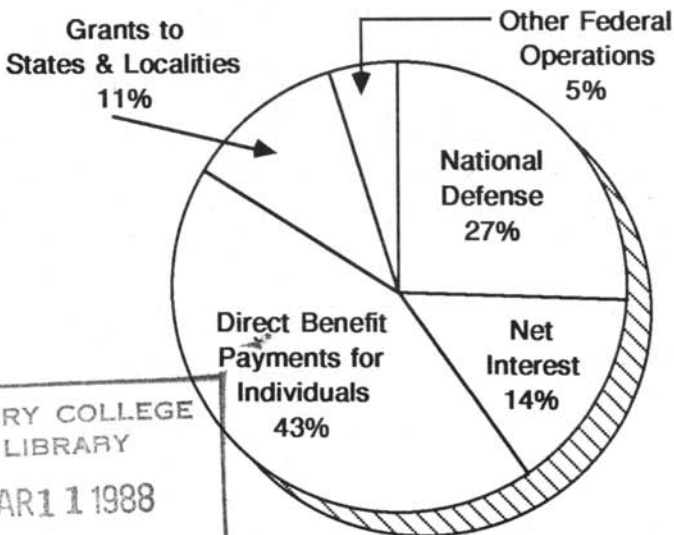
FISCAL YEAR
1989

The Federal Government Dollar Fiscal Year 1989 Estimate

Where It Comes From ...



Where It Goes ...



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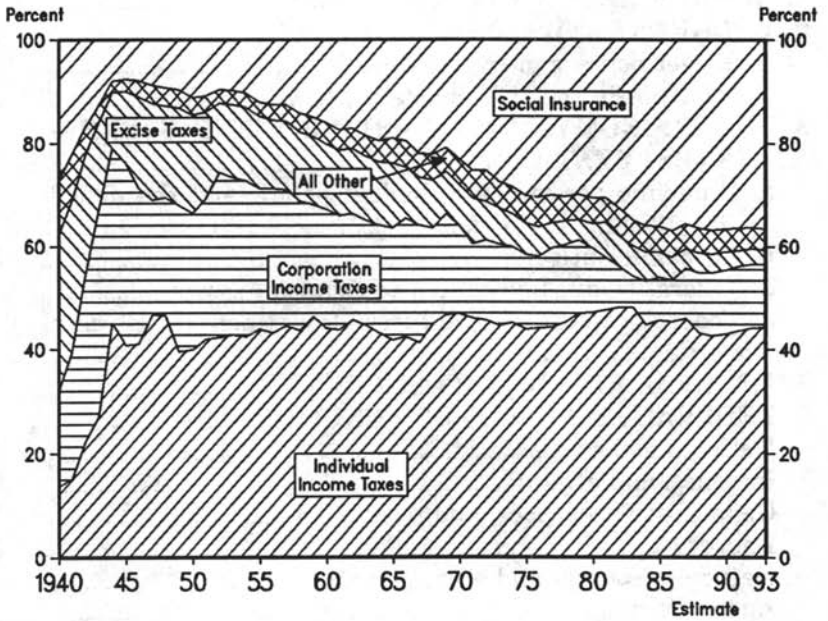
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GENERAL NOTES

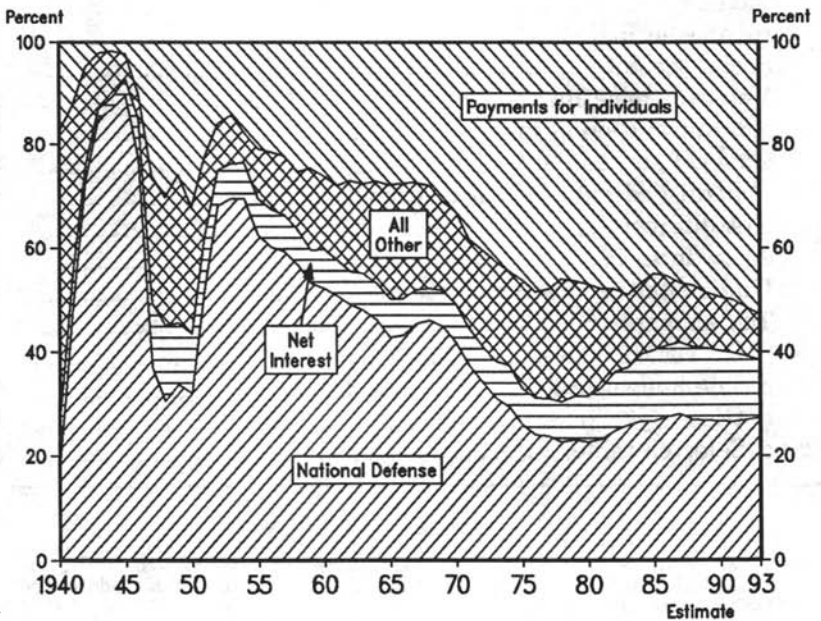
1. All years referred to are fiscal years, unless otherwise noted.

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 Congress of the United States:

As we consider the state of our Nation today, we have much cause for satisfaction. Thanks to sound policies, steadfastly pursued during the past 7 years, America is at peace, and our people are enjoying the longest peacetime economic expansion in our Nation's history.

By reordering priorities so that we spend more on national security and less on wasteful or unnecessary Federal programs, we have made freedom more secure around the world and have been able to negotiate with our adversaries from a position of strength. By pursuing market-oriented economic policies, we have uncorked the genie of American enterprise and created new businesses, more jobs, improved production, and widespread prosperity. And we have done all this without neglecting the poor, the elderly, the infirm, and the unfortunate among us.

SEVEN YEARS OF ACCOMPLISHMENT

Let me note a few of the highlights from our Administration's record of accomplishment:

- The current expansion, now in its sixty-third month, has outlasted all previous peacetime expansions in U.S. history. Business investment and exports are rising in real terms, foreshadowing continued economic growth this year and next.
- Since this expansion began, 15 million new jobs have been created, while the unemployment rate has fallen by 5 percentage points—to 5.7 percent, the lowest level in nearly a decade. By comparison, employment in other developed countries has not grown significantly, and their unemployment rates have remained high.
- Inflation, which averaged 10.4 percent annually during the 4 years before I came to office, has averaged less than a third of that during the past 5 years.
- The prime interest rate was 21.5 percent just before I came into office; it is now 8.5 percent; the mortgage rate, which was 14.9 percent, is now down to 10.2 percent.

- Since 1981, the amount of time spent by the public filling out forms required by the Federal Government has been cut by hundreds of millions of hours annually, and the number of pages of regulations published annually in the *Federal Register* has been reduced by over 45 percent.
- Between 1981 and 1987, changes in the Federal tax code, including a complete overhaul in 1986, have made the tax laws more equitable, significantly lowered earned income tax rates for many individuals and corporations, and eliminated the need for 4.3 million low-income individuals or families to file tax forms.
- At the same time, real after-tax personal income has risen 15 percent during the past 5 years, increasing our overall standard of living.
- The outburst of spending for means-tested entitlement programs that occurred in the 1970's has been curbed. Eligibility rules have been tightened to retarget benefits to the truly needy, and significant progress has been made in improving the efficiency and effectiveness of these programs.
- We have begun the process of putting other entitlement programs on a more rational basis. This includes medicare, which was converted from cost-plus financing to a system that encourages competition and holds down costs.
- Federal spending for domestic programs other than entitlements has been held essentially flat over the past 5 years, while basic benefits for the poor, the elderly, and others in need of Federal assistance have been maintained. This is a dramatic improvement over the unsustainably rapid annual growth of these programs that prevailed before 1981.
- The social security system has been rescued from the threat of insolvency.
- Our defense capabilities have been strengthened. Weapons systems have been modernized and upgraded. We are recruiting and retaining higher caliber personnel. The readiness, training, and morale of our troops have been improved significantly. Because we are stronger, enormous progress has been achieved in arms reduction negotiations with the Soviet Union.
- Federal agencies have undertaken a major management improvement program called "Reform '88." This program has two main objectives: to operate Federal agencies in a more business-like manner, and to reduce waste, fraud, and abuse in government programs.
- Some functions of the Federal Government—such as financing waste treatment plants—are being transferred back to State and local governments. In other instances—such as water projects—State and local governments are bearing a

larger share of costs, leading to more rational decision-making in these areas.

- Finally, we have made real progress in privatizing Federal activities that are more appropriate for the private sector than government. Notable examples include the sale of Conrail, the long-term lease of National and Dulles Airports, and the auction of billions of dollars in loan portfolios.
- Related to this shift away from the Federal budget are our achievements on cost sharing and user fees, shifting the cost of projects and programs where appropriate to non-Federal sources.

While we have reason to be proud of this record of achievement, we must be vigilant in addressing threats to continued prosperity. One major threat is the Federal deficit.

DEFICIT REDUCTION, THE AGREEMENT, AND G-R-H

If the deficit is not curbed by limiting the appetite of government, we put in jeopardy what we have worked so hard to achieve. Larger deficits brought on by excessive spending could precipitate rising inflation, interest rates, and unemployment. We cannot permit this to happen, and we will not.

BUDGET SUMMARY

(In billions of dollars)

	1987	1988	1989	1990	1991	1992	1993
Receipts.....	854.1	909.2	964.7	1,044.1	1,124.4	1,189.9	1,258.1
Outlays.....	1,004.6	1,055.9	1,094.2	1,148.3	1,203.7	1,241.0	1,281.3
Surplus or deficit (—).....	–150.4	–146.7	–129.5	–104.2	–79.3	–51.1	–23.3
Gramm-Rudman-Hollings deficit targets.....	–144.0	–144.0	–136.0	–100.0	–64.0	–28.0	0.0
Difference.....	6.4	2.7	–6.5	4.2	15.3	23.1	23.3

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

The Congress acknowledged the pressing need to reduce the deficit when, in December 1985, it enacted the Balanced Budget and Emergency Deficit Control Act, commonly known for its principal sponsors as the Gramm-Rudman-Hollings (G-R-H) Act. This Act committed both the President and the Congress to a fixed schedule of progress toward balancing the budget.

In 1987, the budget deficit was \$150 billion—down \$71 billion from the record level of \$221 billion reached in 1986. This was also a record decline in the deficit. To some extent, however, this improvement represented one-time factors, such as a high level of receipts in the transitional year of tax reform. Economic forecasters predicted that without action the 1988 and 1989 deficits would be higher than the 1987 level. In order to prevent this, and to preserve and build upon the 1987 deficit-reduction progress in a

realistic fashion, last fall the Congress modified the G-R-H Act. Specifically, it required that the 1988 deficit target be \$144 billion and the target for 1989 be \$136 billion.

Last year, members of my Administration worked with the Leaders of Congress to develop a 2-year plan of deficit reduction—the Bipartisan Budget Agreement. One of the major objectives of the budget I am submitting today is to comply with that agreement—in order to help assure a steady reduction in the deficit until budget balance is achieved.

The Bipartisan Budget Agreement reflects give and take on all sides. I agreed to some \$29 billion in additional revenues and \$13 billion less than I had requested in defense funding over 2 years. However, because of a willingness of all sides to compromise, an agreement was reached that pared \$30 billion from the deficit projected for 1988 and \$46 billion from that projected for 1989.

In submitting this budget, I am adhering to the Bipartisan Budget Agreement and keeping my part of the bargain. I ask the Congress to do the same. This budget does not fully reflect my priorities, nor, presumably, those of any particular Member of Congress. But the goal of deficit reduction through spending reduction must be paramount. Abandoning the deficit reduction compromise would threaten our economic progress and burden future generations.

This budget shows that a gradual elimination of the deficit is possible without abandoning tax reform, without cutting into legitimate social programs, without devastating defense, and without neglecting other national priorities.

Under the Bipartisan Budget Agreement, progress toward a steadily smaller deficit and eventual budget balance will continue, but this projected decline rests on two assumptions: continued economic growth, and implementation of the Agreement. If the economy performs as expected, and if the Bipartisan Budget Agreement reflected in this budget is adhered to, the deficit should decline to less than 3 percent of GNP in 1989. For the first time in several years, the national debt as a proportion of GNP will actually fall. Reducing the deficit and the debt in this manner would bring our goal of a balanced budget and a reduced burden on future generations much closer to realization.

Moreover, adherence to the Agreement, as reflected in this budget, will ensure the achievement of additional deficit reductions in future years, because in many cases the savings from a given action this year will generate deficit savings in subsequent years. Given the good start made in 1987, we have an opportunity this year to put the worst of the deficit problem behind us.

MEETING NATIONAL PRIORITIES

In formulating this budget, I have endeavored to meet national priorities while keeping to the terms of the Bipartisan Budget Agreement and the G-R-H Act. In essence, the Agreement limits the 1988-to-1989 increase in domestic discretionary program budget authority to 2 percent. To address urgent national priorities insofar as possible within this overall 2 percent limit, my budget proposes that some programs—such as those for education, drug enforcement, and technology development—receive larger funding increases, while others are reduced, reformed, or, in some cases, terminated.

High-priority programs must be funded adequately. One of our highest priorities is to foster individual success through greater education and training opportunities. For example:

- I propose an increase of \$656 million over the \$16.2 billion appropriated for 1988 for discretionary programs of the Department of Education. Although State and local governments fund most educational activity, Federal programs provide crucial aid for the poor, the handicapped, and the educationally disadvantaged.
- I have proposed reform of our over-centralized welfare system through State experimentation with innovative alternatives. In addition, my initiative would overhaul current employment and training programs for welfare recipients, and strengthen our national child support enforcement system.
- By emphasizing housing vouchers, I would provide housing assistance to 135,500 additional low-income households in 1989—8 percent more than the 125,000 additional households receiving housing subsidies in 1988.
- Ineffective programs to assist dislocated workers would be replaced by an expanded \$1 billion worker readjustment program (WRAP) carefully designed to help those displaced from their jobs move quickly into new careers.

In addition, I am proposing funds to strengthen U.S. technology and make America more competitive. For example:

- I propose a continued increase in federally supported basic research aimed at longer-term improvements in the Nation's productivity and global competitiveness. This budget would double National Science Foundation support for academic basic research, increase support for training future scientists and engineers, and expedite technology transfer of Government-funded research to industry.
- I would provide \$11.5 billion for space programs, including: essential funding for continued development of America's first permanently manned Space Station; increased support for improving the performance and reliability of the space shuttle; a

major new initiative, the Advanced X-ray Astrophysics Facility, for space science; further support to encourage the commercial development of space; and a new technology effort, Project Pathfinder, designed to develop technologies to support future decisions on the expansion of human presence and activity beyond Earth's orbit, into the solar system.

- I also recommend \$363 million in 1989 to initiate construction of the Superconducting Super Collider (SSC), including \$283 million for construction and \$60 million for supporting research and development. The SSC as currently envisaged will be the largest pure science project ever undertaken. It will help keep this country on the cutting edge of high energy physics research until well into the next century.

This budget also reflects my belief that the health of all of our citizens must remain one of our top priorities:

- I continue to urge enactment of an affordable self-financing insurance program through medicare to protect families from economic devastation caused by catastrophic illness.
- To attack the scourge of AIDS, I propose \$2 billion for additional research, education, and treatment in 1989—a 38 percent increase over the 1988 level and more than double the Federal Government's effort in 1987. This includes \$1.3 billion in funding for the Public Health Service.
- Building upon the Nation's preeminence in basic biomedical research, I seek a 5.1 percent increase for non-AIDS research at the National Institutes of Health;

Our fight against drug abuse must continue, as well as our efforts to protect the individual against crime:

- For expanded law enforcement, including efforts targeted at white collar crime, organized crime, terrorism and public corruption, I propose \$4.5 billion—an increase of 6 percent over 1988.
- For drug law enforcement, prevention, and treatment programs, I propose \$3.9 billion in 1989, a 13 percent increase over the 1988 level.
- To relieve prison overcrowding and adequately house a growing inmate population, I would provide \$437 million—more than double the \$202 million devoted to Federal prison construction in 1988.

Other areas of Federal responsibility receive priority funding in this budget:

- For the Federal Aviation Administration to continue its multi-year program to modernize the Nation's air traffic control systems, I would provide \$1.6 billion—a 44 percent increase over the level of 1988.
- To improve coordination of Federal rural development programs and to redirect funding toward needy rural areas and

program recipients, I propose a rural development initiative to be coordinated by the Secretary of Agriculture.

- To carry out the joint recommendations of the U.S. and Canadian Special Envoys on Acid Rain, I recommend total funding of \$2.5 billion for innovative clean coal technology demonstration projects over the period 1988 through 1992.
- I also recommend an expansion of hazardous waste cleanup efforts, with an increase in Superfund outlays of some \$430 million in 1989.
- To continue filling the Strategic Petroleum Reserve (SPR) at the current rate of 50,000 barrels per day, I would provide \$334 million in 1989. Contingent upon the enactment of legislation authorizing the sale of the Naval Petroleum Reserves (NPR), I would provide an additional \$477 million to bring the fill rate up to 100,000 barrels per day, and an additional \$208 million to establish a separate 10 million barrel defense petroleum inventory to offset the disposition of the NPR.
- To improve the speed and accuracy of tax processing and expand information services provided to taxpayers, I would provide a \$241 million increase for the Internal Revenue Service. These funds are designed to assure smooth implementation of the 1986 tax reforms.

Maintaining peace in a troubled world is the most important responsibility of government. Fortunately, during the past 7 years, our defense capabilities have been restored toward levels more consistent with meeting our responsibility to provide an environment safe and secure from aggression. Specifically, combat readiness has been improved, and our forces have been modernized.

The proposals for national security contained in this budget represent an essential minimum program for keeping America safe and honoring our commitments to our friends and allies. Anything less would jeopardize not only our security—and that of our friends and allies—but also would dim the prospects for further negotiated agreements with our adversaries.

As called for in the Bipartisan Budget Agreement, my budget requests defense funding of \$299.5 billion in budget authority and \$294.0 billion in outlays for 1989. It also provides for about 2 percent real growth in these programs in future years. Also, as called for in the Agreement, my budget requests \$18.1 billion in budget authority for discretionary spending for international affairs. This includes \$8.3 billion in security assistance to allied and friendly countries where the United States has special security concerns.

NEEDED PROGRAMMATIC REFORMS

Incentives.—It is essential to continue to change the incentive structure for many domestic Federal programs to promote greater efficiency and cost-effectiveness. This budget proposes to create such needed incentives.

Many Federal programs offer payments without sufficient regard for how well taxpayers' money is being spent. For example, farm price support programs, under the Food Security Act of 1985, are much too costly. I plan to continue pushing for the elimination of artificially high price supports, thereby reducing the need for export subsidies. In particular, I plan to propose amendments to the Act to modify the counterproductive sugar price support program that currently poses significant problems in the areas of trade policy, foreign policy, and agricultural policy. The importance of agricultural trade to the economic health of the farm sector and the Nation as a whole mandates increased reliance on free markets, not government largess.

The budget proposes certain reforms in the medicare program in order to achieve the savings agreed to in the Bipartisan Budget Agreement. First, as justified by the results of several independent studies, I propose to reduce the add-on payment for teaching hospitals under the prospective payment system (PPS) for indirect medical education from 7.70 percent to 4.05 percent, the best estimate of the added costs incurred historically by teaching hospitals. Second, I propose to limit medicare overhead payments for graduate medical education and make consistent varying secondary payor enforcement mechanisms. To reduce escalating supplementary medical insurance costs and help slow future increases in beneficiary premiums, I propose to limit payments for certain overpriced physician procedures, limit payments for durable medical equipment and supplies, and eliminate a loophole in the payment process for kidney dialysis. In total, these reforms would reduce spending for medicare by \$1.2 billion from the level that would occur if current law were continued. Spending for the medicare program would still increase by 7 percent from 1988 to 1989.

Although the provision of needed legal services for those who cannot afford them is an important goal in our society, the current system earmarks a large portion of the funding to "National and State Support Centers" that have been criticized for political involvement. I urge Congress to disallow use of Federal funds for such "think tanks" and limit the use of funds to the *direct* assistance of the poor in need of legal aid.

The Government often continues programs at the Federal level that are no longer needed. This is the case with rural housing programs, the Economic Development Administration, urban mass transit discretionary grants, urban development action grants,

sewage treatment, Small Business Administration direct loans, housing development action grants, the housing rehabilitation loan program, and economic development programs of the Tennessee Valley Authority. Efforts to reverse this situation have been undertaken by prior administrations as well as my own, but the limited results to date indicate the difficulty of curbing excessive government involvement in these areas.

Regulatory Relief.—For 7 years I have worked to reduce the excess burdens of government regulation for all Americans—working men and women, consumers, businesses, and State and local governments. As a result, various departments and agencies have reduced the scope and costs of Federal regulation. Federal approval of experimental drugs has been expedited, making them available to treat serious or life-threatening diseases when other treatments do not work. Excessive burdens on State and local governments are being lifted. Access to goods and services has been made easier, and at less cost. Federal reporting requirements on individuals and businesses have been eased, as well as the paperwork burden on those who wish to compete for contracts with the Federal Government. Under the leadership of the Presidential Task Force on Regulatory Relief, headed by the Vice President, the Administration will continue these and other efforts to lessen the burden of excessive government regulation.

As a case in point, my budget proposes termination of the Interstate Commerce Commission, contingent upon enactment of legislation that completes deregulation of the motor carrier industry. There is no justification for continued economic (as opposed to safety) regulation of surface transportation, and there is a substantial argument against it. As a result of economic deregulation of trucking and railroads, consumers save tens of billions of dollars each year, and the industry is healthier, more innovative, and better able to adapt to changing economic circumstances. This is no time to turn back the clock.

Privatization.—The government and the private sector should do what each does best. The Federal Government should not be involved in providing goods and services where private enterprise can do the jobs cheaper and/or better. In some cases, the fact that no private provider exists is a reflection of government policy to prohibit competition—as with first class mail service. In other cases, an absence of private providers reflects a government policy of providing large subsidies—as with uranium enrichment. Invariably, the taxpayer ends up paying more for less.

Accordingly, my budget proposes that a number of Federal enterprises be transferred back to the private sector, through public offerings or outright sales. Following our successful sale of Conrail

and auctioning of \$5 billion in selected loan portfolios, I am proposing the sale not only of the Naval Petroleum Reserves, but also of the Alaska Power Administration, the Federal Government's helium program, excess real property, and a further \$12 billion in loan portfolios. In addition, I have proposed legislation to authorize a study of possible divestiture of the Southeastern Power Administration, and plan to study possible privatization of our uranium enrichment facilities, as well as ways of making the U.S. Postal Service more efficient through greater reliance on the private sector. Such "privatization" efforts continue to be a high priority of this Administration, and I look forward to acting on the final recommendations of the Privatization Commission, which I established last September.

Privatization does not necessarily imply abrogation of government responsibility for these services. Rather, it recognizes that what matters is the service provided, not who provides it. Government has an inherent tendency to become too big, unwieldy, and inefficient; and to enter into unfair competition with the private sector.

The Federal Government should also depend more on the private sector to provide ancillary and support services for activities that remain in Federal hands. Therefore, I am proposing the development of a private mediating institution to reduce the backlog of cases before the U.S. Tax Court. I propose that the private sector be relied upon for booking functions for concessional food programs. I also encourage the complete privatization of wastewater treatment plants, certain mass transit projects, the Department of Agriculture's National Finance Center, and the Rural Telephone Bank.

In addition, our Administration plans to initiate privatization and commercialization efforts involving Federal prison industries, relying on a private space facility for micro-gravity research opportunities in the early 1990's, commercial cargo inspection, military commissaries, Coast Guard buoy maintenance, and the management of undeveloped Federal land. Moreover, my budget proposes that the work associated with certain Federal employment positions be reviewed for the feasibility of contracting their responsibilities out to the private sector as yet another way to increase productivity, reduce costs, and improve services.

One of the best ways to test the worth of a governmental program or a particular project is to shift some of the cost of that program or project to the direct beneficiaries. We have done that, for example, with water resources development projects. As a result, local sponsors and users choose to proceed only on the projects that are most important and most cost effective.

Management Improvements.—As we all know, the Federal Government has a major effect upon our daily lives through the direct delivery of services, the payment of financial assistance through various entitlement programs, the collection of taxes and fees, and the regulation of commercial enterprises. As the 21st century approaches, the Federal Government must adapt its role in our society to meet changing demands arising from changing needs and requirements. At the turn of the century, the U.S. population will exceed 268 million, with a greater proportion of elderly requiring more specialized services. The Nation will operate at a much faster pace as changes in technology and communication link the world's economies, trade, capital flows, and travel as never before.

I have asked the Office of Domestic Affairs and the Office of Management and Budget to work with the President's Council on Management Improvement to conduct an in-depth review and recommend to me by this August what further adjustments in the Federal role should be made to prepare for the challenge of government in the 21st century. This summer I will receive their report, "Government of the Future." I also intend to complete the "Reform '88" management improvement program I started 6 years ago to overhaul the administrative, financial, and credit systems in our Federal Government; to implement productivity and quality plans in each agency; and to examine the needs of the Federal work force of the future. I want to leave a legacy of good management of today's programs, with plans in place to handle tomorrow's challenges.

Efforts to improve the management of the Federal Government must be continued. We have all heard stories of the horrible waste that occurs in the Federal Government. Some of it is obvious—like the billions of dollars in unneeded projects that were included in the thousand-page 1988 spending bill that was dropped on my desk last December. Some are not obvious—like the billion dollars in unnecessary interest expense the government paid, year after year, because it lacked a cash management system, or the billions of dollars lost annually for lack of a credit management process to ensure collection of the trillion dollars in loans owed the Federal Government.

In July 1980, I promised the American people: "I will not accept the excuse that the Federal Government has grown . . . beyond the control of any President, Administration or Congress . . . we are going to put an end to the notion that the American taxpayer exists to fund the Federal Government. The Federal Government exists to serve the American people . . . I pledge my Administration will do that." I have delivered on that promise.

The first step was taken within months after my inauguration when I formed the President's Council on Integrity and Efficiency, composed of the agency Inspectors General. By the time I leave

office, they will have delivered savings of over \$110 billion in reduced waste, fraud, and abuse to the American people.

Then, in March 1982, I initiated the world's largest management improvement program with these words: "With Reform '88 we're going to streamline and reorganize the processes that control the money, information, personnel and property of the Federal bureaucracy." I told my Cabinet at that time that "we have six years to change what it took twenty or thirty to create—and we came to Washington to make changes!" I have followed up on that commitment. The President's Council on Management Improvement has overseen this effort, and is generating significant results.

These efforts are described in greater detail in my *Management Report*, which is being submitted concurrently. They can succeed only if all Federal managers and employees work together. Therefore, I propose in this budget a new approach to paying Federal employees who increase their productivity. I ask the Congress to modify the current system of virtually automatic "within-grade" pay increases for the roughly 40 percent of employees eligible each year to one that is based on employee performance. This will give Federal employees stronger incentives to improve service delivery and reduce costs to the taxpayer.

THE BUDGET PROCESS

As I have stressed on numerous occasions, the current budget process is clearly unworkable and desperately needs a drastic overhaul. Last year, as in the year before, the Congress did not complete action on a budget until well past the beginning of the fiscal year. The Congress missed every deadline it had set for itself just 9 months earlier. In the end, the Congress passed a year-long, 1,057-page omnibus \$605 billion appropriations bill with an accompanying conference report of 1,053 pages and a reconciliation bill 1,186 pages long. Members of Congress had only 3 hours to consider all three items. Congress should not pass another massive continuing resolution—and as I said in the State of the Union address, if they do I will not sign it.

I am asking for a constitutional amendment that mandates a balanced budget and forces the Federal Government to live within its means. A constitutional amendment to balance the Federal budget—and a provision requiring a super-majority vote in the Congress to increase taxes—would impose some much-needed discipline on the congressional budget process. Ninety-nine percent of Americans live in States that require a balanced State budget, and a total of 32 States already have passed resolutions calling for a convention for the purpose of proposing a balanced budget amendment to the U.S. Constitution.

Also, I am asking the Congress for a line-item veto, so that my successors could reach into massive appropriation bills such as the last one, cut out the waste, and enforce budget discipline. Forty-three State Governors have a line-item veto; the President should have this power as well. As Governor of the State of California (1967–1975), I used the line-item veto 943 times. The California State legislature upheld each of these vetoes, even though both Houses were controlled by the opposition party.

In addition, I propose the following further reforms to the budget process:

- (1) *Joint budget resolution.* The budget process has so degenerated in recent years that the presidential budget is routinely discarded and the congressional budget resolution is regularly disregarded. As a remedy, I propose that henceforth the Congress and the Executive collaborate on a joint resolution that sets out spending priorities within the receipts available. The requirement of a Presidential signature would force both branches of government to resolve policy differences before appropriations measures must be formulated. The budget process could be further improved by including in the budget law allocations by committee as well as by budget function.
- (2) *Individual transmittal of appropriation bills.* The current practice of transmitting full-year continuing resolutions skirts appropriations committee-subcommittee jurisdictions. More importantly, it does not permit the Legislative and Executive branches to exercise proper scrutiny of Federal spending. Therefore, I propose a requirement that appropriations bills be transmitted individually to the President.
- (3) *Strict observance of allocations.* During the 1980s, an unacceptable budget practice evolved within the Congress of disregarding congressionally approved function allocations. Funds regularly were shifted from defense or international affairs to domestic spending. I strongly urge that each fiscal year separate national security and domestic allocations be made and enforced through a point of order provision in the Budget Act.
- (4) *Enhanced rescission authority.* Under current law, the President may propose rescissions of budget authority, but both Houses of Congress must act “favorably” for the rescission to take effect. In 1987, not a single rescission was enacted, or even voted on, before expiration of the 45-day deadline. I propose a change of law that would require the Congress to vote “up or down” on any presidentially proposed rescission, thereby preventing the Congress from ducking the issue by simply ignoring the proposed rescission and avoiding a recorded vote.
- (5) *Biennial budgeting.* The current budget process consumes too much time and energy. A 2-year budget cycle offers several advantages—among them, a reduction in repetitive annual

budget tasks, more time for consideration of key spending decisions in reconciliation, and less scope for gimmicks such as shifting spending from one year to the next. I call on the Congress to adopt biennial budgeting.

- (6) *Truth in Federal spending.*—As part of my Economic Bill of Rights, I will shortly transmit legislation that will require any future legislation creating new Federal programs to be deficit-neutral. In addition to requiring the concurrent enactment of equal amounts of program reductions or revenue increases, my proposal would require that all future legislation and regulations be accompanied by financial impact statements, including the effect on State and local governments.

Adoption of these reforms should enable the Federal Government to make informed decisions in a deliberate fashion that fosters rational priorities. The American people deserve no less from their elected representatives.

CONCLUSION

Looking back over the past 7 years we can feel a sense of pride in our accomplishments. Important tasks remain, however. The large and stubbornly persistent budget deficit has been a major source of frustration. It threatens our prosperity and our hopes for lessening the burden on future generations.

Two years ago, the Legislative and Executive branches of government responded to this threat by enacting the G-R-H Act, which mandated gradual, orderly progress toward a balanced budget over the next several years. My budget achieves the 1989 target of the amended Act while preserving legitimate programs for the aged and needy, providing for adequate national security, devoting more resources to other high-priority activities, and doing so without raising taxes.

My budget also embodies the Bipartisan Budget Agreement reached last November. In presenting this budget, I am keeping my end of the bargain. I call upon the Congress to uphold its end—by ensuring that appropriations and other legislation are in full accord with the Agreement. By exercising this measure of restraint and self-discipline, we can secure great benefits for the Nation: a lower budget deficit, reduced demand on credit markets, more stable financial markets, a steadily declining trade deficit, and continued prosperity with non-inflationary growth. And, by reforming the budget process, the Congress can improve its decisionmaking and garner the thanks of a grateful public. Surely, these are small prices for what is at stake.

RONALD REAGAN

FEBRUARY 18, 1988

Part 2a

BUDGET POLICY AND TRENDS SINCE 1980

In the 1980s the growth rate of Federal spending has been cut sharply, and budget priorities have been reordered. Real Federal spending is projected to increase by 26 percent for the decade; it rose 37 percent in the 1970s and more than 50 percent in both the 1950s and 1960s. Despite the slowdown, Federal outlays accounted for a slightly larger share of GNP in 1987 than they did in 1980, but recently this share has been declining. The budget proposes a further decline to 21.8 percent by 1989, making this the first decade since the end of World War II in which Federal spending would decline as a share of GNP.

Reordering Priorities.—The slower growth of Government was accompanied by a restructuring of the budget. The Federal Government is now devoting more of its resources to fulfilling basic Federal responsibilities that are not met elsewhere.

- Defense capabilities have been substantially rebuilt to levels that enable the Nation to provide for its own defense and meet its international commitments.
- Programs for the poor have increased in real terms, albeit at a slower rate than in the 1970s, a period of especially high growth.
- Income security and health expenditures for the elderly and retirees have grown, continuing the national commitment to these groups; the economic status of the elderly has continued to improve.
- The core executive, legislative, and judicial functions of the central Government, including enforcing the laws and conducting foreign policy, have been maintained and strengthened.
- Grants to State and local governments (excluding payments for individuals), which grew rapidly during the 1970s, have been cut substantially, but these governments, in general, have been able to adjust to the change without undue stress; in the aggregate, they have run surpluses since the end of the recession.

- Lower priority domestic programs, which also grew rapidly during the 1970s, have been curtailed.

For purposes of analysis it is convenient to divide the budget into certain broad categories: defense, interest on the Government's debt, payments to individuals, and other Federal programs. In this decade, the shares of the budget devoted to defense and interest have risen while the share devoted to payments to individuals has been largely unchanged. The share for other Federal programs has declined.

National Defense.—In the 1970s defense spending declined from 44 percent of all Federal expenditures to 24 percent, and military capability was allowed to deteriorate. A basic priority of the Reagan administration has been to rebuild our national defenses. An increase of 52 percent in real outlays was achieved from 1980 through 1987, raising the level of real spending to \$250 billion (in constant fiscal year 1982 dollars). Both strategic and conventional forces have been strengthened, but as a share of GNP, defense outlays are still less than in the prosperous peacetime years from 1955 to 1964 (6.4 percent vs. 10 percent).

Basic Government Activities.—The administration has maintained or increased outlays on the core functions of Government, which together with national defense are the most basic responsibility of any national government. More than half of the outlays for legislative and central executive functions were spent for tax collection, and outlays for that purpose were the fastest growing component in this category. The administration has made major investments to improve compliance with the tax laws and to collect more of the revenue due the Government. Its commitment to tax rate reduction and tax reform is combined with a desire to make tax administration fair and equitable.

The Federal Government has major law enforcement responsibilities. Real spending increased in the 1980s for Federal law enforcement agencies and U.S. Attorneys, and the budget proposes increased funding for Federal prisons. State and local governments, however, have an equally important responsibility for maintaining public safety. The administration has sought to reduce spending where State and local governments could take the leading role as in providing legal counsel to the poor. The campaign against drugs has been one of the administration's top priorities. Since 1980, the Federal budget for anti-drug programs has increased 150 percent, from just under \$1.2 billion to a proposed level of nearly \$2.9 billion.

The administration's foreign policy has sought to counter the gains made by the Soviet Union and its surrogates during the 1970s. These efforts have been successful in expanding democracy

and resisting the spread of totalitarianism. Real spending on international affairs programs rose by 32 percent between 1980 and 1986. Unfortunately, since 1986, Congress has been less willing to provide funds and real spending has declined sharply.

Low-Income Benefit Programs.—Real outlays for income support programs increased by almost 150 percent between 1970 and 1980. In the 1980s, this explosive growth was brought under control, but the poor were not abandoned. Contrary to much popular discussion, real outlays on economic protection for the poor have continued to grow during most years of this administration. In 1987, real outlays were \$71.8 billion, 17 percent higher than in 1980. Medicaid has been the source of much of this growth. Real medicaid outlays have increased by 41 percent. Real outlays for food stamps have declined slightly as assistance has been targeted more narrowly to those most in need.

There has been a reduction in real budget authority from \$95.6 billion to \$72.3 billion for these programs, but that decline is misleading. All of the reduction occurred in the housing programs and two-thirds of it was due to a highly beneficial reform that shifted budgetary resources from expensive subsidies for new construction to helping people obtain housing in private buildings that were already built. As a result of this switch, the average amount of time per housing unit covered by the budget authority declined from 20 to 30 years per unit to 5 to 15 years. It was this reduction rather than a cut in benefits that explains most of the decline in budget authority for programs in this category. Real outlays under HUD's subsidized programs rose 68 percent reaching \$10.6 billion in 1987, and over 1.5 million more households are being helped than in 1980.

Federal benefits have increased relative to the number of poor people. The real level of benefits per person below the poverty line reached an all-time high of \$2,170 in 1986. Total benefits rose in 1987, and although the number of people below the poverty line in 1987 will not be known for certain until this summer, it was almost surely less than in 1986, so benefits per person have continued to rise. In fact, a higher percentage of Federal assistance now goes to the people in greatest need because programs like food stamps and housing subsidies have been targeted more directly on those below the poverty line. New programs have also been created to meet newly perceived needs, such as homelessness, and the administration has proposed a new initiative to offer incentives for those on welfare to acquire the skills they need to achieve productive jobs.

Benefits for the Elderly and Retirees.—Programs for the elderly and retirees have grown steadily under this administration. Real outlays rose 32 percent between 1980 and 1987 reaching \$282 bil-

lion. Most of the growth came in two programs, social security and medicare. While maintaining the commitment to provide social insurance for the elderly, Federal policy in the 1980s has sought to bring the costs of these programs within sustainable limits. Reforms to preserve social security were passed in 1983. These reforms restrained outlays and increased receipts putting social security on a sounder actuarial basis. Reforms were also enacted in the Federal civilian and military retirement systems that will save money in the long run. The new Federal employees retirement system (FERS) integrates social security and Federal pensions for new Federal civilian workers hired since 1984.

Medicare has grown substantially during the 1980s. Real outlays have increased 69 percent between 1980 and 1987 reaching \$67.2 billion. This growth has been a serious fiscal problem throughout this decade; the administration has proposed and Congress has enacted reforms almost every year. The enacted reforms have differed in some ways from the administration's proposals, but there is a clear consensus that costs must be contained.

Health.—Health programs generally have expanded rapidly. Between 1980 and 1987, real Federal outlays for health rose 52 percent to \$100.0 billion. Even this rapid rate of increase was smaller than in the 1970s. Medicaid and medicare have been the most rapidly growing programs for the poor and elderly. Real outlays for hospital and medical care for veterans rose 15 percent from 1980 to 1987. Most veterans who use the system are either service-disabled or have a low income. In 1986, eligibility rules were modified giving priority to low-income veterans.

Federal outlays for health parallel the growth in total health expenditures in the United States. Costs are projected to continue increasing at a rapid rate for both medicare and medicaid, and further action to control costs will be needed.

Other Payments to Individuals.—The main programs in this category are unemployment compensation, higher education programs, and veterans benefits. Real outlays for this group of programs have declined primarily because of reductions in the number of people needing assistance.

Following the end of the 1981-1982 recession, unemployment declined, and real outlays for unemployment compensation fell substantially with most of the decline occurring in 1984. Real outlays were one-third lower in 1987 than in the recession year of 1980. Real outlays for veterans compensation grew just 2 percent from 1980 to 1987 as the number of beneficiaries and eligible veterans declined. Spending on veterans education benefits also declined as the number of Vietnam-era veterans receiving training fell by 80

percent. The new Montgomery GI bill, however, will lead to an increase in these expenditures over the next four years.

Other Priorities.—The administration has identified certain Federal domestic responsibilities that deserve high priority including AIDS prevention, treatment, and education; support for science and basic research; the space program; and improvements in the air traffic control system. Real outlays to fight AIDS will more than double between 1987 and 1989. Other programs have received less priority and spending for them has been scaled back.

Real Federal outlays for nondefense basic research rose 39 percent from 1980 to 1987 while real outlays for nondefense applied research and development declined over the same period. Funding for exotic energy technologies has been cut; the administration has relied instead on market incentives and decontrolled prices to encourage energy conservation and to guide investment in new technology. Much of the earlier Federal investment in new technologies was wasted when energy prices fell in the 1980s.

Grants to State and Local Governments.—Federal grants to other levels of government were cut back sharply in real terms in the 1980s. Real grants declined 37 percent between 1980 and 1987 to reach a level of \$42.6 billion. Many of the grants have served purely local purposes. In these cases, Federal assistance has been substantially reduced or eliminated. Other savings have resulted from consolidating categorical programs into block grants. These grants also have the advantage of simplifying local program administration and encouraging local initiative. State and local governments have absorbed the decline in Federal grants without straining their other fiscal resources. The overall reduction amounts to about 5 percent of their 1980 budgets.

Economic Development and Business Subsidies.—Federal outlays for economic development and business subsidies were cut back sharply in the 1980s. Real outlays fell to \$7.4 billion in 1987. Urban and rural development programs were cut back below their 1970 levels in real terms, while subsidies to business were cut to under half their 1970 level. The Federal Government should not favor one region or business over another, and it would be futile for it to try to favor all regions and all businesses. Such subsidies are especially questionable when the economy is growing and business opportunities are expanding rapidly.

Agriculture and Other Programs.—Agricultural price supports are the largest of the remaining programs. Real outlays for price supports were \$24.6 billion in 1986, almost three times higher than in 1980. Last year, however, real outlays declined for the first time

this decade. Improving conditions in the farm economy should lead to further reductions in 1988 and 1989. Real outlays for other programs in this category have declined. These are largely programs with relatively low priority.

Conclusion.—Outlays for domestic programs could not have continued to grow at the rate they did between 1950 and 1980. A reordering of priorities was unavoidable in the 1980s. It has occurred without neglecting the basic domestic responsibilities of the Federal Government. Real spending has continued to increase for programs that aid the poor, the elderly, and others who through no fault of their own depend on Government for help. More resources have been devoted to the Government's health programs although their costs are finally being brought under better control. New priorities have been recognized such as research on the strategic defense initiative and AIDS. Programs have been restructured to promote efficiency, as for example, through consolidation into block grants, and ineffective programs have been canceled or replaced. Continued restraint is needed, however, if a balanced budget is to be achieved.

Part 2b

PRIORITIES IN THE 1989 BUDGET

In 1987 there was an historic drop in the Federal deficit, which declined from \$221.2 billion in 1986 to \$150.4 billion in 1987. As a percent of GNP, the deficit declined from 5.3 percent to 3.4 percent. For the first time in nearly two decades, outlays did not increase in real terms.

Last November, the President and Congress reached an agreement to ensure continued progress in reducing the deficit. Under the President's budget proposal for 1989, which implements that agreement, the deficit would decline to \$129.5 billion in 1989 and \$104.2 billion in 1990.

PRESIDENT'S 1989 BUDGET

(in billions of dollars)

	1986	1987	1988	1989	1990	Change 1986-90	Percent change 1986-90
Receipts	769.1	854.1	909.2	964.7	1,044.1	275.0	35.8
Outlays.....	990.3	1,004.6	1,055.9	1,094.2	1,148.3	158.0	16.0
Deficit	-221.2	-150.4	-146.7	-129.5	-104.2	117.0	-52.9

The Bipartisan Budget Agreement divided spending into several categories, including national defense, international discretionary, domestic discretionary, and entitlements and other mandatory programs. Spending for entitlements and other mandatory programs is determined largely by the number of individuals and businesses that meet eligibility criteria established by law. Discretionary programs are funded at levels set by annual appropriations.

The Bipartisan Budget Agreement set levels for the three discretionary categories, leaving it to the administration to propose its own priorities within those categories. Rather than simply treating all programs alike in some false sense of equity, the administration has proposed substantially higher funding for priority programs, to be accommodated by lower funding and terminations of programs that have outlived their purpose, have no Federal purpose, or are wasteful or inefficient.

The Bipartisan Budget Agreement set no caps or levels for entitlements and others mandatory programs but, rather, included specific savings to be achieved. This budget only proposes major changes in these programs where Congressional action on the 1988 budget did not achieve the 1989 savings called for in the Agreement.

The next section analyzes the budget proposals for each of the four main categories. The remaining sections discuss receipt initiatives, proposed assets sales, and privatization and other management initiatives included in the President's budget.

NATIONAL DEFENSE

The President's budget proposes \$299.5 billion in budget authority for the national defense function, the level specified in the Bipartisan Budget Agreement. This level is about the same as the 1988 level in real terms, although it is \$33 billion below last year's biennial request for 1989.

The President's strategic modernization program remains a high defense priority. The proposal calls for \$4.6 billion for the strategic defense initiative, a \$1 billion increase over the 1988 funded level, but less than the \$6.3 billion originally planned for the 1989 budget.

NATIONAL DEFENSE

(in billions of dollars)

	1987	1988	1989	Change 1988-89	Percent Change 1988-89
Department of Defense—Military:					
Budget Authority.....	279.5	283.2	290.8	7.6	2.7
Outlays.....	274.0	277.3	285.5	8.2	3.0
Atomic energy defense:					
Budget Authority.....	7.5	7.7	8.1	0.4	4.5
Outlays.....	7.5	7.6	7.9	0.3	4.1
Other:					
Budget Authority.....	0.5	0.5	0.6	0.1	27.0
Outlays.....	0.6	0.5	0.6	0.1	11.2
Total, national defense:					
Budget Authority.....	287.4	291.4	299.5	8.1	2.8
Outlays.....	282.0	285.4	294.0	8.6	3.0
MEMORANDUM					
Bipartisan budget agreement:					
Budget Authority.....		292.0	299.5	7.5	2.6
Outlays.....		285.4	294.0	8.6	3.0

Conventional force capability improvements would continue under the budget proposal, although at a slower rate than planned. The budget also requests a 4.3 percent military pay raise in January of 1989, to approximately match increases in private sector

pay, and safeguard the achievements made by the administration in restoring a dedicated, high quality military force. Further emphasis on improved defense program management would continue under the proposed budget, in order to continue the progress made in reducing costs through the use of multiyear contracts, increased competition, and improved management of spare parts.

The constraints of the Bipartisan Budget Agreement have resulted in revisions, including some force reductions, slowdowns and deferrals in the development and procurement of weapon systems, as well as cancellation of some acquisition programs. However, the administration's budget request protects high priority programs and continues improvements in the capabilities of U.S. military forces.

INTERNATIONAL DISCRETIONARY PROGRAMS

The Bipartisan Budget Agreement entails stringencies in international affairs activity. The administration is requesting \$18.1 billion in budget authority for this category, a two percent increase in budget authority over the 1988 level, as agreed to by the bipartisan budget negotiators.

INTERNATIONAL DISCRETIONARY PROGRAMS

(in billions of dollars)

	1987	1988	1989	Change 1988-89	Percent Change 1988-89
Foreign aid:					
Budget Authority	14.0	13.4	13.6	0.3	2.0
Outlays	12.4	12.9	12.8	-0.1	-0.9
Other international:					
Budget Authority	5.6	4.5	4.5	*	0.3
Outlays	0.3	2.8	2.8		-1.2
Total, international:					
Budget Authority	19.6	17.9	18.1	0.3	1.6
Outlays	12.8	15.8	15.6	-0.2	-1.0
MEMORANDUM					
Bipartisan budget agreement:					
Budget Authority		17.8	18.1	0.3	1.7
Outlays		16.5	16.1	-0.4	-2.4

* \$50 million or less.

Growth greater than two percent would be permitted in a few key discretionary areas such as security assistance programs, which provide military goods and services and help strengthen the economies of allied and friendly countries where the U.S. has special security concerns, as well as ensure U.S. access to military bases and facilities overseas. Full funding is also requested for 1989 U.S. commitments to the various multilateral development banks.

In order to achieve the discretionary increases, a number of other international programs would be held to less than two percent growth. For example, funding for foreign food aid would not increase, although the capacity would remain to handle disaster needs due to crop failure. Elsewhere, the United States would be unable to meet its obligations to a number of international organizations and multilateral agreements. Over time, steps must be taken to redress this situation.

DOMESTIC DISCRETIONARY PROGRAMS

This category includes a wide diversity of Federal programs, from enforcement of the laws to providing grants for local economic development. The budget requests for discretionary programs are within the limits set by the Bipartisan Budget Agreement. The budget does not uniformly increase all discretionary accounts above the 1988 levels in order to reach the ceiling, but seeks to allocate spending to higher priority programs while reducing funding for ineffective, duplicative, or low priority programs. This section outlines proposals for discretionary programs which reflect this shift to more productive, efficient, and effective programs.

Space and Science.—The President's proposal calls for \$13.9 billion in budget authority for the National Science Foundation (NSF), space programs in the National Aeronautics and Space Administration (NASA), and the general science programs of the Department of Energy (DOE), an overall increase of 29 percent over the 1988 funding level.

Under the administration's proposal, NSF would emphasize the support for basic research, and for science and engineering education. It would also fully fund 10 to 15 interdisciplinary Science and Technology Centers for five years, encouraging substantial participation by industry and the States to speed the transfer of knowledge from the laboratory to the marketplace.

The budget also requests an increase of 49 percent for the general science programs within the Department of Energy. This includes funding for the initial construction of the Superconducting Super Collider (SSC), the world's most powerful atom smasher, which is a critical part of the administration's initiative to maintain and strengthen the Nation's scientific and technological leadership.

Budget authority of \$10.6 billion is proposed for the space related activities of NASA, an increase which would allow NASA to continue the buildup of safe flight of the space shuttle. NASA would also significantly expand development activities for the manned space station, leading to operating capabilities in the mid-1990's, and initiate a major new space science project, the Advanced X-

DOMESTIC DISCRETIONARY PROGRAMS

(in billions of dollars)

	1987	1988	1989	Change 1988-89	Percent Change 1988-89
Space and science:					
Budget Authority.....	12.5	10.7	13.9	3.1	29.3
Outlays.....	9.2	10.9	13.1	2.2	20.2
Transportation and public works:					
Budget Authority.....	12.3	12.6	11.0	-1.6	12.7
Outlays.....	26.7	28.4	28.3	-*	-*
Economic subsidies and development:					
Budget Authority.....	39.4	44.6	43.1	-1.5	-3.3
Outlays.....	38.6	41.4	43.1	1.7	4.2
Education and social services:					
Budget Authority.....	29.6	30.2	31.3	1.1	3.7
Outlays.....	27.9	30.0	31.1	1.1	3.6
Health research and services:					
Budget Authority.....	22.7	23.9	24.7	0.8	3.5
Outlays.....	20.9	22.8	24.2	1.4	6.2
Law enforcement and other core functions of government:					
Budget Authority.....	20.5	21.2	23.6	2.4	11.3
Outlays.....	24.7	27.2	29.3	2.0	7.5
Total, domestic discretionary:					
Budget Authority.....	136.9	143.2	147.6	4.4	3.1
Outlays.....	148.1	160.6	169.1	8.5	5.3
MEMORANDUM					
Bipartisan budget agreement:					
Budget Authority.....		145.1	148.1	3.0	2.1
Outlays.....		160.3	169.2	8.9	5.6

* \$50 million or less

Ray Astrophysics Facility. A continued national commitment to a permanently-manned space station is essential if the nation is to maintain its leadership in space. The space station is planned for development in cooperation with our friends and allies. Private sector investment and involvement in the space station will be strongly encouraged.

Transportation and Public Works.—Budget authority for air, water, and ground transportation programs, as well as Federal water projects, would in total remain close to level under the administration's budget proposal. Increases for high-priority programs such as the Federal Aviation Administration (FAA), and for new construction starts for the Army Corps of Engineers, would be offset by reductions in low-priority programs such as mass transit, and termination of unnecessary subsidy programs.

The administration requests a 44 increase in funding for the modernization of air traffic control facilities and equipment, in order to expand capacity, improve efficiency, and maintain a high

level of safety of the airways. It also seeks a 9.4 percent increase for FAA operations in order to increase the air traffic controller, aviation safety, and inspector workforces, in accordance with projected increases in aviation activity.

Budget authority for Federal water resource agencies would remain at approximately the 1988 level. Increases due primarily to the construction of new Federal water projects would be offset by decreases for lower-priority projects and already authorized commercial navigation fees and non-Federal project financing.

The budget calls for a decrease of 54 percent in mass transit funding. The proposed savings would come primarily from terminating discretionary grant funding used to build or expand transit systems. These subsidies, originally provided in response to the energy crisis to increase ridership and decrease fuel consumption, have often benefitted projects which have proven to be unnecessary, too costly, and underutilized.

Economic Subsidies and Development.—While funding increases are proposed for a few selected programs in this category, which includes programs for energy, natural resources and the environment, farm programs, commerce and housing credit, community and regional development, and housing assistance, many programs would be reduced because they no longer warrant Federal support. Many reward inefficient private activities and support State and local development more appropriately financed by State and local government or the private sector. Surely this is an area that we can afford to reduce in order to fund higher priority programs such as health research, education programs, and education and enforcement efforts concerning drug abuse.

The administration is requesting \$0.5 billion in budget authority to continue developing and filling the strategic petroleum reserve (SPR) at a minimum average rate of 50,000 barrels per day, the fill rate approved by Congress in 1988. The SPR is a Government stockpile of crude oil to supplement the market in the event of a severe disruption in world oil supplies. If the administration's proposal to sell the Naval Petroleum Reserve (discussed below under Revenues) is approved, the administration will propose additional funding of \$0.7 billion to increase the SPR fill rate to 100,000 barrels per day.

An increase of \$0.5 billion over 1988 funding levels is being requested for the Hazardous Substance Superfund. This increase would continue the full-scale buildup of this hazardous waste cleanup program, and prevent delay in starting work on those projects ready for cleanup, enabling the Superfund to maintain the momentum gained since reauthorization.

The budget also requests full funding for the Government's share of a five-year, \$2.5 billion innovative clean coal technology demon-

stration program, for which costs will be shared at least 50 percent with industry. This program supports commercial-scale, innovative control technology demonstration projects, in accordance with the recommendations of the U.S. and Canadian Special Envoys on Acid Rain.

The budget would increase budget authority for the Federal conservation reserve program by more than 70 percent. Under this program, landowners receive rental payments, as well as assistance in establishing appropriate conservation cover, for acres of cropland placed in a reserve status. The proposed increase is necessary in order to increase the number of acres enrolled in the program, as mandated by the 1985 farm bill, and to provide increased technical assistance in determining eligibility of landowners.

The administration proposes to expand its use of vouchers to meet housing needs. With a voucher system, more people can be served at less cost. Lending and selected grant programs which have not been cost-effective would be terminated. In particular, the housing development action grant (HoDAG) program would be terminated.

Proposed budget authority for the sewage treatment construction grant program, which provides financial assistance to State and local governments for the construction of publicly owned treatment facilities, is 35 percent lower than the 1988 funding level, and Presidential policy calls for phaseout of the program by 1993. This level of funding is sufficient to fund the Federal share for all projects needed to meet the 1988 municipal requirements and complete all treatment plants started with Federal funds.

Decreases in budget authority are also proposed for Federal land acquisition, for funding of low income home energy assistance, and for non-nuclear energy research and development. The administration also proposes to eliminate a number of Federal categorical programs currently providing support for specific local community and economic projects, leaving the comprehensive and more flexible community development block grants (CDBG) program as the principal vehicle for Federal support. In addition, the budget seeks to substitute guaranteed loans in place of direct loans for Rural Electrification Administration loan and Small Business Administration business loan programs, relying on the private sector for this activity, and eliminate most Postal Service subsidies that allow certain preferred mailers to receive reduced postal rates.

Education and Social Services.—The administration believes that States and localities must continue to bear the major financial responsibility for programs to meet the educational, training, and social service needs of the disadvantaged. Federal support for these programs would be \$31.3 billion under the budget proposal.

An increase of \$0.2 billion is requested for compensatory education programs, the Federal Government's major contribution to State and local efforts to improve the quality of education. The administration is also proposing a nine percent increase in school improvement programs, which include the education block grant, as well as programs for drug-free schools and for magnet schools. Pell Grants would also increase by 18 percent under the administration's proposal, the major portion of an overall increase in funding for discretionary student aid.

The administration's proposal calls for budget authority of \$980 million to serve dislocated workers, almost triple the 1988 level. The proposal would replace previous programs with a worker readjustment program (WRAP), which would be available to all dislocated workers and is expected to provide readjustment services faster than has been possible under existing programs.

The administration's request reflects its intention to phase out Federal support for the community services block grant, with a decrease in budget authority of \$0.1 billion from the 1988 level of \$0.4 billion. It also proposes to reduce budget authority for criminal justice assistance from \$0.3 billion in 1988 to \$0.2 billion in 1989.

The President's budget proposes \$0.4 billion in funding for Federal programs specifically targeted to homeless individuals. The budget request covers a variety of programs providing food, emergency, transitional, and permanent housing, and various health services. In addition, the administration proposes to fund the Inter-agency Council on the Homeless.

Health Research and Services.—In total, the budget authority request for these programs, which include research at the National Institutes of Health, block grants to States for health, and hospital and medical care for veterans, is \$0.8 billion above the 1988 enacted level of \$23.9 billion. Proposed increases for high-priority AIDS research would be offset by reductions in some programs of lesser priority, such as subsidies for clinical health professions training, which are no longer essential.

Combatting Acquired Immune Deficiency Syndrome (AIDS) is the highest public health priority of the administration. Budget authority of \$1.3 billion is requested for AIDS research and education in 1989, an increase of 40 percent from last year. The President's budget also requests \$0.6 billion for drug abuse treatment, research, and prevention programs in the Public Health Service, an 18 percent increase, as well as an increase to \$10.4 billion for veterans medical care.

Law Enforcement and Other Core Functions of Government.—The administration places a high priority on law enforcement activities of the Federal Government. Requested budget authority for crimi-

nal investigations of the Federal Bureau of Investigation (FBI) and Drug Enforcement Administration (DEA) is \$2.0 billion, an eight percent increase over the 1988 level. The administration is also proposing a 17.4 percent increase in budget authority for the Coast Guard. Drug law enforcement would continue to receive a major emphasis within Coast Guard operations. In total, budget authority for these programs would increase by \$2.4 billion, from \$21.2 billion in 1988 to \$23.6 billion in 1989.

In response to the continuing growth of the Federal prison population, and to meet the demands of tougher law enforcement and longer sentencing created by a number of recent initiatives, the administration is proposing to acquire ten new facilities. The budget requests an increase in funding for Federal prisons, from \$0.9 billion in 1988 to \$1.4 billion in 1989.

The administration is requesting an increase in funding for the Internal Revenue Service from \$5.1 billion to \$5.3 billion, to allow better enforcement of the tax code, as well as provide quality service to and for the public, especially during the first years of tax reform.

ENTITLEMENTS AND OTHER MANDATORY PROGRAMS

Spending for entitlements and other mandatory programs is determined by eligibility criteria and benefit formulas set in substantive law. Annual action on the part of the Congress or the Executive is generally not required. Spending for 1988 and 1989 is estimated at \$491.6 billion and \$511.5 billion, respectively.

The Bipartisan Budget Agreement called for a few specified changes in these programs, most of which have been enacted. The budget proposes further programmatic reductions where the full savings envisioned by the agreement have not been achieved.

ENTITLEMENTS AND OTHER MANDATORY PROGRAMS

(in billions of dollars)

	1987	1988	1989	Change 1988-89	Percent Change 1988-89
Retirement and unemployment.....	284.4	297.1	315.9	18.8	6.3
Medical care.....	102.8	109.6	116.6	7.0	6.4
Low income programs.....	39.7	44.6	45.5	0.9	2.0
Agriculture.....	25.2	20.5	19.8	-0.7	-3.6
Other.....	7.5	19.8	13.7	-6.1	-30.7
Total, entitlements programs.....	459.6	491.6	511.5	19.9	4.0

Retirement and Unemployment Programs.—Aside from the worker readjustment program discussed in the domestic discretionary category, no significant changes are proposed for programs in

the areas of social security, other Federal retirement programs, veterans compensation and pensions, and unemployment compensation. Spending for these programs will increase by \$18.8 billion, from \$297.1 billion in 1988 to \$315.9 billion in 1989, largely as a result of cost-of-living adjustments, increases in the number of eligible recipients, and increases in the wage base used to calculate some of the retirement benefits. Social security accounts for 74 percent, or \$14.0 billion of the increase.

Medical Care.—Spending has expanded rapidly during the last decade for medicare, medicaid, and Federal employee health benefits. The President's budget calls for a further increase, from \$109.6 billion in 1988 to \$116.6 billion in 1989. This increase is largely due to increased prices for medical services and increased utilization of the programs. Seventy percent of the increase is in the medicare program.

The budget proposes reductions in the medicare program to achieve the savings agreed to by the budget negotiators but not enacted fully last year. In total, these reforms would reduce spending for medicare by \$1.2 billion from the level that would occur if current law were continued. Spending for the medicare program would still increase by six percent from 1988 to 1989.

The administration remains committed to the enactment of legislation providing affordable, acute care catastrophic illness protection and outpatient prescription drug coverage for the nation's elderly and disabled. Such legislation must be deficit neutral, with benefits paid from newly created, self-financed trust funds. The Medicare Catastrophic Protection Act, passed by the Senate, is consistent with the administration's proposals.

Low Income.—Spending for food and nutrition assistance, supplemental security income, family support payments, and other forms of income security would increase by \$0.9 billion under the administration's proposal, to \$45.5 billion. The increase is largely the result of inflation and changes in the beneficiary population.

The budget proposes only one change from current law in this area—passage of welfare reform legislation. This legislation would reform the aid to families with dependent children program, and strengthen the Federal-State child support enforcement program. These reforms, by reducing welfare dependency, would decrease mandatory outlays by \$0.1 billion in 1989 from current law levels. Discretionary outlays would increase by \$0.5 billion to fund the proposed employment and training programs.

Agriculture.—Reforms in farm price support payments, which make up the largest portion of this category, were enacted last year in accordance with the Bipartisan Budget Agreement. The

President's budget proposes two further changes in these programs. Legislation will be prepared to modify the current domestic sugar program to ensure fair treatment for taxpayers, consumers, and farmers. In addition, the administration is proposing to reduce the appropriated limit of the export guarantee loan program by \$2 billion to bring the program level in line with actual demand.

Other Mandatory Programs.—This category includes the remaining mandatory programs which, in total, represent \$19.8 billion for 1988 and \$13.7 billion for 1989. The only major change proposed in this category would require the Postal Service and the D.C. government to contribute amounts to the civil service retirement fund to cover the full cost of providing cost-of-living adjustments to Postal and D.C. government retirees and their survivors.

REVENUES

In addition to the programmatic changes discussed above, the President's budget includes several proposals to change revenues. It also proposes sales of loans and real assets.

User Fees.—The administration is proposing to fund 55 percent of the expenses of the Nuclear Regulatory Commission and the Federal Emergency Management Agency in regulating nuclear power plants through user fees. The administration believes that direct beneficiaries should pay for services, rather than all taxpayers.

The administration is also proposing reforms in the existing fees charged by the Customs Service. The proposed reforms would enable Customs to collect user fees that conform to the requirements of the General Agreement on Tariffs and Trade.

RECEIPTS

(in billions of dollars)

	1989
User fees:	
Nuclear Regulatory Commission	*
Federal Emergency Management Administration.....	*
Customs service ¹	-0.1
Subtotal, user fees.....	-0.1
Other revenue initiatives:	
Revised allocation of R&E expenditures.....	-0.6
Permanent R&E tax credit	-0.4
Extend HI coverage to all State and local employees.....	1.6
Exempt regulated investment companies from 2% floor	-0.4
Other.....	-0.1
Subtotal, other revenue initiatives.....	0.1

* \$50 million or less.

¹ The budget proposes to change the classification of the customs fee from an offsetting collection to a governmental receipt, as well as make changes in the fee. This shows the net effect of the proposal.

Other Revenue Initiatives.—Other receipts changes proposed by the administration include extension of medicare hospital insurance coverage to all State and local government employees; revision in research and experimentation (R&E) allocation rules; initiation of a permanent R&E tax credit; and exemption of mutual fund shareholder expenses from the two percent floor for miscellaneous deductions.

Asset Sales.—The Federal Government will continue its successful pilot program of selling existing loan assets without recourse. The sales program includes loans with a face value of \$12.0 billion in 1989, which are estimated to produce receipts of \$8.6 billion.

In addition, the administration is encouraging privatization by allowing borrowers with Rural Electrification Administration (REA) guaranteed loans that were made by the Federal Financing Bank to prepay them utilizing an 80 percent REA guarantee and without paying the required prepayment premium. Further, borrowers of REA revolving fund direct loans would be allowed to prepay them at a discount if they agree not to seek REA assistance in the future.

ASSET SALES ¹

(in billions of dollars)

	1989
Loan asset sales and prepayments:	
Proposed prepayments:	
Rural Electrification Administration	1.0
HHS Health Maintenance Organizations	*
Proposed sales:	
Rural housing insurance fund.....	0.9
Rural Electrification Administration	0.9
College housing and higher education facilities.....	0.2
HHS medical facilities.....	0.1
Federal Housing Administration.....	0.1
Small Business Administration	0.7
Subtotal, loan asset sales and prepayments.....	4.0
Real asset sales:	
Naval Petroleum Reserve	3.2
Alaska Power Administration.....	0.1
GSA real property.....	0.1
Helium sales.....	*
Subtotal, real asset sales.....	3.5
Total, proposed asset sales.....	7.5
MEMORANDUM:	
Enacted prepayments:	
Foreign military sales credit.....	2.3
Rural Electrification Administration	0.2
Total, enacted prepayments	2.5

* \$50 million or less.

¹ These sales cannot be counted toward the Gramm-Rudman-Hollings (G-R-H) target. The G-R-H baseline does include \$2.1 billion in loan asset sales and prepayments that will occur in 1989.

The administration is also continuing to promote the sale of real assets. The administration proposes as it did last year that the Federal Government sell the two oil fields it operates. The budget assumes that the oil fields can be sold for \$3.5 billion, of which \$3.2 billion would be received in 1989. The administration is also proposing to sell the Alaska Power Administration by the end of 1989, and proposing legislation to authorize a study of divestiture for the Southeastern Power Administration leading to a sale in 1990.

The administration is proposing two additional real asset sales in 1989—an administration initiative to increase planned disposal of surplus Government properties by the General Services Administration, and the sale of helium operations by the Bureau of Mines.

CREDIT REFORM INITIATIVE

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 to any agencies making or guaranteeing loans. The proposal would put the cost of credit programs on an expenditure basis equivalent to other Federal spending, improve the allocation of resources among credit programs and between credit and other spending, measure accurately and equitably the benefits of Federal credit programs, and encourage delivery of benefits in the form most appropriate to the needs of beneficiaries.

PRIVATIZATION INITIATIVES

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 which normally result when services are provided through the competitive marketplace. The administration has developed a privatization plan with three different implementation strategies—comprehensive studies, pilot projects, and full privatization.

OTHER MANAGEMENT INITIATIVES

In 1981, the administration found an overly large and unmanageable government with hundreds of systems that did not help us to manage effectively. The administration's program, "Reform 88," set several strategies for achieving better government: control growth of government programs, reduce fraud and abuse, improve individual agency operations, build governmentwide management systems and improve the quality of services and goods being delivered to the American people. Much progress has been made in improving these areas of Government management. Efforts in all these directions will continue through 1989, and will serve as a solid founda-

tion for continued emphasis on a well-managed Federal system by future administrations.

CONCLUSION

In summary, the President's budget as described above provides a comprehensive program to fully implement the Bipartisan Budget Agreement. It also continues the administration's efforts toward privatizing appropriate Federal activities and improving the management of existing activities. The result of this program would be a continued decline in the deficit, to the benefit of the American people.

Part 3a

ECONOMIC PERFORMANCE, BUDGET POLICY, AND THE DEFICIT: 1981-1989

In 1981, President Reagan changed the fiscal policy objectives of the Federal Government, reducing the growth of overall Federal spending, rearranging expenditure priorities, and limiting tax burdens to the levels necessary to finance essential Government services. The purpose of this policy has been to improve the performance of the U.S. economy, increase the income of American families, and raise the productivity of American workers by strengthening the incentives to work, save, and invest. The program was expected to achieve a balanced budget by 1985. Instead, the budget has been in deficit. Reducing the deficit is one of the Nation's central economic policy concerns.

Several factors have contributed to the difference between the original deficit projection and the current situation. The administration's first economic forecast did not anticipate the 1981-1982 economic downturn and the concomitant decline in the inflation rate, as a result of which tax receipts were much lower than expected. Since the end of the recession, however, the deficit has remained high, despite sustained economic growth and a stable, lower inflation rate. The reason is that Federal domestic spending, measured as a share of GNP or on any other reasonable basis, has been at historically high levels. The administration has regularly proposed significant reductions in domestic spending—reductions that would have brought the deficit down substantially, without affecting social security or most programs for the poor—but Congress has been unwilling to approve the reductions.

The Downturn and the Deficit.—In March 1981, the administration projected that receipts would increase from \$603 billion in the current year to \$713 billion in 1983. Instead, receipts were essentially unchanged over the period. Actual receipts in 1981 were \$599 billion; they rose slightly to \$618 billion in 1982, and fell back to \$601 billion in 1983. The difference was entirely due to the economic downturn that began in mid-1981.

Part 3b

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 1986	Forecast		
		1987	1988	1989
Gross national product:				
Current dollars:				
Amount.....	4,235	4,486	4,779	5,113
Percent change, fourth quarter over fourth quarter.....	4.5	7.2	6.4	7.3
Constant (1982) dollars:				
Amount.....	3,713	3,820	3,932	4,054
Percent change, fourth quarter over fourth quarter.....	2.2	3.8	2.4	3.5
Incomes (current dollars)				
Personal income.....	3,534	3,746	3,978	4,245
Wages and salaries.....	2,089	2,213	2,344	2,502
Corporate profits before tax.....	232	275	310	353
Price level, percent change, fourth quarter over fourth quarter:				
GNP deflator.....	2.2	3.3	3.9	3.7
Consumer Price Index ¹	0.9	4.6	4.3	3.9
Unemployment rate (percent):				
Total, annual average ²	6.9	6.1	5.8	5.6
Insured, annual average ³	2.8	2.4	2.2	2.1
Federal pay raise, January (percent):				
Military.....		3.0	2.0	4.3
Civilian.....		3.0	2.0	2.0
Interest rate, 91-day Treasury bills (percent) ⁴	6.0	5.8	5.3	5.2

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.

LONG-RANGE ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

Item:	Assumptions			
	1990	1991	1992	1993
Gross national product:				
Current dollars:				
Amount	5,481	5,850	6,207	6,548
Percent change, fourth quarter over fourth quarter	7.1	6.5	5.9	5.3
Constant (1982) dollars:				
Amount	4,196	4,340	4,485	4,630
Percent change, fourth quarter over fourth quarter	3.5	3.4	3.3	3.2
Incomes (current dollars):				
Personal income	4,521	4,806	5,081	5,343
Wages and salaries	2,676	2,858	3,040	3,212
Corporate profits before tax	406	448	471	492
Price level, percent change, fourth quarter over fourth quarter:				
GNP deflator	3.5	3.0	2.5	2.0
Consumer Price Index ¹	3.5	3.0	2.5	2.0
Unemployment rate (percent):				
Total, annual average ²	5.4	5.3	5.2	5.2
Insured, annual average ³	2.0	2.0	1.9	1.9
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	5.0	4.5	4.0	3.5

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 1989; 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 sixth year. Although it is a mature expansion, it shows no sign of ending. If the administration's policy proposals assumed in this budget are enacted, the economy could grow above its recent trend rate through 1993, making this the longest period of uninterrupted growth on record.

Real GNP is projected to rise by 2.4 percent this year and by 3.5 percent in 1988. The inflation rate is projected to rebound from the oil-price-depressed 1986 rate to about 4 percent this year, with

some upward push due to the decline in the dollar, but is then projected to decline steadily to 2.0 percent in 1993.

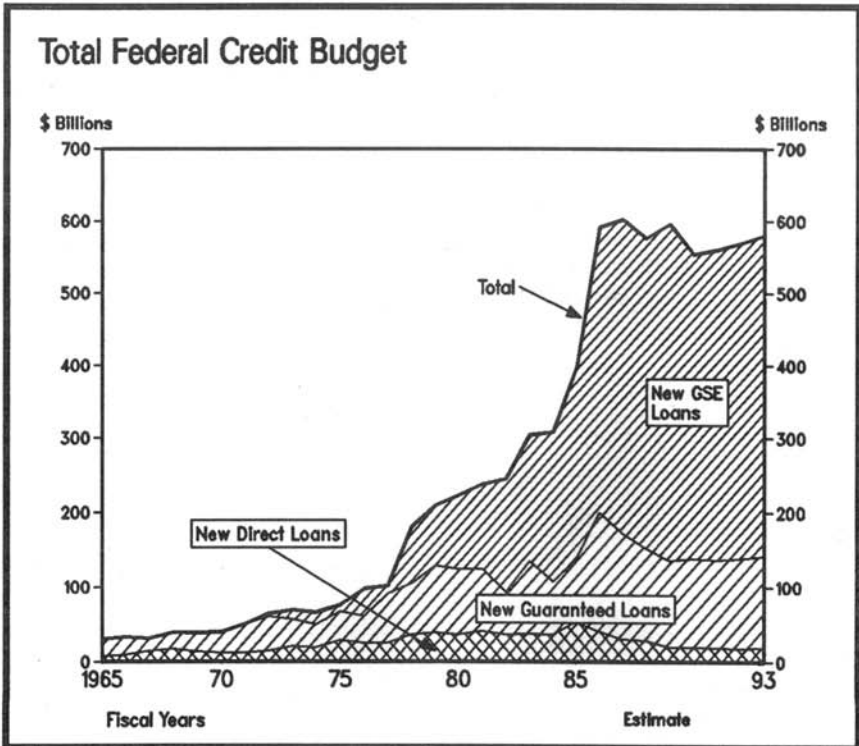
In constant 1982 dollars, real GNP is projected to continue to grow at an annual rate of 3.5 percent in 1989 and 1990, progressively slowing to 3.2 percent in 1993, which is close to the economy's postwar average rate. This is consistent with a decline in the unemployment rate to 5.2 percent by the end of 1992.

Part 3c

FEDERAL CREDIT: INVESTMENT IN FINANCIAL ASSETS

The Federal Government is the largest financial intermediary in the United States. At the end of 1987, it held outstanding loans with a face value of \$234 billion in its direct loan portfolio and it had \$507 billion in guaranteed loans outstanding. Government-sponsored enterprises had an additional \$581 billion outstanding at the end of the year. Thus, directly or indirectly, the Government had influenced the allocation of \$1.3 trillion of outstanding credit.

In 1989, the Government will offer an estimated \$20 billion in new direct loans and \$115 billion in guaranteed loans to farmers, homeowners, students, small businesses, exporters, utilities and State, local and foreign governments. Government-sponsored enterprises will lend an additional \$428 billion. The accompanying chart shows Federal credit activity from 1965 to 1993.



The subsidies inherent in Federal and federally sponsored lending to borrowers have come at the expense of the general taxpayer and in particular of all borrowers who did not receive subsidized credit. The unsubsidized borrowers have paid higher interest rates or fees for their credit or have not been able to borrow at all. In 1989, direct and guaranteed loans will provide subsidies whose total present value is \$9.6 billion.

The economic sectors that receive the most Federal credit are agriculture and housing. Approximately 42 percent of new direct loans over the past decade have gone to agriculture, while 75 percent of new guaranteed loans have gone to housing. The basic rationale of all Federal credit programs is to provide financing on terms and conditions that are more favorable to the borrower than financing otherwise available from private sources. While some of these subsidies serve worthwhile public purposes and should be continued, others do not.

The Federal credit budget, which was introduced in 1980, measures and controls the volume of credit authority. Credit authority is 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.

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. Under this proposal, two new Federal credit revolving funds would be established within the Department of the Treasury, one for the financing of direct loans and the other for guaranteed loan insurance. The budget also contains proposals to sell loans with a face value of \$12.0 billion from the portfolios of several Federal agencies.

Part 3d

FEDERAL CAPITAL EXPENDITURES: INVESTMENT IN PHYSICAL ASSETS

Federal outlays for physical investment are in the form of direct outlays by the Federal Government or grants to State and local governments. These outlays are primarily for the construction, rehabilitation, and acquisition of physical assets. Proposed outlays for physical investment in 1989 are \$128.5 billion, \$1.8 billion more than the 1988 estimate. For 1989 proposed outlays for physical investment are estimated to be 12 percent of total Federal outlays.

Direct Federal Physical Investment.—Outlays for direct physical investment are estimated to be \$103.7 billion in 1989. Most of this, or \$88.5 billion, is for procurement of weapons and for other national defense purposes. Outlays for direct physical investment for nondefense purposes are estimated to be \$15.2 billion in 1989. Of this amount, an estimated \$6.7 billion is for physical assets that generate future revenue, including TVA power generating stations, many Corps of Engineers projects, and Postal Service buildings.

An additional \$8.4 billion is proposed to be spent in 1989 on federally owned nondefense physical capital that will provide long-term benefits, but that is not expected to generate future Federal revenue. These outlays are for space shuttles, the air traffic control system, veterans hospitals, computers, and other assets.

Grants for Physical Capital Investment.—The Federal Government also helps pay for many public physical assets that it does not own. In 1989, grants to State and local governments for these investment purposes are proposed to be \$24.9 billion, compared to \$25.1 billion in 1988. This is 21 percent of total grants in 1989. More than half of the capital grants, or \$13.1 billion in 1989, is for the Interstate highway system and other major highways. Other major grants to State and local governments for capital investment are for sewage treatment plants, mass transit, airports, and community development.

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 3b.

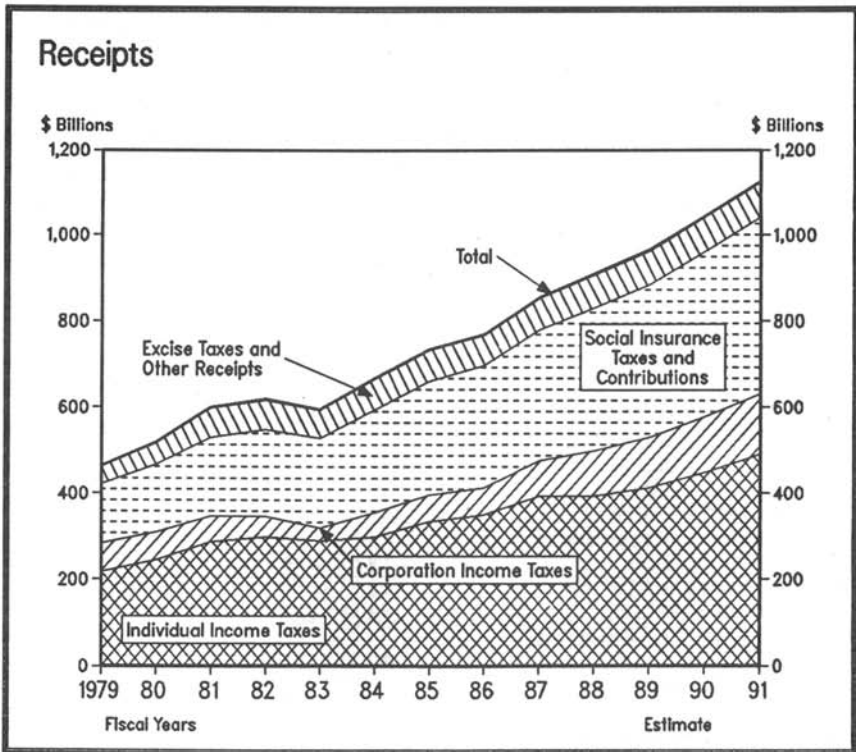
Summary

Total receipts in 1989 are estimated to be \$964.7 billion, an increase of \$55.5 billion from the \$909.2 billion estimated for 1988.

Composition of Receipts.—The Federal tax system relies predominantly on income and payroll taxes. In 1989:

- Income taxes paid by individuals and corporations are estimated at \$412.4 billion and \$117.7 billion, respectively. Combined, these sources account for 55.0 percent of estimated 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 \$354.6 billion, 36.8 percent of the total.
- Excise taxes imposed on selected products, services, and activities are expected to provide \$35.2 billion, 3.6 percent of the total.
- Estate and gift taxes, customs duties, and miscellaneous receipts are estimated at \$44.8 billion, the remaining 4.6 percent of receipts.

Because of legislated tax changes, the composition of receipts in 1989 is estimated to be much different than in 1980. Although the Federal tax system relied predominantly on income and payroll taxes in 1980, as it will in 1989, the income tax share of total receipts in 1989 is expected to be 4.7 percentage points less than in 1980, when income taxes comprised 59.7 percent of receipts. In contrast, the social insurance taxes and contributions share of receipts in 1989 is estimated to be 6.2 percentage points higher than in 1980. The share of all other receipts is expected to decline 1.5 percentage points, from 9.8 percent in 1980 to 8.3 percent in 1989.



Enacted Legislation

Several major tax laws—including one of the most sweeping overhauls of the tax code in our Nation's history—have been enacted since the administration took office in January 1981. These legislated changes have improved the fairness and efficiency of the tax system and broadened the income tax base by eliminating unintended benefits and obsolete incentives, curbing tax shelter abuse, limiting unwarranted tax benefits, and providing mechanisms to improve tax law enforcement and collection techniques. They have also reduced individual and corporation income tax rates and provided other incentives for work, saving, and investment.

For individuals, the 16 individual income tax brackets and tax rates of pre-1981 tax law—ranging from 14 percent to 70 percent—have been reduced to two tax brackets with rates of 15 and 28 percent.¹ The zero bracket amount, which was \$3,400 for a married couple filing a joint return and \$2,300 for a single taxpayer or a head of household under pre-1981 tax law, has been replaced with

¹ The benefit of the 15 percent bracket is phased out for taxpayers with taxable income exceeding specified levels, implicitly creating a marginal tax rate of 33 percent in the affected income range.

a standard deduction of \$5,000 for a married couple filing a joint return, \$3,000 for a single taxpayer, and \$4,400 for a head of household. The personal exemption has been increased from \$1,000 in 1980 to \$1,900 in 1987 and to \$1,950 in 1988, and will be increased to \$2,000 in 1989. In addition, the individual income tax brackets and the standard deduction will be adjusted annually for inflation beginning in 1989, and the personal exemption will be adjusted beginning in 1990.

NET EFFECT OF MAJOR ENACTED LEGISLATION ON RECEIPTS ¹

(In billions of dollars)

	1987	1988	1989	1990	1991	1988-89
Economic Recovery Tax Act of 1981	-241.7	-260.8	-285.5	-315.7	-350.2	-546.2
Tax Equity and Fiscal Responsibility Act of 1982	56.9	57.3	55.8	57.4	61.6	113.1
Highway Revenue Act of 1982	4.7	4.9	5.1	5.1	5.1	10.0
Social Security Amendments of 1983	12.1	24.6	31.0	23.9	23.9	55.6
Interest and Dividends Tax Compliance Act of 1983	-1.7	-1.8	-2.0	-2.5	-2.8	-3.8
Railroad Retirement Revenue Act of 1983	1.2	1.2	1.1	1.1	1.1	2.3
Deficit Reduction Act of 1984	22.0	25.3	27.7	31.0	34.0	53.0
Consolidated Omnibus Budget Reconciliation Act of 1985	2.7	2.9	3.0	3.0	3.2	5.9
Federal Employees' Retirement System Act of 1986	-0.1	-0.2	-0.2	-0.3	-0.4	-0.4
Omnibus Budget Reconciliation Act of 1986	2.7	2.5	2.0	1.0	0.2	4.5
Superfund Amendments and Reauthorization Act of 1986	0.4	0.8	0.8	0.8	0.8	1.6
Continuing Resolution for 1987	1.9	2.7	2.6	2.7	2.8	5.3
Tax Reform Act of 1986	21.5	-4.5	-17.2	-13.5	-9.5	-21.8
Omnibus Budget Reconciliation Act of 1987 ²		9.1	14.3	16.2	15.6	23.3
Continuing Resolution for 1988		2.4	3.1	3.3	3.4	5.5
Net tax reduction (-)	-117.5	-133.7	-158.4	-186.3	-211.4	-292.1
ADDENDUM						
Net effect on receipts by source:						
Individual income taxes	-158.7	-193.1	-224.8	-250.2	-278.3	-418.0
Corporation income taxes	19.7	24.2	26.8	33.1	41.0	51.0
Social insurance taxes and contributions	14.1	29.2	36.0	27.9	25.8	65.3
Excise taxes	14.1	13.1	11.7	11.8	9.4	24.8
Estate and gift taxes	-7.6	-7.8	-8.7	-9.3	-9.7	-16.5
Customs duties	0.7	0.2	0.2	*	*	0.3
Miscellaneous receipts	0.2	0.5	0.4	0.4	0.3	0.9

*\$50 million or less.

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

² These estimates reflect only the effect on budget receipts. The Act classified the ad valorem customs user fee as an offsetting collection, rather than as a budget receipt, which reduces outlays by the following amounts: 1988, \$0.1 billion; 1989, \$0.1 billion; and 1990, \$0.7 billion.

Corporate income, which was subject to tax under a 5-bracket rate schedule with rates ranging from 17 to 46 percent under pre-1981 tax law, is now subject to tax under a 3-bracket rate schedule with rates of 15, 25, and 34 percent.

Other legislated changes affecting receipts have restructured highway-related taxes to increase tax compliance and to make the

taxes paid by various highway users correspond more equitably to the wear and tear that they cause to the highway system, restored the solvency of the social security trust funds, placed the railroad industry pension program on a sounder financial basis, established the Federal Employees' Retirement System (FERS), reauthorized the Superfund toxic waste cleanup program, and established a fund to finance the cleanup of wastes from leaking underground petroleum storage tanks.

As a result of these legislated changes, taxes have been reduced, on net, by \$133.7 billion in 1988 and \$158.4 billion in 1989 relative to what they would have been under pre-1981 tax law. Individuals have benefited the most from these legislated changes, realizing reductions in income taxes of \$418.0 billion over the two years.

Receipts Proposals

The receipts changes proposed in this budget are estimated to increase receipts by \$0.7 billion in 1989. However, because the proposed reclassification of the ad valorem customs user fee is estimated to increase outlays by \$0.7 billion, the combined impact is estimated to be deficit-neutral in 1989.

The administration proposes that:

- Medicare hospital insurance (HI) coverage be extended to all State and local government employees.
- The research and experimentation (R&E) allocation rules be revised.
- A permanent R&E tax credit be established.
- Mutual fund shareholder expenses be permanently exempt from the 2 percent floor for miscellaneous deductions.
- The ad valorem customs user fee be made consistent with General Agreement on Tariffs and Trade (GATT) requirements and reclassified as a budget receipt.

EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS ¹

(in billions of dollars)

	1988	1989	1990	1991
HI coverage of State and local employees.....		1.6	2.1	2.1
R&E allocation rules.....	-0.4	-0.6	-0.7	-0.7
R&E tax credit.....		-0.4	-0.8	-1.0
Mutual fund exemption.....		-0.4	-0.5	-0.6
Customs user fee ^{2 3}	0.7	0.6	0.5	0.5
Other.....	*	-0.1	0.3	0.9
Total effect on receipts.....	0.3	0.7	0.9	1.2
ADDENDUM				
Effect of proposals on receipts by source:				
Individual income taxes.....	*	-0.4	-1.4	-1.6
Corporation income taxes.....	-0.4	-1.1	-1.6	-1.9
Social insurance taxes and contributions.....		1.6	2.0	2.0
Excise taxes.....	*	*	1.2	2.1
Customs duties.....	0.7	0.6	0.5	0.5
Other.....		*	0.1	0.1
Total effect on receipts.....	0.3	0.7	0.9	1.2
Total effect on customs outlays.....	0.7	0.7	0.7	0.8
Total deficit increase/reduction (-).....	0.4	*	-0.2	-0.4

*\$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.

³ These estimates reflect only the effect of the proposal on budget receipts. The proposal increases customs outlays by the following amounts: 1988, \$0.7 billion; 1989, \$0.7 billion; 1990, \$0.7 billion; and 1991, \$0.8 billion.

Part 5

INTRODUCTION

National Needs and the Functional Classification.—This section discusses budget authority, outlays, and related measures of Federal spending, focusing on the end purposes served by the spending. The presentation is organized in terms of national needs as defined by the functional structure.

The Part 5 structure includes 19 functions and two additional categories—allowances and undistributed offsetting receipts—that are not functions but are needed to encompass the entire budget. Each function is further divided into subfunctions, which consist of more homogenous groupings of programs. Federal spending is classified in the functional structure according to the primary purpose of the activity; to the extent feasible this classification is made without regard to agency or organizational distinctions. Classifying each activity solely in the function that defines its most important purpose—even though many activities serve more than one purpose—permits adding the budget authority and outlays for each function to obtain the budget totals.

The function-subfunction-program hierarchy is used in the tables or charts presented for each function. The text begins with a statement of national needs served by programs in the function. This is followed by a paragraph or two that describes the function and summarizes the major proposals. The President's proposals for individual programs are then described in greater detail. Table 4 at the back of this volume supplies the outlay data underlying the charts that appear in this section.

Changes in the Functional Structure.—Two major function changes have been made for this budget. First, the general purpose and fiscal assistance function has been abolished as a major function; all activities formerly included in this function have been transferred to the general government function, where they appear as a separate subfunction. This change was made because the general revenue sharing program, which constituted the bulk of the former major function, was ended by Congress, and the remain-

ing general purpose fiscal assistance activities are not significantly large to warrant being a separate major factor.

The second major function change is being made in conjunction with the administration's proposed reform for budgeting for Federal credit activities. Under current practice, the budget fails to distinguish between the bona fide loan component and the subsidy provided when the Federal Government makes a direct loan or guarantees a loan. The administration proposes to separate the subsidy from the non-subsidy portion of Federal credit activities. The budget authority and outlays for the subsidy portion will be shown in the present functional locations of the credit programs, while a new major function entitled "central Federal credit activities" will record the non-subsidy elements of these credit programs. Since the reform is proposed to begin in 1989, there is an inevitable discontinuity in the credit historical data by function and the data for the years after the new system is in place. The administration's credit reform proposal is discussed in greater detail in Part 6b of the *Budget* and in Special Analysis F, "Federal Credit Programs."

One additional change, which is not a functional reclassification but does affect the totals for several functions, is the reclassification of the Federal retirement thrift savings fund from being an on-budget trust fund to a non-budgetary status. The reasons for this reclassification are discussed in Part 6e of the *Budget*. Since this program began in 1987, this reclassification has no impact on the data for earlier years. The following functions are affected by this reclassification:

- The income security function no longer includes the thrift fund operations, employee contributions to their thrift accounts, and refunds or withdrawals of contributions.
- The net interest function no longer includes the interest received by the trust fund; instead it now includes only the interest paid to the fund, which is now classified as payments to the public.
- Collections of Federal employing agencies' contributions to the fund are no longer deducted as undistributed offsetting receipts.
- The cost and financing of thrift fund operations now appears in the general government function.

Credit Budget.—While budget authority and outlays are important measures of resources allocated to Federal programs, they do not cover all Federal activities. Federal credit activity may also take the form of direct loans or loan guarantees, which do not always become budget authority or outlays. For example, Federal loan guarantees generally require no outlays unless the borrower defaults. To monitor and control Federal credit activities, a subsidiary credit budget measures and provides a mechanism for control-

ling all loan guarantee commitments and direct loan obligations. Table 6 at the end of this volume shows these data by agency.

Tax Expenditures.—Tax expenditures are provisions of the income tax laws that provide special benefits 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. In many cases tax expenditures can be viewed as alternatives to other means by which the Federal Government can carry out policy objectives, such as direct outlays, loan guarantees, regulations, or other tax law provisions. 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.

The budget proposals are consistent with the Bipartisan Budget Agreement for 1988 and 1989. After 1989, budget authority is projected to increase by about 2 percent a year in real terms. These levels are significantly below the biennial budget request submitted last year for 1988 and 1989 (\$20 billion and \$33 billion, respectively). Compared to last year's estimate, total 1988-1992 funding for national defense is reduced by \$177 billion.

The budget proposes \$299.5 billion in budget authority and estimates \$294.0 billion in outlays for the national defense function in 1989. The defense program has been extensively revised to accommodate these reduced budget levels. Although our national defense objectives remain unchanged, the rebuilding of our national security capabilities will proceed at a slower pace. Some programs are being cancelled while others are being deferred, resulting in smaller annual procurements of equipment, ammunition and war reserve stocks than previously planned, and slower development of new systems. Combat readiness will be preserved, but some delays in equipment maintenance will be unavoidable.

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 purchase, operation and maintenance of conventional arms such as tanks, ships and aircraft; procurement of ammunition and spare parts; and training. Major acquisitions include new helicopters and

M-1 tanks for the Army, new Navy ships and aircraft, and Air Force fighter aircraft.

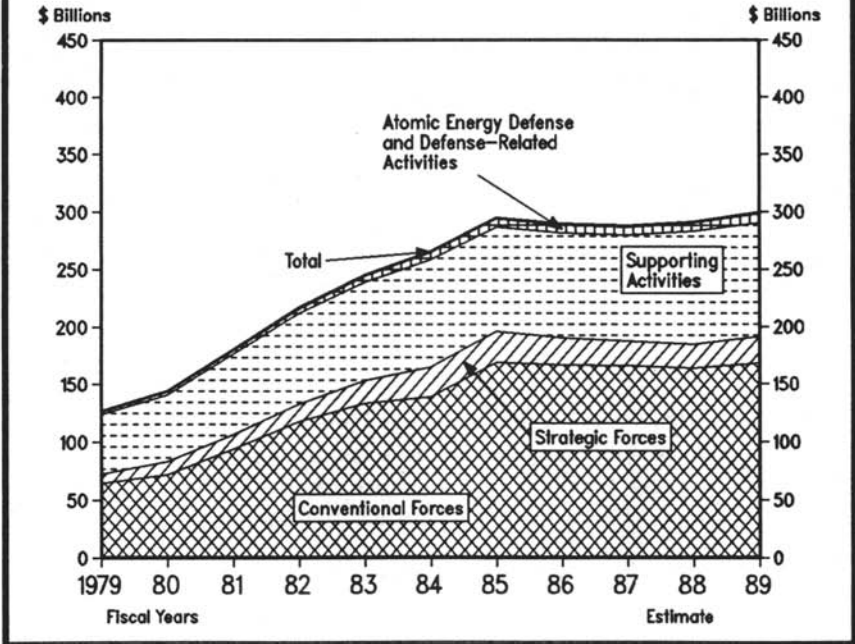
Strategic Forces.—Strategic forces are required to deter Soviet conventional or nuclear attack against the United States and its allies. The budget includes proposals for continuing the modernization of our strategic bomber forces by deploying B-1B bombers, developing and procuring B-2 advanced technology (stealth) bombers, and advanced cruise missiles. Our land-based forces would be modernized by developing a survivable rail-mobile basing system for the Peacekeeper missile. Our sea-based forces would be 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 develop a defensive system against ballistic missiles.

Supporting Activities.—Supporting defense activities include research and development, training and medical services, central supply and maintenance, and other overhead and logistic activities. 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 reactors for nuclear-powered ships, and nuclear weapons.

Other defense-related activities include developing civil defense plans, maintaining a stand-by Selective Service System, and maintaining a Ready Reserve Force of cargo ships to support military contingency operations.

National Defense (Budget Authority)



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 achieving a peaceful world environment, built on international security and prosperity, in which individuals may enjoy political and economic freedom. Outlays for international affairs programs are estimated to be \$13.3 billion for 1989. This is an increase of \$3.4 billion from the \$9.9 billion estimated for 1988.

Foreign Aid.—Outlays for *international security assistance* programs for 1989 are estimated to be \$6.0 billion. These programs primarily serve to strengthen allied and friendly governments where the United States has special security concerns.

Outlays for *international development and humanitarian assistance* are estimated to be \$4.7 billion for 1988 and \$4.6 billion for 1989. 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.

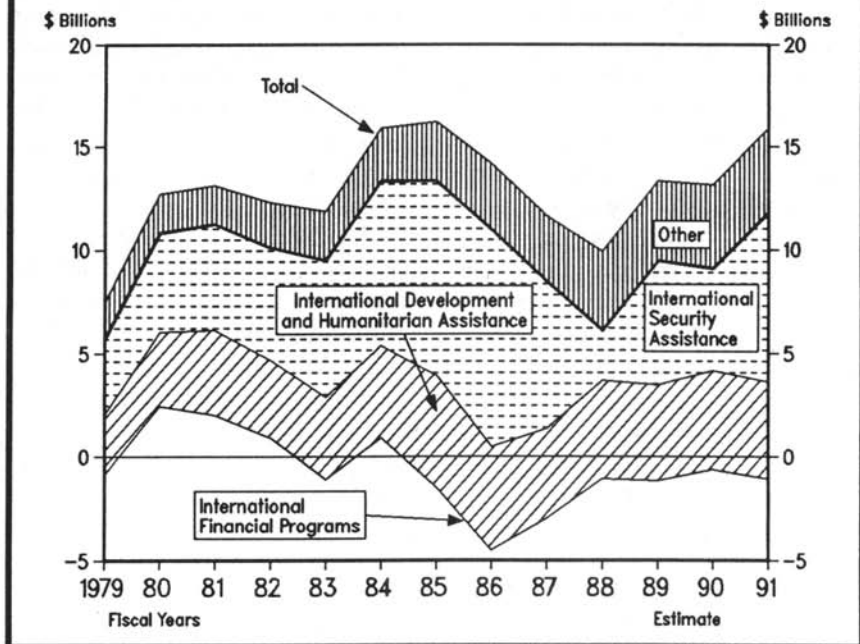
Multilateral development assistance is provided through the World Bank group of institutions, regional development banks, the United Nations, and related organizations. A \$32 million increase in 1989 outlays to \$1.5 billion reflects a different allocation of program funds. Bilateral development assistance 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 1989 are \$2.1 billion, about the same level as for 1988.

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 1989 are estimated to drop by \$73 million as a result of a 5 percent reduction from 1988 in the requested program level.

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 1988 levels in 1989. The direct loan program offers loans generally below market rates, consistent with an international agreement that reduces, but does not yet completely eliminate, interest export subsidies.

Other.—Outlays of \$2.7 billion for 1988 and \$2.8 billion for 1989 are estimated for the *conduct of foreign affairs*. These outlays include funds to ensure the security of U.S. embassies overseas and to pay U.S. contributions to international organizations. The U.S. Information Agency will continue the expansion and modernization of Voice of America radio facilities. Outlays of \$1.1 billion for 1988 and about the same amount for 1989 are estimated for all foreign information and exchange activities.

Outlays for International Affairs



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 for these programs are estimated to be \$13.1 billion in 1989, a \$2.2 billion or 20 percent increase over the 1988 level.

General Science and Basic Research.—This area covers the scientific and engineering research programs supported across all disciplines by the National Science Foundation (NSF), as well as the general science programs in nuclear and high energy physics supported by the Department of Energy (DOE). Outlays for these programs in 1989 are estimated to be \$2.9 billion, an increase of 18 percent or \$0.5 billion over the 1988 level. This level of funding would maintain the Nation's commitment to these important areas of basic research.

The increased level of basic research support proposed for 1989 would continue to place special emphasis on interdisciplinary research. Basic research among several disciplines often leads to the

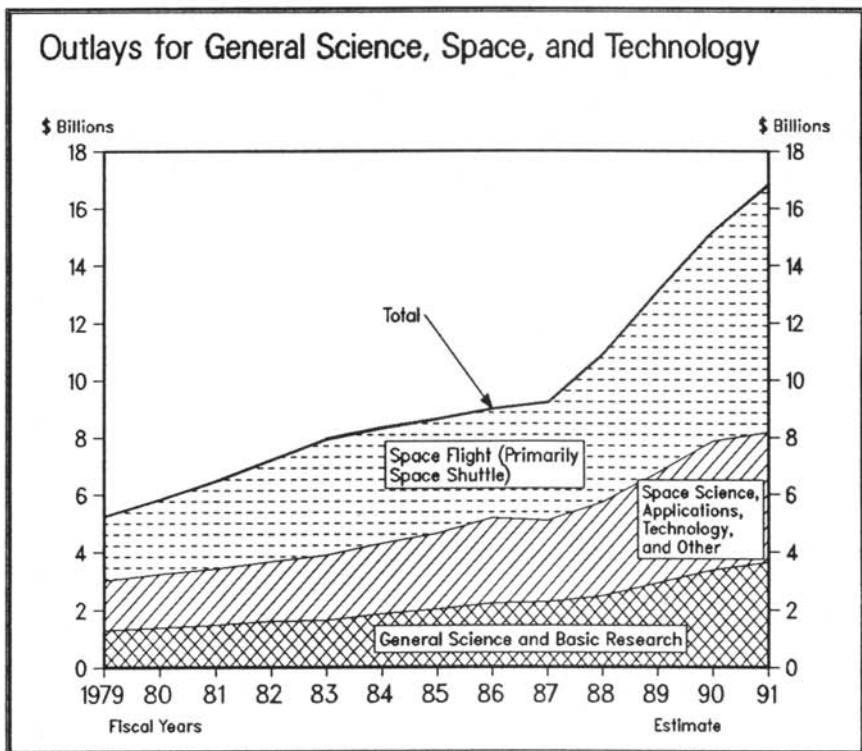
creation of important new fields of science. The administration proposes to establish 10 to 15 new interdisciplinary basic science and technology centers modeled after existing engineering research centers. These new centers would focus on basic research among scientific disciplines, attracting and encouraging substantial participation by industry and the States to speed the transfer of new knowledge from the laboratory to the marketplace. The 1989 budget includes an estimated \$1.9 billion in outlays for the NSF, an increase of 9 percent over the 1988 level. Within that amount, the support of basic research would be \$1.5 billion.

The budget also proposes additional funding for operation of the nuclear and particle physics accelerators supported by DOE. In addition, the proposed budget would provide funding for the initiation of construction of the Superconducting Super Collider (SSC), a Presidential initiative to build the world's most powerful atom smasher. With the increased level of support, efforts to achieve a comprehensive understanding of the basic components of matter and energy and the forces that govern their interaction would be enhanced. Outlays for these programs are estimated to be \$1.1 billion in 1989, 39 percent over the 1988 level.

Space Programs.—The Federal civilian space program is under the jurisdiction of the National Aeronautics and Space Administration. To continue U.S. leadership in space, these programs will ensure U.S. preeminence in areas key to achieving national goals, including the long-range goal of expanding human presence and activity beyond earth orbit into the solar system and critical aspects of manned space flight. Outlays for these programs are estimated to be \$10.2 billion in 1989, compared to \$8.5 billion in 1988, an increase of approximately 20 percent. Under the proposed budget for 1989, continued emphasis would be placed on the safe and effective buildup of shuttle flight activity. A new advanced solid rocket motor would be initiated in 1989. The budget proposes that development of the manned space station be continued in 1989 with a 3-year advance appropriation from Congress, and legislation establishing a total program cost ceiling will be proposed later this year. When operational, the space station will facilitate space-based research, help develop advanced technology useful to the economy, and encourage greater commercial use of space.

The budget includes funding for other programs in this area which 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. The civil space technology initiative started in 1988 would continue as planned for the purpose of developing a variety of generic space technologies such as space based propulsion, automation, and robotics. In addition, a major new effort, the pathfinder program, would

focus on potential missions outside earth orbit, developing such generic space technologies as transfer vehicles, closed cycle life support and operations. These proposed initiatives are 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 rely on the private market and limit the role of the Federal Government.

Consistent with this philosophy, the budget proposes a number of reductions in energy programs and major divestiture initiatives that both provide new revenues and curtail the Federal Government's involvement in energy markets. Total outlays for energy are estimated to be \$3.1 billion in 1989, an increase of \$0.3 billion from the 1988 level. This increase is due mainly to the increased fill rate proposed for the strategic petroleum reserve.

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

The budget proposes support for energy research and development, limited primarily to research that complements, rather than replaces, ongoing research and development investment by the private sector. Outlays of \$2.7 billion are estimated for 1989, \$0.2 billion more than in 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. Outlays in 1989 for this purpose will decline \$229 million from the 1988 level. In addition, the administration proposes to sell the NPRs, which have outlived their usefulness as national security assets, and also the Alaska Power Administration (APA). Divestiture of the APA can provide greater regional control and result in a more efficient electric power system. In addition the administration has proposed legislation to authorize a study of divestiture of the Southeastern Power Administration (SEPA). The proceeds from these sales are reflected in the undistributed offsetting receipts category.

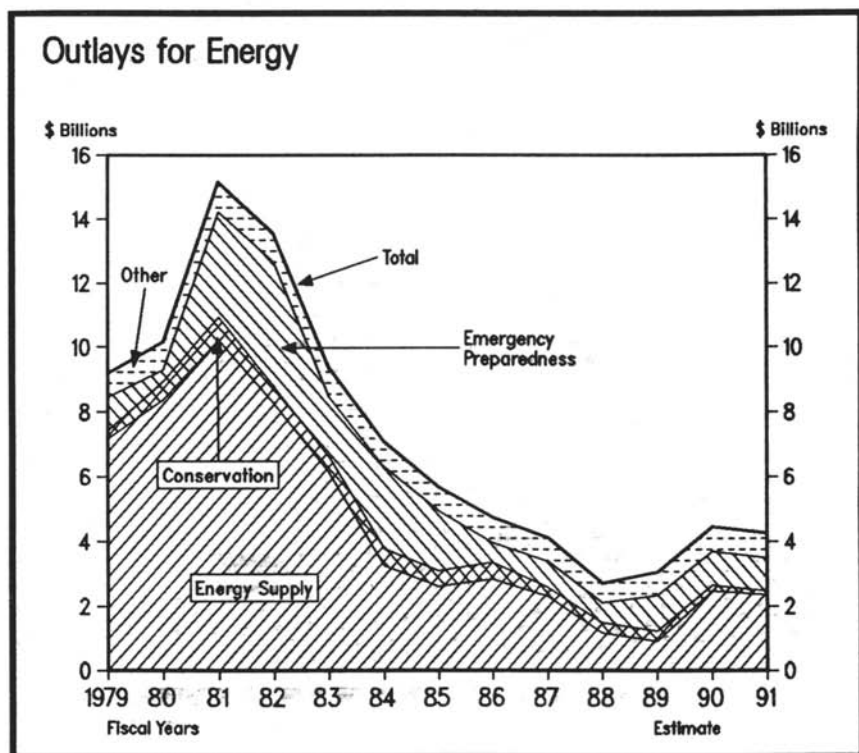
The administration proposes reforms to overhaul the lending practices of the Rural Electrification Administration (REA) thereby reducing costly subsidies by relying on partial REA guarantees of private loans rather than direct REA lending.

Energy Conservation.—Outlays for energy conservation research and development and grants in 1989 are estimated to be \$308 million. Research and development spending encourages development of new methods to use energy more efficiently in buildings, transportation, and industry. No new funding for State and local government grant programs is proposed, in view of the petroleum overcharge funds available to the States for this purpose.

Emergency Energy Preparedness.—The administration proposes to increase the fill rate for the strategic petroleum reserve from the currently approved rate of 50,000 barrels a day to 100,000 barrels a day in 1989 and to create a 10 million barrel petroleum inventory to offset the above-mentioned sale of the NPRs. The accelerated fill rate and the additional inventory would be contingent upon legislation authorizing the sale of the NPRs, and would be financed from the proceeds from the sale. Outlays for both proposals in 1989 would be \$479 million.

Other.—Outlays for other energy programs for 1989 are estimated to be \$0.7 billion. These funds support the work of the Nuclear

Regulatory Commission and various Department of Energy operating and administrative expenses.



NATURAL RESOURCES AND ENVIRONMENT

The Federal Government shares responsibility with State and local governments for management and conservation of the Nation's natural resources, and for protection of human health and the environment. Outlays to fulfill these responsibilities in 1989 are estimated at \$16.0 billion, \$885 million more than in 1988. This increase is the result of a \$1.1 billion increase in the conservation reserve program, which is partially offset by a \$188 million decrease for sewage treatment plant construction grants, the deferral of Federal land acquisitions, and reductions in construction programs.

Pollution Control.—Outlays are estimated to increase from \$4.8 billion in 1988 to \$5.1 billion in 1989 to carry out new statutory responsibilities under the Clean Water Act, to attain Clean Air Act deadlines, to provide funding for the Federal acid precipitation task force, and to finance the superfund cleanup of abandoned hazardous waste sites and chemical spills.

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	
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
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.....	4.9	—*	4.9	4.1	—0.3	3.8	6.9	—2.2	4.7	13.4
1988 estimate.....	4.9	—0.1	4.8	4.6	—0.5	4.2	8.6	—2.4	6.2	15.1
1989 estimate.....	5.2	—0.1	5.1	4.8	—0.5	4.3	9.3	—2.7	6.6	16.0
1990 estimate.....	5.5	—0.1	5.3	4.9	—0.4	4.5	9.6	—4.7	4.9	14.7
1991 estimate.....	5.4	—0.2	5.2	4.7	—0.5	4.3	9.1	—2.7	6.3	15.8

The administration's request will result in estimated outlays of \$2.4 billion in 1989 for financial assistance to States and municipalities for the construction of publicly owned sewage treatment facilities. The 1989 proposed budget authority level, which is \$804 million below the 1988 level, is consistent with the President's long-term \$12 billion phase-out program intended to set up self-sustaining financial mechanisms for these programs.

Water Resources.—Outlays for water resources development are estimated at \$4.3 billion in 1989. This is approximately \$144 million over the 1988 level. Most funding covers ongoing construction of projects started in previous years, and the operation and maintenance costs of completed projects.

The administration proposes six 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 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 administration proposes to offset 1989 construction costs of inland waterway projects with \$77 million in receipts from the inland waterway fuel tax.

Funding for Bureau of Reclamation projects gives highest priority to maintaining and upgrading the physical condition of existing facilities, and to completing ongoing construction activities that are substantially underway. Funding for new activities and projects is constrained. Consolidation of many of the Bureau's headquarters

operations and technical functions in Denver, Colorado, is also emphasized. The Bureau is included in the administration's loan asset sale initiative. Completed Bureau loans with a face value of about \$530 million will be offered for sale in 1988, yielding estimated net proceeds of \$130 million, which are deducted from outlays.

The administration proposes major reforms for the Soil Conservation Service (SCS) small watershed program, which provides flood control facilities in rural areas. These reforms will bring about significant increases in productivity and will make SCS flood control cost-sharing consistent with WRDA provisions.

Conservation, Recreation, and Other.—Estimated outlays for conservation and land management increase from \$2.5 billion in 1988 to \$3.3 billion in 1989. Requested spending for the conservation of agricultural lands increases by approximately \$946 million and is partially offset by decreases in other conservation and land management programs.

Estimated outlays for recreational resources decrease from \$1.8 billion in 1988 to \$1.6 billion in 1989 due mainly to the deferral of recreational land acquisitions, reductions in construction programs, and savings from management efficiencies. The administration is proposing legislation that will broaden the type of recreation fees that can be retained by the Forest Service, so that funding for recreation programs will be augmented.

In addition, legislation will be proposed to charge entrance fees at Army Corps of Engineers recreation units beginning in 1990. The 1989 budget proposal also includes the privatization of all Federal helium operations. For programs of the National Oceanic and Atmospheric Administration (NOAA) in the Department of Commerce in this function, estimated outlays decrease by \$6 million from 1988 to 1989. However, increased funding is included for procurement of the next generation of polar-orbiting and geostationary weather satellites, doppler weather radars, and commercialization of the land remote sensing satellite (Landsat) program.

AGRICULTURE

The goals of Federal agricultural price support, credit, and insurance programs are to promote economic stability and a market-oriented farm economy. Total agriculture outlays are estimated to be \$21.7 billion in 1989, a \$0.6 billion decrease from 1988. This decrease is the result of a continuing shift away from direct Federal lending to Federal guarantees of private loans and projected reductions in spending on farm price support programs.

Farm Income Stabilization.—Expenditures on farm income stabilization programs are estimated to be \$19.8 billion in 1989 and

represent 91 percent of total 1989 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 programs, excluding credit reform, are estimated to total \$17.2 billion in 1989, a \$0.5 billion decrease from 1988. The projected decrease is the result of administration policies aimed at developing more market-oriented price levels and enhancing the United States' competitiveness. There has been a major improvement in export markets, farm income reached record levels in 1987, and farm debt is projected to decline again for the fifth straight year.

Legislation to change the current price support system for the sugar industry will be proposed to reduce Government interference in trade. Domestic sugar policy is in direct conflict with the administration's objective of moving toward a more market-oriented agricultural sector for the following reasons: the quota system runs counter to a free trade policy; international trade tensions are fostered by reducing the quota; and there is a loss of foreign exchange from countries that are economically weak but vital to U.S. interests. The legislation proposed will have no impact on outlays.

Outlays for Federal crop insurance are estimated to be \$541 million in 1989. The total amount of insurance in force in 1989 is projected to reach \$7.6 billion.

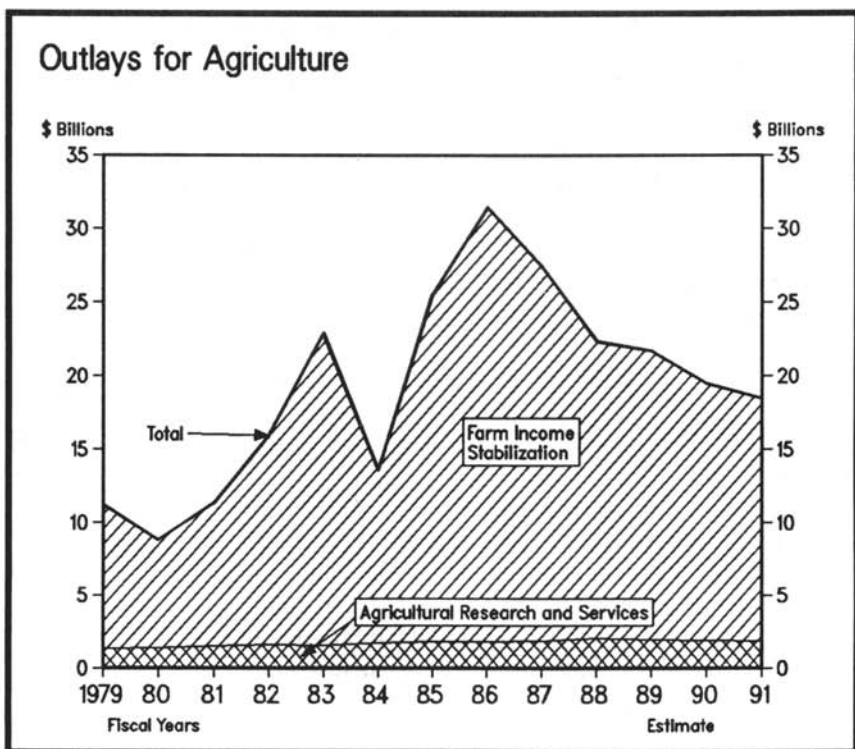
The administration's request for agricultural credit contains \$4.2 billion in total credit authority in 1989 to help ensure that viable but higher risk farmers have credit available to continue operations. Within this level of credit authority, direct Government lending is reduced and Federal guarantees of private loans are increased. Owing in part to the reduction in direct lending activities, outlays for agricultural credit programs are estimated to be \$1.3 billion in 1989, an \$800 million decrease from the 1988 level.

Agricultural Research and Services Programs.—Research program outlays in 1989 are estimated to be \$867 million, an \$18 million decrease from the 1988 level. Emphasis will be given to research in the areas of water quality, protection of the stratospheric ozone, conservation, food safety, and human nutrition. Also, the 1989 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 \$353 million in 1988 to \$312 million in 1989. Extension Service outlays will be reduced by terminating categorical grants

to States that are used for such programs as urban gardening, pest management, support for rural development centers, and financial management; and by reducing grant assistance for 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. Most of the marketing assistance services are now funded on a user fee basis. Outlays for animal and plant health programs are estimated to be \$306 million in 1989.



COMMERCE AND HOUSING CREDIT

The Federal Government needs to ensure a stable supply of credit to all sectors of the economy. Commerce and housing credit programs supplement private sector financing of business and housing by providing assistance for mortgage credit, deposit insurance, and other subsidies for business. This function also includes non-credit programs for the advancement of commerce. Outlays are estimated to be \$8 billion in 1989.

Mortgage Credit Insurance.—The Federal Government aids the housing industry and homebuyers by promoting stable, non-inflationary 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 Federal Housing Administration (FHA) insures loans for housing, particularly home mortgages for low- and moderate-income first-time homebuyers. However, some families using the FHA programs may qualify for private mortgage insurance. The Administration will continue to study the extent to which FHA activity duplicates private mortgage insurance activity.

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 commitment limitation of \$100 billion for 1989. Additionally the administration proposes to deregulate the fee GNMA mortgage-backed issuers earn servicing the underlying mortgages.

The administration proposes to replace loan programs for the construction of rural low-income housing with more cost-effective rental housing voucher programs.

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 1987, which were due in part to continued severe problems in the agricultural and energy sectors, and the 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. Outlays are estimated to exceed receipts for these insurance funds by \$4.2 billion in 1988 and \$1.1 billion in 1989.

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.

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.

OUTLAYS FOR COMMERCE AND HOUSING CREDIT

(In billions of dollars)

	Mortgage credit and deposit insurance	Postal Service	Other advancement of commerce	Total
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	6.3
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	0.8	1.8	4.4
1987.....	3.1	1.6	1.5	6.2
1988 estimate.....	8.2	2.2	1.9	12.4
1989 estimate.....	5.4	0.7	1.8	7.9
1990 estimate.....	4.2	1.5	2.8	8.6
1991 estimate.....	3.0	1.7	2.1	6.8

TRANSPORTATION

The viability of the national economy, interstate commerce and travel, and national defense depends on a safe, efficient, and well integrated transportation network. The Federal Government promotes such a system through programs that provide national services either directly or indirectly through assistance to State and local governments and private enterprises.

Outlays for transportation are estimated to be \$27.3 billion in 1989, about the same as in 1988. The administration continues to believe that transportation users should pay the full cost of the transportation benefits they receive; that unnecessary Federal transportation regulations and subsidies should be eliminated; and that reduced, but more equitable funding for local transportation projects should be provided. The administration also believes that programs providing much needed national improvements and benefits (e.g., the modernization of our air traffic control system) should receive priority funding consideration.

Highways.—Total outlays for highway and highway safety programs are estimated to be \$13.7 billion in 1989, \$0.67 billion more than 1988. The proposed 1989 funds would continue the highway authorization included in the Surface Transportation and Uniform Relocation Assistance Act. Current support for Federal vehicle safety research and development and for promulgation and enforcement of Federal safety standards would also be maintained. Overall, the administration proposes to target 1989 funding for programs supported by the highway trust fund to anticipated highway user fee receipts. To ensure judicious use of user fee revenue, the

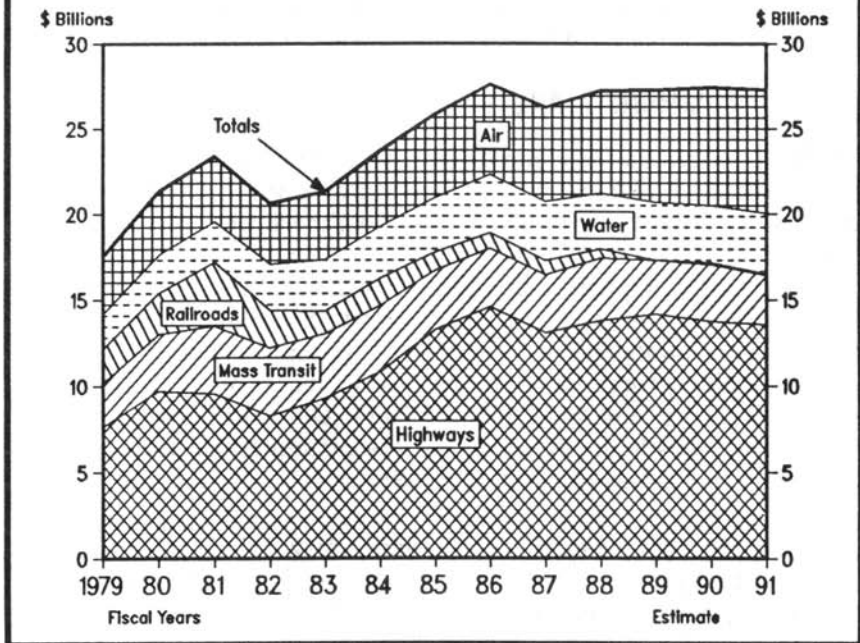
administration also plans to require a non-federal cost sharing of at least 20 percent of project costs for all "demonstration" and special interest projects, now 100 percent federally-funded. The 1989 funding level continues to support State and local efforts to develop awareness of the benefits of protecting the occupants of motor vehicles as well as reducing the level of alcohol-related traffic accidents.

Mass Transit.—The \$3.4 billion in proposed outlays for mass transit in 1989 represents a \$0.2 billion decrease from 1988, reflecting the administration's efforts to reduce expensive and unjustifiable levels of mass transit funding. The reduction proposed will limit mass transit funding (except for Washington Metro) to the level of receipts provided by the one cent per gallon of the motor fuel tax dedicated to mass transit. It will also eliminate discretionary grant funding, which in the past has provided funds for the construction of costly and underutilized transit systems in a number of cities.

Railroads.—In keeping with the administration's policy of reducing Federal responsibility for rail activities unrelated to safety, proposed outlays for railroad programs decrease by \$501 million in 1989 from the \$527 million estimated for 1988. The decrease is largely attributable to the proposed elimination of Amtrak subsidies.

Air Transportation.—Air transportation outlays in 1989 are estimated to be \$6.6 billion, a \$0.6 billion increase over 1988. Most of the requested 1989 funding increase is due to a 44 percent proposed increase in funding for the Federal Aviation Administration's (FAA) program to modernize our Nation's air traffic control system. Among numerous important projects, this increase will provide for the procurement of specialized doppler weather radars to detect dangerous wind shear conditions at airports, the continued development of the Advanced Automation Air Traffic Control System, and an interim support effort to maintain existing facilities and equipment until the new equipment comes on line. The administration also requests a 9.4 percent increase in funding for FAA operations to increase the air traffic controller, safety inspection, and security workforces commensurate with projected increases in aviation activity through the early 1990s.

Outlays for Transportation



Water Transportation.—The administration will propose a redistribution of funds within the Department of Transportation to ensure the continuation of critical Coast Guard services in 1988. Outlays for water transportation programs are estimated to be \$3.4 billion in 1989, \$72 million more than in 1988. The estimated outlay increase reflects the administration's proposal to increase the funds available for Coast Guard operations, including search and rescue and law enforcement activities. Drug law enforcement will continue to receive major emphasis in 1989 with 23 percent of the Coast Guard's operating budget supporting interdiction of drug smuggling. The Coast Guard's search and rescue mission will benefit from replacement short-range recovery helicopters, renovated and modernized vessels, and new patrol boats that will be put into service during 1989. These assets will also provide the Coast Guard with expanded law enforcement and defense preparedness capabilities.

The administration will continue to provide operating subsidies to offset the higher costs of operating U.S.-flag vessels while proposing legislation that would reform the operating subsidy program. Specifically, the legislation would expand carriers' operating flexibility, reduce the cost of subsidy per ship, and allow additional

carriers to participate in the program as well as reduce the cost of administering the cargo preference program. In addition, the administration has proposed legislation to return the Saint Lawrence Seaway Development Corporation to direct financing from toll and other revenue, consistent with its organization and mission.

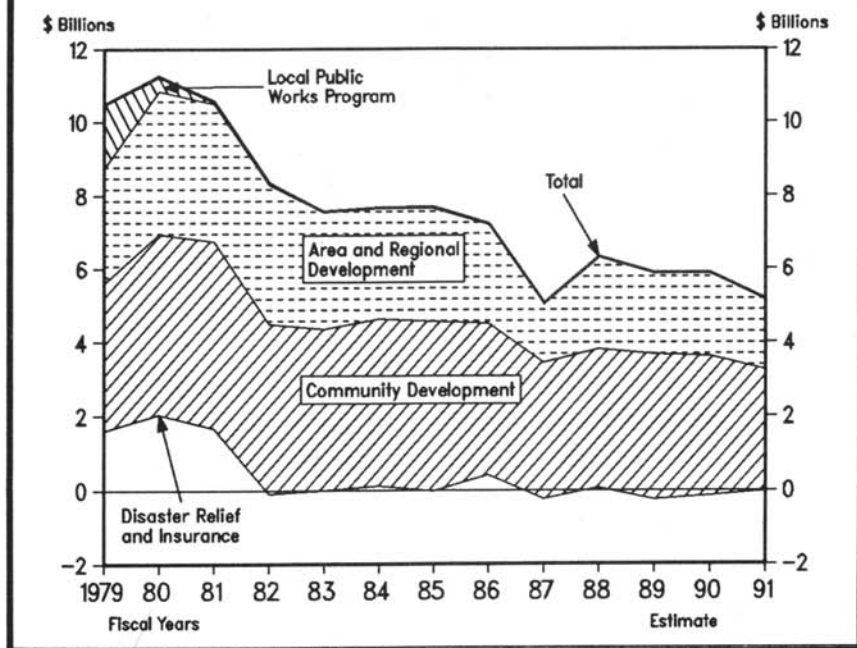
COMMUNITY AND REGIONAL DEVELOPMENT

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 responsibility for programs that support community and regional development should be transferred as much as possible to State and local governments. The administration proposes to eliminate a number of Federal categorical programs currently providing support for specific local community and economic projects. Outlays for community and regional development programs are estimated to decline from \$6.3 billion in 1988 to \$5.9 billion in 1989.

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 establish the CDBG program level at \$2.6 billion for 1989, slightly below the 1988 program level of \$2.9 billion. Although this will reduce the total resources available for this program, recently enacted legislation increases the percentage of funds used to benefit low and moderate income persons from 51 percent to 60 percent.

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 by 1989, while the administration is proposing \$150 million for the rental rehabilitation grant program. The more flexible CDBG program will allow communities to meet most of these same program objectives with greater local discretion.

Outlays for Community and Regional Development



Area and Regional Development.—Programs in this category support rural development, development of American Indian reservations, and multi-State regional development. Total outlays are estimated to be \$2.2 billion in 1989, only \$300 million below 1988 largely because of spending from prior years.

The administration, as part of its Rural Development Initiative, proposes to continue its program of grants, and direct and guaranteed loans through the Farmers Home Administration (FmHA). Direct loans and grants are made to small rural communities to assist in financing water and waste treatment systems, and community facilities.

The Economic Development Administration, which is part of the Department of Commerce, and the Appalachian Regional Commission are proposed for termination in 1989. Similar funds for these programs are available through other Federal sources such as the CDBG program.

Finally, Bureau of Indian Affairs area and regional development 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 \$1.1 billion in 1988 and \$1.0 billion in 1989.

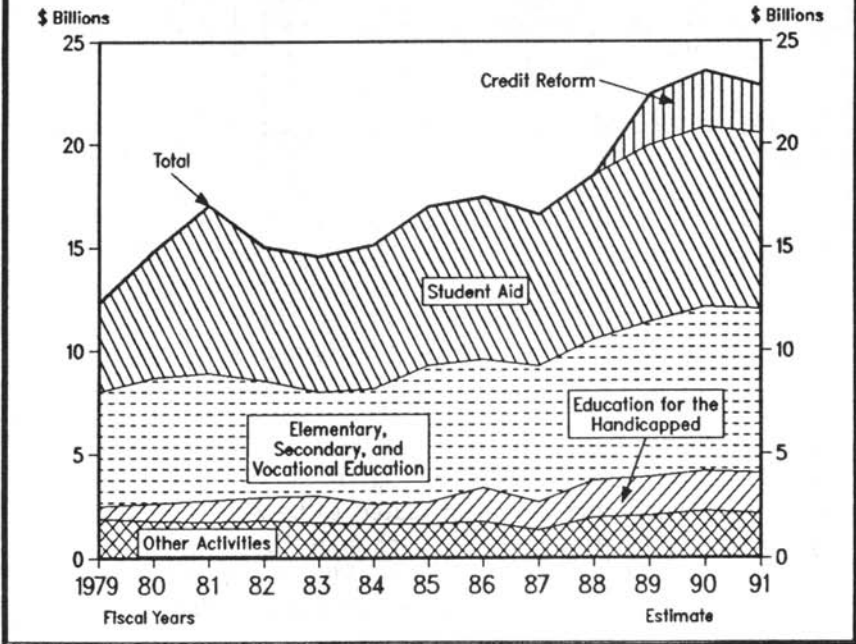
Disaster Relief and Insurance.—Providing insurance against losses from floods, hurricanes, tornadoes, and other natural disasters is primarily the responsibility of private insurers. State and local governments aid recovery when necessary, and Federal insurance and disaster relief programs are available 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

Federal programs for education assist parents, States, and localities in providing education, especially for educationally disadvantaged, low-income, and handicapped persons. Excluding the financing effects of the proposed credit reform legislation, outlays for education are estimated to be \$19.9 billion in 1989, an increase of \$1.4 billion or 7.7 percent above the 1988 level.

Elementary, Secondary and Vocational Education.—Programs in this category are primarily Federal grants designed to help States educate students with special needs. For 1989, the administration proposes to increase funding above 1988 levels for most of the major State and local formula grant programs, including compensatory education for the disadvantaged, education for handicapped children, and the education block grant. The administration seeks to increase Federal funds supporting drug abuse prevention and magnet schools. The administration is requesting budget authority equal to the 1988 level for vocational education. The elimination or reduction of some smaller programs in which Federal investment is inappropriate is also being sought. Estimated outlays in 1989 for elementary, secondary, and vocational education programs are \$9.4 billion, \$766 million or 8.9 percent above the 1988 level.

Outlays for Education



Higher Education.—The budget continues the Federal Government's commitment to ensuring access to higher education for the poor. Total aid to students in 1989 would be higher than ever before under the administration's proposals, which include the following: expansion of the income contingent loan program; additional funding for the Pell grant program; regulatory and administrative initiatives to reduce the cost of student loan defaults; and legislation to improve the educational quality and accountability of recipient institutions by conditioning the work-study and supplemental educational opportunity program grants on achievement of performance objectives. No funding is requested in 1989 for new capital grants to schools for Perkins loans or for State student incentive grants. For the programs for historically black colleges and universities, the administration is seeking budget authority 10 percent over the 1988 level. Excluding the financing effects of the proposed credit reform legislation, estimated outlays for higher education are \$9.1 billion in 1989, \$684 million or 8.1 percent over the 1988 level.

TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

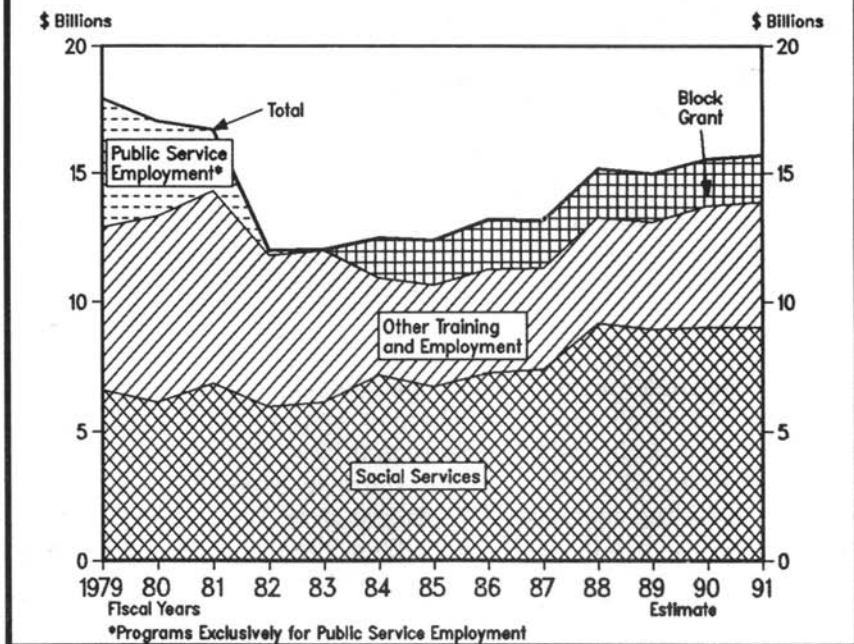
Federal programs in this area are designed to facilitate the operation of the labor market and provide social services to needy individuals. Outlays for these activities are estimated to be \$15.0 billion in 1989, a decrease of \$196 million from 1988.

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, subsidized 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 \$5.2 billion in 1989.

The administration proposes to change the existing summer youth employment program to allow States and local areas to establish a comprehensive program of services for low-income youth. This change would enable States and localities to operate a year-round program of remedial education, basic skills training, and related support; a subsidized summer jobs program as they do now; or a mixture of both programs. The mix of services between training and jobs will be up to States and local areas, thereby allowing local areas to put together the best combination of services for their jurisdiction.

Two programs that currently help workers whose jobs have disappeared because of changes in the economy—trade adjustment assistance (TAA) 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. Total budget authority of \$980 million is requested in 1989 to serve dislocated workers, of which \$32 million is for residual TAA benefits classified in the income security function. Approximately 700,000 workers are expected to enroll in the new program each year when it is fully operational.

Outlays for Training, Employment, and Social Services



Social Services.—The Federal Government makes grants to States and to public and private institutions for a variety of social services. Beneficiaries include low-income persons, the elderly, the disabled, children, youth, and Native Americans. Outlays for social services are estimated to be \$9.2 billion in 1988 and \$9.0 billion in 1989.

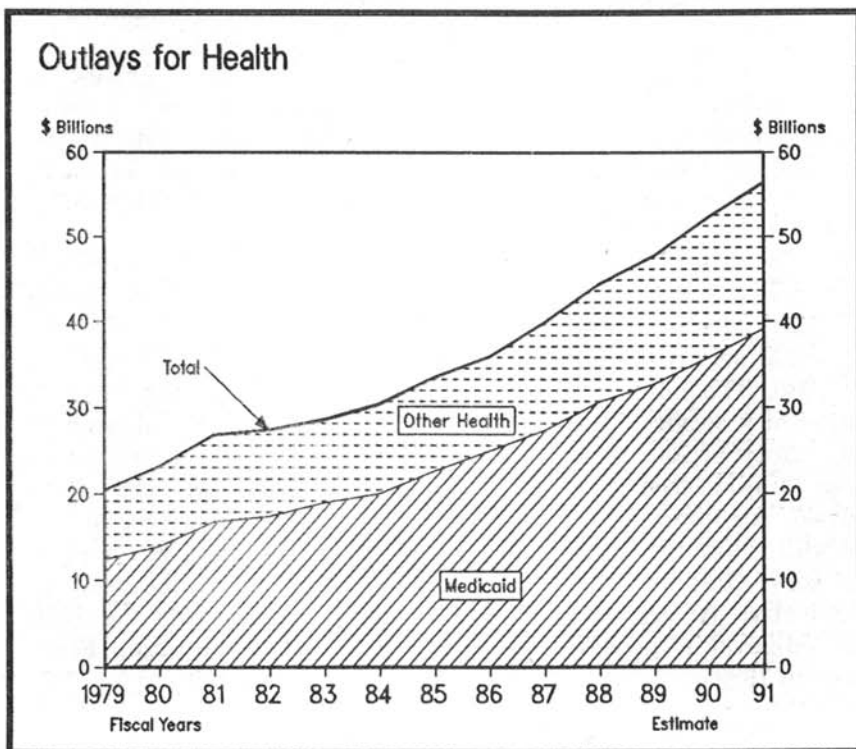
The social services block grant gives States discretion to determine which social services will be offered and who will be eligible to receive them. Budget authority of \$2.7 billion is requested for the social services block grant in 1989, the same level as enacted for 1988. The administration proposes 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. An appropriation of \$2.5 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. An increase of 2 percent over the 1988 enacted level is proposed for the vocational rehabilitation State grant in 1989.

The Federal Government also makes grants to help States provide foster care and adoption assistance, and reunite children with their families. Outlays for these programs are estimated to be \$1.0 billion in 1989.

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. Excluding medicare and veterans medical programs, Federal outlays for these programs are estimated to increase from \$44.5 billion in 1988 to \$47.8 billion in 1989.

Medicaid.—Under current law, the Federal Government is expected to finance 56 percent of the cost of the joint State-Federal medicaid program. In 1989, the State and local share is projected to be \$25.7 billion, while the Federal share is expected to be \$32.7 billion, a spending increase of 7 percent over 1988. The medicaid program will finance health care for 25 million Americans. Federal outlays are projected to increase by an average of 10 percent per year between 1989 and 1993.



Federal Employees Health Benefits (FEHB).—The FEHB program is the world's largest multiple-choice employee health program, the cost of which is shared by the Government and its employees. The President's budget implements changes legislated in 1987 that require the Postal Service to make payments toward the Government's share of health insurance premiums for Postal Service retirees. Federal outlays in 1989 for Federal employees health benefits are estimated to be \$1.9 billion.

Other Health Programs.—Programs in this category include the Indian Health Service, health block grants to States, and health research. The Federal Government provides approximately 85 percent of the Nation's expenditures on basic, health-related research; outlays of \$7.4 billion are estimated for Department of Health and Human Services research in 1989. Outlays for Acquired Immune Deficiency Syndrome (AIDS) research and education, the highest public health priority of the administration, are expected to increase significantly as a result of a requested increase of almost 40 percent in budget authority from 1988 to 1989. 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. Outlays in 1989 to protect workers from occupational hazards, and consumers from unsafe products are estimated to be \$1.3 billion.

MEDICARE

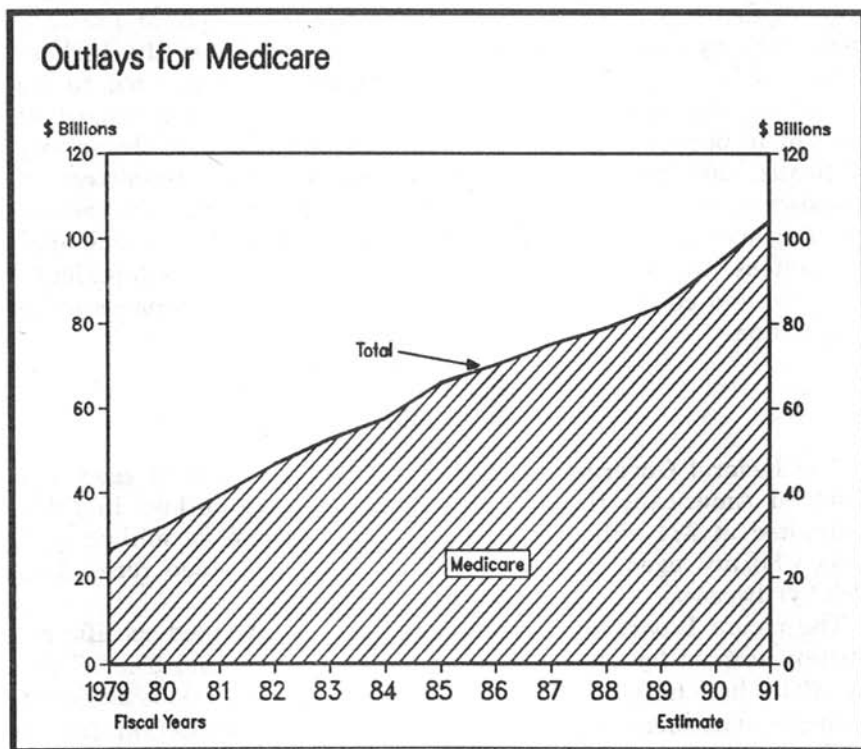
The Federal Government contributes to the health of aged and disabled Americans through medicare. Medicare outlays in 1989, estimated at \$84 billion, will insure an estimated 33 million persons who are aged, disabled or suffer from end-stage renal (i.e., kidney) disease.

The recent Bipartisan Budget Agreement established specific reduction targets for medicare—\$2.0 billion in 1988 and \$3.5 billion in 1989. The administration estimates that the reductions achieved through enactment of the Omnibus Budget Reconciliation Act of 1987 (OBRA) fall \$1.2 billion short of the 2-year savings agreed to. The budget proposes reductions in 1989 of \$980 million for the hospital insurance program and nearly \$240 million for the supplementary medical insurance program.

To implement fully the Bipartisan Budget Agreement, the budget proposes to achieve the further reductions for health insurance costs by reducing payment adjustments for indirect medical education (IME) from 7.7 percent to 4.05 percent. The budget also

proposes to limit supplementary medical insurance payments for durable medical equipment, reduce payments for radiology and anesthesiology services, and to limit payments for home dialysis treatment for end-stage renal disease. The administration also aims to control growth in physician spending and pursue physician payment reform. In addition, the administration is proposing savings through a permanent extension of the premiums at the current law rate of 25 percent of program costs.

Even with the administration's savings proposals, medicare outlays are projected to increase from \$79 billion in 1988 to \$128 billion in 1993. This increase significantly exceeds general inflation and the increase in the beneficiary population. Spending per medicare beneficiary would increase from \$2,500 in 1988 to \$3,700 in 1993.



The administration remains committed to the enactment of legislation providing affordable, acute-care catastrophic illness protection and outpatient prescription drug coverage for our Nation's elderly and disabled. Such legislation must be deficit neutral, with benefits paid from newly created trust funds, which are soundly and fully financed from beneficiary premiums.

The Senate-passed version of H.R. 2470, the Medicare Catastrophic Protection Act, is consistent with the administration's

principles for an acceptable catastrophic health insurance bill. The administration's continued support for the Senate-passed bill assumes modifications in effective dates, necessary because of the delay in conference action.

INCOME SECURITY

Income security benefits are paid to the aged, the disabled, the unemployed, and low-income families. Total outlays are estimated to be \$136 billion in 1989.

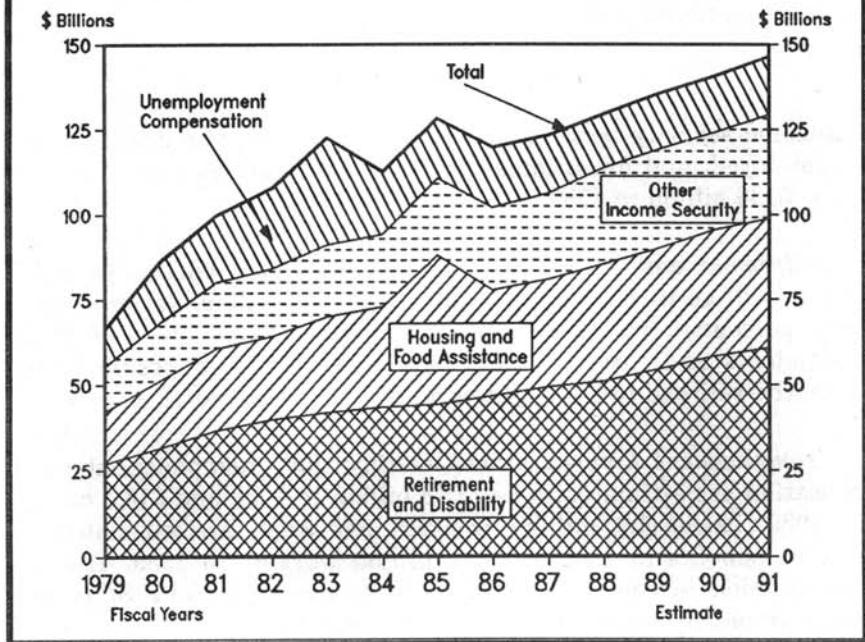
Retirement and Disability.—In 1989, estimated outlays of \$54.6 billion will go to retired or disabled Federal civilian workers, military personnel, railroad employees, and coal miners, and their dependents and survivors. The administration is proposing to restore the railroad pension system to the private sector.

Unemployment Compensation.—Outlays for unemployment compensation are estimated to be \$15.8 billion in 1988 and \$16.4 billion in 1989. About 1.9 million workers per week are estimated to receive benefits in 1988 and 2.0 million workers in 1989. The administration has proposed 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 1989, an estimated 5.8 million households will receive housing aid, and an estimated 18.8 million individuals per month will receive food stamps.

Outlays for subsidized housing programs are estimated to increase from \$13.8 billion in 1988 to \$14.8 billion in 1989. For 1989, the administration is proposing to provide 135,500 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 Income Security



Under current law, food stamp outlays including nutrition assistance to Puerto Rico are estimated to be \$13.4 billion in 1989, approximately the same amount as in 1988. To encourage States to run the best employment and training (E&T) programs for able-bodied food stamp recipients, the budget proposes to make a specific amount available for each State E&T program participant.

Outlays for child nutrition and other food programs are estimated to be \$7.4 billion in 1989. The administration proposes to focus on improving program integrity, and ensuring efficient and effective use of Federal meal subsidies.

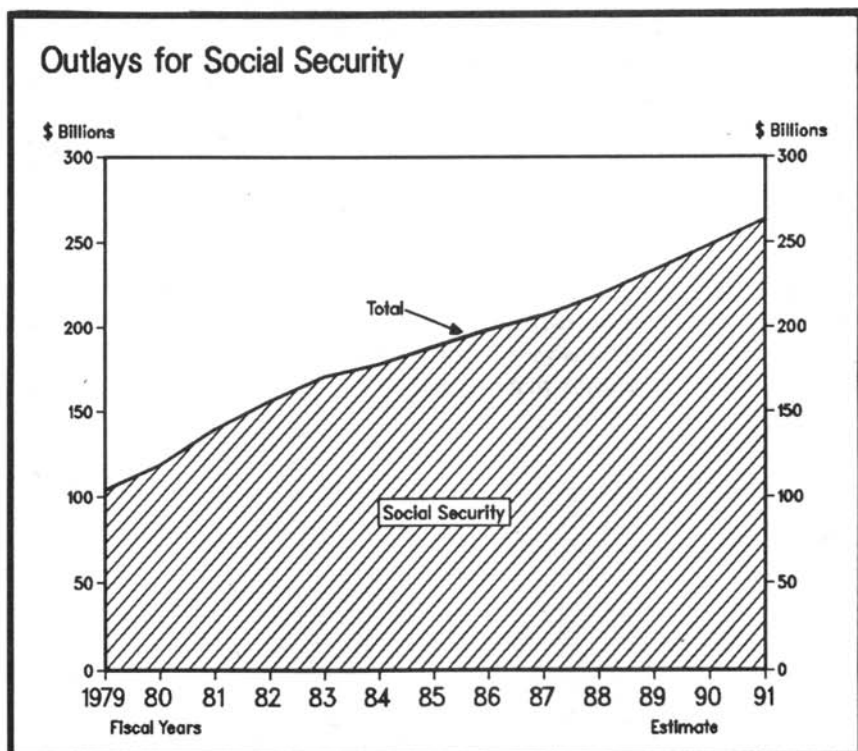
Other Income Security.—Outlays for the supplemental security income program (SSI), which pays benefits to an estimated 4 million needy aged, blind or disabled individuals, are estimated to be \$12.5 billion in 1989. SSI payments continue to be adjusted for changes in the cost-of-living. Federal outlays for aid to families with dependent children (AFDC) and child support enforcement are estimated to be \$10.9 billion in 1989. Approximately 3.8 million low-income families are expected to receive AFDC benefits in 1989. The budget reflects the AFDC Employment and Training Act of 1987 (H.R. 3200 and S.1655). This proposal would reform and substantially expand AFDC employment and training programs and

strengthen child support enforcement resulting in major welfare savings; and give States broad demonstration authority for low-income programs. 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 1989.

Social security affects the lives of most Americans, either through benefits received or through payroll taxes deducted from earnings. One in every six Americans receives social security benefits. Outlays for social security old-age, survivors, and disability programs are estimated to increase from \$220.5 billion in 1988 to \$234.5 billion in 1989, 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 \$29.6 billion in 1989.

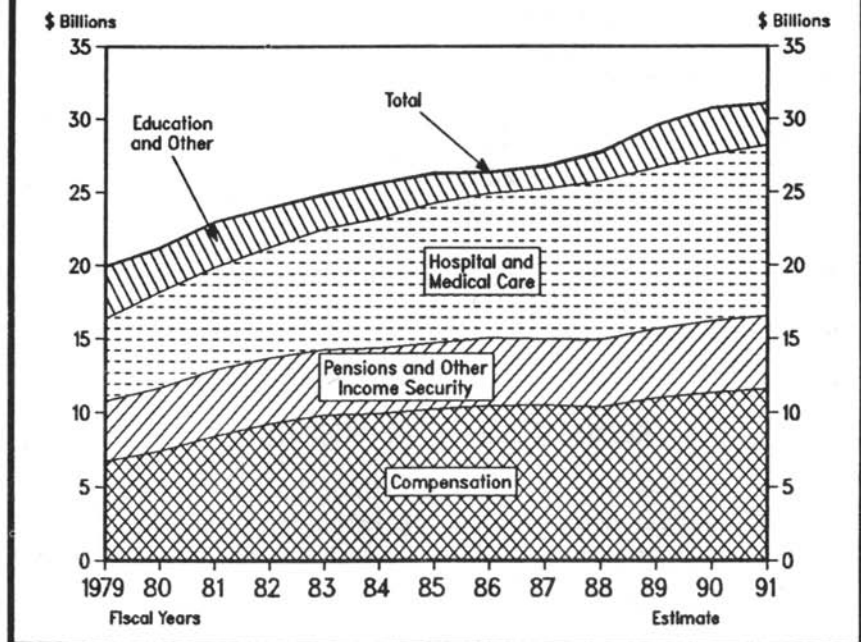
As further recognition of the importance of the Nation's veterans, the administration supports legislation to make the Veterans Administration (VA) a Cabinet agency.

Hospital and Medical Care.—The VA operates the Nation's largest system of medical care facilities. Under the administration's proposals, the VA will continue to provide no-cost quality care for veterans with service-connected disabilities and for other veterans with low and moderate incomes, with a copayment for higher income veterans. The administration also requests additional recruitment and retention incentives for VA nurses and other scarce health care professionals, increased funding for treating veterans in community nursing homes, as well as State veterans nursing homes, and a VA residency program in geriatrics. Legislation will also be proposed to increase, by an average of 24.5 percent, the per diem rate paid to States for the care of veterans in State-operated nursing homes, domiciliaries, and hospitals for veterans.

Outlays for hospital and medical care programs are estimated at \$10.8 billion in 1988 and \$11.0 billion in 1989.

Compensation.—Compensation benefits are provided to an estimated 2.5 million veterans with service-connected disabilities and survivors of such veterans. Outlays for veterans compensation benefits are estimated to increase from \$10.4 billion in 1988 to \$11.0 billion in 1989. 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 wartime service—both combat and non-combat veterans alike—and to needy survivors of deceased veterans. Outlays for pension benefits are estimated to increase by \$28 million to \$3.9 billion in 1989. Pension recipients are scheduled to receive an estimated 4.2 percent increase in benefits, effective with the January 1989 payments.

Education, Training, and Rehabilitation.—The Vietnam-era 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 and before July 1985 are eligible for the post-Vietnam era education program. Enrollment in this program was closed as of March 1987. The current educational assistance program—the Montgomery GI bill—offers more generous benefits as an aid to recruitment and retention. Nearly 41,500 veterans and servicepersons and 202,800 reservists are expected to use benefits under this program in 1989.

Outlays for readjustment benefits are estimated to decrease from \$654 million in 1988 to \$606 million in 1989.

Other.—The VA provides additional assistance to veterans through housing loan guarantees. New guaranteed loan commitments are expected to remain roughly constant at \$18 billion in 1988 and 1989. The administration continues to support negotiated interest rates on VA-guaranteed mortgages as a way to provide veterans with maximum flexibility in financing home purchases. Direct loans are available to disabled veterans eligible for specially adapted housing and to non-veterans who purchase property from the VA portfolio.

Other benefits and services, including insurance programs and burial benefits, are available to veterans through a network of 59 VA regional offices.

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. Outlays for these activities are estimated to be \$9.9 billion in 1989, \$0.9 billion above the 1988 level.

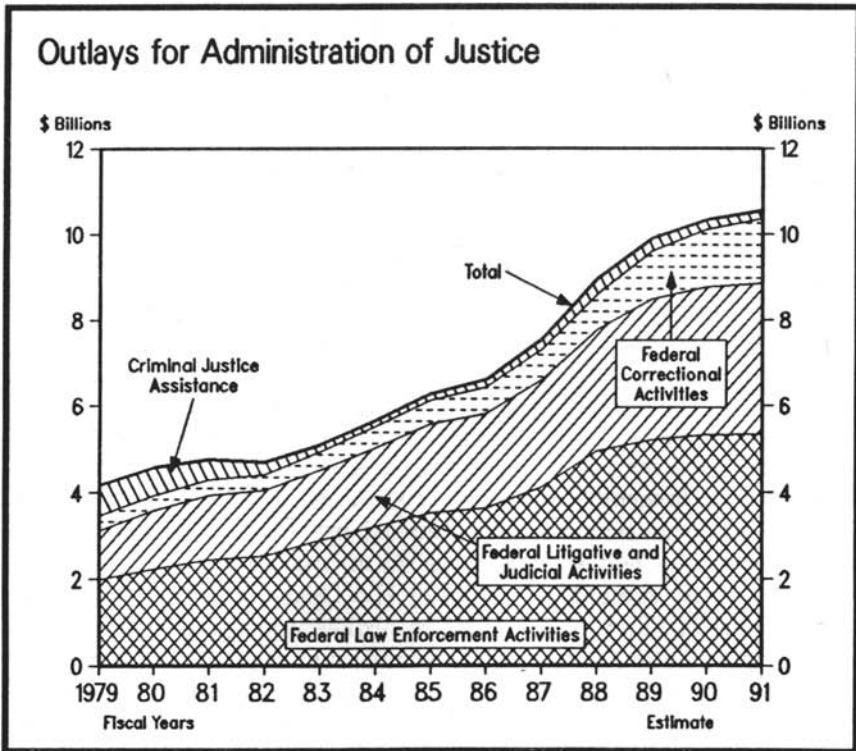
Federal Law Enforcement Activities.—More than one-half of outlays for programs in this function are for law enforcement activities. Outlays for this purpose are estimated to be \$5.2 billion in 1989, \$0.3 billion above the 1988 level.

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 funding for over 170 domestic and foreign positions for the DEA, as well as funding to improve DEA's technical equipment capabilities. In 1989, additional resources are also being requested for the FBI's foreign counterintelligence activities and for intensified efforts against organized criminal groups, white-collar crime, terrorist activity, and public corruption.

Outlays for border enforcement activities are estimated to be \$2.2 billion in 1989. About half of this money will go to the Immigration and Naturalization Service, which will be in its third year of expanded responsibilities under the Immigration Reform and Control Act of 1986.

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

statutes; strengthening efforts to combat fraud and waste; recovering delinquent debt owed the Government; and defending civil claims filed against the Government and its officials.



The 1989 budget includes an estimated \$257 million in outlays for the Legal Services Corporation, created to assist State and local agencies provide free civil legal assistance to the poor. Comparable activities by States and private attorneys can more than compensate for the \$39 million reduction from the 1988 level. State and 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.

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, the administration proposes acquiring 10 new correctional facilities, the largest expansion ever proposed by this administration. In addition, the administration proposes two pilot projects, one focusing on prison industries and the other on minimum security prison management, to explore

the role of the private sector in Federal corrections. Outlays for correctional activities are estimated to be \$1.1 billion in 1989, an increase of \$0.3 billion over 1988.

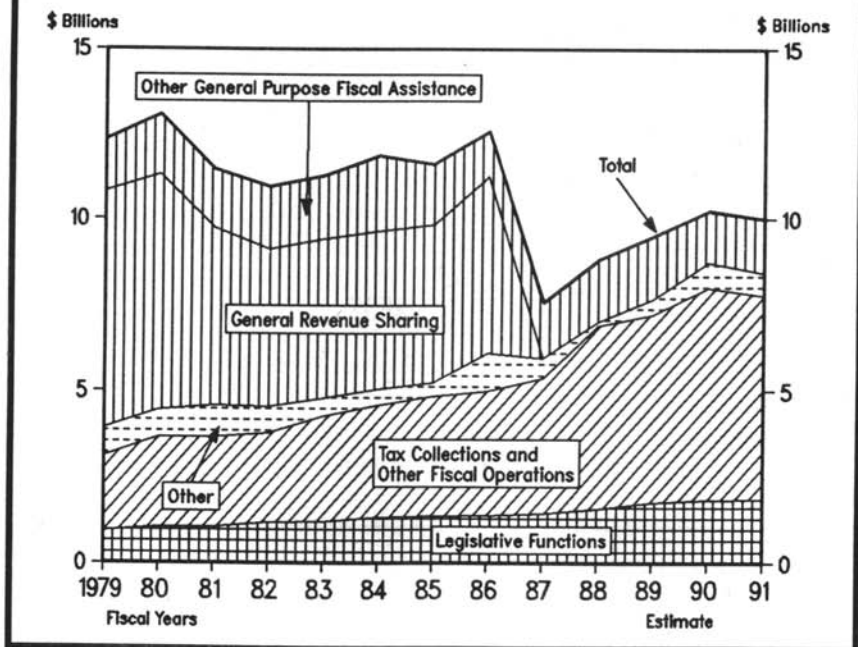
Criminal Justice Assistance.—The administration is requesting to terminate the juvenile justice and delinquency prevention programs because the primary objective of the programs—the separation of juvenile from adult offenders—has largely been accomplished. The administration is also proposing that funding 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 directly from them. Outlays for criminal justice assistance in 1989 are estimated to be \$295 million, \$71 million below the 1988 level.

GENERAL GOVERNMENT

The general government function includes the central management activities for both the executive and legislative branches of the Federal Government. It also comprises tax collection by the Internal Revenue Service (IRS), general property and procurement activities of the General Services Administration (GSA), central personnel management activities of the Office of Personnel Management (OPM), and archive and recordkeeping activities. General purpose fiscal assistance, which is now included in this function, includes payments to the District of Columbia, grants from Forest Service and Interior Department rents and royalties receipts, payments in lieu of taxes, and payments to territories and Puerto Rico.

The four central management agencies—the Office of Management and Budget, OPM, GSA, and the Department of the Treasury—are working with other agencies on a variety of management reform initiatives. These management improvements include improving financial systems, simplifying procurement procedures, increasing reliance on the private sector, and improving cash management and debt collection practices. Estimated outlays for the general government function increase from \$8.8 billion in 1988 to \$9.5 billion in 1989.

Outlays for General Government



CENTRAL FEDERAL CREDIT ACTIVITIES

This is a new function that is proposed to begin in 1989. It is composed entirely of the transactions of two new Federal credit revolving funds, a key part of the administration's proposal to reform the way credit programs are treated in the budget. The revolving funds are included in one subfunction, which contains separate accounts for the financing of direct loans and for guaranteed loan insurance.

The revolving funds are to be established within the Department of the Treasury. Federal agencies would be required to obtain appropriations from the Congress for the subsidies implicit in all new direct loans obligated and guaranteed loans committed in 1989 and later years. Agencies would continue to originate and close direct loans and to make loan guarantees as they do now.

As borrowers draw down obligated direct loans, the agency would pay the subsidy component of the loan into the direct loan revolving fund. This fund would provide the balance of the loan, or non-subsidized financing portion, through borrowing from Treasury. The original borrower would pay interest and repayments of principal to the lending agency, which in turn would pass these amounts

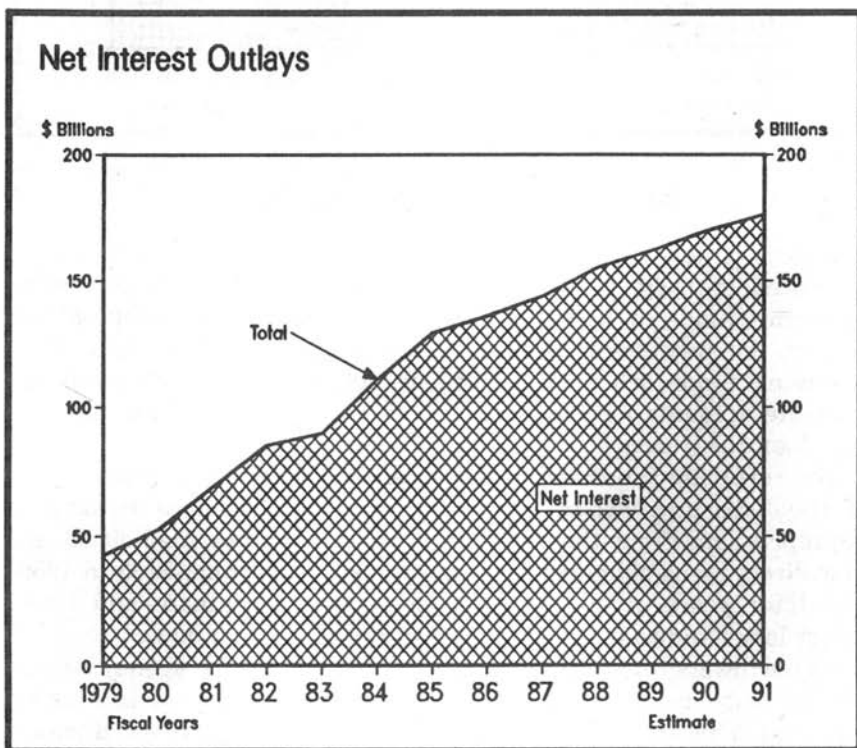
through to the direct loan revolving fund to repay the financing portion.

For loan guarantees, fees from the borrower and the appropriated subsidy would be paid to the loan guarantee revolving fund, which would assume responsibility to cover defaults. Excess balances of this fund would be available for use in lieu of borrowing from Treasury.

The outlay estimate for this function in 1989 is $-\$6.3$ billion because of the large amounts of offsetting collections paid into the loan guarantee revolving fund from other budget accounts. Credit reform is discussed in more detail in Part 6b of the *Budget*.

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 projected declines in interest rates offset some of the cost associated with this growth. Net interest outlays were \$138.6 billion in 1987 and are estimated to be \$147.9 billion in 1988 and \$151.8 billion in 1989.

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

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

NET INTEREST

(In billions of dollars)

	1987 actual	1988 estimate	1989 estimate	1990 estimate	1991 estimate
Interest on the public debt.....	195,249	210,052	220,262	230,306	239,331
Interest received by on-budget trust funds	-29,662	-34,321	-38,240	-42,188	-45,667
Interest received by off-budget trust funds.....	-5,290	-7,721	-10,136	-13,445	-17,237
Other interest.....	-21,727	-20,590	-20,082	-17,997	-16,819
Net interest outlays	138,570	147,871	151,804	156,676	159,608

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.

In accordance with the Bipartisan Budget Agreement, no increase in funding will be proposed for pay raises in 1989. Therefore, the budget does not include any allowances for 1989 for the proposed 2.0 percent pay increase for civilian employees or the proposed 4.3 percent pay increase for military personnel (including Coast Guard military personnel), effective January 1989. The costs of these proposed increases are included in the budget request for each agency, which is distributed by function. For 1990 through 1993, the pay raise allowance covers the costs of future pay raises for civilian agency employees, including Coast Guard military personnel. Allowances for pay raises for civilian employees and military personnel in the Department of Defense—Military in 1990–1993 are included in the national defense function.

The administration proposed legislation in June 1987 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 to \$1 million for Department of Defense (DOD) contracts and \$100,000 Government-wide for non-DOD 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. This proposal is expected to reduce outlays for non-DOD contracts by \$48 million in 1989. The allowance for expected savings in the Department of Defense is included in the national defense function.

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

UNDISTRIBUTED OFFSETTING RECEIPTS

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

Agency contributions for employee retirement are counted as outlays of the paying accounts. Since these are payments by the Government to itself, the collections must be deducted from the budget totals to derive net Federal transactions with the public. Deductions for the receipt of these payments are not made against the receiving agencies and functions, because to do so would seriously understate the benefit payments and associated costs of these programs. Instead, the deductions are recorded as undistributed offsetting receipts. The collections received by on-budget accounts, primarily the military retirement and civil service retirement trust funds, are estimated to be \$32 billion in 1988 and \$36 billion in 1989, while the collections by off-budget accounts (social security) amount to \$4 billion in 1988 and \$5 billion in 1989. Included in these totals are the effects of the administration's proposal that the Postal Service pay the full cost of providing cost-of-living adjustments to Postal Service annuitants. If enacted, this proposal will increase employing agency contributions for employee retirement and, therefore, undistributed offsetting receipts by \$535 million in 1990.

Payments to the Federal Government for rents and royalties on the Outer Continental Shelf (OCS) are large, and their inclusion in any particular function would distort the display of that function's budget totals. Offsetting collections for OCS are estimated to be \$3.2 billion in 1988 and \$3.9 billion in 1989.

In 1987 the Government received \$1.9 billion from the sale of Conrail. The administration proposes to sell the naval petroleum

reserve for an estimated \$3.5 billion, to be received in two installments in 1989 and 1990; the Alaska Power Administration for an estimated \$100 million in 1989; and the Southeastern Power Administration for an estimated \$1.4 billion in 1990. In addition, the administration proposes to assess a charge for the right to use the non-mass media radio frequency spectrum. This proposal, if enacted, would collect revenues of approximately \$250 million in 1990.

Since the proceeds from these sales are relatively large, they are recorded as undistributed offsetting receipts rather than being offset in the function.

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	1987	1988	1989
National defense.....	2.4	2.2	2.2
International affairs.....	6.7	6.8	7.1
General science, space, and technology	4.0	2.2	2.1
Energy.....	1.1	0.8	0.9
Natural resources and environment.....	3.3	3.1	3.2
Agriculture.....	0.6	0.8	0.5
Commerce and housing credit.....	221.4	129.3	123.6
Transportation.....	0.1	0.2	0.2
Community and regional development.....	1.4	1.5	1.9
Education, training, employment, and social services.....	28.1	19.9	20.1
Health.....	39.7	37.4	41.3
Income security.....	96.4	78.0	80.4
Social security.....	18.5	17.4	17.5
Veterans benefits and services.....	2.2	2.0	1.9
General government.....	0.3
General purpose fiscal assistance.....	39.6	34.3	35.4
Net interest.....	0.9	0.9	0.9

Part 6a

THE BUDGET PROCESS

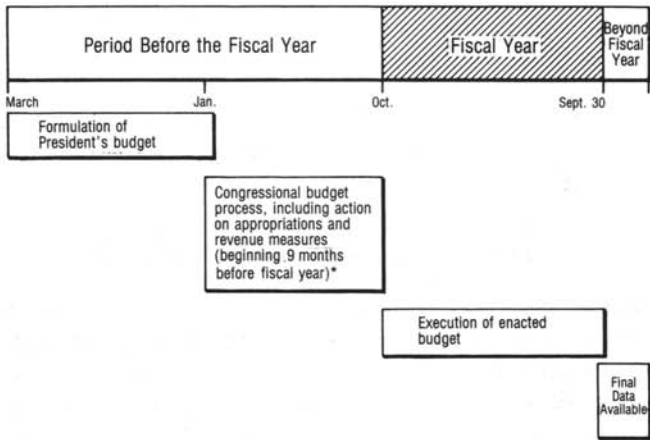
The budget system of the U.S. Government provides the framework within which decisions on resource allocation and program management are made in relation to the requirements of the Nation, availability of Federal resources, effective financial control, and accountability for use of the resources. The budget process has three main phases: (1) executive formulation and transmittal; (2) congressional action; and (3) budget execution and control. Each of these is interrelated with the others.

Executive Formulation and Transmittal.—The budget sets forth the President's financial plan and indicates his priorities for the Federal Government. The primary focus of the budget is on the budget year—the next fiscal year for which the Congress needs to make appropriations. However, the budget is developed in the context of a multi-year budget planning system that includes coverage of the four years following the budget year.

The President transmits his budget to the Congress early in each calendar year, eight to nine months before the budget fiscal year begins on October first. The process of formulating the budget begins not later than the spring of each year, at least nine months before the budget is transmitted and at least eighteen months before the budget fiscal year begins. For the 1989 budget, which is being transmitted to the Congress in February of 1988, the process began in the spring of 1987.

During the formulation of the budget, there is a continual exchange of information, proposals, evaluations, and policy decisions among the President, the Office of Management and Budget (OMB), other Executive Office units, and the various Government agencies. Decisions concerning the upcoming budget are influenced by the results of previously enacted budgets, including the one being executed by the agencies, and reactions to the last proposed budget, which is being considered by the Congress. Decisions are influenced also by projections of the economic outlook that are prepared jointly by the Council of Economic Advisers, OMB, and the Treasury.

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).

Agency budget requests are submitted in September to OMB, where they are reviewed in detail, and decisions are made. These decisions may be revised as a result of Presidential review. Fiscal policy issues, which affect outlays and receipts, are reexamined. Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, the total outlays and receipts that are appropriate in relation to current and prospective 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 1993.

Congressional Action.—The Congress can act to approve, modify, or disapprove the President's budget proposals. It can change funding levels, eliminate programs, or add programs not requested by the President. It can enact legislation affecting taxes and other sources of receipts.

Prior to making appropriations, the Congress usually enacts legislation that authorizes an agency to carry out a particular program and, in some cases, includes limits on the amount that can be appropriated for the program. Some programs require annual au-

thorizing legislation. Others are authorized for a specified number of years or indefinitely.

In making appropriations, the Congress does not vote on the level of outlays directly, but rather on *budget authority* or other authority to incur obligations that will result in immediate or future outlays. For most programs, budget authority becomes available each year only as voted by the Congress in appropriations acts. However, in many cases the Congress has voted permanent budget authority or other authority to incur obligations, under which funds become available annually without further Congressional action. In terms of dollars, more obligational authority becomes available each year under permanent appropriations than is provided by current actions of the Congress. The outlays from permanent appropriations, together with the outlays from obligations incurred in prior years from both permanent and current authority, comprise most of the outlay total for any year in the budget. Therefore, most outlays in any year are not controlled through appropriations actions in that year.

Under the procedures established by the Congressional Budget Act of 1974, the Congress considers budget totals before completing action on individual appropriations. The Congress adopts a concurrent budget resolution as a guide in its subsequent consideration of appropriations and receipt measures. It is not in order for either House to consider a resolution that includes a budget deficit that is greater than the maximum deficit specified in the Act for the budget year. In 1989, the maximum deficit is \$136 billion.

Congressional budget resolutions do not require Presidential approval. Frequently, however, there is informal consultation between the congressional leadership and the Administration, because legislation developed to attain congressional budget targets must be sent to the President for his approval. In recent years, the Congress has enacted omnibus reconciliation legislation that reduced budget authority and outlays or increased receipts in response to directives in the concurrent budget resolution. The Omnibus Budget Reconciliation Act of 1987 included limits for 1988 and 1989 on levels of new budget authority and outlays. These levels resulted from bipartisan budget negotiations between the President and the Congress in December 1987.

Congressional consideration of requests for appropriations and changes in revenue laws occurs first in the House of Representatives. The Appropriations Committees, through its subcommittees, studies the requests for appropriations and examines in detail each agency's performance. The Ways and Means Committee reviews proposed revenue measures. Each committee then recommends the action to be taken by the House of Representatives. After passage of the budget resolution, a point of order can be raised to block

consideration of bills that would cause a committee's targets, as set by the resolution, to be breached.

After the appropriations and tax bills are approved by the House, they are forwarded to the Senate, where a similar review follows. In case of disagreement between the two Houses of the Congress, a conference committee (consisting of Members of both bodies) meets to resolve the differences. The report of the conference committee is returned to both Houses for approval. When the measure is agreed to, first in the House and then in the Senate, it is ready to be transmitted to the President as an enrolled bill, for his approval or veto.

When action on appropriations is not completed by the beginning of the fiscal year, the Congress enacts a *continuing resolution* to provide authority for the affected agencies to continue financing operations up to a specified date or until their regular appropriations are enacted. The Congress did not complete action on any of the thirteen regular appropriations bills for 1988. After several short-term continuing resolutions, a full-year continuing resolution—in effect, an omnibus appropriations bill—was enacted on December 22, 1987.

Deficit Reduction.—The Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act), as amended in 1987, calls for a balanced Federal budget by 1993. It sets declining deficit targets for each fiscal year and specifies a procedure designed to achieve these targets. In 1989, the target is \$136 billion. According to the Act, the President's budget must propose receipts and outlays consistent with the deficit target for the budget year. Then, Congressional action on the budget is supposed to ensure that the deficit target for that year will be met. If the target is not met, the Act specifies a process to sequester budgetary resources to reduce outlays by the amount required to meet the specified target for the year ahead. The deficit reduction required in 1989, if the target is not met, is limited by the Act to \$36 billion.

On August 25 of each year, the Director of the Office of Management and Budget (OMB) submits a report to the President and the Congress estimating the deficit for the upcoming fiscal year and the amount of net deficit reduction that has resulted from laws enacted and regulations promulgated. On October 15 he submits a revised report. If his estimates show that the projected deficit exceeds the specified target by more than \$10 billion (zero in 1993) and that the requisite amount of net deficit reduction has not been achieved, he must calculate the across-the-board reductions required to eliminate the deficit excess. The Act specifies rules for determining uniform percentage reductions for most programs subject to reduction and special rules for certain programs subject to

reduction. Many programs are exempt from reduction. The Director of OMB must explain, in his initial and revised reports, any significant differences between his estimates and the estimates provided to him and the Congress in initial and revised reports by the Director of the Congressional Budget Office.

The reports by the Director of OMB become the basis for the initial and final sequester orders issued by the President. The President's orders may not change any of the particulars in the Director's reports. Following these procedures, the President issued a final sequester order for 1988. However, the Omnibus Budget Reconciliation Act of 1987 reversed the order and restored sequestered resources, because spending reductions for 1988 that were included in that Act and in the continuing resolution for 1988 met the requirements for deficit reduction.

Budget Execution and Control.—Once approved, the President's budget, as modified by the Congress and reduced by sequestration, if necessary, becomes the basis for the financial plan for the operations of each agency during the fiscal year. Under the law, most budget authority and other budgetary resources are made available to the agencies of the executive branch through an apportionment system. The Director of OMB apportions (distributes) appropriations and other budgetary resources to each agency by time periods and by activities, in order to ensure the effective use of available resources.

Changes in laws or other factors may indicate the need for additional appropriations during the year, and supplemental requests may have to be sent to the Congress. On the other hand, amounts appropriated may be withheld temporarily from obligation under certain, limited circumstances. The executive branch, in regulating the rate of spending, must report to the Congress any effort through administrative action to postpone or eliminate spending provided 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 budget authority, must be passed by the Congress within 45 days of continuous session. Otherwise, the withheld funds must be made available for spending.

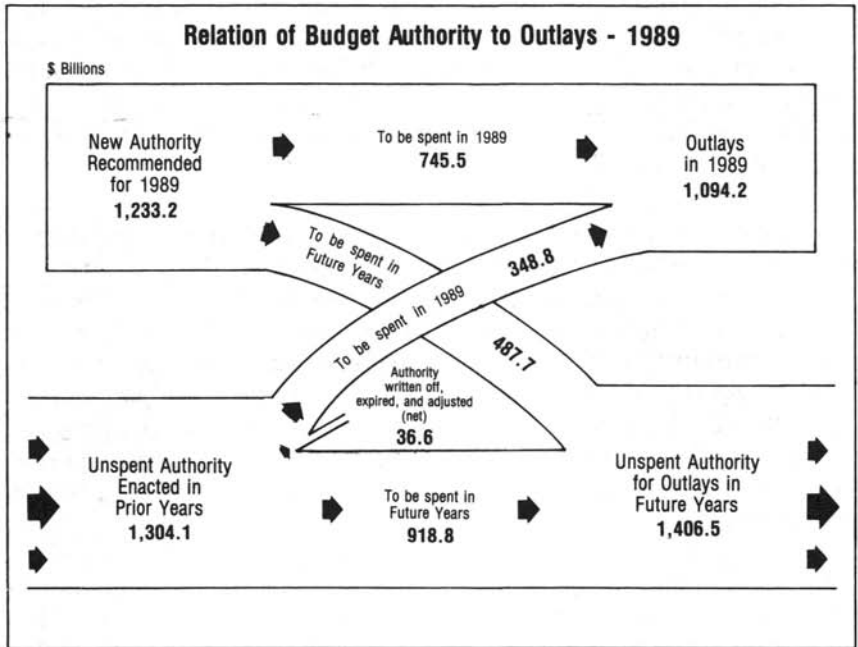
Relation of Budget Authority to Outlays

Not all of the new budget authority for 1989 will be obligated or spent in that year. For example:

- Budget authority for most trust funds comes from the authority of these funds to spend 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 most long-term contracts covers the estimated maximum obligation of the Government.

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



Part 6b

GLOSSARY OF BUDGET TERMS ¹

AUTHORIZING LEGISLATION—Legislation enacted by the Congress to permit the establishment or continuation of a Federal program or agency. Authorizing legislation is normally required before the enactment of budget authority, and such authority is usually provided in separate legislation.

BUDGET—A financial plan for the Federal Government.

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.

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 that provides budget authority for specific ongoing activities when a regular appropriation for those activities has not been enacted by the beginning of the fiscal year. Some continuing resolutions provide interim funding for part of the fiscal year until the regular appropriations bill is enacted. Others provide funding for the full fiscal year.

CREDIT BUDGET—A plan of proposed direct loan obligations and guaranteed loan commitments.

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.

FEDERAL FUNDS—All amounts collected and used by the Federal Government for the purposes of the Government, except those classified as trust funds.

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 1988 begins on October 1, 1987, and ends on September 30, 1988. (From 1844 to 1976 the fiscal year began on July 1 and ended on the following June 30.)

OFF-BUDGET FEDERAL ENTITIES—Transactions of Federally owned and controlled entities that are defined by budget concepts as belonging in the budget (on-budget) but have been excluded from the on-budget totals under provisions of law. Currently, social security taxes and outlays are off-budget. All other receipts and outlays are on-budget. The on-budget and off-budget amounts are added together to arrive at Government totals.

OFFSETTING RECEIPTS—Collections deposited in receipt accounts that are offset against budget authority and outlays rather than being counted as budget

¹ For more details, see section 14 of OMB Circular No. A-11, "Budget Concepts," and part 2 of OMB Circular No. A-34, "Terminology and Concepts."

receipts. These collections are derived from Government accounts (intragovernmental transactions) or from the public (proprietary receipts). Proprietary receipts from the public arise from payments to the Government for services that are of a business-type or market oriented nature.

OUTLAYS—Government spending. Outlays are payments, normally in the form of checks issued, cash disbursed, and electronic fund transfers, net of refunds, reimbursements, and offsetting collections. Outlays include interest accrued on public issues of the public debt.

RECEIPTS—Government income. All 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. Income from 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).

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.

SEQUESTRATION—Reduction of new budget authority of other budgetary resources, as defined in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

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—The same as Federal funds (defined previously) except that the amounts collected are designated as being trust fund money pursuant to a statute. Examples include the highway, social security, and unemployment trust funds.

Part 6c

SELECTED TABLES

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Table 1. RECEIPTS, OUTLAYS, AND DEBT, 1979-91

(In billions of dollars)

Description	Actual									Estimate			
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Receipts:													
On-budget:													
Federal funds.....	316.4	350.9	410.4	409.3	382.3	419.6	459.5	473.5	537.8	560.8	593.2	644.8	697.3
Trust funds.....	86.0	94.7	106.0	122.1	147.3	158.1	197.5	206.9	216.6	231.5	247.9	261.4	276.8
Interfund transactions.....	-37.0	-41.6	-47.4	-57.1	-76.4	-77.3	-109.1	-111.5	-113.7	-123.0	-134.9	-144.4	-155.6
Total on-budget.....	365.3	403.9	469.1	474.3	453.2	500.4	547.9	568.9	640.7	669.3	706.2	761.7	818.5
Off-budget (trust funds).....	98.0	113.2	130.2	143.5	147.3	166.1	186.2	200.2	213.4	239.9	258.5	282.4	306.0
Total receipts.....	463.3	517.1	599.3	617.8	600.6	666.5	734.1	769.1	854.1	909.2	964.7	1,044.1	1,124.4
Outlays:													
On-budget:													
Federal funds.....	374.9	433.5	496.2	543.4	613.3	637.8	725.9	756.5	760.9	805.0	835.3	873.1	914.0
Trust funds.....	65.7	84.8	94.2	107.9	124.4	125.4	152.7	161.8	163.6	170.8	180.4	195.6	209.2
Interfund transactions.....	-37.0	-41.6	-47.4	-57.1	-76.4	-77.3	-109.1	-111.5	-113.7	-123.0	-134.9	-144.4	-155.6
Total on-budget.....	403.5	476.6	543.0	594.3	661.2	686.0	769.5	806.8	810.8	852.8	880.9	924.2	967.6
Off-budget (trust funds).....	100.0	114.3	135.2	151.4	147.1	165.8	176.8	183.5	193.8	203.1	213.3	224.1	236.1
Total outlays.....	503.5	590.9	678.2	745.7	808.3	851.8	946.3	990.3	1,004.6	1,055.9	1,094.2	1,148.3	1,203.7
Surplus or deficit (-):													
Federal funds.....	-58.5	-82.6	-85.8	-134.2	-230.8	-218.2	-266.4	-283.0	-223.1	-244.2	-242.2	-228.3	-216.7
Trust funds.....	18.3	8.8	6.8	6.2	23.1	32.9	54.1	61.8	72.7	97.5	112.6	124.1	137.5
Total Surplus or deficit (-).....	-40.2	-73.8	-78.9	-127.9	-207.8	-185.3	-212.3	-221.2	-150.4	-146.7	-129.5	-104.2	-79.3
On-budget.....	(-38.2)	(-72.7)	(-73.9)	(-120.0)	(-208.0)	(-185.6)	(-221.6)	(-237.9)	(-170.0)	(-183.5)	(-174.7)	(-162.5)	(-149.1)
Off-budget.....	(-2.0)	(-1.1)	(-5.0)	(-7.9)	(0.2)	(0.3)	(9.4)	(16.7)	(19.6)	(36.8)	(45.1)	(58.3)	(69.9)
Debt outstanding, end of year:													
Gross Federal debt.....	833.8	914.3	1,003.9	1,147.0	1,381.9	1,576.7	1,827.5	2,130.0	2,355.3	2,581.6	2,825.3	3,053.0	3,269.2
Held by the public.....	644.6	715.1	794.4	929.4	1,141.8	1,312.6	1,509.9	1,746.1	1,897.8	2,025.1	2,152.1	2,255.7	2,334.4

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

Table 2. COMPOSITION OF RECEIPTS AND OUTLAYS IN CURRENT PRICES: 1972-91

(In billions of dollars)

Fiscal year	Receipts	Outlays							Surplus or deficit (-)	
		Total	National defense	Nondefense				Undistributed offsetting receipts		
				Total nondefense	Payments for individuals	All other grants ¹	Net Interest			Other
1972.....	207.3	230.7	79.2	151.5	92.9	20.5	15.5	32.2	-9.6	-23.4
1973.....	230.8	245.7	76.7	169.0	104.5	28.1	17.3	32.4	-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	50.3	-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	395.4	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	92.2	-32.0	-185.3
1985.....	734.1	946.3	252.7	693.6	425.6	57.6	129.4	113.6	-32.7	-212.3
1986.....	769.1	990.3	273.4	716.9	449.4	59.3	136.0	105.1	-33.0	-221.2
1987.....	854.1	1,004.6	282.0	722.6	469.4	51.8	138.6	99.2	-36.5	-150.4
1988 estimate.....	909.2	1,055.9	285.4	770.5	498.9	55.5	147.9	104.4	-36.1	-146.7
1989 estimate.....	964.7	1,094.2	294.0	800.2	531.4	55.0	151.8	103.0	-41.0	-129.5
1990 estimate.....	1,044.1	1,148.3	306.2	842.1	566.7	55.1	156.7	105.8	-42.2	-104.2
1991 estimate.....	1,124.4	1,203.7	320.2	883.5	602.4	53.9	159.6	110.3	-42.7	-79.3

Note: Excludes transition quarter. Includes off-budget amounts.

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

Table 2. COMPOSITION OF RECEIPTS AND OUTLAYS IN CONSTANT (FISCAL YEAR 1982) PRICES: 1972-91—Continued

(In billions of dollars)

Fiscal year	Receipts	Outlays								Surplus or deficit (-)
		Total	National defense	Nondefense					Undistributed offsetting receipts	
				Total nondefense	Payments for individuals	All other grants ¹	Net Interest	Other		
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	68.3	-28.1	-32.0
1974.....	516.6	528.7	163.3	365.3	228.4	56.8	41.1	71.8	-32.8	-12.0
1975.....	492.1	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	96.9	-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.....	575.5	774.6	201.3	573.3	378.6	48.8	86.1	92.0	-32.3	-199.1
1984.....	616.3	787.7	211.3	576.4	368.7	49.3	102.7	84.9	-29.1	-171.4
1985.....	657.8	848.0	229.4	618.7	379.7	50.9	115.9	101.0	-28.8	-190.2
1986.....	672.3	865.7	243.0	622.7	390.4	50.6	118.4	91.6	-28.4	-193.3
1987.....	730.6	859.3	249.8	609.5	394.9	43.0	117.5	84.7	-30.5	-128.7
1988 estimate.....	748.9	869.8	243.5	626.3	404.7	44.1	120.9	86.1	-29.5	-120.9
1989 estimate.....	765.6	868.4	241.6	626.8	415.3	42.2	119.5	82.0	-32.2	-102.8
1990 estimate.....	799.5	879.2	242.7	636.6	427.5	40.6	119.1	81.4	-32.0	-79.8
1991 estimate.....	832.9	891.6	245.6	646.1	439.9	38.3	117.4	82.2	-31.7	-58.7

Note: Excludes transition quarter. Includes off-budget amounts.

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

Table 3. RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION, 1979-89

(In billions of dollars)

Description	Actual									Estimate	
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
RECEIPTS BY SOURCE											
Individual income taxes	217.8	244.1	285.9	297.7	288.9	298.4	334.5	349.0	392.6	393.4	412.4
Corporation income taxes	65.7	64.6	61.1	49.2	37.0	56.9	61.3	63.1	83.9	105.6	117.7
Social insurance taxes and contributions:											
Employment taxes and contributions.....	120.1	138.7	163.0	180.7	185.8	209.7	234.6	255.1	273.0	303.1	326.9
Unemployment insurance	15.4	15.3	15.8	16.6	18.8	25.1	25.8	24.1	25.6	23.7	23.0
Other retirement contributions	3.5	3.7	4.0	4.2	4.4	4.6	4.8	4.7	4.7	4.7	4.7
Total social insurance taxes and contributions	138.9	157.8	182.7	201.5	209.0	239.4	265.2	283.9	303.3	331.5	354.6
On-budget	(40.9)	(44.6)	(52.5)	(58.0)	(61.7)	(73.3)	(79.0)	(83.7)	(89.9)	(91.6)	(96.1)
Off-budget	(98.0)	(113.2)	(130.2)	(143.5)	(147.3)	(166.1)	(186.2)	(200.2)	(213.4)	(239.9)	(258.5)
Excise taxes:											
Alcohol	5.5	5.6	5.6	5.4	5.6	5.3	5.6	5.8	6.0	6.0	6.2
Tobacco	2.5	2.4	2.6	2.5	4.1	4.7	4.8	4.6	4.8	4.7	4.6
Highway	7.2	6.6	6.3	6.7	8.3	11.7	13.0	13.4	13.0	14.3	14.3
Airport and airway	1.5	1.9	*	0.1	2.2	2.5	2.9	2.7	3.1	3.4	3.7
Windfall profit tax		6.9	23.3	18.4	12.1	8.9	6.3	2.3			
Other	2.0	0.9	3.1	3.1	3.0	4.2	3.4	4.2	5.6	7.0	6.5
Total excise taxes	18.7	24.3	40.8	36.3	35.3	37.4	36.0	32.9	32.5	35.3	35.2
Estate and gift taxes	5.4	6.4	6.8	8.0	6.1	6.0	6.4	7.0	7.5	7.6	7.8
Customs duties	7.4	7.2	8.1	8.9	8.7	11.4	12.1	13.3	15.1	16.4	17.2
Miscellaneous receipts	9.3	12.7	13.8	16.2	15.6	17.0	18.5	19.9	19.3	19.4	19.8
Total receipts	463.3	517.1	599.3	617.8	600.6	666.5	734.1	769.1	854.1	909.2	964.7
On-budget	(365.3)	(403.9)	(469.1)	(474.3)	(453.2)	(500.4)	(547.9)	(568.9)	(640.7)	(669.3)	(706.2)
Off-budget	(98.0)	(113.2)	(130.2)	(143.5)	(147.3)	(166.1)	(186.2)	(200.2)	(213.4)	(239.9)	(258.5)

OUTLAYS BY FUNCTION											
National defense.....	116.3	134.0	157.5	185.3	209.9	227.4	252.7	273.4	282.0	285.4	294.0
International affairs.....	7.5	12.7	13.1	12.3	11.8	15.9	16.2	14.2	11.6	9.9	13.3
General science, space, and technology.....	5.2	5.8	6.5	7.2	7.9	8.3	8.6	9.0	9.2	10.9	13.1
Energy.....	9.2	10.2	15.2	13.5	9.4	7.1	5.7	4.7	4.1	2.7	3.1
Natural resources and environment.....	12.1	13.9	13.6	13.0	12.7	12.6	13.4	13.6	13.4	15.1	16.0
Agriculture.....	11.2	8.8	11.3	15.9	22.9	13.6	25.6	31.4	27.4	22.4	21.7
Commerce and housing credit.....	4.7	9.4	8.2	6.3	6.7	6.9	4.2	4.9	6.2	12.4	7.9
Transportation.....	17.5	21.3	23.4	20.6	21.3	23.7	25.8	28.1	26.2	27.2	27.3
Community and regional development.....	10.5	11.3	10.6	8.3	7.6	7.7	7.7	7.2	5.1	6.3	5.9
Education, training, employment, and social services.....	30.2	31.8	33.7	27.0	26.6	27.6	29.3	30.6	29.7	33.7	37.4
Health.....	20.5	23.2	26.9	27.4	28.6	30.4	33.5	35.9	40.0	44.5	47.8
Medicare.....	26.5	32.1	39.1	46.6	52.6	57.5	65.8	70.2	75.1	78.9	84.0
Income security.....	66.4	86.5	99.7	107.7	122.6	112.7	128.2	119.8	123.2	129.6	135.6
Social security.....	104.1	118.5	139.6	156.0	170.7	178.2	188.6	198.8	207.4	219.7	233.8
On-budget.....	(0.8)	(0.7)	(0.7)	(0.8)	(20.0)	(7.1)	(5.2)	(8.1)	(4.9)	(5.0)	(5.6)
Off-budget.....	(103.3)	(117.9)	(138.9)	(155.1)	(150.7)	(171.2)	(183.4)	(190.7)	(202.4)	(214.7)	(228.2)
Veterans benefits and services.....	19.9	21.2	23.0	24.0	24.8	25.6	26.3	26.4	26.8	27.7	29.6
Administration of justice.....	4.2	4.6	4.8	4.7	5.1	5.7	6.3	6.6	7.5	9.0	9.9
General government.....	12.2	13.0	11.4	10.9	11.2	11.8	11.6	12.5	7.6	8.8	9.5
Central federal credit activities.....											-6.3
Net interest.....	42.6	52.5	68.7	85.0	89.8	111.1	129.4	136.0	138.6	147.9	151.8
On-budget.....	(44.8)	(54.9)	(71.0)	(87.1)	(91.6)	(114.4)	(133.5)	(140.3)	(143.9)	(155.1)	(161.9)
Off-budget.....	(-2.2)	(-2.3)	(-2.3)	(-2.1)	(-1.8)	(-3.3)	(-4.1)	(-4.3)	(-5.3)	(-7.3)	(-10.1)
Allowances.....											*
Undistributed offsetting receipts.....	-17.5	-19.9	-28.0	-26.1	-34.0	-32.0	-32.7	-33.0	-36.5	-36.1	-41.0
On-budget.....	(-16.4)	(-18.7)	(-26.6)	(-24.5)	(-32.2)	(-29.9)	(-30.2)	(-30.2)	(-33.2)	(-31.8)	(-36.3)
Off-budget.....	(-1.1)	(-1.2)	(-1.4)	(-1.6)	(-1.8)	(-2.0)	(-2.5)	(-2.9)	(-3.3)	(-4.3)	(-4.7)
Total outlays.....	503.5	590.9	678.2	745.7	808.3	851.8	946.3	990.3	1,004.6	1,055.9	1,094.2
On-budget.....	(403.5)	(476.6)	(543.0)	(594.3)	(661.2)	(686.0)	(769.5)	(806.8)	(810.8)	(852.8)	(880.9)
Off-budget.....	(100.0)	(114.3)	(135.2)	(151.4)	(147.1)	(165.8)	(176.8)	(183.5)	(193.8)	(203.1)	(213.3)

*\$50 million or less.

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1979-91

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
National defense:													
Department of Defense—Military:													
Military Personnel.....	37.3	40.9	47.9	55.2	60.9	64.2	67.8	71.5	72.0	75.5	77.8	79.5	80.2
Operation and Maintenance.....	36.4	44.8	51.9	59.7	64.9	67.4	72.3	75.3	76.2	80.4	82.7	86.7	90.7
Procurement.....	25.4	29.0	35.2	43.3	53.6	61.9	70.4	76.5	80.7	79.2	79.8	80.6	82.5
Research, Development, Test, and Evaluation.....	11.2	13.1	15.3	17.7	20.6	23.1	27.1	32.3	33.6	33.1	36.3	38.2	40.3
Other.....	3.3	3.1	3.6	4.8	4.4	4.4	7.5	9.9	11.4	9.1	8.8	12.3	17.2
Subtotal, Department of Defense—Military.....	113.6	130.9	153.8	180.7	204.4	220.9	245.1	265.5	274.0	277.3	285.5	297.3	311.0
Atomic energy defense activities.....	2.5	2.9	3.4	4.3	5.2	6.1	7.1	7.4	7.5	7.6	7.9	8.2	8.5
Defense—related activities.....	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.7
Total national defense.....	116.3	134.0	157.5	185.3	209.9	227.4	252.7	273.4	282.0	285.4	294.0	306.2	320.2
International affairs:													
International development and humanitarian assistance.....	2.9	3.6	4.1	3.8	4.0	4.5	5.4	5.0	4.3	4.7	4.6	4.8	4.7
International security assistance.....	3.7	4.8	5.1	5.4	6.6	7.9	9.4	10.5	7.1	2.4	6.0	4.9	8.2
Conduct of foreign affairs.....	1.3	1.4	1.3	1.6	1.8	1.9	2.1	2.3	2.2	2.7	2.8	2.8	2.9
Foreign information and exchange activities.....	0.5	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.1	1.2	1.2
International financial programs.....	-0.9	2.4	2.0	0.9	-1.1	0.9	-1.5	-4.5	-3.0	-1.1	-1.2	-0.6	-1.1
Total international affairs.....	7.5	12.7	13.1	12.3	11.8	15.9	16.2	14.2	11.6	9.9	13.3	13.1	15.9
General science, space, and technology:													
General science and basic research.....	1.3	1.4	1.5	1.6	1.6	1.8	2.0	2.2	2.3	2.5	2.9	3.4	3.6
Space flight.....	2.2	2.6	3.1	3.5	4.1	4.0	4.0	3.8	4.1	5.2	6.4	7.3	8.7
Space, science, applications, and technology.....	1.2	1.3	1.4	1.5	1.5	1.7	1.9	2.1	1.9	2.4	2.7	3.1	3.1

Supporting space activities	0.6	0.5	0.6	0.6	0.8	0.8	0.8	0.8	0.9	0.9	1.2	1.4	1.4
Total general science, space, and technology.....	5.2	5.8	6.5	7.2	7.9	8.3	8.6	9.0	9.2	10.9	13.1	15.2	16.8
Energy:													
Energy supply	7.2	8.4	10.2	8.3	6.1	3.3	2.6	2.8	2.3	1.2	0.9	2.5	2.4
Energy conservation	0.3	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.2	0.1
Emergency energy preparedness	1.0	0.3	3.3	3.9	1.9	2.5	1.8	0.6	0.8	0.6	1.1	1.1	1.0
Energy information, policy, and regulation	0.7	0.9	1.0	0.9	0.9	0.8	0.7	0.8	0.7	0.6	0.7	0.8	0.8
Total energy	9.2	10.2	15.2	13.5	9.4	7.1	5.7	4.7	4.1	2.7	3.1	4.5	4.3
Natural resources and environment:													
Water resources.....	3.9	4.2	4.1	3.9	3.9	4.1	4.1	4.0	3.8	4.2	4.3	4.5	4.3
Conservation and land management.....	0.8	1.0	1.2	1.1	1.5	1.3	1.5	1.4	1.5	2.5	3.3	1.6	3.0
Recreational resources	1.5	1.7	1.6	1.4	1.5	1.6	1.6	1.5	1.6	1.8	1.6	1.5	1.4
Pollution control and abatement	4.7	5.5	5.2	5.0	4.3	4.0	4.5	4.8	4.9	4.8	5.1	5.3	5.2
Other natural resources	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.9	1.7	1.9	1.8	1.9	1.9
Total natural resources and environment.....	12.1	13.9	13.6	13.0	12.7	12.6	13.4	13.6	13.4	15.1	16.0	14.7	15.8
Agriculture:													
Farm income stabilization	9.9	7.4	9.8	14.3	21.3	11.9	23.8	29.6	25.5	20.3	19.8	17.6	16.6
Agricultural research and services	1.3	1.4	1.5	1.6	1.6	1.7	1.8	1.8	1.9	2.0	2.0	1.9	1.9
Total agriculture	11.2	8.8	11.3	15.9	22.9	13.6	25.6	31.4	27.4	22.4	21.7	19.5	18.5
Commerce and housing credit:													
Mortgage credit and deposit insurance	2.3	5.6	4.7	4.0	3.9	3.8	0.9	2.3	3.1	8.2	5.4	4.2	3.0
Postal Service	0.9	1.2	1.4	0.2	1.1	1.2	1.4	0.8	1.6	2.2	0.7	1.5	1.7
Other advancement of commerce.....	1.5	2.5	2.1	2.1	1.7	1.9	2.0	1.8	1.5	1.9	1.8	2.8	2.1
Total commerce and housing credit	4.7	9.4	8.2	6.3	6.7	6.9	4.2	4.9	6.2	12.4	7.9	8.6	6.8
Transportation:													
Ground transportation	12.1	15.3	17.1	14.3	14.3	16.2	17.6	18.7	17.2	17.8	17.2	17.0	16.4

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1979-91—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Air transportation.....	3.4	3.7	3.8	3.5	4.0	4.4	4.9	5.3	5.5	6.0	6.6	6.9	7.3
Water transportation.....	2.0	2.2	2.4	2.7	3.0	3.0	3.2	4.0	3.5	3.3	3.4	3.3	3.5
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.....	17.5	21.3	23.4	20.6	21.3	23.7	25.8	28.1	26.2	27.2	27.3	27.4	27.3
Community and regional development:													
Community development.....	4.0	4.9	5.1	4.6	4.4	4.5	4.6	4.1	3.7	3.8	3.9	3.8	3.3
Area and regional development.....	4.9	4.3	3.8	3.8	3.2	3.0	3.1	2.7	1.6	2.5	2.2	2.3	1.9
Disaster relief and insurance.....	1.6	2.0	1.7	-0.1	-*	0.1	-*	0.4	-0.2	0.1	-0.3	-0.2	-*
Total community and regional development.....	10.5	11.3	10.6	8.3	7.6	7.7	7.7	7.2	5.1	6.3	5.9	5.9	5.2
Education, training, employment, and social services:													
Elementary, secondary, and vocational education.....	6.1	6.9	7.2	6.8	6.3	6.5	7.6	7.8	7.9	8.6	9.4	9.9	9.9
Higher education.....	5.1	6.7	8.9	7.2	7.2	7.4	8.2	8.4	7.4	8.5	11.6	12.3	11.6
Research and general education aids.....	1.1	1.2	1.0	1.0	1.1	1.2	1.1	1.2	1.3	1.4	1.4	1.4	1.4
Training and employment.....	10.8	10.3	9.2	5.5	5.3	4.6	5.0	5.3	5.1	5.2	5.2	5.7	5.8
Other labor services.....	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Social services.....	6.6	6.1	6.9	5.9	6.1	7.2	6.7	7.2	7.4	9.2	9.0	9.0	9.0
Total education, training, employment, and social services.....	30.2	31.8	33.7	27.0	26.6	27.6	29.3	30.6	29.7	33.7	37.4	39.1	38.5
Health:													
Health care services.....	16.0	18.0	21.2	21.8	23.0	24.5	27.0	28.9	32.6	36.3	38.6	42.8	46.5
Health research.....	3.0	3.4	3.8	3.9	4.0	4.4	4.9	5.4	5.6	6.5	7.4	7.8	8.1

Education and training of health care work force	0.6	0.7	0.8	0.7	0.6	0.4	0.5	0.5	0.6	0.4	0.5	0.4	0.4
Consumer and occupational health and safety	0.9	1.0	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Total health	20.5	23.2	26.9	27.4	28.6	30.4	33.5	35.9	40.0	44.5	47.8	52.4	56.4
Medicare	26.5	32.1	39.1	46.6	52.6	57.5	65.8	70.2	75.1	78.9	84.0	93.7	104.0
Income security:													
General retirement and disability insurance (excluding social security)	4.4	5.1	5.4	5.6	5.6	5.4	5.6	5.3	5.6	4.9	5.2	5.2	5.3
Federal employee retirement and disability	22.7	26.6	31.3	34.3	36.5	38.1	38.6	41.4	43.7	46.2	49.4	53.1	55.5
Unemployment compensation	10.8	18.1	19.7	23.7	31.5	18.4	17.5	17.8	17.1	15.8	16.4	16.5	17.0
Housing assistance	4.4	5.6	7.8	8.7	10.0	11.3	25.3	12.4	12.7	13.8	14.8	15.8	15.9
Food and nutrition assistance	10.8	14.0	16.2	15.6	18.0	18.1	18.5	18.6	18.9	20.5	20.8	21.3	22.1
Other income security	13.4	17.2	19.4	19.8	21.1	21.4	22.7	24.4	25.3	28.4	29.0	28.6	30.6
Total income security	66.4	86.5	99.7	107.7	122.6	112.7	128.2	119.8	123.2	129.6	135.6	140.6	146.4
Social security	104.1	118.5	139.6	156.0	170.7	178.2	188.6	198.8	207.4	219.7	233.8	248.5	263.4
On-budget	(0.8)	(0.7)	(0.7)	(0.8)	(20.0)	(7.1)	(5.2)	(8.1)	(4.9)	(5.0)	(5.6)	(5.4)	(4.3)
Off-budget	(103.3)	(117.9)	(138.9)	(155.1)	(150.7)	(171.2)	(183.4)	(190.7)	(202.4)	(214.7)	(228.2)	(243.1)	(259.2)
Veterans benefits and services:													
Income security for veterans	10.8	11.7	12.9	13.7	14.3	14.4	14.7	15.0	15.0	14.9	15.7	16.2	16.6
Veterans education, training and rehabilitation	2.8	2.3	2.3	1.9	1.6	1.4	1.1	0.5	0.5	0.4	0.5	0.4	0.4
Hospital and medical care for veterans	5.6	6.5	7.0	7.5	8.3	8.9	9.5	9.9	10.3	10.8	11.0	11.4	11.6
Veterans housing	0.2	—*	0.2	0.1	*	0.2	0.2	0.1	0.3	0.7	1.5	1.9	1.6
Other veterans benefits and services	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Total veterans benefits and services	19.9	21.2	23.0	24.0	24.8	25.6	26.3	26.4	26.8	27.7	29.6	30.8	31.0
Administration of justice:													
Federal law enforcement activities	2.0	2.2	2.4	2.5	2.9	3.2	3.5	3.6	4.1	5.0	5.2	5.3	5.3
Federal litigative and judicial activities	1.1	1.3	1.5	1.5	1.6	1.8	2.1	2.2	2.5	2.8	3.3	3.4	3.5

Table 4. OUTLAYS BY FUNCTION AND SUBFUNCTION, 1979-91—Continued

(In billions of dollars)

Function and subfunction	Actual									Estimate			
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Federal correctional activities.....	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.8	1.1	1.3	1.5
Criminal justice assistance.....	0.7	0.7	0.5	0.3	0.2	0.1	0.1	0.2	0.3	0.4	0.3	0.2	0.2
Total administration of justice.....	4.2	4.6	4.8	4.7	5.1	5.7	6.3	6.6	7.5	9.0	9.9	10.3	10.5
General government:													
Legislative functions.....	0.9	1.0	1.0	1.2	1.2	1.3	1.4	1.4	1.4	1.6	1.8	1.8	1.9
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.....	2.2	2.6	2.6	2.6	3.1	3.3	3.5	3.6	3.9	5.3	5.4	6.2	5.9
General property and records management.....	0.3	0.3	0.1	0.2	0.2	0.2	0.1	0.5	0.1	—*	0.1	0.3	0.3
Central personnel management.....	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2
General purpose fiscal assistance.....	8.4	8.6	6.9	6.4	6.5	6.8	6.4	6.4	1.6	1.8	1.8	1.5	1.6
Other general government.....	0.5	0.6	0.7	0.5	0.8	0.6	0.5	0.5	0.8	1.0	0.6	0.6	0.6
Deductions for offsetting receipts.....	-0.2	-0.4	-0.2	-0.2	-0.6	-0.5	-0.5	-0.1	-0.6	-1.1	-0.5	-0.5	-0.5
Total general government.....	12.3	13.0	11.4	10.9	11.2	11.8	11.6	12.5	7.6	8.8	9.5	10.2	10.0
Central federal credit activities:													
Central Federal credit activities.....											-6.3	-7.7	-6.3
Total central federal credit activities.....											-6.3	-7.7	-6.3
Net interest:													
Interest on the public debt.....	59.8	74.8	95.5	117.2	128.6	153.8	178.8	190.2	195.2	210.1	220.3	230.3	239.3
Interest received by on-budget trust funds.....	-7.7	-9.7	-11.5	-14.0	-15.3	-17.0	-21.8	-26.6	-29.7	-34.3	-38.2	-42.2	-45.7
Interest received by off-budget trust funds.....	-2.2	-2.3	-2.3	-2.1	-1.8	-3.3	-4.1	-4.3	-5.3	-7.3	-10.1	-13.4	-17.2
Other interest.....	-7.3	-10.2	-13.0	-16.1	-21.7	-22.4	-23.4	-23.3	-21.7	-20.6	-20.1	-18.0	-16.8
Total net interest.....	42.6	52.5	68.7	85.0	89.8	111.1	129.4	136.0	138.6	147.9	151.8	156.7	159.6
On-budget.....	(44.8)	(54.9)	(71.0)	(87.1)	(91.6)	(114.4)	(133.5)	(140.3)	(143.9)	(155.1)	(161.9)	(170.1)	(176.8)

Off-budget.....	(-2.2)	(-2.3)	(-2.3)	(-2.1)	(-1.8)	(-3.3)	(-4.1)	(-4.3)	(-5.3)	(-7.3)	(-10.1)	(-13.4)	(-17.2)
Allowances:													
Civilian agency pay raises.....												0.9	2.1
Savings from reform of Davis-Bacon and Service Contract Acts (non-DOD).....											—*	—*	—*
Total allowances.....											—*	0.9	2.1
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget).....	-13.1	-14.6	-16.5	-18.2	-21.7	-23.2	-24.6	-25.4	-27.3	-28.7	-29.0	-31.0	-32.5
Employer share, employee retirement (off-budget).....	-1.1	-1.2	-1.4	-1.6	-1.8	-2.0	-2.5	-2.9	-3.3	-4.3	-4.7	-5.5	-5.8
Rents and royalties on the Outer Continental Shelf.....	-3.3	-4.1	-10.1	-6.2	-10.5	-6.7	-5.5	-4.7	-4.0	-3.2	-3.9	-3.8	-4.1
Sale of major assets.....									-1.9		-3.3	-1.9	-0.2
Total undistributed offsetting receipts.....	-17.5	-19.9	-28.0	-26.1	-34.0	-32.0	-32.7	-33.0	-36.5	-36.1	-41.0	-42.2	-42.7
On-budget.....	(-16.4)	(-18.7)	(-26.6)	(-24.5)	(-32.2)	(-29.9)	(-30.2)	(-30.2)	(-33.2)	(-31.8)	(-36.3)	(-36.7)	(-36.9)
Off-budget.....	(-1.1)	(-1.2)	(-1.4)	(-1.6)	(-1.8)	(-2.0)	(-2.5)	(-2.9)	(-3.3)	(-4.3)	(-4.7)	(-5.5)	(-5.8)
Total outlays.....	503.5	590.9	678.2	745.7	808.3	851.8	946.3	990.3	1,004.6	1,055.9	1,094.2	1,148.3	1,203.7
On-budget.....	(403.5)	(476.6)	(543.0)	(594.3)	(661.2)	(686.0)	(769.5)	(806.8)	(810.8)	(852.8)	(880.9)	(924.2)	(967.6)
Off-budget.....	(100.0)	(114.3)	(135.2)	(151.4)	(147.1)	(165.8)	(176.8)	(183.5)	(193.8)	(203.1)	(213.3)	(224.1)	(236.1)

* \$50 million or less.

Note: For all years, transactions of the social security trust funds are presented off-budget

Table 5. OUTLAYS BY AGENCY, 1987-93

(In billions of dollars)

	1987 actual	Estimate					
		1988	1989	1990	1991	1992	1993
Legislative Branch.....	1.8	1.9	2.1	2.2	2.2	2.2	2.2
The Judiciary.....	1.2	1.4	1.7	1.7	1.8	1.9	2.0
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds Appropriated to the President.....	10.4	5.2	8.8	7.9	11.0	10.7	10.6
Agriculture.....	50.4	50.7	48.3	48.2	46.7	45.9	45.0
Commerce.....	2.1	2.5	2.6	3.5	2.2	2.1	1.8
Defense—Military ¹	274.0	277.3	285.5	297.3	311.0	325.9	341.5
Defense—Civil.....	20.7	22.3	23.7	25.0	26.2	27.2	28.3
Education.....	16.8	18.8	22.7	23.9	23.2	22.5	21.9
Energy.....	10.7	10.5	11.8	12.8	13.5	14.0	14.2
Health and Human Services, except Social Security.....	148.9	160.4	168.6	181.3	196.0	213.2	230.6
Health and Human Services, Social Se- curity.....	202.4	214.7	228.2	243.1	259.2	272.3	285.1
Housing and Urban Development.....	15.5	18.6	21.6	22.6	21.5	20.2	20.2
Interior.....	5.0	5.4	5.0	2.8	4.7	3.3	4.5
Justice.....	4.3	5.2	5.8	6.2	6.3	6.5	6.6
Labor.....	23.5	22.0	23.1	23.7	24.8	25.3	26.3
State.....	2.8	3.3	3.4	3.5	3.6	3.7	3.8
Transportation.....	25.4	26.3	26.4	26.5	26.4	26.4	26.0
Treasury.....	180.3	198.9	205.7	216.7	227.9	228.1	224.5
Environmental Protection Agency.....	4.9	4.9	5.1	5.4	5.2	4.8	4.6
General Services Administration.....	0.1	-0.1	*	0.2	0.2	-0.2	*
National Aeronautics and Space Admin- istration.....	7.6	9.1	11.0	12.7	14.1	14.4	14.5
Office of Personnel Management.....	27.0	28.5	30.5	33.9	35.5	37.7	39.8
Small Business Administration.....	-0.1	0.3	-0.4	-0.2	0.4	0.4	0.6
Veterans Administration.....	27.0	27.6	29.5	30.6	30.9	31.3	31.7
Other Independent Agencies.....	14.3	17.9	13.3	13.6	12.8	12.6	13.0
Allowances ²			*	0.9	2.1	3.4	4.7
Undistributed offsetting receipts.....	-72.3	-77.7	-89.9	-97.8	-105.6	-114.9	-122.7
Interest.....	(-35.9)	(-41.6)	(-48.9)	(-55.6)	(-62.9)	(-69.6)	(-75.0)
Other.....	(-36.5)	(-36.1)	(-41.0)	(-42.2)	(-42.7)	(-45.3)	(-47.7)
Total outlays.....	1,004.6	1,055.9	1,094.2	1,148.3	1,203.7	1,241.0	1,281.3
On-budget.....	(810.8)	(852.8)	(880.9)	(924.2)	(967.6)	(996.0)	(1,027.5)
Off-budget.....	(193.8)	(203.1)	(213.3)	(224.1)	(236.1)	(245.0)	(253.8)

* \$50 million or less.

¹ Includes allowances for the Department of Defense.² Includes allowances for civilian agencies.

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

(In millions of dollars)

Department or other unit	Direct loan obligations			Guaranteed loan commitments			1989 loan subsidy estimates		
	1987 actual	1988 estimate	1989 estimate	1987 actual	1988 estimate	1989 estimate	Direct	Guaranteed	Total
Funds Appropriated to the President	4,325	4,174	4,482	345	5,478	2,675	3	200	202
Agriculture	22,223	21,051	12,562	5,260	10,389	8,515	660	636	1,295
Commerce	1			80	105				
Education	60	62		9,730	9,576	10,039		3,242	3,242
Health and Human Services	1	1	*	221	350	177	*	4	4
Housing and Urban Development ¹	639	692	454	80,025	59,994	61,790	76	2,800	2,876
Interior	51	45	31	39	34	45	14	11	26
Transportation	49	50	53				*		*
Environmental Protection Agency	28	17							
Small Business Administration	294	435	265	3,387	3,791	3,597	38	327	365
Veterans Administration	1,010	1,064	978	34,900	18,287	17,940	*	1,184	1,184
Other independent agencies:									
Export-Import Bank	677	693	705	6,754	14,601	10,200	82	254	336
Federal Savings and Loan Insurance Corporation (FHLBB)	96	100	74	1,260	623	325	2	81	83
National Credit Union Administration	108	147	149	62	5	4	7	4	11
Tennessee Valley Authority	253	283	249				3		3
Other agencies and programs	3	3	2						
Total	29,817	28,817	20,005	142,064	123,233	115,306	885	8,743	9,628
ADDENDUM									
Secondary guaranteed loans ¹				139,976	83,355	83,609			

* \$500 thousand or less.

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

Table 7. CREDIT BUDGET: NEW DIRECT LOAN OBLIGATIONS, GUARANTEED LOAN COMMITMENTS, AND SUBSIDIES BY FUNCTION

(In millions of dollars)

Function	Direct loan obligations			Guaranteed loan commitments			1989 loan subsidy estimates		
	1987 actual	1988 estimate	1989 estimate	1987 actual	1988 estimate	1989 estimate	Direct	Guaranteed	Total
150 International affairs.....	5,806	5,645	5,927	7,099	20,079	12,875	602	454	1,056
270 Energy.....	1,286	2,078	249	582	2,000	1,319	3	81	83
300 Natural resources and environment.....	72	49	18				11		11
350 Agriculture.....	18,060	16,161	11,346	4,564	8,293	7,100	75	554	629
370 Commerce and housing credit ¹	2,581	2,654	677	84,785	64,354	65,715	85	3,212	3,297
400 Transportation.....	49	50	53				*		*
450 Community and regional development.....	890	1,051	755	184	293	141	109	12	120
500 Education, training, employment, and social services.....	60	62		9,730	9,576	10,039		3,242	3,242
550 Health.....	1	1	*	221	350	177	*	4	4
600 Income security.....	3	2	2				*		*
700 Veterans benefits and services.....	1,010	1,064	978	34,900	18,287	17,940	*	1,184	1,184
Total.....	29,817	28,817	20,005	142,064	123,233	115,306	885	8,743	9,628
ADDENDUM									
Secondary guaranteed loans ¹				139,976	83,355	83,609			

* \$500 thousand or less.

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

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

Agency	Fiscal year				
	1987 actual ²	1988 estimate	1989 estimate	1990 estimate	Difference 1988-89
Agriculture	102,579	104,962	102,047	100,378	-2,915
Commerce	31,916	38,430	36,273	85,222	-2,157
Defense—civil functions	28,199	28,227	28,615	28,542	388
Education	4,412	4,495	4,489	4,489	-6
Energy	16,116	16,266	15,804	15,404	-462
Health and Human Services	122,656	119,624	115,045	110,972	-4,579
Housing & Urban Development	12,282	13,101	12,673	12,243	-428
Interior	69,662	70,468	69,725	69,725	-743
Justice	65,703	72,455	77,324	80,344	4,869
Labor	17,674	18,518	18,591	18,637	73
State	25,724	26,125	25,837	25,831	-288
Transportation	60,310	61,162	62,242	62,612	1,080
Treasury	138,353	151,801	153,358	154,641	1,557
Environmental Protection Agency	13,488	14,448	14,570	14,334	122
National Aeronautics and Space Administration	22,001	22,425	22,950	22,950	525
Veterans Administration	221,020	220,869	218,420	216,247	-2,449
Other:					
Agency For International Development	4,569	4,725	4,725	4,725
General Services Administration	19,882	21,071	20,155	19,663	-916
Nuclear Regulatory Commission	3,376	3,250	3,180	3,120	-70
Office of Personnel Management	5,108	5,372	5,261	5,088	-111
Panama Canal Commission	8,433	8,665	8,665	8,665
Small Business Administration	4,048	4,121	4,304	4,234	183
Tennessee Valley Authority	28,297	29,500	29,500	29,500
United States Information Agency	8,849	8,950	8,870	8,700	-80
Miscellaneous	40,161	42,313	42,072	42,139	-241
Estimated nondefense lapse		-16,670	-11,047	-5,742	5,623
Civilian agency employment	1,074,818	1,094,673	1,093,648	1,142,663	-1,025
Defense—military functions ³	1,031,317	1,028,809	1,017,012	1,017,000	-11,797
Subtotal	2,106,135	2,123,482	2,110,660	2,159,663	-12,822
Postal Service Employment ⁴	761,180	830,051	816,268	816,268	-13,783
Total, Executive Branch	2,867,315	2,953,533	2,926,928	2,975,931	-26,605

¹ Excludes developmental positions under the Worker-Trainee Opportunity Program; disadvantaged summer and part-time workers under such Office of Personnel Management programs as Summer Aids stay-in-school and junior fellowship; and 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 By law (10 U.S.C., Chapter 4, section 140b), the Department of Defense is exempt from full-time equivalent employment controls. Data shown are estimated.

⁴ Includes the Postal Rate Commission.

Table 9. FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT, 1970-91

(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
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.....	3,687.6	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.....	3,943.6	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.....	4,192.4	769.1	18.3	568.9	13.6	200.2	4.8	990.3	23.6	806.8	19.2	183.5	4.4
1987.....	4,408.7	854.1	19.4	640.7	14.5	213.4	4.8	1,004.6	22.8	810.8	18.4	193.8	4.4
1988 estimate.....	4,705.8	909.2	19.3	669.3	14.2	239.9	5.1	1,055.9	22.4	852.8	18.1	203.1	4.3
1989 estimate.....	5,023.3	964.7	19.2	706.2	14.1	258.5	5.1	1,094.2	21.8	880.9	17.5	213.3	4.2
1990 estimate.....	5,387.8	1,044.1	19.4	761.7	14.1	282.4	5.2	1,148.3	21.3	924.2	17.2	224.1	4.2
1991 estimate.....	5,758.6	1,124.4	19.5	818.5	14.2	306.0	5.3	1,203.7	20.9	967.6	16.8	236.1	4.1

Table 9. FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT, 1970-91—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
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	3.1	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.....	3,687.6	-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.....	3,943.6	-212.3	5.4	-221.6	5.6	9.4	0.2	1,827.5	46.3	317.6	8.1	1,509.9	38.3
1986.....	4,192.4	-221.2	5.3	-237.9	5.7	16.7	0.4	2,130.0	50.8	383.9	9.2	1,746.1	41.6
1987.....	4,408.7	-150.4	3.4	-170.0	3.9	19.6	0.4	2,355.3	53.4	457.4	10.4	1,897.8	43.0
1988 estimate.....	4,705.8	-146.7	3.1	-183.5	3.9	36.8	0.8	2,581.6	54.9	556.5	11.8	2,025.1	43.0
1989 estimate.....	5,023.3	-129.5	2.6	-174.7	3.5	45.1	0.9	2,825.3	56.2	673.2	13.4	2,152.1	42.8
1990 estimate.....	5,387.8	-104.2	1.9	-162.5	3.0	58.3	1.1	3,053.0	56.7	797.3	14.8	2,255.7	41.9
1991 estimate.....	5,758.6	-79.3	1.4	-149.1	2.6	69.9	1.2	3,269.2	56.8	934.7	16.2	2,334.4	40.5

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

Table 10. TOTAL RECEIPTS AND OUTLAYS, 1789-1993 (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	990,258	- 221,167
1940.....	6,548	9,468	- 2,920	1987.....	854,143	1,004,586	- 150,444
1941.....	8,712	13,653	- 4,941	1988 est.....	909,163	1,055,904	- 146,741
1942.....	14,634	35,137	- 20,503	1989 est.....	964,674	1,094,215	- 129,542
1943.....	24,001	78,555	- 54,554	1990 est.....	1,044,091	1,148,277	- 104,185
1944.....	43,747	91,304	- 47,557	1991 est.....	1,124,407	1,203,675	- 79,268
1945.....	45,159	92,712	- 47,553	1992 est.....	1,189,924	1,240,978	- 51,053
1946.....	39,296	55,232	- 15,936	1993 est.....	1,258,071	1,281,337	- 23,266

* \$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.

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THE BUDGET DOCUMENTS

Budget of the United States Government, 1989 contains the Budget Message President and presents an overview of the President's budget proposals. It includes summary information on the economic assumptions used in the 1989 Budget, Federal receipts, and Federal spending. In addition, it includes supplemental information on the baselines used in the Budget, Federal credit programs, Federal capital expenditures, several topics that help place the budget in perspective, the budget system and concepts, a listing of the Federal program by agency and account, and summary tables.

United States Budget in Brief, 1989 is designed for use by the general public. It provides a more concise, less technical overview of the 1989 Budget than the above volume, including summary and historical tables on the Federal budget and debt, together with graphic displays.

Budget of the United States Government, 1989—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. Supplemental 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, 1989 contains analyses that are designed to highlight specified program areas or provide other significant presentations of budget data. The first part of this document includes information about two alternative views of the budget; i.e., the current services and Gramm-Rudman-Hollings budget baselines, and the national income accounts. The second part provides analyses and tabulations of the totals that cover the Federal Government's finances and operation as a whole and reflect the ways in which Government finances affect the economy. Financial information on Federal research and development programs and data on Federal civilian employment are also included in this part.

Historical Tables, Budget of the United States Government, 1989 provides data on budget receipts, outlays, surpluses or deficits, and Federal debt covering extended time periods—in many cases from 1940-1993. 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 1989 Budget, so the data series are comparable over time.

Management of the United States Government, 1989 includes the President's Management Message and provides the goals and strategies of the President's Management Improvement Program. It reports on the 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 and the status of debt collection and prompt payment efforts.

Major Policy Initiatives, 1989 highlights the major policy changes proposed in the 1989 Budget. Each description includes a brief history of the program and the conditions that precipitated the need for change. The President's proposal describes concisely the initiative and, in most examples, presents a summary funding chart that contains the budget authority and outlay changes that would occur if enacted.

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



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