

SPECIAL ANALYSIS A

CURRENT SERVICES ESTIMATES

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables and text of this booklet may not add to totals because of rounding.

OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

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SPECIAL ANALYSIS A

CURRENT SERVICES ESTIMATES

The Congressional Budget Act of 1974 requires that the President submit to the Congress estimates of the outlays and budget authority needed to maintain current Government services and activity levels. The Act defines the current services levels as

. . . the estimated outlays and proposed budget authority which would be included in the Budget to be submitted pursuant to section 201 of the Budget and Accounting Act, 1921, for the ensuing fiscal year if all programs and activities were carried on during such ensuing fiscal year at the same level as the fiscal year in progress and without policy changes in such programs and activities.

The Act further requires the President to submit the economic and programmatic assumptions underlying the estimates and calls for the Joint Economic Committee of the Congress to review and evaluate the estimates.

Since current services estimates show what outlays, receipts, and budget authority would be if no policy changes were made, they provide a base with which the administration's budget proposals, or other proposals, may be compared. Such comparisons are made in various parts of the budget and serve to highlight the effects of recommended policy changes.¹

The current services estimates are based on the same economic assumptions as the President's budget proposals. Changes in economic conditions significantly affect budget estimates because of their effects on tax receipts, unemployment benefits, and other programs under which spending varies with the unemployment, interest, and inflation rates. As a result, if different economic assumptions were used, it would be very difficult to separate the effects of policy differences from the effects of differences in the economic assumptions.

The economic assumptions assume that all the President's budget proposals will be adopted. Continuation of all programs and tax laws unchanged at current services levels would probably result in somewhat different economic conditions than would occur under the budget proposals. For the 1983 budget, however, the

¹ Summary comparisons are in the *Budget of the United States Government Fiscal Year 1983* Part 3.

differences are small compared to the uncertainties inherent in the economic forecast.

The economic assumptions common to the budget and the current services estimates are summarized in table A-1. For further details and discussion of these economic assumptions, see Part 2 in the 1983 *Budget*.

Table A-1. SUMMARY OF ECONOMIC ASSUMPTIONS

(Calendar years)

	1981	1982	1983
Gross national product (in billions of current dollars)	2,922	3,160	3,524
Change in constant dollar GNP (percent change, fourth quarter over fourth quarter) ...	0.7	3.0	5.2
Unemployment rate (percent, fourth quarter)	8.4	8.4	7.6
GNP deflator (percent change, fourth quarter over fourth quarter)	8.6	7.2	5.5
Consumer Price Index (percent change, fourth quarter over fourth quarter)	9.4	6.6	5.1
Federal nondefense non-pay purchases deflator (percent change, fiscal year over fiscal year)	17.6	8.2	6.5
State and local purchases deflator (percent change, fiscal year over fiscal year)	8.6	8.6	7.8
Interest rate, 91-day Treasury bills (percent)	14.1	11.7	10.5
Federal pay raise, October (percent):			
Military	14.3	8.0	7.6
Civilian	4.8	8.0	7.6

THE CURRENT SERVICES CONCEPT

The current services estimates are neither recommended amounts nor forecasts as to what the budget for 1982 and 1983 will actually be. Rather, they provide a base against which budgetary alternatives may be assessed. This base embodies the cumulative effects of all past congressional and Presidential budgetary choices. Since the estimates indicate the near-term budgetary implications of the current directions of Federal programs, they in effect answer the question: "How would the budget come out if we simply left the Federal Government on automatic pilot through next year?"

A guiding principle in establishing a conceptual basis for the current services estimates was to make the results useful to the Congress and the public. The current services concepts used in this analysis, and in previous current services estimates submitted by the executive branch, are not the only concepts possible. Different concepts may be useful for different purposes. Under the current concepts, the current services estimates for 1983 reflect the expected costs of continuing ongoing Federal programs at 1982 levels in real terms, without policy change; that is, they omit all proposed and pending new initiatives, Presidential or congressional, that are not now enacted. In general, the 1982 level on which the current services estimates are based is that which is authorized or implied by enacted 1982 appropriations or continuing resolutions. The estimates allow for the future implications of current law, and for

anticipated changes of a relatively uncontrollable nature (as distinct from policy changes)—such as increases in the number of social security retirees.

The current services estimates reflect the effects of inflation on virtually all budget accounts, including discretionary programs. The current services estimates thus provide a “constant real program” base against which to measure the President’s budget.

Specific guidelines for this year’s detailed programmatic estimates are:

- For entitlement programs (such as social security), the current services estimates take into account inflation adjustments that are mandatory under current law, changes in the benefit base (usually determined by past earnings), and changes in the anticipated numbers of beneficiaries.
- Individual grants to State and local governments in 1983 are assumed to support the same program levels or to be funded at the same real (constant-dollar) amounts as in 1982 unless the grants are: (a) set by law at specified amounts; (b) tied by legislation to cost-of-living increases or the unemployment rate; (c) affected by changes in beneficiary populations or other factors that affect benefit payments under entitlement programs; or (d) affected by spending from prior-year commitments (for example, highway grants).
- Entitlement programs that are not linked by law to the cost-of-living (such as veterans compensation) are assumed to remain level in real (constant-dollar) amounts except for changes in the benefit base and in the number of people eligible.
- Procurement and construction activities are assumed to proceed in an orderly fashion, consistent with current law and past appropriation levels. Outlays for these programs are largely determined by prior-year contracts and obligations. Some appropriations provide for anticipated inflation in the cost of multiyear projects. In other cases, however, current services estimates may reflect constraints on spending levels imposed by available funding.
- Outlays for Federal pay are assumed to increase at rates comparable to private sector pay. The October 1982 pay raise is projected to be 8.0% on this basis.
- Interest on the public debt is estimated on the basis of the current services deficit and the same interest rate assumptions as are used in computing the budget estimates for interest.
- Offsetting receipts are estimated on the basis of judgment as to their most likely level, assuming no change in current law.
- Budget authority for certain major trust funds consists of trust fund receipts. These are estimated using standard revenue estimating techniques.

- Proposed rescissions of budget authority are not reflected.
- It is assumed that deferral actions continue in effect for the period specified in the special message transmitted to the Congress under the Impoundment Control Act of 1974 (unless they have been overturned by the Congress).

Many Federal programs are authorized for a limited number of years, but are routinely renewed. If authority for such a program is scheduled to expire before or during 1983, it is assumed for purposes of current services estimates that it will be renewed. Programs that are clearly temporary in nature, such as temporary study commissions, are assumed to expire.

The estimates of receipts on a current services basis assume that future tax changes will occur as scheduled under current law. Provisions that are clearly temporary in nature are assumed to expire.

Table A-2. CURRENT SERVICES TOTALS

(In billions of dollars)

	1981 actual	1982 estimate	1983 estimate
Receipts.....	599.3	626.4	653.3
Outlays.....	657.2	726.4	779.3
Deficit (—).....	—57.9	—100.0	—126.0
Budget authority.....	718.4	775.1	833.9

CURRENT SERVICES TOTALS

Current services outlays are estimated to be \$779.3 billion in 1983, 7.3% higher than in 1982, and budget authority is estimated to be \$833.9 billion, an increase of 7.6% over 1982. Receipts for 1983 are estimated to increase 4.3% on a current services basis, from \$626.4 billion in 1982 to \$653.3 billion in 1983. The resulting 1983 current services deficit is \$126.0 billion, \$26.0 billion higher than the \$100.0 billion deficit for 1982.

Receipts.—Table A-3 shows receipts by major source on a current services basis. For purposes of comparison, receipts under the administration's proposals for 1983 are also shown. Current services receipts are projected to increase by \$26.9 billion from 1982 to 1983, largely due to assumed increases in incomes resulting from both real economic growth and inflation. These estimates assume that the temporary provisions of the Economic Recovery Tax Act of 1981 will expire as scheduled under current law.

Individual income taxes are estimated to increase by \$2.5 billion from 1982 to 1983 on a current services basis. This increase of 0.8% is the effect of rising personal incomes, partially offset by the

individual income tax reductions provided in the Economic Recovery Tax Act of 1981, which are estimated to rise from \$28.2 billion in 1982 to \$75.4 billion in 1983. Corporation income taxes are estimated to increase by \$9.5 billion, or 20.4%, from 1982 to 1983 on a current services basis, largely as a result of higher corporate profits.

Social insurance taxes are estimated to increase by \$17.2 billion on a current services basis. The estimate reflects assumed increases in total wages and salaries paid, increases in the social security taxable earnings base to \$32,400 in calendar year 1982 and the scheduled increase to \$35,100 in 1983, and the increase in the combined employer-employee social security tax rate to 13.4% on January 1, 1982.

Table A-3. CURRENT SERVICES RECEIPTS BY SOURCE

(In billions of dollars)

	1981 actual	Current services		1983 administra- tion estimates
		1982 estimate	1983 estimate	
Individual income taxes.....	285.9	298.5	301.0	304.5
Corporation income taxes.....	61.1	46.7	56.2	65.3
Social insurance taxes and contributions.....	182.7	206.5	223.6	222.5
Excise taxes.....	40.8	42.9	40.4	41.7
Other.....	28.7	31.9	32.1	32.1
Total.....	599.3	626.4	653.3	666.1

On a current services basis, excise taxes are estimated to decrease by \$2.4 billion, or 5.7%, from 1982 to 1983. This decrease is due to a \$2.9 billion decline in estimated windfall profit tax receipts that is only partially offset by a \$0.4 billion rise in other excise taxes.

Other receipts (estate and gift taxes, customs duties, and miscellaneous receipts) are projected to increase by \$0.2 billion from 1982 to 1983 on a current services basis, largely as a result of increased economic activity.

Outlays.—The level of outlays necessary to continue ongoing Federal programs and activities at 1982 levels without policy changes is estimated at \$779.3 billion in 1983. The increase in current services outlays from 1982 to 1983 is \$52.9 billion.

Table A-4 shows current services outlays by function. Estimates by agency are presented in table A-5. The greatest dollar increases from 1982 to 1983 occur in the income security, national defense, interest, and health functions, largely due to increases in the number of beneficiaries, cost-of-living adjustments, increases in the prices of goods and services purchased or financed and, in the case of interest, increased borrowing requirements.

Table A-4. CURRENT SERVICES OUTLAYS BY FUNCTION

(In billions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
National defense.....	159.8	186.2	202.3	221.1
International affairs.....	11.1	11.1	11.7	12.0
General science, space, and technology.....	6.4	6.9	7.6	7.6
Energy.....	10.3	6.4	5.5	4.2
Natural resources and environment.....	13.5	12.6	10.7	9.9
Agriculture.....	5.6	8.6	4.5	4.5
Commerce and housing credit.....	3.9	3.3	3.6	1.6
Transportation.....	23.4	21.1	20.9	19.6
Community and regional development.....	9.4	8.4	7.3	7.3
Education, training, employment, and social services.....	31.4	28.2	26.7	21.6
Health.....	66.0	74.0	82.5	78.1
Income security.....	225.1	251.5	271.5	261.7
Veterans benefits and services.....	23.0	24.2	24.9	24.4
Administration of justice.....	4.7	4.6	4.8	4.6
General government.....	4.6	4.9	4.8	5.0
General purpose fiscal assistance.....	6.9	6.4	6.6	6.7
Interest.....	82.5	99.1	115.1	112.5
Allowances:				
Civilian agency pay raises.....		0.4	1.5	0.7
Reduction of fraud, waste and abuse.....				-1.0
Undistributed debt collection.....				-1.0
Undistributed offsetting receipts:				
Employer share, employee retirement.....	-6.4	-7.6	-7.7	-8.4
Interest received by trust funds.....	-13.8	-16.1	-16.1	-16.1
Rents and royalties on the Outer Continental Shelf.....	-10.1	-7.9	-9.6	-18.0
Federal surplus property disposition.....				-1.0
Total outlays.....	657.2	726.4	779.3	757.6

Table A-6 shows the major components of the changes in current services outlays between 1982 and 1983. Outlays for income security programs are estimated to rise by \$19.9 billion, from \$251.5 billion in 1982 to \$271.5 billion in 1983 due to automatic cost-of-living increases in many benefit programs, increases in the number of beneficiaries, and higher earnings records for new retirees. In the case of social security, for example, about three-fourths of the 1982 to 1983 outlay increase is due to cost-of-living increases; higher earnings records and net increases in beneficiaries account for the remaining one-fourth. Table A-7 shows caseload projections for major benefit programs and other selected programmatic assumptions.

Current services outlays for the military functions of the Department of Defense are estimated to increase by \$15.8 billion between 1982 and 1983. Increased outlays for retired military personnel account for \$1.6 billion of this increase. October 1982 pay raises of 8.0% for military and civilian personnel account for an additional \$4.9 billion of the increase. Current services outlays for other De-

Table A-5. CURRENT SERVICES OUTLAYS BY AGENCY

(In billions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Legislative branch.....	1.2	1.5	1.4	1.4
The Judiciary.....	.6	.7	.8	.8
Executive Office of the President.....	.1	.1	.1	.1
Funds appropriated to the President.....	7.0	6.4	6.6	6.9
Department of Agriculture.....	26.0	29.7	27.4	23.5
Department of Commerce.....	11.5	11.7	10.9	9.9
Department of Defense—Military.....	156.1	181.5	197.3	215.9
Department of Defense—Civil.....	3.1	3.0	2.9	2.3
Department of Health and Human Services.....	228.1	253.9	278.8	274.2
Department of Housing and Urban Development.....	14.0	14.7	15.0	13.1
Department of the Interior.....	6.8	3.1	3.5	3.3
Department of Justice.....	2.8	2.6	2.7	2.7
Department of Labor.....	30.1	32.1	28.6	26.5
Department of State.....	1.9	2.2	2.4	2.4
Department of Transportation.....	22.5	20.4	20.2	19.0
Department of the Treasury.....	93.4	109.8	127.0	124.5
Environmental Protection Agency.....	5.2	5.4	4.3	4.6
National Aeronautics and Space Administration.....	5.4	5.8	6.6	6.6
Veterans Administration.....	22.9	24.1	24.9	24.4
Foundation for Education Assistance.....	13.1	13.7	13.2	11.4
Office of Personnel Management.....	18.1	19.9	22.2	21.7
Other independent agencies.....	17.6	15.1	14.3	7.1
Allowances.....		0.4	1.5	-1.3
Undistributed offsetting receipts.....	-30.3	-31.5	-33.4	-43.5
Total outlays.....	657.2	726.4	779.3	757.6

partment of Defense purchases are estimated to increase by \$9.3 billion, due to estimated price increases averaging 7.0% and to spending from funds previously appropriated.

Current services outlays for the medicare and medicaid programs are estimated to increase by \$8.8 billion between 1982 and 1983, largely as a result of increases in medical care prices.

Other major increases in current services outlays between 1982 and 1983 include an increase in net interest of \$16.0 billion and \$1.5 billion for civilian agency pay raises.

The \$4.0 billion decline in current services outlays for Agriculture between 1982 and 1983 results from a sharply lower estimate of outlays required in 1983 for price supports and related Commodity Credit Corporation programs.

Budget authority.—Current services budget authority is estimated to total \$833.9 billion in 1983, \$58.8 billion more than in 1982. Increases in budget authority between 1982 and 1983 generally reflect the higher funding levels that would be necessary to maintain 1982 services levels in real terms in 1983. In the case of most

Table A-6. CHANGE IN CURRENT SERVICES BUDGET AUTHORITY AND OUTLAYS, 1982 TO 1983

(In billions of dollars)

	Budget authority	Outlays
1982 current services estimate	775.1	726.4
1982-83 changes:		
Income security:		
Social security.....	11.9	15.3
Federal employee retirement and disability.....	1.5	2.2
Unemployment compensation.....	1.3	-2.5
Housing assistance.....	1.1	1.4
Food and nutrition assistance.....	1.4	1.4
Other income security programs.....	4.3	2.1
Subtotal, income security.....	21.5	19.9
National defense:		
Department of Defense—Military:		
Military personnel.....	5.5	5.3
Procurement.....	4.4	3.4
Operation and maintenance.....	3.8	4.0
Military retired pay.....	1.6	1.6
Other defense military.....	1.2	1.6
Other national defense.....	0.4	0.3
Subtotal, National defense.....	16.8	16.1
International financial programs.....	-1.3	0.2
General science, space, and technology.....	0.7	0.6
Energy programs.....	0.7	-1.0
Natural resources and environment.....	-0.1	-1.9
Farm income stabilization.....	-2.7	-4.1
Mortgage credit and thrift insurance.....	-0.7	0.2
Transportation programs.....	0.2	-0.2
Community and regional development.....	0.9	-1.1
Education.....	1.0	-0.6
Training and Employment.....	1.0	-0.5
Medicare and medicaid.....	1.4	8.3
Other health programs.....	0.6	0.2
Veterans programs.....	1.4	0.7
Net interest.....	16.0	16.0
Allowances for civilian agency pay raises.....	1.6	1.5
Rents and royalties, offshore oil lands.....	-1.7	-1.7
All other programs, net.....	1.6	0.1
1983 current services estimate	833.9	779.3

trust funds, however, the funds' receipts automatically become budget authority; thus increases in budget authority for these funds simply reflect year-to-year growth in expected receipts. Budget authority for some programs display erratic year-to-year changes due to sporadic funding patterns or advance funding.

Tables A-8 and A-9 show the estimates of current services budget authority by function and by agency, respectively. The major components of the changes in current services budget authority between 1982 and 1983 are shown in table A-6.

Table A-7. CASELOADS AND PROGRAMMATIC ASSUMPTIONS

	Fiscal years	
	1982	1983
Beneficiaries (annual average, in thousands):		
Social security (OASDI)	36,312	36,868
Railroad retirement ¹	988	974
Federal civilian retirees	1,357	1,408
Military retirees	1,384	1,427
Veterans compensation	2,638	2,644
Veterans pensions	1,846	1,763
GI bill	970	812
Disabled coal miners (including black lung)	464	440
Supplemental security income	3,654	3,630
Maintenance assistance (AFDC)	10,955	10,980
Food stamps	23,000	21,380
Housing subsidy recipients (section 8 housing)	3,859	4,292
Medicaid	21,908	22,418
Medicare:		
Hospital insurance	28,450	28,927
Supplementary medical insurance	28,228	28,773
Automatic benefit increases (percent):		
Social security and veterans pensions (July)	8.1	6.5
Federal employee retirement (March)	8.9	6.6
Food stamps (October)		10.7
Interest rate (91-day bills, percent, calendar years) ²	11.7	10.5
Budget deficit (current services, in billions of dollars)	100.0	126.0
Unemployment rate (percent, annual average, calendar years):		
Total	8.9	7.9
Insured ³	4.9	4.3
Strategic petroleum reserves (millions of barrels) ¹	267	343

¹ End of year.

² Average rate on new issues within period. These estimates assume, by convention, that interest rates decline with the rate of inflation. They do not represent a forecast of interest rates.

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

Increases in budget authority of \$21.5 billion for income security and \$2.0 billion for health are primarily due to higher social security and medicare trust fund receipts and higher medicaid costs.

A \$16.5 billion increase in budget authority for the Department of Defense—Military largely reflects pay increases for military and civilian personnel and increases in the costs of an equivalent level of defense purchases.

Other major changes in current services budget authority include an increase in net interest of \$16.0 billion; \$1.6 billion for allowances for civilian agency pay raises; a \$1.0 billion increase in education programs; a \$1.0 billion increase in employment and training programs; and a \$1.4 billion increase for veterans programs.

Table A-8. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
National defense.....	182.4	216.3	233.1	263.0
International affairs.....	24.8	18.5	18.0	18.1
General science, space, and technology	6.5	7.0	7.7	7.8
Energy.....	6.8	5.0	5.7	4.3
Natural resources and environment	11.1	7.6	7.5	8.4
Agriculture	6.6	9.6	7.0	6.9
Commerce and housing credit.....	6.5	6.3	5.8	3.4
Transportation.....	24.9	20.4	20.6	19.1
Community and regional development	8.1	6.6	7.5	6.7
Education, training, employment, and social services	30.5	25.0	27.3	18.8
Health	68.9	80.2	82.1	77.8
Income security.....	249.9	264.0	285.5	257.6
Veterans benefits and services.....	23.2	24.8	26.2	25.7
Administration of justice	4.3	4.5	4.8	4.5
General government	5.1	4.9	5.1	5.3
General purpose fiscal assistance.....	6.3	6.4	6.6	6.7
Interest	82.5	99.1	115.1	112.5
Allowances:				
Civilian agency pay raises		0.4	1.6	0.8
Reduction of fraud, waste, and abuse				-1.0
Undistributed debt collection				-1.0
Undistributed offsetting receipts:				
Employer share, employee retirement	-6.4	-7.6	-7.7	-8.4
Interest received by trust funds	-13.8	-16.1	-16.1	-16.1
Rents and royalties on the Outer Continental Shelf	-10.1	-7.9	-9.6	-18.0
Federal surplus property disposition.....				-1.0
Total budget authority	718.4	775.1	833.9	801.9

DIFFERENCES BETWEEN CURRENT SERVICES ESTIMATES AND BUDGET PROPOSALS

For 1982, the estimates of budget authority and outlays under current services levels exceed the administration proposals by \$9.7 billion and \$1.1 billion, respectively. The 1982 receipts estimate under administration proposals exceeds current services by \$0.3 billion. The deficit under administration proposals is \$1.4 billion lower than that under current services.

For 1983, the administration's estimate of outlays is \$21.6 billion below the current services level, and budget authority is \$32.0 billion below the current services level. The current services receipts level for 1983 is \$12.8 billion below the administration's estimate of \$666.1 billion. The 1983 current services deficit of \$126.0 billion exceeds the administration's estimated deficit by \$34.5 billion.

Table A-9. CURRENT SERVICES BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Legislative branch	1.2	1.4	1.4	1.5
The Judiciary .....	.7	.7	.8	.8
Executive Office of the President .....	.1	.1	.1	.1
Funds appropriated to the President	14.7	11.0	11.0	11.5
Department of Agriculture	28.2	30.5	28.8	24.7
Department of Commerce	11.2	10.3	11.0	9.7
Department of Defense—Military	178.4	211.5	227.9	257.5
Department of Defense—Civil	3.1	2.9	2.9	2.3
Department of Health and Human Services	225.8	252.7	270.2	268.4
Department of Housing and Urban Development	33.4	24.2	25.3	.7
Department of the Interior	6.4	2.8	3.6	3.3
Department of Justice	2.5	2.4	2.7	2.6
Department of Labor	29.5	26.6	28.3	26.4
Department of State	2.3	2.5	2.6	2.7
Department of Transportation	23.7	19.7	19.9	18.4
Department of the Treasury	92.7	110.1	127.4	125.0
Environmental Protection Agency	3.0	1.3	1.4	3.6
National Aeronautics and Space Administration	5.5	5.9	6.6	6.6
Veterans Administration	23.1	24.8	26.2	25.6
Foundation for Education Assistance	12.9	12.6	13.5	8.8
Office of Personnel Management	29.0	34.0	35.6	35.6
Other independent agencies	21.5	18.0	18.5	10.8
Allowances		0.4	1.6	-1.2
Undistributed offsetting receipts	-30.3	-31.5	-33.4	-43.5
Total budget authority	718.4	775.1	833.9	801.9

Receipts.—As shown in table A-11, the administration's estimate of receipts for 1982 is \$0.3 billion higher than the current services level of \$626.4 billion. This difference is due primarily to proposed improvements in tax collection and enforcement, and the proposed increase in airport and airway user taxes, which increase receipts by \$0.2 billion and \$0.1 billion, respectively.

The administration's proposals for 1983 are \$12.8 billion above the current services level. Proposed tax revisions, designed to eliminate unintended benefits and to remove obsolete incentives, account for \$7.2 billion of the increase above the current services

Table A-10. SUMMARY OF CURRENT SERVICES AND PROPOSED BUDGET TOTALS

(In billions of dollars)

	1981 actual	1982 Estimate		1983 Estimate	
		Current services	Administra- tion proposals	Current services	Administra- tion proposals
Receipts	599.3	626.4	626.8	653.3	666.1
Outlays	657.2	726.4	725.3	779.3	757.6
Deficit (—)	—57.9	—100.0	—98.6	—126.0	—91.5
Budget authority	718.4	775.1	765.5	833.9	801.9

level. Other proposed increases include improvements in tax collection and enforcement (\$5.5 billion), airport and airway user taxes (\$1.2 billion), passport and visa fees (\$0.1 billion), and the requirement that Federal employees pay the employee portion of the social security hospital insurance tax (\$0.6 billion). These increases are partially offset by the administration's proposal to convert the rail industry's multi-employer pension system from a public to a private system, which is estimated to reduce receipts by \$1.7 billion.¹

Table A-11. ESTIMATED EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS

(In billions of dollars)

	1982	1983
Current services receipts estimates	626.4	653.3
Tax revisions:		
Completed contract accounting		3.3
Business energy tax credits		0.1
Tax-exempt revenue bonds		—0.2
Modified coinsurance		1.1
Construction period interest and taxes		0.5
Corporate minimum tax		2.3
Subtotal, tax revisions		7.2
Improved tax collection and enforcement	0.2	5.5
Airport and airway trust fund	0.1	1.2
Passport and visa fees	*	0.1
Federal employee hospital insurance		0.6
Railroad retirement		—1.7
Other		*
Subtotal, other receipts proposals	0.3	5.6
Total proposed changes	0.3	12.8
Proposed receipts, President's budget	626.8	666.1

* \$50 million or less.

¹ A more detailed discussion of the administration's receipts proposals is presented in the *Budget of the United States Government, Fiscal Year 1983*, Part 4, "Budget Receipts."

Outlays.—Table A-12 shows the major differences between the administration's budget and the current services outlay level. In 1982, the major increase above current services outlays is \$1.3 billion for the Department of Defense—Military. This increase and several smaller increases are more than offset by proposed reductions in the guaranteed student loan program, medicare, food and nutrition assistance, and legal services, and by the allowance for reducing fraud, waste, and abuse. Proposed rescissions reduce 1982 outlays by \$0.2 billion.

For 1983, proposed reductions result in a decrease in outlays of \$43.0 billion, which is partially offset by proposed increases in defense and several other programs of \$21.4 billion.

The administration proposals to modify entitlement programs would reduce 1983 outlays by \$12.8 billion. The major changes in entitlement programs include:

- **Guaranteed student loans.**—Applying a needs test at all income levels and increasing loan origination fees would reduce 1983 outlays by \$0.8 billion.
- **Medicare.**—Indexing the deductible amounts under the supplemental medical insurance (SMI) program to the consumer price index, increasing the SMI premium, imposing a 2% reduction in hospital reimbursement, and restraining the rate of increase in physician fees would reduce 1983 outlays by \$2.5 billion.
- **Medicaid.**—Requiring a modest payment for medicaid services, reducing Federal matching payments for optional services, and eliminating Federal payment for cases that are in error would reduce 1983 outlays by \$2.0 billion.
- **Railroad retirement.**—Replacing a portion of the present pension for railroad retirees with a private rail industry pension program would reduce 1983 outlays by \$2.0 billion and reduce 1983 receipts by \$1.7 billion.
- **Federal civil service.**—Requiring Federal employees to join the hospital insurance program and limiting the cost-of-living adjustments for civil service retirement annuities would increase 1983 payroll tax receipts by \$0.6 billion and reduce 1983 outlays by \$0.5 billion.
- **Food stamps.**—Increasing the benefit reduction from \$0.30 to \$0.35 per dollar of additional income and eliminating the deduction for earned income and the Federal payments for cases that are in error would reduce 1983 outlays by \$2.4 billion.
- **Aid to families with dependent children (AFDC).**—Strengthening the work requirement, eliminating the Federal payment for cases that are in error, and redefining the method for calculating individual benefits would reduce 1983 outlays by \$1.2 billion.

- Supplemental security income.—Changing the disability criteria to a basis of long-term medical prognosis for recovery would reduce 1983 outlays by \$0.3 billion.

Changes proposed in other entitlement programs, including child nutrition, Federal employee disability compensation, military retirement, trade adjustment assistance, and others, would reduce 1983 outlays by \$1.3 billion.

Administration proposals to establish new or increase existing user fees would increase offsetting collections and reduce 1983 outlays by \$1.2 billion. These proposals would recover costs associated with aviation, navigation, and recreation programs; costs associated with the development of permanent disposal facilities for high-level radioactive wastes, and costs associated with the provision of various other goods and services to special groups.

Administration initiatives in collection of delinquent debt, reduction of fraud, waste, and abuse, and disposition of Federal property would reduce 1983 outlays by \$3.0 billion below current services. Accelerated leasing of outer continental shelf lands reduces 1983 outlays by \$8.4 billion. The proposal to restrain civilian employee pay, which limits the October 1982 pay raises to 5.0% for Federal civilian employees rather than the 8.0% raise under comparability, would reduce outlays by \$1.4 billion below the current services level. Improved asset sale management and other initiatives would reduce 1983 outlays by \$2.0 billion.

Net interest outlays are lower by \$2.7 billion under the administration proposals. This reflects the lower Federal borrowing that would be required if the administration's tax revisions and spending cuts are enacted.

Reductions proposed in discretionary and other nondefense programs would lower 1983 outlays by \$11.1 billion. Proposed changes in education, training, employment, and social services programs would reduce 1983 outlays by \$4.4 billion. Changes to other programs, such as energy, natural resources and environment, commerce and housing credit, transportation, health, income security, and others would reduce 1983 outlays by \$6.7 billion below the current services estimate.

The largest outlay increase above the current services level for 1983 is the proposed \$19.7 billion increase in defense programs for higher purchases to carry out the administration's policy to maintain the deterrent capability of our conventional and strategic forces as the Soviet Union and its allies increase their military capabilities. Other major increases above current services for 1983 include \$0.5 billion for sewage treatment construction grants; \$0.3 billion for the economic support fund, \$0.4 billion for the Internal Revenue Service, and \$0.5 billion for programs in the Federal Aviation Administration.

Table A-12. DIFFERENCES BETWEEN ADMINISTRATION BUDGET REQUEST AND CURRENT SERVICES

(Outlays, in billions of dollars)

	1982	1983
Current services estimates	726.4	779.3
Major Decreases:		
National defense:		
Entitlements (retired pay)		-0.1
Management initiative (civilian employee pay raise)		-0.6
Stockpile sales		-0.4
Subtotal, national defense		-1.1
Nondefense:		
Entitlements:		
Guaranteed student loans	-0.2	-0.8
Medicare	-0.3	-2.5
Medicaid	-0.3	-2.0
Railroad retirement		-2.0
Civil Service retirement and disability	*	-0.5
Food stamps	-0.3	-2.4
Aid to families with dependent children	-0.2	-1.2
Supplemental security income	-0.1	-0.3
Other entitlements	-0.1	-1.2
Subtotal, entitlements	-1.4	-12.8
Management initiatives:		
Civilian agency pay raise		-0.8
Other allowances	-1.0	-2.0
OCS receipts		-8.4
Federal property disposition		-1.0
Other	-0.1	-2.0
Subtotal, management initiatives	-1.1	-14.2
Net interest		-2.7
Higher user fees		-1.2
Other nondefense:		
Energy programs	*	-0.9
Natural resources and environment	0.1	-0.7
Transportation	*	-1.6
Education	-0.1	-1.2
Employment and training (net)	*	-2.2
Social services	-0.1	-1.0
Housing assistance	*	-0.6
Other income security and health	*	-1.8
All other (net)	0.1	-1.1
Subtotal, other nondefense	-0.1	-11.1
Subtotal, nondefense	-2.6	-41.9
Total, decreases	-2.6	-43.0

Table A-12. DIFFERENCES BETWEEN ADMINISTRATION BUDGET REQUEST AND CURRENT SERVICES—
Continued

(Outlays, in billions of dollars)

	1982	1983
Major Increases:		
National defense:		
Department of Defense—military	1.3	19.3
Other national defense	*	0.3
Subtotal, national defense	1.3	19.7
Nondefense:		
Foreign military sales credit		0.1
Economic support fund		0.3
Federal Aviation Administration	0.1	0.5
Sewage treatment construction grants		0.4
Internal Revenue Service	0.1	0.4
Subtotal, nondefense	0.2	1.8
Total, increases	1.5	21.4
Administration budget request	725.3	757.6

* \$50 million or less.

Budget authority.—For 1982, the largest increase in budget authority beyond current services is \$2.6 billion for the Department of Defense—Military. Supplemental appropriations requested for sewage treatment construction grants account for an additional \$2.4 billion increase in budget authority beyond current services levels. Increases totaling \$0.7 billion are also proposed for the Federal Aviation Administration and Internal Revenue Service. Decreases totaling \$10.7 billion result from rescissions of 1982 budget authority proposed by the administration. A supplemental request to permit additional rescissions in the subsidized housing program would reduce 1982 budget authority by a further \$1.8 billion. Entitlement reforms would reduce 1982 budget authority by \$1.9 billion and reduction in fraud, waste, and abuse would reduce budget authority by \$1.0 billion.

The proposed reforms in entitlement programs would reduce 1983 budget authority by \$9.4 billion below the current services level. Proposed increases in user fees would reduce budget authority by a further \$1.2 billion in 1983.

The administration's proposal to restrain civilian employee pay decreases budget authority below the 1983 current services level by \$0.8 billion for civilian agencies and \$0.8 billion for the Department of Defense. The administration's proposal to reform the structure of Federal housing assistance would reduce budget authority for 1983 by \$22.5 billion below the current services level.

Administration initiatives in collection of delinquent debt, reduction of fraud, waste, and abuse, and disposition of surplus Federal property would reduce 1983 budget authority by \$3.0 billion below current services. Accelerated leasing of the Outer Continental Shelf lands reduces budget authority by \$8.4 billion in 1983. Proposed changes in education, training, employment, and social services programs would reduce 1983 budget authority by \$7.6 billion. Changes to other programs, such as energy, water resources, and conservation, commerce and housing credit, transportation, community and regional development, and others would reduce 1983 budget authority by \$9.8 billion below the current services estimate. The lower deficits under the administration proposals reduce budget authority for net interest by \$2.7 billion in 1983.

Budget authority increases proposed for defense programs are \$31.2 billion above the current services level for 1983. Other major increases in budget authority above the current services level for 1983 include \$1.1 billion for international security assistance; \$2.4 billion for sewage treatment construction grants; \$0.4 billion for the Internal Revenue Service, and \$1.2 billion for programs in the Federal Aviation Administration.

Tables A-13 and A-14 provide a more detailed comparison (by function, subfunction, and program) of the President's budget request for 1983 with the current services budget authority and outlay estimates.

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
050 NATIONAL DEFENSE				
051 Department of Defense—Military:				
Military personnel.....	36,930	38,122	43,614	44,896
Retired military personnel.....	13,840	15,036	16,600	16,600
Proposed legislation.....				— 89
Operation and maintenance.....	55,548	61,485	65,285	69,392
Procurement.....	48,025	64,658	69,072	89,547
Research, development, test and evaluation.....	16,609	20,038	21,178	24,257
Military construction.....	3,398	4,908	5,160	5,436
Family housing.....	2,004	2,159	2,287	2,777
Revolving funds and other.....	2,031	— 315	— 175	365
Proposed legislation.....				63
Allowances for civilian and military pay raises.....		5,399	4,927	4,089
Other legislation.....				137
Subtotal, Department of Defense—Military.....	178,386	211,490	227,949	257,469
053 Atomic energy defense activities.....	3,651	4,673	4,977	5,506
054 Defense-related activities:				
Existing law.....	373	135	213	460
Proposed legislation.....				— 402
Subtotal, Defense-related activities.....	373	135	213	58
Deductions for offsetting receipts.....	— 4	— 4		
Total budget authority.....	182,405	216,294	233,139	263,033
150 INTERNATIONAL AFFAIRS				
151 Foreign economic and financial assistance:				
Multilateral development banks.....	1,004	1,262	1,529	1,537
International fund for agricultural development.....				65
International organizations.....	262	215	215	173
Agency for International Development.....	1,684	1,782	1,920	1,816
Public Law 480—Food aid.....	1,229	1,000	1,028	1,028
Peace Corps.....	106	105	105	98
Refugee assistance.....	474	503	419	419
Offsetting receipts and other.....	— 259	— 327	— 372	— 371
Subtotal, Foreign economic and financial assistance.....	4,499	4,540	4,845	4,764
152 International security assistance:				
Foreign military sales credit.....	500	750	799	1,739
Economic support fund.....	2,100	2,564	2,731	2,886
Military assistance.....	110	177	188	108
International military education and training.....	28	38	41	54
Peacekeeping operations.....	34	151	43	43
Offsetting receipts and other.....	— 231	— 194	— 171	— 171
Proposed legislation.....				5
Subtotal, International security assistance.....	2,543	3,486	3,631	4,663
153 Conduct of foreign affairs:				
Administration of foreign affairs.....	996	1,103	1,222	1,255
International organizations and conferences.....	433	467	508	508
Other.....	41	45	50	46
Subtotal, Conduct of foreign affairs.....	1,471	1,615	1,780	1,809

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
154 Foreign information and exchange activities	551	588	726	746
155 International financial programs:				
Export-Import Bank.....	6,908	3,986	3,557	2,701
Foreign military sales trust fund (net).....	3,566	4,446	3,622	3,622
International monetary programs.....	5,361			
International commodity agreements.....	88			
Other.....	-79	-80	-82	-82
Subtotal, International financial programs.....	15,844	8,352	7,097	6,241
Deductions for offsetting receipts	-95	-97	-97	-97
Total budget authority.....	24,812	18,483	17,982	18,126
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY				
251 General science and basic research:				
National Science Foundation programs.....	1,036	1,004	1,058	1,078
Department of Commerce general science programs.....	504	529	564	601
Smithsonian scientific information exchange activities.....	*	*	*	*
Subtotal, General science and basic research.....	1,541	1,533	1,621	1,679
253 Space flight	3,187	3,578	3,983	3,983
254 Space, science, applications, and technology	1,359	1,381	1,526	1,526
255 Supporting space activities	450	508	618	618
Deductions for offsetting receipts	-5	-5	-5	-5
Total budget authority.....	6,533	6,995	7,743	7,800
270 ENERGY				
271 Energy supply:				
Research and development.....	3,808	2,755	2,935	2,010
Proposed legislation.....				185
Uranium enrichment.....	442	1	109	
Petroleum reserves.....	-655	-908	-848	-848
Power marketing.....	-96	1,841	2,083	2,071
Incentives for non-conventional fuel production.....	-1,274			
Subtotal, Energy supply.....	2,224	3,689	4,279	3,418
272 Energy conservation	728	369	440	27
274 Emergency energy preparedness	2,791	191	204	242
276 Energy information, policy, and regulation:				
Existing law.....	1,089	869	850	772
Proposed legislation.....				-60
Subtotal, energy information, policy, and regulation.....	1,089	869	850	712
Deductions for offsetting receipts	-62	-69	-69	-69
Total budget authority.....	6,769	5,050	5,704	4,330
300 NATURAL RESOURCES AND ENVIRONMENT				
301 Water resources:				
Navigation fees (proposed).....				-448
Existing law.....	4,163	3,916	4,153	3,824

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Subtotal, Water resources.....	4,163	3,916	4,153	3,376
302 Conservation and land management:				
Management of national forests, cooperative forestry, and forestry research.....	2,054	1,759	1,765	1,783
Management of public lands.....	496	450	462	455
Mining reclamation and enforcement.....	178	161	170	160
Conservation of agricultural lands.....	579	570	604	428
Offsetting receipts and other.....	-558	-964	-1,433	-1,433
Subtotal, Conservation and land management.....	2,749	1,976	1,569	1,393
303 Recreational resources:				
Federal land acquisition.....	319	176	139	69
Urban park grants and historic preservation fund.....	27	33	33	
Operation of recreational resources.....	942	1,014	1,063	1,092
Proposed legislation.....				-5
Subtotal, Recreational resources.....	1,287	1,224	1,235	1,156
304 Pollution control and abatement:				
Regulatory, enforcement, and research programs.....	1,281	1,045	1,114	934
Oil pollution funds.....	28	5	6	3
Hazardous substance response fund.....	68	189	200	229
Sewage treatment plant construction grants.....	1,605			2,400
Subtotal, Pollution control and abatement.....	2,981	1,239	1,320	3,566
306 Other natural resources:				
Existing law.....	1,500	1,548	1,622	1,457
Proposed legislation.....				13
Subtotal, Other natural resources.....	1,500	1,548	1,622	1,470
Deductions for offsetting receipts.....	-1,553	-2,330	-2,409	-2,520
Total budget authority.....	11,128	7,571	7,489	8,440
350 AGRICULTURE				
351 Farm income stabilization:				
Commodity price-support and related programs.....	4,207	7,085	3,828	3,828
Crop insurance.....	58	425	717	717
Agricultural credit.....	573	464	682	682
Other programs and administrative expenses.....	211	62	63	62
Subtotal, Farm income stabilization.....	5,049	8,037	5,290	5,289
352 Agricultural research and services:				
Research programs.....	630	657	698	703
Extension programs.....	304	316	335	312
Marketing programs.....	80	119	124	117
Proposed legislation.....				-2
Animal and plant health programs.....	291	283	301	233
Proposed legislation.....				-*
Economic intelligence.....	156	160	178	175
Other programs and administrative expenses.....	176	119	130	126
Offsetting receipts.....	-78	-77	-84	-84
Subtotal, Agricultural research and services.....	1,559	1,578	1,682	1,580
Deductions for offsetting receipts.....	38	-4	-4	-4

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Total budget authority	6,646	9,611	6,968	6,865
370 COMMERCE AND HOUSING CREDIT				
371 Mortgage credit and thrift insurance:				
Mortgage purchase activities (GNMA)	1,358	1,252	1,207	2
Mortgage credit (FHA)	412	252	212	134
Housing for the elderly or handicapped	797	745	677	277
Rural housing programs (FmHA)	596	1,583	1,112	1,112
National Credit Union Administration	15	230	121	121
Subtotal, Mortgage credit and thrift insurance	3,178	4,061	3,329	1,646
372 Postal Service	1,343	619	808	500
376 Other advancement of commerce:				
Small business assistance	875	570	636	379
National Consumer Cooperative Bank	105	52		
Technology utilization	242	260	237	233
Proposed legislation				—41
Economic and demographic statistics	270	185	207	199
Chrysler Corporation loan guarantee program	1	1	1	1
Other	529	525	561	511
Subtotal, Other advancement of commerce	2,022	1,594	1,641	1,282
Deductions for offsetting receipts	—7	—8	—8	—8
Total budget authority	6,537	6,266	5,770	3,419
400 TRANSPORTATION				
401 Ground transportation:				
Highway improvement and construction	9,093	8,596	9,224	7,949
Proposed legislation				80
Highway safety	199	213	216	204
Mass transit	4,727	3,546	3,801	3,202
Railroads	4,134	1,942	1,184	814
Regulation	82	70	75	69
Subtotal, Ground transportation	18,236	14,367	14,500	12,317
402 Air transportation:				
Airways and airports (FAA)	3,412	2,493	2,678	3,130
Proposed legislation				774
Aeronautical research and technology	526	474	486	486
Air carrier subsidies	115	86	70	48
Regulation	29	26	27	24
Subtotal, Air transportation	4,082	3,078	3,262	4,463
403 Water transportation:				
Marine safety and transportation (Coast Guard)	2,006	2,471	2,286	1,989
Coast Guard user fees (proposed)				—200
Ocean shipping	574	489	512	480
Regulation	12	11	11	10
Subtotal, Water transportation	2,592	2,971	2,809	2,279
407 Other transportation	109	86	91	113
Deductions for offsetting receipts	—99	—97	—70	—70

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Total budget authority	24,920	20,405	20,591	19,102
450 COMMUNITY AND REGIONAL DEVELOPMENT				
451 Community development:				
Community development block grants	3,695	3,456	3,726	3,456
Urban development action grants	675	440	474	440
Rental rehabilitation grants (proposed)				150
Neighborhood Reinvestment Corporation	12	14	15	16
Pennsylvania Avenue development	32	18	12	12
Other programs	397	356	361	386
Subtotal, Community development	4,811	4,284	4,588	4,460
452 Area and regional development:				
Rural development	701	585	761	754
Economic development assistance	476	224	225	15
Coastal energy impact assistance				
Indian programs	1,278	1,178	1,243	1,225
Proposed legislation				30
Regional commissions	356	158	166	
Other programs	212	129	138	119
Proposed legislation				-1
Offsetting receipts	-397	-325	-343	-343
Subtotal, Area and regional development	2,626	1,949	2,191	1,801
453 Disaster relief and insurance:				
SBA disaster loans	315			
Disaster relief	359	302	650	325
National flood insurance fund		93	62	62
Other	62	63	68	66
Subtotal, Disaster relief and insurance	737	458	779	452
Deductions for offsetting receipts	-30	-51	-55	-55
Total budget authority	8,143	6,640	7,503	6,658
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES				
501 Elementary, secondary, and vocational education:				
Education for the disadvantaged	3,112	2,893	3,081	1,942
State education block grant	614	537	572	433
Indian education	352	332	342	308
Impact aid	662	453	483	289
Education for the handicapped	1,025	1,042	1,110	
Proposed legislation				846
Vocational and adult education	782	740	788	
Proposed legislation				500
Other	166	143	152	99
Subtotal, Elementary, secondary, and vocational educa- tion	6,713	6,139	6,528	4,417
502 Higher education:				
Student financial assistance	3,802	3,353	3,576	1,800
Guaranteed student loan program	2,535	3,061	3,397	3,397
Proposed legislation				-912
Higher and continuing education	340	321	341	233

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Other general institutional assistance	32	78	49	49
Special institutions	204	215	226	222
Subtotal, Higher education	6,913	7,028	7,589	4,789
503 Research and general education aids:				
Educational research and statistics	75	62	67	62
Cultural activities	673	639	643	562
Other	539	525	535	436
Subtotal, Research and general education aids	1,286	1,226	1,245	1,060
504 Training and employment:				
Employment and training assistance	7,143	3,023	3,787	
Proposed legislation				2,387
Temporary employment assistance	431			
Older workers	277	67	266	
Work incentive program	365	246	244	
Federal-State employment service	799	547	554	487
Other	94	74	85	81
Subtotal, Training and employment	9,109	3,956	4,936	2,955
505 Other labor services:				
Existing law	606	574	615	639
Proposed legislation				-2
Subtotal, Other labor services	606	574	615	637
506 Social services:				
Social services block grant	2,399	2,400	2,450	1,974
Community service programs	525	378	395	104
Child welfare block grant	174	465	501	420
Proposed legislation				-40
Services for children, youth, and families, the elderly and other special groups	2,599	2,645	2,851	2,338
Proposed legislation				-4
Domestic volunteer programs	153	129	129	118
Other social services	87	63	68	59
Subtotal, Social services	5,935	6,080	6,395	4,968
Deductions for offsetting receipts	-13	-31	-32	-32
Total budget authority	30,550	24,973	27,276	18,794
550 HEALTH				
551 Health care services:				
Medicare	45,292	55,846	62,293	61,293
Proposed legislation				-1,910
Medicare premiums and collections	-3,340	-3,862	-4,418	-4,418
Proposed legislation				26
Medicaid	17,530	19,012	14,531	14,427
Proposed legislation				-1,432
Health block grants				516
Other health care services	3,980	3,897	4,149	3,225
Proposed legislation				741
Subtotal, Health care services	63,462	74,893	76,555	72,468

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
552 Health research:				
National Institutes of Health research.....	3,352	3,442	3,693	3,554
Other research programs.....	405	381	407	416
Subtotal, Health research.....	3,757	3,824	4,100	3,969
553 Education and training of health care work force:				
Research training.....	217	198	213	195
Clinical training.....	353	199	212	125
Other.....	94	63	19	16
Subtotal, Education and training of health care work- force.....	665	460	444	337
554 Consumer and occupational health and safety:				
Consumer safety.....	708	668	708	712
Proposed legislation.....				-2
Occupational safety and health.....	369	344	343	351
Proposed legislation.....				-9
Subtotal, Consumer and occupational health and safety...	1,077	1,012	1,051	1,052
Deductions for offsetting receipts.....	-25	-16	-17	-17
Total budget authority.....	68,936	80,172	82,132	77,808
600 INCOME SECURITY				
601 General retirement and disability insurance:				
Social security (OASDI).....	132,950	150,128	161,981	161,981
Proposed legislation.....				6,593
Railroad retirement.....	4,675	5,500	5,843	5,843
Proposed legislation.....				-5,493
Special benefits for disabled coal miners.....	1,778	1,873	1,792	1,780
Other.....	28	31	37	37
Subtotal, General retirement and disability insurance.....	139,431	157,531	169,653	170,741
602 Federal employee retirement and disability:				
Retirement and disability programs.....	28,498	33,222	34,664	34,664
Proposed legislation.....				-8
Federal employee workers' compensation.....	279	345	398	394
Proposed legislation.....				-58
Subtotal, Federal employee retirement and disability...	28,777	33,567	35,062	34,992
603 Unemployment compensation:				
Existing law.....	19,048	21,006	22,330	22,392
Proposed legislation.....				-143
Subtotal, Unemployment compensation.....	19,048	21,006	22,330	22,249
604 Housing assistance:				
Subsidized housing.....	24,840	16,367	17,313	-5,221
Other.....	1,265	1,432	1,548	1,367
Subtotal, Housing assistance.....	26,105	17,799	18,861	-3,854
605 Food and nutrition assistance:				
Food stamps and aid to Puerto Rico.....	11,740	11,559	12,650	12,650
Proposed legislation.....				-2,294
Child and other nutrition programs.....	5,103	4,498	4,836	3,747

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Proposed legislation.....				— 319
Subtotal, Food and nutrition assistance.....	16,573	16,058	17,486	13,784
609 Other income security:				
Supplemental security income.....	7,227	7,878	9,177	9,177
Proposed legislation.....				— 286
AFDC and related assistance.....	8,485	6,303	7,163	7,163
Proposed legislation.....				— 1,300
Combined welfare administration.....			1,914	1,914
Proposed legislation.....				— 259
Earned income tax credit.....	1,318	1,254	1,180	1,180
Refugee assistance.....	902	670	703	532
Low income energy assistance.....	1,850	1,752	1,752	1,300
Other.....	204	230	242	243
Subtotal, Other income security.....	19,985	18,086	22,131	19,664
Total budget authority.....	249,918	264,047	285,524	257,576
700 VETERANS BENEFITS AND SERVICES				
701 Income security for veterans:				
Service-connected compensation.....	8,530	9,604	10,293	9,522
Proposed legislation.....				624
Non-service-connected pensions.....	3,794	4,073	3,981	3,981
Proposed legislation.....				— 66
Burial and other benefits.....	208	147	141	141
National service life insurance trust fund.....	1,104	1,162	1,256	1,256
U.S. Government life insurance trust fund.....	34	32	30	30
All other insurance programs.....	5	8	6	6
Insurance program receipts.....	— 465	— 476	— 470	— 470
Subtotal, Income security for veterans.....	13,210	14,550	15,238	15,024
702 Veterans education, training, and rehabilitation:				
Existing law.....	2,351	1,945	1,691	1,691
Proposed legislation.....				— 25
Subtotal, Veterans education, training, and rehabilitation.....	2,351	1,945	1,691	1,666
703 Hospital and medical care for veterans:				
Medical care and hospital services.....	6,339	6,966	7,702	7,496
Proposed legislation.....				5
Construction.....	386	497	630	630
Medical administration, research, and other.....	194	184	189	194
Subtotal, Hospital and medical care for veterans.....	6,919	7,647	8,521	8,324
704 Veterans housing:				
Housing program receipts (existing law).....				
Housing program receipts (proposed).....				— 95
Subtotal, Veterans housing.....				— 95
705 Other veterans benefits and services:				
VA administrative expenses and other.....	656	648	707	704
Proposed legislation.....				— *
Non-VA support programs.....	34	34	38	39

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Subtotal, Other veterans benefits and services.....	690	682	745	743
Deductions for offsetting receipts.....	-3	-3	-3	-3
Total budget authority.....	23,167	24,821	26,191	25,660
750 ADMINISTRATION OF JUSTICE				
751 Federal law enforcement activities:				
General investigation (FBI).....	675	740	799	799
Narcotics violation investigation (DEA).....	215	231	249	247
Alcohol, tobacco, and firearms investigation (ATF).....	150	79	79	.....
Border enforcement activities (Customs and INS).....	864	938	1,049	1,055
Protection activities (Secret Service).....	186	232	237	303
Other enforcement.....	259	260	266	266
Subtotal, Federal law enforcement activities.....	2,350	2,479	2,679	2,671
752 Federal litigative and judicial activities:				
Civil and criminal prosecution and representation.....	506	517	573	576
Federal judicial activities.....	658	747	806	850
Representation of indigents in civil cases.....	321	241	260	.....
Subtotal, Federal litigative and judicial activities.....	1,485	1,504	1,639	1,427
753 Federal correctional activities.....	352	367	384	383
754 Criminal justice assistance.....	169	140	143	67
Deductions for offsetting receipts.....	-13	-35	-23	-23
Total budget authority.....	4,343	4,455	4,823	4,525
800 GENERAL GOVERNMENT				
801 Legislative functions.....	1,031	1,188	1,189	1,217
802 Executive direction and management.....	108	92	104	104
803 Central fiscal operations:				
Collection of taxes.....	2,480	2,466	2,510	2,917
Federal Financing Bank.....	-210	-158	-192	-192
Other fiscal operations.....	410	342	448	428
Subtotal, Central fiscal operations.....	2,679	2,650	2,767	3,154
804 General property and records management:				
Real property.....	.....	.....	.....	.....
Personal property.....	175	20	23	38
Records management.....	89	75	85	85
Other.....	313	273	239	239
Subtotal, General property and records management.....	577	369	347	362
805 Central personnel management.....	162	132	139	139
806 Other general government:				
Territories.....	172	163	175	134
Indian affairs.....	145	11	12	14
Treasury claims.....	504	506	506	506

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Other.....	-58	2	6	6
Subtotal, Other general government.....	763	683	699	660
Deductions for offsetting receipts.....	-195	-200	-186	-377
Total budget authority.....	5,125	4,912	5,059	5,259
850 GENERAL PURPOSE FISCAL ASSISTANCE				
851 General revenue sharing:				
General revenue sharing payments.....	4,567	4,567	4,567	4,567
Administration.....	7	6	6	7
Subtotal, General revenue sharing.....	4,573	4,573	4,573	4,573
852 Other general purpose fiscal assistance:				
Payments and loans to the District of Columbia.....	489	489	551	551
New York City loan guarantee program.....	1	1	*	*
Payments to States from Forest Service receipts.....	241	242	242	342
Other payments to States and counties from Federal land management activities.....	453	606	763	763
Payments in lieu of taxes.....	103	96	96	
Proposed legislation.....				45
Payments to territories and Puerto Rico.....	385	407	416	416
Other.....	5	5	6	6
Subtotal, Other general purpose fiscal assistance.....	1,678	1,846	2,073	2,123
Total budget authority.....	6,251	6,419	6,646	6,696
900 INTEREST				
901 Interest on the public debt:				
Existing law.....	95,503	115,700	135,529	133,229
Proposed legislation.....				-329
Subtotal, Interest on the public debt.....	95,503	115,700	135,529	132,900
902 Other interest:				
Interest on refunds of tax collections.....	1,046	1,712	1,937	1,937
Interest on loans to the Federal Financing Bank.....	-8,570	-11,885	-15,171	-15,171
Other.....	-5,442	-6,432	-7,146	-7,146
Proposed legislation.....				16
Subtotal, Other interest.....	-12,966	-16,606	-20,380	-20,364
Total budget authority.....	82,537	99,094	115,149	112,536
920 ALLOWANCES				
921 Civilian agency pay raises.....		392	1,581	757
922 Reduction of fraud, waste, and abuse.....				-1,000
924 Undistributed debt collection.....				-1,000
927 Contingencies for relatively uncontrollable pro- grams.....				
928 Contingencies for other requirements.....				
Total budget authority.....		392	1,581	-1,243

Table A-13. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
950 UNDISTRIBUTED OFFSETTING RECEIPTS				
951 Employer share, employee retirement:				
Existing law	-6,371	-7,560	-7,734	-7,734
Proposed legislation				-619
Subtotal, Employer share, employee retirement	-6,371	-7,560	-7,734	-8,353
952 Interest received by trust funds:				
Existing law	-13,810	-16,053	-16,062	-16,062
Proposed legislation				-59
Subtotal, Interest received by trust funds	-13,810	-16,053	-16,062	-16,122
953 Rents and royalties on the Outer Continental Shelf	-10,138	-7,861	-9,600	-18,000
954 Federal surplus property disposition				-1,000
Total budget authority	-30,320	-31,745	-33,396	-43,474
Total budget authority	718,400	775,124	833,874	801,910

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
050 NATIONAL DEFENSE				
051 Department of Defense—Military:				
Military personnel.....	36,409	37,927	43,263	44,534
Retired military personnel.....	13,729	15,000	16,570	16,560
Proposed legislation.....				—89
Operation and maintenance.....	51,920	59,957	63,912	67,279
Procurement.....	35,191	41,259	44,629	55,144
Research, development, test and evaluation.....	15,278	18,264	19,498	22,200
Military construction.....	2,463	2,725	2,914	3,975
Family housing.....	1,721	2,065	2,263	2,436
Revolving funds and other.....	—614	—782	—671	—625
Proposed legislation.....				63
Allowances for civilian and military pay raises.....		5,081	4,927	4,285
Other legislation.....				137
Subtotal, Department of Defense—Military.....	156,096	181,497	197,305	215,900
053 Atomic energy defense activities.....	3,398	4,498	4,806	5,155
054 Defense-related activities:				
Existing law.....	276	203	203	415
Proposed legislation.....				—402
Subtotal, Defense-related activities.....	276	203	203	13
Deductions for offsetting receipts.....	—4	—4		
Total outlays.....	159,765	186,193	202,314	221,068
150 INTERNATIONAL AFFAIRS				
151 Foreign economic and financial assistance:				
Multilateral development banks.....	955	1,109	1,253	1,253
International fund for agricultural development.....	10	30	40	40
International organizations.....	326	220	215	184
Agency for International Development.....	1,544	1,608	1,730	1,720
Public Law 480—Food aid.....	1,254	1,141	1,028	1,028
Peace Corps.....	99	105	105	98
Refugee assistance.....	384	465	455	455
Offsetting receipts and other.....	—357	—398	—453	—451
Subtotal, Foreign economic and financial assistance.....	4,215	4,280	4,374	4,327
152 International security assistance:				
Foreign military sales credit.....	507	755	774	913
Economic support fund.....	2,053	2,307	2,415	2,683
Military assistance.....	228	317	321	203
International military education and training.....	22	40	41	50
Peacekeeping operations.....	29	164	54	54
Offsetting receipts and other.....	292	—97	—71	—71
Proposed legislation.....				4
Subtotal, International security assistance.....	3,131	3,485	3,535	3,835
153 Conduct of foreign affairs:				
Administration of foreign affairs.....	868	1,017	1,147	1,168
International organizations and conferences.....	441	474	581	582
Other.....	39	46	48	44
Subtotal, Conduct of foreign affairs.....	1,347	1,537	1,776	1,794

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
154 Foreign information and exchange activities	525	599	642	655
155 International financial programs:				
Export-Import Bank.....	2,066	1,855	2,004	1,918
Special defense acquisition fund.....		-288	-305	-218
Foreign military sales trust fund (net).....	456	122	247	247
International monetary programs.....	365			
International commodity agreements.....		29		
Other.....	-880	-452	-493	-493
Subtotal, International financial programs.....	2,007	1,265	1,454	1,455
Deductions for offsetting receipts	-95	-97	-97	-97
Total outlays.....	11,130	11,070	11,684	11,968
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY				
251 General science and basic research:				
National Science Foundation programs.....	981	1,101	982	982
Department of Commerce general science programs.....	501	559	552	589
Smithsonian scientific information exchange activities.....	*	*	*	*
Subtotal, General science and basic research.....	1,483	1,660	1,535	1,572
253 Space flight	3,053	3,462	3,992	3,992
254 Space, science, applications, and technology	1,384	1,344	1,462	1,462
255 Supporting space activities	444	481	603	613
Deductions for offsetting receipts	-5	-5	-5	-5
Total outlays.....	6,359	6,942	7,586	7,633
270 ENERGY				
271 Energy supply:				
Research and development.....	3,893	3,615	2,840	2,255
Proposed legislation.....				-115
Uranium enrichment.....	341	-271	-31	-141
Petroleum reserves.....	-624	-736	-803	-803
Power marketing.....	1,658	1,824	1,750	1,730
Incentives for non-conventional fuel production.....	93	123	39	39
Subtotal, Energy supply.....	5,362	4,554	3,795	2,965
272 Energy conservation	757	748	660	326
274 Emergency energy preparedness	3,280	227	262	302
276 Energy information, policy, and regulation:				
Existing law.....	940	967	819	750
Proposed legislation.....				-60
Subtotal, Energy information, policy, and regulation.....	940	967	819	690
Deductions for offsetting receipts	-62	-69	-69	-69
Total outlays.....	10,277	6,427	5,467	4,215
300 NATURAL RESOURCES AND ENVIRONMENT				
301 Water resources:				
Navigation fees (proposed).....				-448

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Existing law.....	4,215	4,106	4,162	3,855
Subtotal, Water resources	4,215	4,106	4,162	3,407
302 Conservation and land management:				
Management of national forests, cooperative forestry, and forestry research.....	1,920	1,968	1,829	1,834
Management of public lands.....	492	429	435	429
Mining reclamation and enforcement.....	131	137	145	146
Conservation of agricultural lands.....	597	572	604	540
Offsetting receipts and other.....	-565	-923	-1,412	-1,427
Subtotal, Conservation and land management.....	2,576	2,184	1,602	1,521
303 Recreational resources:				
Federal land acquisition.....	495	482	321	271
Urban park grants and historic preservation fund.....	71	109	83	61
Operation of recreational resources.....	1,066	1,053	1,058	1,056
Proposed legislation.....				-5
Subtotal, Recreational resources.....	1,632	1,644	1,462	1,383
304 Pollution control and abatement:				
Regulatory, enforcement, and research programs.....	1,264	1,207	1,165	1,070
Hazardous substance response fund.....	1	117	173	187
Oil pollution funds.....	23	11	7	6
Sewage treatment plant construction grants.....	3,881	4,050	2,886	3,350
Subtotal, Pollution control and abatement.....	5,169	5,384	4,231	4,613
306 Other natural resources:				
Existing law.....	1,485	1,568	1,619	1,494
Proposed legislation.....				13
Subtotal, Other natural resources.....	1,485	1,568	1,619	1,507
Deductions for offsetting receipts.....	-1,553	-2,330	-2,409	-2,520
Total outlays.....	13,525	12,556	10,667	9,911
350 AGRICULTURE				
351 Farm income stabilization:				
Commodity price-support and related programs.....	4,036	6,343	1,850	1,850
Crop insurance.....	1	212	318	318
Agricultural credit.....	-228	405	698	698
Other programs.....	184	81	62	60
Subtotal, Farm income stabilization.....	3,993	7,041	2,928	2,926
352 Agricultural research and services:				
Research programs.....	624	667	699	694
Extension programs.....	301	312	335	308
Marketing programs.....	87	125	124	117
Proposed legislation.....				-2
Animal and plant health programs.....	282	289	306	238
Proposed legislation.....				*
Economic intelligence.....	147	160	178	175
Other programs and administrative expenses.....	177	121	131	126
Offsetting receipts.....	-78	-77	-84	-84
Subtotal, Agricultural research and services.....	1,540	1,598	1,688	1,572

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(in millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Deductions for offsetting receipts	38	-4	-4	-4
Total outlays	5,572	8,635	4,612	4,494
370 COMMERCE AND HOUSING CREDIT				
371 Mortgage credit and thrift insurance:				
Mortgage purchase activities (GNMA).....	1,148	1,032	1,080	1,135
Mortgage credit (FHA).....	182	-245	-399	-1,179
Housing for the elderly or handicapped.....	817	711	835	286
Rural housing programs (FmHA).....	-129	1,095	1,619	1,619
Federal Deposit Insurance Corporation.....	-1,726	-1,800	-2,000	-2,000
Federal Savings and Loan Insurance Corporation and other..	370	38	-150	-150
National Credit Union Administration.....	-10	93	104	104
Subtotal, Mortgage credit and thrift insurance.....	651	925	1,090	-184
372 Postal Service	1,343	619	808	500
376 Other advancement of commerce:				
Small business assistance.....	812	610	709	368
National Consumer Cooperative Bank.....	131	86	3	
Technology utilization.....	242	257	237	233
Proposed legislation.....				-45
Economic and demographic statistics.....	286	195	199	192
Chrysler Corporation loan guarantee program.....	1	1	1	1
Other.....	487	588	567	535
Subtotal, Other advancement of commerce.....	1,959	1,738	1,716	1,284
Deductions for offsetting receipts	-7	-8	-8	-8
Total outlays	3,946	3,275	3,306	1,591
400 TRANSPORTATION				
401 Ground transportation:				
Highway improvement and construction.....	9,068	8,264	8,752	8,312
Proposed legislation.....				4
Highway safety.....	336	307	264	230
Mass transit.....	3,917	3,817	4,023	3,221
Railroads.....	3,703	2,271	1,449	1,209
Regulation.....	75	70	74	68
Subtotal, Ground transportation.....	17,100	14,728	14,562	13,045
402 Air transportation:				
Airways and airports (FAA).....	3,158	2,953	2,893	3,209
Proposed legislation.....				166
Aeronautical research and technology.....	544	544	516	516
Air carrier subsidies.....	119	88	73	52
Regulation.....	29	25	27	25
Subtotal, Air transportation.....	3,850	3,610	3,509	3,968
403 Water transportation:				
Marine safety and transportation (Coast Guard).....	1,829	2,083	2,235	2,238
Coast Guard user fees (proposed).....				-200
Ocean shipping.....	580	653	559	527
Regulation.....	12	11	11	10
Subtotal, Water transportation.....	2,420	2,747	2,805	2,575

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
407 Other transportation	110	89	94	111
Deductions for offsetting receipts	-99	-97	-70	-70
Total outlays.....	23,381	21,078	20,899	19,628
450 COMMUNITY AND REGIONAL DEVELOPMENT				
451 Community development:				
Community development block grants.....	4,042	4,005	3,355	3,350
Urban development action grants.....	371	525	551	550
Rental rehabilitation grants (proposed)				
Neighborhood Reinvestment Corporation.....	12	14	15	16
Pennsylvania Avenue development.....	35	32	17	17
Other programs.....	650	489	396	417
Subtotal, Community development.....	5,111	5,065	4,334	4,349
452 Area and regional development:				
Rural development.....	839	1,066	1,214	1,217
Economic development assistance.....	536	422	292	262
Local public works.....	83	60	30	30
Coastal energy impact assistance.....	36	37	25	21
Indian programs.....	984	1,030	1,099	1,088
Proposed legislation.....				5
Regional commissions.....	425	325	305	301
Other programs.....	203	245	171	151
Proposed legislation.....				-1
Offsetting receipts.....	-397	-325	-343	-343
Subtotal, Area and regional development.....	2,708	2,860	2,795	2,732
453 Disaster relief and insurance:				
SBA Disaster loans.....	1,101	-77	-290	-290
Disaster relief.....	401	406	351	381
National flood insurance fund.....	54	107	84	84
Other programs.....	48	66	72	62
Subtotal, Disaster relief and insurance.....	1,604	502	217	237
Deductions for offsetting receipts	-30	-51	-55	-55
Total outlays.....	9,394	8,376	7,291	7,263
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES				
501 Elementary, secondary, and vocational education:				
Education for the disadvantaged.....	3,354	3,007	2,962	2,553
State education block grant and related.....	735	671	630	578
Indian education.....	316	327	335	314
Impact aid.....	697	580	513	359
Education for the handicapped.....	1,035	1,273	1,075	839
Proposed legislation.....				38
Vocational and adult education.....	728	1,157	795	474
Proposed legislation.....				170
Other.....	178	157	153	142
Subtotal, Elementary, secondary, and vocational education.....	7,043	7,171	6,464	5,467

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
502 Higher education:				
Student financial assistance.....	3,906	3,513	3,254	3,137
Guaranteed student loan program.....	2,259	3,039	3,331	3,313
Proposed legislation.....				-762
Higher and continuing education.....	369	348	373	342
Other general institutional assistance.....	49	117	74	74
Special institutions.....	206	219	245	241
Subtotal, Higher education.....	6,790	7,236	7,276	6,346
503 Research and general education aids:				
Educational research and statistics.....	61	91	108	106
Cultural activities.....	663	663	644	623
Other.....	500	556	592	544
Subtotal, Research and general education aids.....	1,223	1,310	1,344	1,273
504 Training and employment:				
Employment and training assistance.....	6,848	4,210	3,788	778
Proposed legislation.....				1,400
Temporary employment assistance.....	852	55		
Older workers.....	263	268	266	6
Work incentive program.....	381	269	242	11
Federal-State employment service.....	804	547	554	487
Other.....	93	82	84	81
Subtotal, Training and employment.....	9,241	5,431	4,936	2,764
505 Other labor services:				
Existing law.....	587	574	611	635
Proposed legislation.....				-2
Subtotal, other labor services.....	587	574	611	633
506 Social services:				
Social services block grants.....	2,646	2,912	2,450	1,974
Community service programs.....	619	508	368	183
Child welfare block grant.....	180	493	532	423
Proposed legislation.....				-40
Services for children, youth, and families, the elderly, and other special groups.....	2,838	2,351	2,534	2,376
Proposed legislation.....				-4
Domestic volunteer programs.....	150	133	129	119
Other social services.....	97	80	85	69
Subtotal, Social services.....	6,531	6,476	6,098	5,101
Deductions for offsetting receipts.....	-13	-31	-32	-32
Total outlays.....	31,402	28,167	26,697	21,552
550 HEALTH				
551 Health care services:				
Medicare.....	42,489	49,872	57,823	57,099
Proposed legislation.....				-1,747
Medicare Premiums and Collections.....	-3,340	-3,862	-4,418	-4,418
Proposed legislation.....				26
Medicaid.....	16,948	18,164	19,059	18,959
Proposed legislation.....				-1,883
Health block grants.....				387

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Other health care services	4,254	4,376	4,394	3,605
Proposed legislation				647
Subtotal, Health care services	60,351	68,550	76,858	72,675
552 Health research:				
National Institutes of Health research	3,394	3,422	3,575	3,515
Other research programs	442	418	433	427
Subtotal, Health research	3,836	3,840	4,008	3,941
553 Education and training of health care work force:				
Research training	210	196	197	186
Clinical training	453	349	375	203
Other	116	92	65	62
Subtotal, Education and training of health care work- force	779	637	637	451
554 Consumer and occupational health and safety:				
Consumer safety	668	677	717	716
Proposed legislation				-2
Occupational safety and health	353	339	343	349
Proposed legislation				-8
Subtotal, Consumer and occupational health and safety	1,042	1,017	1,060	1,055
Deductions for offsetting receipts	-25	-16	-17	-17
Total outlays	65,982	74,027	82,546	78,105
600 INCOME SECURITY				
601 General retirement and disability insurance:				
Social security (OASDI)	137,970	154,643	169,928	169,928
Proposed legislation				3,608
Railroad retirement	5,294	5,707	6,072	6,072
Proposed legislation				-5,722
Special benefits for disabled coal miners	1,773	1,957	1,793	1,781
Other	-13	-39	-17	-16
Subtotal, General retirement and disability insurance	145,024	162,268	177,776	175,650
602 Federal employee retirement and disability:				
Retirement and disability programs	17,309	19,116	21,215	21,215
Proposed legislation				-489
Federal employee worker's compensation	238	269	398	394
Proposed legislation				-58
Subtotal, Federal employee retirement and disability	17,547	19,385	21,613	21,062
603 Unemployment compensation:				
Existing law	19,664	25,245	22,747	22,747
Proposed legislation				-149
Subtotal, Unemployment compensation	19,664	25,245	22,747	22,598
604 Housing assistance:				
Subsidized housing	5,747	6,775	7,852	7,352
Other housing assistance	1,195	1,521	1,803	1,532
Subtotal, Housing assistance	6,942	8,296	9,655	8,884

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
605 Food and nutrition assistance:				
Food stamps and aid to Puerto Rico.....	11,253	11,517	12,600	12,600
Proposed legislation.....				-2,258
Child nutrition and other programs.....	4,949	4,325	4,634	3,695
Proposed legislation.....				-265
Subtotal, Food and nutrition assistance.....	16,202	15,842	17,234	13,772
609 Other income security:				
Supplemental security income.....	7,192	8,000	9,188	9,188
Proposed legislation.....				-286
AFDC and related assistance.....	8,504	8,322	7,163	7,163
Proposed legislation.....				-1,300
Combined welfare administration.....			1,914	1,914
Proposed legislation.....				-259
Earned income tax credit.....	1,318	1,254	1,180	1,180
Refugee assistance.....	726	849	892	633
Low income energy assistance.....	1,780	1,865	1,865	1,300
Other.....	202	223	229	237
Subtotal, Other income security.....	19,721	20,514	22,431	19,770
Total outlays.....	225,099	251,549	271,455	261,736
700 VETERANS BENEFITS AND SERVICES				
701 Income security for veterans:				
Service-connected compensation.....	8,426	9,488	10,316	9,609
Proposed legislation.....				561
Non-service-connected pensions.....	3,755	3,944	4,077	4,077
Proposed legislation.....				-62
Burial and other benefits.....	208	145	141	141
National service life insurance trust fund.....	965	979	991	991
U.S. Government life insurance trust fund.....	70	62	60	60
All other insurance programs.....	-50	-67	-63	-63
Insurance program receipts.....	-465	-476	-470	-470
Subtotal, Income security for veterans.....	12,909	14,075	15,051	14,843
702 Veterans education, training, and rehabilitation:				
Existing law.....	2,254	1,883	1,582	1,582
Proposed legislation.....				-25
Subtotal, Veterans education, training, and rehabilita- tion.....	2,254	1,883	1,582	1,557
703 Hospital and medical care for veterans:				
Medical care and hospital services.....	6,320	6,945	7,570	7,364
Proposed legislation.....				5
Construction.....	412	444	524	524
Medical administration, research, and other.....	233	206	211	216
Subtotal, Hospital and medical care for veterans.....	6,965	7,594	8,305	8,108
704 Veterans housing:				
Loan guaranty revolving fund.....	278	13	-573	-573
Direct loan revolving fund.....	-128	-68	-183	-183
Other (HUD participation trust fund).....	51	-14	-13	-13
Housing program receipts (existing law).....				
Housing program receipts (proposed).....				-95

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Subtotal, Veterans housing.....	201	- 68	- 769	- 863
705 Other veterans benefits and services:				
VA administrative expenses and other.....	629	645	700	702
Proposed legislation.....				*
Non-VA support programs.....	33	34	38	39
Subtotal, Other veterans benefits and services.....	662	679	738	741
Deductions for offsetting receipts.....	- 3	- 3	- 3	- 3
Total outlays.....	22,988	24,159	24,905	24,383
750 ADMINISTRATION OF JUSTICE				
751 Federal law enforcement activities:				
General investigation (FBI).....	691	739	798	798
Narcotics violation investigation (DEA).....	217	227	245	242
Alcohol, tobacco, and firearms investigation (ATF).....	147	82	77	
Border enforcement activities (Customs and INS).....	890	924	1,036	1,041
Protection activities (Secret Service).....	189	230	234	298
Other enforcement.....	251	266	277	265
Subtotal, Federal law enforcement activities.....	2,384	2,468	2,666	2,643
752 Federal litigative and judicial activities:				
Civil and criminal prosecution and representation.....	517	498	567	570
Federal judicial activities.....	651	743	795	840
Representation of indigents in civil cases.....	324	259	260	13
Subtotal, Federal litigative and judicial activities.....	1,493	1,501	1,622	1,423
753 Federal correctional activities.....	361	376	387	386
754 Criminal justice assistance.....	473	318	183	162
Deductions for offsetting receipts.....	- 13	- 35	- 23	- 23
Total outlays.....	4,698	4,628	4,836	4,592
800 GENERAL GOVERNMENT				
801 Legislative functions.....	1,036	1,194	1,174	1,204
802 Executive direction and management.....	99	94	101	101
803 Central fiscal operations:				
Collection of taxes.....	2,429	2,415	2,460	2,860
Federal Financing Bank.....	- 210	- 158	- 192	- 192
Other fiscal operations.....	382	343	442	424
Subtotal, Central fiscal operations.....	2,600	2,599	2,711	3,092
804 General property and records management:				
Real property.....	- 142	1	- 171	- 171
Personal property.....	- 33	65	27	35
Records management.....	84	73	84	84
Other.....	260	288	244	244
Subtotal, General property and records management.....	169	428	184	192
805 Central personnel management.....	159	131	140	140
806 Other general government:				
Territories.....	197	184	186	169

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
Indian affairs.....	150	12	11	14
Treasury claims.....	504	506	506	506
Other.....	-105	-20	-34	-33
Subtotal, Other general government.....	745	682	669	656
Deductions for offsetting receipts.....	-195	-200	-186	-377
Total outlays.....	4,614	4,928	4,793	5,008
850 GENERAL PURPOSE FISCAL ASSISTANCE				
851 General revenue sharing:				
General revenue sharing payments.....	5,134	4,570	4,567	4,567
Administration.....	7	6	6	6
Subtotal, General revenue sharing.....	5,140	4,576	4,573	4,573
852 Other general purpose fiscal assistance:				
Payments and loans to the District of Columbia.....	492	479	541	541
New York City loan guarantees: administrative expenses.....	1	1	*	*
Payments to States from Forest Service receipts.....	241	242	242	342
Other payments to States and counties from Federal land management activities.....	450	605	763	763
Payments in lieu of taxes.....	104	96	96	
Proposed legislation.....				45
Payments to territories and Puerto Rico.....	423	411	416	416
Other.....	5	7	5	5
Subtotal, Other general purpose fiscal assistance.....	1,716	1,841	2,063	2,113
Total outlays.....	6,856	6,417	6,636	6,686
900 INTEREST				
901 Interest on the public debt:				
Existing law.....	95,503	115,700	135,529	133,229
Proposed legislation.....				-329
Subtotal, Interest on the public debt.....	95,503	115,700	135,529	132,900
902 Other interest:				
Interest on refunds of tax collections.....	1,046	1,712	1,937	1,937
Interest on loans to the Federal Financing Bank.....	-8,570	-11,885	-15,171	-15,171
Other.....	-5,443	-6,431	-7,146	-7,146
Proposed legislation.....				16
Subtotal, Other interest.....	-12,967	-16,605	-20,380	-20,364
Total outlays.....	82,537	99,095	115,149	112,536
920 ALLOWANCES				
921 Civilian agency pay raises.....		376	1,534	743
922 Reduction of fraud, waste, and abuse.....				-1,000
924 Undistributed debt collection.....				-1,000
927 Contingencies for relatively uncontrollable pro- grams.....				
928 Contingencies for other requirements.....				
Total outlays.....		376	1,534	-1,257

Table A-14. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1981 actual	Current services		1983 administra- tion proposals
		1982 estimate	1983 estimate	
950 UNDISTRIBUTED OFFSETTING RECEIPTS				
951 Employer share, employee retirement:				
Existing law	- 6,371	- 7,560	- 7,734	- 7,734
Proposed legislation				- 619
Subtotal, Employer share, employee retirement	- 6,371	- 7,560	- 7,734	- 8,353
952 Interest received by trust funds:				
Existing law	- 13,810	- 16,053	- 16,062	- 16,062
Proposed legislation				- 59
Subtotal, Interest received by trust funds	- 13,810	- 16,053	- 16,062	- 16,122
953 Rents and royalties on the Outer Continental Shelf	- 10,138	- 7,861	- 9,600	- 18,000
954 Federal surplus property disposition				- 1,000
Total outlays	- 30,320	- 31,475	- 33,396	- 43,474
Total outlays	657,204	726,423	779,280	757,638

SPECIAL ANALYSIS B

**FEDERAL TRANSACTIONS IN THE
NATIONAL INCOME ACCOUNTS**

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

FFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
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SPECIAL ANALYSIS B

FEDERAL TRANSACTIONS IN THE NATIONAL INCOME ACCOUNTS

The budget is designed to serve several purposes:

- It is an *economic document* that reflects the taxing and spending policies of the Government for promoting economic growth, high employment, relative price stability, and a strong balance-of-payments position.
- It proposes an *allocation of resources* between the private and public sectors and within the public sector. Through its impact on consumption and investment decisions and the distribution of income it also affects allocation decisions within the private sector.
- It sets forth the *President's request to the Congress* for appropriations action on existing or new programs and for changes in tax legislation.
- It is a *report to the Congress and the people* on how the Government has spent the funds entrusted to it in past years.

No single budget concept can satisfy all these purposes fully. The budget document and related Treasury reports provide complete, detailed information on the finances of the Federal Government and on the tax and spending programs proposed by the President. For study of aggregate economic activity, however, the national income and product accounts (NIA) of the United States provide the most useful measures. This special analysis shows Federal finances as measured in the NIA. The analysis is divided into three major sections. The first shows the size, composition, and trends in Federal sector receipts and expenditures. Additional details will be published in the March 1982 issue of the Department of Commerce publication, *Survey of Current Business*. The second section of this analysis shows quarterly estimates of Federal sector receipts and expenditures, while the final section explains the major differences between the budget and the NIA concepts. A discussion of fiscal policy can be found in the *Economic Report of the President*.

FEDERAL SECTOR RECEIPTS AND EXPENDITURES

Table B-1 shows Federal sector NIA receipts, expenditures, and deficits for 1981-83.

Table B-1. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIA

(In billions of dollars)

Description	1981 actual	1982 estimate	1983 estimate
RECEIPTS			
Personal tax and nontax receipts.....	290.7	303.5	307.7
Corporate profits tax accruals.....	69.6	58.7	78.1
Indirect business tax and nontax accruals.....	56.6	57.4	57.5
Contributions for social insurance.....	196.1	221.4	242.4
Total receipts.....	613.0	641.0	685.7
EXPENDITURES			
Purchases of goods and services.....	218.3	249.0	272.9
Defense.....	(147.1)	(174.1)	(203.2)
Nondefense.....	(71.2)	(74.9)	(69.7)
Transfer payments.....	279.7	312.1	330.8
Domestic ("to persons").....	(273.9)	(306.0)	(324.6)
Foreign.....	(5.8)	(6.1)	(6.2)
Grants-in-aid to State and local governments.....	90.1	86.3	76.8
Net interest paid.....	66.9	81.4	95.9
Subsidies less current surplus of Government enterprises.....	13.0	12.5	11.2
Wage disbursements less accruals.....	-.1	.1	.....
Total expenditures.....	667.9	741.4	787.6
Deficit (-).....	-54.9	-100.4	-101.9

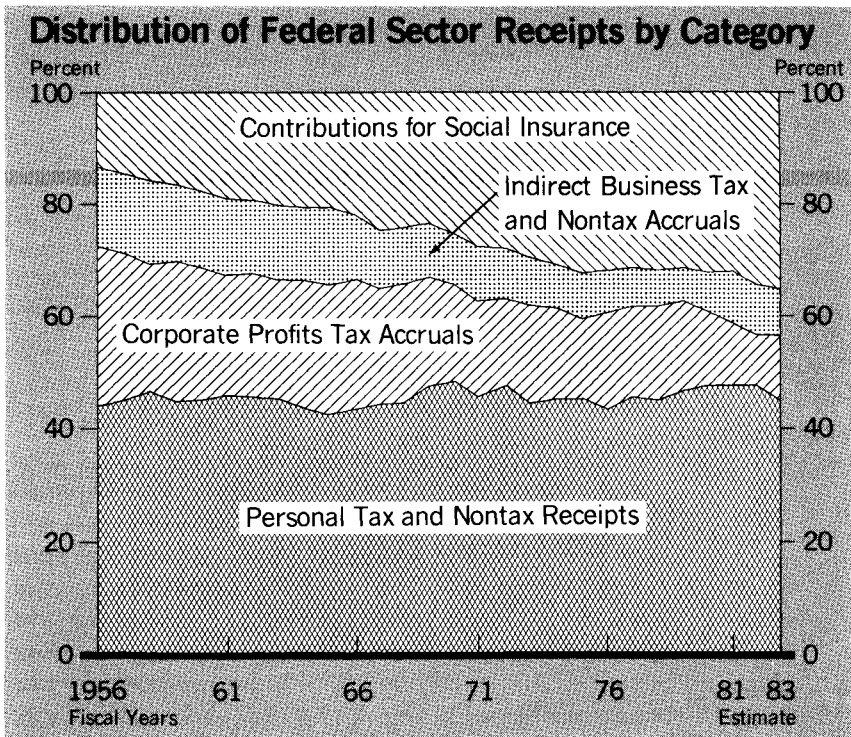
Note: The estimates for 1982 and 1983 are preliminary; any revisions will be published in the March 1982 issue of the *Survey of Current Business*.

Trends in Federal sector receipts.—Table B-1 divides receipts into four major categories, which are also illustrated in the chart on the distribution of Federal sector receipts by category. Table B-2 shows, at 10-year intervals, 3-year averages of Federal sector receipts by category as a percent of the gross national product (GNP) for the early 1950's, 1960's, and 1970's to provide a perspective relative to the current levels of receipts. For the earlier periods, 3-year averages were used in order to eliminate the impact of annual fluctuations and to permit greater focus on trends. However, there are now major changes in direction in the relative size of Federal sector receipts. To better reflect these changes the table shows the 1981 actual percentages and 1983 estimated percentages separately.

Table B-2. FEDERAL SECTOR RECEIPTS AS A PERCENT OF GNP

Description	1951-53 average actual	1961-63 average actual	1971-73 average actual	1981 actual	1983 estimate
Personal tax and nontax receipts.....	7.4	8.6	9.0	10.2	9.0
Corporate profits tax accruals.....	5.7	4.2	3.2	2.4	2.3
Indirect business tax and nontax accruals.....	3.0	2.6	1.9	2.0	1.7
Contributions for social insurance.....	2.1	3.5	5.1	6.9	7.1
Total receipts.....	18.2	18.9	19.2	21.4	20.0

Personal tax and nontax receipts.—The largest receipt category—personal tax and nontax receipts—is composed primarily of individual income taxes but also includes estate and gift taxes and some miscellaneous receipts. Traditionally, increases in income, because of both real growth and inflation, would automatically increase these receipts. Indeed, since personal income taxes are progressive, these receipts normally grow at a faster rate than personal income. Periodically over the past three decades tax reductions were enacted that offset part of the increase in effective tax rates resulting from the progressive tax structure. However, the Economic Recovery Tax Act of 1981 has drastically altered these circumstances. That act provided for across-the-board tax reductions and—starting in 1985—indexing of income tax brackets, the zero bracket amount, and the personal exemption to inflation. As a result, personal tax and nontax receipts will increase at a much slower rate in the future than the increases that normally would have been called for under existing tax law.



Corporate profits tax accruals.—Corporate profits tax accruals vary significantly from year to year because corporate profits are highly volatile. The NIA corporate profits taxes differ from the corresponding budget category primarily because: (1) the NIA includes the deposit of earnings by the Federal Reserve System as

corporate profits taxes, whereas the budget treats these collections as miscellaneous receipts; and (2) the NIA records corporate profits taxes when the profits are earned (that is, accrued), while the unified budget records the cash receipts.

The gradual decline in corporate profits tax receipts relative to GNP and (as shown in the chart above) to total receipts results mainly from three factors: (1) a long-term decline in corporate profits relative to GNP; (2) a narrowing of the corporate profits tax base resulting from changes in the definition of corporate profits for tax purposes (largely increases in permissible depreciation allowances); and (3) reductions in effective tax rates on corporate profits resulting from statutory rate reductions and tax credits. Recently enacted tax changes designed to stimulate investment further accelerated this trend toward a relative reduction in corporate profits taxes.

Indirect business tax and nontax accruals.—These receipts are composed of excise taxes, customs duties, and various miscellaneous receipts such as the windfall profit tax, rents and royalties on the Outer Continental Shelf lands, import fees on crude oil and petroleum products, and coal-mining reclamation fees. Over time, indirect business tax and nontax accruals have become a much less important part of total Federal sector receipts, partly because they normally do not rise in proportion to the growth in the economy and partly because some of them, such as the automobile and telephone excise taxes, have been reduced or repealed. Despite this relative decline, the use of excise taxes as user charges to finance Federal programs such as highways and airways makes this an important source of financing certain specialized programs in the budget.

Contributions for social insurance.—This is the second largest category of Federal sector receipts. The increase since World War II has been caused by the growth in the labor force and in wage rates, the expanded coverage of existing social insurance programs, the enactment of new ones, and increases in the taxable wage base and tax rates needed to finance liberalization of benefits. As a result of the rapid rise in social insurance taxes (mainly social security) and the passage of legislation reducing or eliminating individual income taxes for many low- and moderate-income individuals and families, millions of Americans now pay significantly higher social insurance taxes than income taxes. The combined effect of the tax reductions provided by the Economic Recovery Tax Act of 1981 and the social security tax increases under current laws—plus the proposal to include Federal civilian employees under hospital insurance taxes for the first time—dramatically

reinforce this trend toward social insurance collections rising relative to total NIA receipts.

Major tax changes.—Last year the Congress enacted one of the most sweeping sets of changes in tax law ever enacted: the Economic Recovery Tax Act of 1981. This budget proposes some relatively small additional tax changes—most of which will affect years beyond 1983—but almost all of the changes in tax receipts reflected herein due to legislation arise from the effects of the Economic Recovery Tax Act of 1981 and from changes in the social security tax rates and base that occur automatically under current law.

The Economic Recovery Tax Act of 1981:

- Marginal individual income tax rates were reduced by 5% effective October 1, 1981. They will be reduced an additional 10% effective July 1, 1982 and an additional 8% effective July 1, 1983 from the levels called for under prior law.
- Other major changes affecting personal taxes include reducing the maximum marginal income tax rate to 50%, reducing the maximum effective tax rates on capital gains, allowing taxpayers who do not itemize deductions to deduct charitable contributions, permitting taxpayers who are covered by retirement programs to open tax-exempt individual retirement accounts, and significantly reducing tax liabilities under estate and gift taxes.
- Corporation income taxes were reduced through imposition of lower tax rates on the first \$50,000 of corporate taxable income, faster write-offs under depreciation allowances, and liberalization in provisions permitting less profitable corporations to transfer tax benefits to more profitable ones.

Social insurance contributions:

- Under previously enacted legislation, the Federal social security taxable earnings base increased from \$29,700 in calendar year 1981 to \$32,400 in 1982 and is estimated to increase to \$35,100 in 1983. The social security tax rate also rose in 1981 (to 13.3%) and in 1982 (to 13.4%). The next scheduled increase is to 14.1% in 1985.
- Under the administration's proposals, the railroad retirement trust fund is to be abolished at the end of 1982. The railroad retirement covered population is proposed to be included under social security and medicare in the same manner as if they had always been under social security; the railroad retirement program in excess of that provided by social security is proposed to be absorbed by a Government-created private insurance corporation.

—Most Federal civilian employees are not covered by social security or medicare—they are generally covered by Federal employee staff pensions (such as the civil service retirement fund) and medical insurance programs. The administration is recommending that Federal civilian employees be included in the hospital insurance program; this will raise contributions for social insurance by \$1.2 billion in 1983.

Additional details about enacted and proposed tax changes can be found in Part 4 of the 1983 *Budget* on a unified budget basis; additional detail on an NIA basis will be published in the March 1982 *Survey of Current Business*.

Trends in Federal sector expenditures.—Federal sector expenditures are also divided into several major NIA categories. The principal distinction is between purchases of goods and services (which are divided between defense and nondefense purchases) and all other transactions. Purchases are that portion of the Nation's output that is bought directly by the Federal Government and, therefore, included in the GNP. The other expenditure categories consist primarily of payments to individuals and grants to State and local governments. These individuals and governments, in turn, can use the income to finance their own consumption or purchases of goods and services, to save, and—in the case of States and localities—to hold down taxes or to make transfer payments.

The chart on the distribution of Federal sector expenditures illustrates the trends starting with 1956. As can be seen, major shifts in the composition of Federal sector expenditures occur over time. For example, for most years since the Korean war, defense purchases of goods and services have been a declining share of Federal spending. This pattern was temporarily reversed for 3 years during the Vietnam period, but by 1970 the defense share was well below the pre-Vietnam percentages. This budget reflects the President's efforts to reverse the relative decline in our Nation's defense capability that accompanied these reductions. Defense purchases are expected to total 23.5% of Federal sector expenditures in 1982 and 25.8% in 1983; they were 22.0% in 1981, and 21.8% in 1980.

As with table B-2, table B-3 shows historical data on 3-year averages in order to reflect basic trends, but the 1981 and 1983 data show the major shifts from trend in the 1983 budget.

Defense purchases and foreign transfer payments are, of course, largely devoted to the conduct of our national defense and foreign affairs. In 1951-53 defense purchases were 10.9% of GNP; 1951 was the first year of the Korean war. Foreign transfer payments in 1951-53 averaged 0.8% of GNP. The total of these—11.7%—reflects roughly the cost of the conduct of external affairs. The years 1961-63, a post-Korean war peacetime period, reflected a significantly

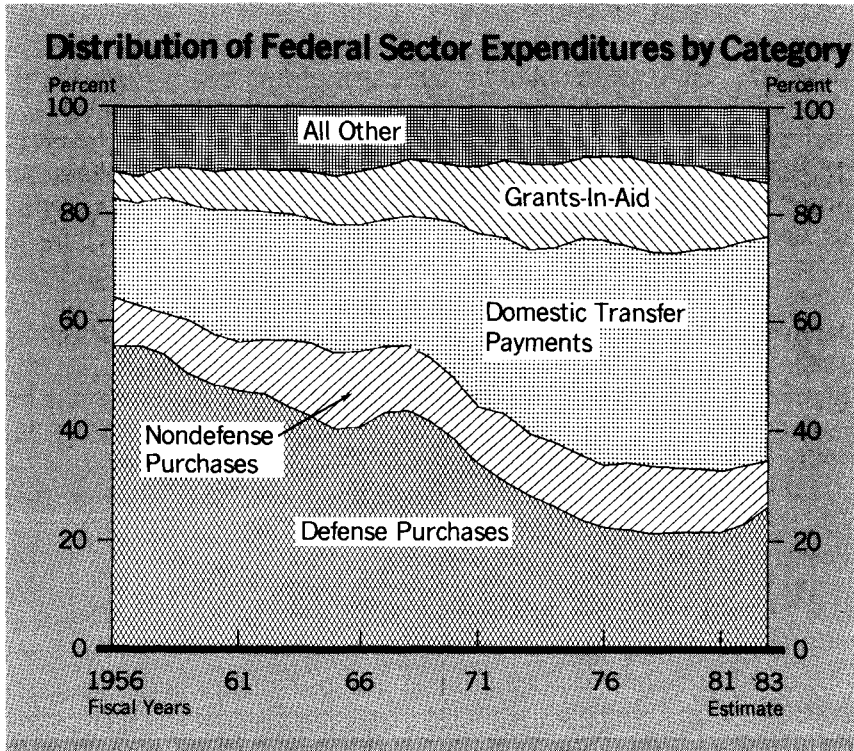


Table B-3. FEDERAL SECTOR EXPENDITURES AS A PERCENT OF GNP

Description	1951-53 average actual	1961-63 average actual	1971-73 average actual	1981 actual	1983 estimate
Defense purchases	10.9	8.9	6.4	5.1	5.9
Nondefense purchases	1.7	2.1	2.3	2.5	2.0
Domestic transfer payments	2.5	4.6	6.8	9.6	9.5
Foreign transfer payments .....	.8	.4	.2	.2	.2
Grants-in-aid to State and local governments .....	.8	1.4	2.9	3.2	2.2
Net interest paid	1.4	1.2	1.3	2.3	2.8
Subsidies less current surplus of Government enterprises .....	.3	.7	.7	.5	.3
Total expenditures	18.2	19.3	20.6	23.4	22.9

lower level of defense expenditures relative to the GNP than was prevalent prior to the Korean war. In that period, defense purchases and foreign transfers combined were equal to 9.4% of GNP. Even though the 1971-73 period included some spending for the Vietnam war, defense purchases and foreign transfers were down to 6.6% of GNP. In 1981, defense purchases plus foreign transfer payments were equal to 5.3% of the GNP—well below the 1971-73 average—but by 1983 they are expected to total 6.1% of GNP.

Over the past several decades, spending on most other expenditure categories—especially nondefense purchases, domestic transfer payments, and grants-in-aid—has risen dramatically relative to GNP. 1951–53 spending for everything except defense purchases and foreign transfer payments was equal to 6.6% of GNP; in 1971–73 such spending is estimated to equal 14% of GNP. In 1981 all other Federal spending was equal to 18.0% of GNP, while spending on defense purchases and foreign transfer payments was equal to 5.3%. The current effort to strengthen our national defense capability and to simultaneously reduce the size of the Government relative to the economy will begin to have a noticeable effect by 1983. In that year, defense purchases are estimated at 0.8% of GNP higher than just 2 years earlier, while all other spending is estimated to decline by 1.3 percentage points relative to GNP from 1981.

Table B-4 displays purchases of goods and services (defense and nondefense) with a split by character of expenditures between compensation of employees and all other purchases.

Table B-4. PURCHASES OF GOODS AND SERVICES BY CHARACTER OF EXPENDITURE

(In billions of dollars)

	1978 actual	1979 actual	1980 actual	1980 actual	1981 actual	1983 estimate
Defense purchases:						
Compensation of employees.....	45.4	48.0	51.4	57.6	64.2	69.5
Other.....	52.6	59.4	74.7	89.5	109.9	133.7
Total defense purchases.....	98.0	107.4	126.1	147.1	174.1	203.2
Nondefense purchases:						
Compensation of employees.....	25.1	26.7	28.6	30.4	31.2	32.5
Other.....	27.6	29.3	35.5	40.8	43.7	37.2
Total nondefense.....	52.7	56.0	64.1	71.2	74.9	69.7

Defense purchases of goods and services.—Defense purchases consist of all purchases of goods and services under programs included in the national defense function in the budget document. In addition, defense purchases include purchases of goods and services by the military assistance programs that in earlier years had been classified in the national defense function but are now classified in the international affairs function in the budget. Normally about 95% of defense purchases are made by the Department of Defense, Military. The bulk of the remainder is for international security assistance, defense stockpiles, civil defense, and nuclear weapons programs carried out by other agencies.

The budget calls for an increase in defense purchases of \$29.1 billion in 1983 over 1982. This increase more than offsets the impact of inflation, thus continuing the recent trend of rising

defense purchases in real terms. The pattern of real defense spending has altered significantly over the past decade. From a Vietnam peak in 1968, real defense purchases declined each year until 1976. Between 1976 and 1978 they stayed remarkably stable, and starting in 1979 began the rise that is continuing in this budget. While real (i.e., price adjusted) defense spending has increased each year since 1979, the rate of increase was sufficiently slow that defense purchases continued to decline relative to GNP. However, in 1982 and 1983 the rate of increase is sufficiently high that defense purchases are projected to rise relative to GNP for these years.

Constant price data for NIA defense purchases are available for all years since 1972. While similar data are not available for years prior to 1972, the budget includes constant price estimates of outlays in the national defense function. This category and defense purchases in the NIA are sufficiently similar so that these figures give a rough approximation of the same transactions. Table B-5 shows the budget estimates of outlays in constant prices for the national defense function for selected years and defense purchases by year since 1972.

Table B-5. DEFENSE OUTLAYS IN CONSTANT (FISCAL YEAR 1972) PRICES

(In billions of dollars)

<i>National defense budget outlays</i>		<i>Defense purchases of goods and services</i>	
1945 ¹	255.5	1972.....	72.2
1948 ²	20.5	1973.....	68.1
1950 ³	29.7	1974.....	64.4
1953 ⁴	96.6	1975.....	64.1
1956 ⁵	74.1	1976.....	63.1
1965 ⁶	69.3	1977.....	63.3
1968 ⁷	101.7	1978 ⁸	62.8
1970-74 average.....	77.3	1979.....	64.0
1975-78 average.....	68.2	1980.....	67.6
1979-82 average estimate.....	75.7	1981 ⁹	70.0
1983 estimate	90.4	1982 estimate	76.1
		1983 estimate	83.1

¹ World War II peak year.² Post-World War II low; includes large offsets from sale of assets acquired during the war.³ Last year prior to Korean war.⁴ Korean war peak year.⁵ Post-Korean war low in the 1950's.⁶ Post-Korean war low in the 1960's.⁷ Peak of spending during Vietnam war.⁸ Lowest point in post-Vietnam era.⁹ Last year for which "actual" data are available.

Nondefense purchases of goods and services.—This category covers the goods and services purchased by Federal nondefense agencies. These include such programs as operation of national forest, park, and recreation areas; space exploration; promotion of commerce; acquisition and disposal of agricultural commodities; construction of flood control and navigation projects; operation of the Federal airway system; a wide variety of medical, energy, space, and other scientific research; the capital outlays of Govern-

ment enterprises; Federal law enforcement; and operation of veterans hospitals. Table B-6 shows these purchases by agency for the years 1975 to 1983. To the extent feasible the data base was reconstructed to show Departments of Education and Energy spending in the successor agencies proposed in the 1983 budget.

Nondefense purchases consist mainly of the cost of operating the various nondefense agencies. In the case of Government enterprises (including the CCC and the Postal Service), however, the purchases figures reflect net capital formation. The most volatile major segment of nondefense purchases is CCC purchases, because the Corporation buys and sells agricultural commodities. On occasion—as in 1979 and in 1983—such sales may exceed new purchases.

Table B-6.—NONDEFENSE PURCHASES OF GOODS AND SERVICES BY AGENCY AND ACTIVITY

(In billions of dollars)

	Actual							Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983
Legislative and judicial branches.....	1.0	1.1	1.4	1.5	1.6	1.8	1.8	2.2	2.3
Department of Agriculture.....	2.6	2.6	5.4	4.5	2.8	5.5	6.0	7.9	2.7
Commodity Credit Corporation.....	(0.2)	(0.2)	(2.6)	(0.9)	(-0.9)	(1.1)	(1.4)	(3.3)	(-1.4)
Forest Service.....	(0.8)	(0.9)	(1.1)	(1.2)	(1.5)	(1.8)	(1.9)	(1.9)	(1.8)
All other.....	(1.5)	(1.5)	(1.7)	(2.3)	(2.2)	(2.6)	(2.7)	(2.6)	(2.3)
Department of Commerce.....	2.3	3.0	4.0	5.1	6.2	6.6	6.5	5.8	3.9
Corps of Engineers, Civil.....	2.1	2.2	2.3	2.6	2.9	3.3	3.2	3.0	2.6
Department of Health and Human Services.....	4.8	5.3	5.7	6.4	6.8	7.9	8.6	8.8	8.6
Health.....	(3.2)	(3.6)	(3.7)	(4.4)	(4.6)	(5.3)	(5.9)	(5.6)	(5.4)
Income security and other.....	(1.6)	(1.7)	(2.0)	(2.0)	(2.3)	(2.5)	(2.6)	(3.3)	(3.2)
Department of Housing and Urban Development.....	0.7	0.5	0.5	0.6	0.7	0.5	-0.1	0.2	0.2
Department of the Interior.....	2.2	2.4	2.9	3.1	3.5	2.7	7.0	5.5	5.7
Department of Justice.....	1.3	1.4	1.6	1.8	1.9	2.1	2.4	2.4	2.6
Department of Labor.....	0.7	1.0	1.1	1.3	1.7	1.9	1.9	2.0	1.8
Department of State.....	0.7	0.9	1.0	1.2	1.4	1.5	1.5	1.7	2.0
Department of Transportation.....	2.9	3.2	3.6	3.9	4.3	4.8	5.0	5.3	5.7
Coast Guard.....	(0.8)	(0.9)	(1.0)	(1.1)	(1.3)	(1.4)	(1.6)	(1.9)	(1.9)
Federal Aviation Administration.....	(1.7)	(1.8)	(2.0)	(2.2)	(2.3)	(2.5)	(2.7)	(2.6)	(3.0)
Other.....	(0.4)	(0.4)	(0.5)	(0.6)	(0.8)	(0.9)	(0.7)	(0.9)	(0.8)
Department of the Treasury.....	2.5	2.7	2.9	3.1	3.5	4.0	4.0	4.4	4.8
Internal Revenue Service.....	(1.6)	(1.7)	(1.8)	(1.9)	(2.1)	(2.3)	(2.4)	(2.5)	(2.9)
Other.....	(0.9)	(1.0)	(1.1)	(1.2)	(1.4)	(1.7)	(1.6)	(1.9)	(1.9)
Environmental Protection Agency.....	0.5	0.5	0.6	0.6	0.8	0.9	1.0	1.1	1.0
National Aeronautics and Space Administration.....	3.2	3.6	3.9	3.9	4.1	4.8	5.3	5.7	6.2
Veterans Administration.....	4.1	4.7	5.2	5.8	6.2	7.1	7.6	8.2	8.7
Hospital and medical care.....	(3.6)	(3.9)	(4.6)	(5.1)	(5.4)	(6.3)	(6.8)	(7.4)	(7.9)
Administration and other.....	(0.5)	(0.7)	(0.7)	(0.7)	(0.7)	(0.8)	(0.9)	(0.8)	(0.7)
All other.....	6.1	5.6	6.3	7.3	7.6	8.7	9.5	10.7	10.9
Tennessee Valley Authority.....	(1.0)	(1.1)	(1.2)	(1.5)	(2.0)	(1.7)	(1.7)	(2.2)	(2.2)

Table B-6.—NONDEFENSE PURCHASES OF GOODS AND SERVICES BY AGENCY AND ACTIVITY—Continued

(In billions of dollars)

	Actual							Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983
OPM: Employee health benefits and imputed employee retirement contributions	(0.6)	(0.7)	(0.9)	(1.1)	(1.4)	(1.7)	(2.0)	(2.2)	(2.4)
Postal Service	(0.7)	(0.7)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)	(0.9)
Imputed bank service charges	(0.5)	(0.3)	(0.5)	(0.6)	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)
Foundation for Education Assistance	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.3)
Other	(3.0)	(2.5)	(3.0)	(3.5)	(3.1)	(4.3)	(4.5)	(5.0)	(4.7)
Total	37.7	40.7	48.4	52.7	56.0	64.1	71.2	74.9	69.7

Normally the Department of Health and Human Services accounts for more nondefense purchases than any other agency, but the decline estimated in 1983 combined with the rise in Veterans Administration spending is projected to move it to second place. Its nondefense purchases are estimated to total \$8.8 billion in 1982 and \$8.6 billion in 1983. Of the 1983 total, \$5.4 billion is for health programs—both for the administration of health care and for medical research—and \$3.2 billion is for income security and related programs, especially for the costs of administering the old-age, survivors, and disability (social security) trust funds. The next largest agency in terms of nondefense purchases traditionally has been the Veterans Administration, which is expected to surpass the HHS total in 1983. The bulk of these purchases are for hospital and medical care for veterans. Both the National Aeronautics and Space Administration with \$6.2 billion in 1983 nondefense purchases and the Department of Commerce with \$3.9 billion in 1983 nondefense purchases conduct major research and development programs, though the Commerce Department also has purchases for a wide range of other activities. (The Commerce Department spending shown herein also includes the bulk of nondefense purchases for energy.) The Transportation Department's \$5.7 billion of 1983 nondefense purchases are mainly for the operation of the Federal Aviation Agency and the Coast Guard. The Corps of Engineers has an estimated \$2.6 billion in 1983 nondefense purchases which, along with the Tennessee Valley Authority's \$2.2 billion, is primarily for public works for natural resources and power activities.

Domestic transfer payments.—This is the largest category of Federal sector expenditures. Spending for domestic transfers has expanded rapidly in recent years, mainly because of more beneficiaries and higher benefit payments under social insurance programs. As table B-7 shows, spending on human resources programs—especially income security programs—dominates domestic transfer payments. This spending is expected to continue to rise in 1983, largely due to demographic and economic conditions—increases in the covered population and adjustments to compensate for inflation. Social security accounts for 51.8% of total domestic transfer payments in 1983, while medicare accounts for another 16.6%, unemployment assistance for 6.4%, Federal employee's retirement and disability civilian and military for 11.1%, and veterans benefits for 5.2% of the total. Program trends (on a unified budget basis) are discussed extensively in Part 5 of the *Budget* and elsewhere in the budget documents. The great bulk of domestic transfer payments is for income support and characterized by automatic eligibility of coverage and automatic benefit increases with price changes. For these programs the demographic and economic

conditions completely dominate the growth patterns, and the rate of growth is quite substantial for all years shown herein. However, for those programs that are less fully automatic—primarily in the education, training, employment, and social services function in the human resources grouping, and in the nonhuman resources functions—the budget proposes significant restraint in the spending levels.

The table reflects the administration's proposal to include the railroad retirement population under social security in 1983 and to abolish the railroad retirement trust fund.

Table B-7. FUNCTIONAL COMPOSITION OF DOMESTIC TRANSFER PAYMENTS

(in billions of dollars)

Description	Actual										Estimate	
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
HUMAN RESOURCES PROGRAMS												
Income security:												
Social security (OASDI)	38.0	46.6	53.2	61.5	70.3	81.1	89.3	99.4	113.7	134.1	150.1	168.1
Railroad retirement	2.1	2.4	2.6	3.0	3.4	3.7	3.9	4.2	4.7	5.2	5.2	20.3
Civil service retirement	3.8	4.5	5.6	6.9	8.2	9.4	10.8	12.3	14.5	17.4	19.1	20.3
Unemployment benefits	6.5	4.9	5.6	12.5	18.3	14.2	10.9	9.9	16.3	18.1	23.3	20.9
Benefits for coal miners .....	.4	.9	1.0	.9	1.0	.9	1.0	1.6	1.8	1.7	1.6	1.6
Supplemental security income			1.9	4.2	4.6	4.7	4.9	5.2	5.7	6.4	7.0	8.0
Food and nutrition	1.8	2.1	2.7	4.2	4.7	4.4	4.5	5.7	7.9	9.6	9.6	8.9
Special payments, Treasury ¹				1.7	.9	.9	.9	.8	1.3	1.4	1.3	1.2
Workmen's compensation .....	.2	.2	.3	.4	.5	.5	.6	.7	.8	.9	1.0	1.1
Other .....	.1	.1	.1	.1	.2	.2	.2	.1	.6	.2	.8	.7
Subtotal, Income security	52.9	61.8	72.9	95.5	111.9	120.2	127.0	139.9	167.2	195.1	219.0	230.7
Health:												
Medicare	8.3	9.0	10.9	14.1	16.9	20.7	24.2	28.1	33.8	41.1	48.1	53.9
Other .....	.4	.4	.4	.5	.6	.6	.6	.7	.8	.7	.7	.7
Subtotal, Health	8.8	9.4	11.4	14.6	17.4	21.3	24.8	28.7	34.6	41.9	48.8	54.7
Education, training, employment, and social services:												
Education .....	.8	.8	.8	1.3	1.9	2.5	3.0	3.4	4.2	5.2	5.3	4.6
Training, employment, and social services .....	.8	.7	.7	.6	.4	.6	.6	.6	.6	.8	.7	.3
Subtotal, education, training, employment, and social services	1.5	1.5	1.5	1.9	2.4	3.0	3.6	4.0	4.8	6.0	6.0	4.9

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Table B-7. FUNCTIONAL COMPOSITION OF DOMESTIC TRANSFER PAYMENTS—Continued

(In billions of dollars)

Description	Actual										Estimate	
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Veterans benefits and services.....	8.8	9.7	10.4	12.8	14.3	13.3	13.5	14.0	14.4	15.5	16.4	16.9
Total, human resources programs.....	71.9	82.5	96.3	124.8	146.0	157.8	168.9	186.7	220.9	258.4	290.3	307.2
ALL OTHER FUNCTIONS												
National defense (military retired pay).....	3.8	4.3	5.0	6.2	7.2	8.1	9.0	10.1	11.8	13.5	14.8	16.2
All other functions.....	.4	.4	.5	.4	.6	.7	.7	1.0	2.1	1.9	.9	1.2
Total functions not included in human resources grouping....	4.2	4.7	5.6	6.6	7.8	8.8	9.8	11.1	13.8	15.5	15.7	17.4
Total domestic transfer payments.....	76.1	87.2	101.8	131.4	153.8	166.6	178.7	197.8	234.7	273.9	306.0	324.6

¹ Includes both \$50 tax rebates and earned income tax credits in excess of tax liabilities.

Note.—Excludes the transition quarter.

Grants-in-aid.—These expenditures help State and local governments to provide general public services and to finance programs for the needy. Table B-8 shows detail on grants-in-aid by budget function and major activity. Grant expenditures are discussed in greater detail in Special Analysis H. While the definition of Federal aid used in that analysis differs somewhat from that used in the NIA, the two sets of data largely overlap. Special Analysis H explains the relationship between the series.

There is a substantial degree of substitutability between grants-in-aid and domestic transfer payments and—to a lesser degree—nondefense purchases. For example, low-income veterans could be eligible for free medical care under medicaid (Federal grants to finance State and local purchases), in a veterans hospital (nondefense purchases), or, perhaps under medicare (transfer payments). The supplemental security income transfer payments have substituted for the previous program of grants to States for public assistance for the elderly and handicapped. (The State and local spending of Federal grant money for public assistance programs is classified as State and local government transfer payments.) Most grants in the income security function plus medicaid are grants to assist States to provide income support; most other grants finance State and local services to the public. (However, the income support may be aid in-kind as is the case of medicaid where the State and local spending is to purchase medical care for the poor.)

One of the major thrusts of this administration is to reduce both the level and complexity of Federal grant programs, and to surrender to State and local governments tax sources that they may tap to finance from their own revenues those portions of programs currently financed by grants that they choose to retain. To some extent the major tax reductions enacted last year and the grant reductions proposed in this budget carry out that policy. But the primary effect of this approach will be felt in the years beyond 1983, years that are beyond the scope of this analysis. Extensive discussion of these basic policies can be found in the 1983 budget document.

Table B-8. FUNCTIONAL COMPOSITION OF FEDERAL GRANTS-IN-AID

(In billions of dollars)

Description	Actual										Estimate	
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
HUMAN RESOURCES PROGRAMS												
Income security:												
Public assistance cash ¹	6.6	5.9	5.4	5.1	5.8	6.3	6.6	6.5	7.2	8.4	8.0	7.4
Child nutrition and other food programs ..	.9	1.1	1.2	1.7	2.1	2.7	2.8	3.3	3.6	4.4	3.9	3.1
Other .....	.4	.5	.5	.9	1.2	1.3	1.3	1.5	3.0	4.1	4.5	3.9
Subtotal, income security	7.8	7.5	7.1	7.7	9.2	10.4	10.8	11.3	13.8	16.8	16.4	14.4
Health:												
Medicaid	4.6	4.6	5.8	6.8	8.6	9.8	10.6	12.4	13.9	16.8	17.8	17.0
Other (includes research, construction, services, and medical training)	1.5	1.7	2.0	2.4	2.9	2.9	2.8	2.8	2.8	3.1	3.4	3.6
Subtotal, health	6.1	6.3	7.8	9.2	11.4	12.7	13.4	15.1	16.7	19.9	21.2	20.5
Education, training, employment, and social services:												
Education	3.8	3.6	3.5	4.6	4.5	4.9	5.5	6.6	7.3	7.2	7.2	6.5
Training and employment	1.7	2.2	1.9	3.4	5.6	6.0	9.5	9.2	8.5	7.4	3.8	1.9
Social services	3.1	3.0	2.9	3.6	3.8	4.4	5.0	5.8	5.0	5.3	5.5	4.4
Subtotal, education, training, em- ployment, and social services	8.6	8.7	8.4	11.7	13.9	15.4	20.0	21.6	20.7	19.8	16.6	12.8
Veterans benefits and services	*	*	*	*	.1	.1	.1	.1	.1	.1	.1	.1
Total, human resources pro- grams	22.6	22.5	23.3	28.7	34.5	38.5	44.2	48.1	51.3	56.7	54.2	47.8
Natural resources and environment .....	.8	1.1	2.0	2.3	2.9	4.1	3.9	4.7	5.3	4.8	5.0	4.0

Community and regional development:												
Local public works.....						.6	2.9	1.6	.4	.1	.1	*
Block grants.....					1.0	2.0	2.4	3.1	4.0	4.3	4.4	3.8
Other.....	2.2	2.6	2.7	2.8	2.4	1.8	1.5	1.7	1.9	1.6	1.3	1.0
Subtotal, community and regional development.....	2.2	2.6	2.7	2.8	3.4	4.4	6.8	6.4	6.3	6.0	5.8	4.9
Transportation.....	5.1	5.3	5.3	5.8	7.5	7.7	8.1	9.5	11.8	12.2	11.4	11.1
General purpose fiscal assistance:												
General revenue sharing.....		6.6	6.1	6.1	6.2	6.8	6.8	6.8	6.8	5.1	4.6	4.6
Anti-recession fiscal assistance.....						1.7	1.3					
Other.....	.3	.4	.4	.5	.4	.5	.8	.9	1.1	1.2	1.3	1.6
Subtotal, general purpose fiscal assistance.....	.3	7.0	6.5	6.6	6.7	9.0	8.9	7.8	7.9	6.3	5.9	6.1
All other functions.....	1.7	1.9	1.9	2.2	2.6	2.6	2.8	2.6	4.1	4.2	3.9	2.8
Total other functions.....	10.0	17.9	18.4	19.7	23.0	27.7	30.4	31.0	35.4	33.4	32.1	29.0
Total grants-in-aid.....	32.6	40.4	41.6	48.4	57.5	66.3	74.7	79.1	86.7	90.1	86.3	76.8

*50 million or less.

Note - Excludes the transition quarter.

¹ Including grants for combined welfare administration and for child support enforcement.

Foreign transfer payments.—There are three major types of foreign transfer payments: expenditure of dollars to assist foreign economic development, grants of surplus agricultural products, and payments under social security and similar programs to individuals living abroad. Although payments to individuals are gradually rising (roughly in proportion with the rise in GNP), total foreign transfer payments have declined to less than 0.2% of GNP. The peak year for foreign transfer payments was 1949; in that year they were equal to 1.9% of GNP.

Net interest paid.—Net interest depends on the size of Federal debt, loans outstanding, and the interest rates on borrowing and lending. In the early post-war years (1947-48), net interest paid amounted to over 13% of total Federal sector NIA expenditures, but it accounted for around 6-7% of the total each year from 1952 to 1977. Net interest paid rose from 6.9% of Federal sector expenditures in 1977 to 10.0% in 1981 and an estimated 12.2% in 1983.

In recent years foreign holdings of Federal debt have increased significantly. This expansion, combined with higher interest rates, pushed up the amount of interest paid abroad to over \$16.0 billion in 1981, five times the \$3.2 billion total in 1973. These foreign interest payments are partially offset by interest collections from abroad; in 1973 such collections totaled \$0.9 billion and in 1981 they totaled \$2.2 billion. The increase in foreign holdings of Federal debt and in interest payments on that debt is discussed further in Special Analysis E.

Subsidies less current surplus of Government enterprises.—Subsidies less current surplus of Government enterprises consist of two elements: (1) subsidy payments to resident businesses (including farms); and (2) the "current surplus" or "deficit" of Government enterprises. In this context, a subsidy is a monetary grant to a unit engaged in commercial activities. Examples are housing subsidies, subsidies for railroads, and the construction and operating differential subsidies paid to operators of U.S.-flag merchant ships. As table B-9 shows, roughly half of the subsidies are for housing programs. These subsidies are designed mainly to reduce the cost of housing to moderate- and low-income families.

"Government enterprise" is the term used in the NIA to designate certain business-type operations of the Government, which usually appear in the budget as public enterprise revolving funds. The operating costs of Government enterprises are, to a great extent, covered by the sale of goods and services to the public rather than from tax receipts. The difference between the sales and the current operating expenses of a Government enterprise constitutes its surplus or deficit. As noted above, the capital formation of Government enterprises is classified as nondefense purchases. The

largest Government enterprises are the Commodity Credit Corporation, the Postal Service (which is not now included in the budget), and the Tennessee Valley Authority.

Table B-9 shows the composition of this aggregation by major category.

Table B-9. SUBSIDIES LESS CURRENT SURPLUS OF GOVERNMENT ENTERPRISES

(In billions of dollars)

Description	Actual										Estimate	
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Subsidies:												
Commodity Credit Corporation.....	2.9	3.6	2.4	0.6	0.3	0.6	2.3	2.0	0.5	1.4	1.5	1.0
Rural housing insurance fund.....	.1	.1	.1	.2	.3	.4	.4	.6	.6	.7	.7	.6
Other Department of Agriculture.....	.4	.4	.3	.4	.3	.3	.4	.3	.3	.3	.3	.2
Maritime.....	.4	.4	.4	.5	.5	.5	.5	.5	.6	.6	.6	.5
Housing (HUD).....	1.3	1.7	1.9	2.1	2.3	2.9	3.5	4.3	5.1	6.5	7.8	8.2
Railroad and mass transit.....	.1	.1	.1	.5	1.1	1.4	1.5	1.7	2.1	2.2	1.9	1.4
Other ¹.....	.2	1.1	.1	.1	.1	.3	.2	.4	.4	.1	.1	.1
Subtotal.....	5.3	7.4	5.4	4.4	5.0	6.4	8.9	9.9	9.6	11.8	13.0	12.0
Enterprise surpluses (–) or deficits:												
Commodity Credit Corporation.....	.6	1.3	1.0	.3	.2	.2	.8	1.3	1.5	1.7	1.5	2.1
Postal Service.....	1.7	1.7	2.2	2.5	2.8	2.0	1.9	1.0	2.1	2.2	.9	1.2
Tennessee Valley Authority.....	–.2	–.2	–.3	–.3	–.4	–.6	–.6	–.8	–1.1	–1.2	–1.8	–2.4
Federal Housing Administration.....	–.3	–.3	–.1	–.2	–.2	–.2	–.2	–.2	–.3	–.4	–.3	–1.2
Federal Deposit Insurance Corporation.....	–.2	–.1	–.1	–.2	–.2	–.2	–.3	–.3	–.3	–.4	–.4	–.4
Federal Savings and Loan Insurance Corporation.....	–.1	–.1	–.2	–.2	–.2	–.2	–.3	–.3	–.3	–.1	.4	.6
All other ²	–.3	–.2	–.4	–.4	–.6	–.4	–.6	–.8	–.5	–.6	–.9	–.8
Subtotal.....	1.2	1.8	2.2	1.5	1.2	.6	.7	–.1	1.1	1.2	–.5	–.8
Total subsidies less current surplus.....	6.5	9.2	7.6	6.0	6.2	7.0	9.6	9.8	10.8	13.0	12.5	11.2

¹ Includes subsidies by the disaster loan fund of \$0.7 billion in 1973. Includes proposed legislation for subsidies as part of the economic stimulus program and the 8% sound security tax credit.² Includes wage disbursements less accruals.

Note.—Excludes the transition quarter.

Wage disbursements less accruals.—This is an adjustment item occasionally made in the NIA when it is necessary to take account of the fact that wages and salaries are not always received at the same time as they are earned. The national income component of wages and salaries is counted in the GNP on an accrual basis; that is, when the income is earned rather than when it is received. Personal income, however, including wage and salary disbursements, is estimated on the basis of when the cash is received.

Ordinarily, wage and salary payments disbursed in one period but earned in the preceding period are approximately offset by payments disbursed in the next period but earned in the current period. The adjustment between national income and personal income is then small or zero.

QUARTERLY ESTIMATES

Table B-10 presents quarterly NIA receipts and expenditures (at seasonally adjusted annual rates) for 1981 to 1983. The translation of the budget into the NIA categories is inexact. When the annual NIA estimates are converted into quarterly distributions that are seasonally adjusted at annual rates, greater imprecision must be expected. The data presented in table B-10 are the best available estimates of the quarterly NIA receipts and expenditures consistent with the 1983 budget, but should be used with clear recognition of their limitations.

Table B-10. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIA, QUARTERLY, 1981-83

(In billions of dollars, seasonally adjusted at annual rates)

Description	Actual					Estimated						
	Oct.-Dec. 1980	Jan.-Mar. 1981	Apr.-June 1981	July-Sept. 1981	Oct.-Dec. 1981	Jan.-Mar. 1982	Apr.-June 1982	July-Sept. 1982	Oct.-Dec. 1982	Jan.-Mar. 1983	Apr.-June 1983	July-Sept. 1983
RECEIPTS												
Personal tax and nontax receipts.....	272.9	283.3	293.2	306.4	301.9	304.1	315.6	295.0	302.0	310.9	319.0	298.5
Corporate profits tax accruals.....	72.6	74.6	64.8	66.4	57.2	58.2	57.4	62.0	63.9	80.4	83.1	84.9
Indirect business tax and nontax accruals....	49.1	60.6	62.6	61.8	59.0	56.5	56.5	57.7	57.5	57.2	57.5	58.1
Contributions for social insurance.....	178.6	198.9	200.4	203.7	206.9	221.2	225.8	230.2	230.7	242.4	247.0	251.8
Total, receipts.....	573.2	617.4	621.0	638.3	625.0	640.0	655.3	644.9	654.1	690.9	706.6	693.3
EXPENDITURES												
Purchases of goods and services.....	212.0	221.6	219.5	226.4	246.7	249.5	247.1	252.4	262.2	269.1	276.3	283.8
Defense.....	(141.6)	(145.2)	(148.2)	(154.1)	(165.8)	(173.1)	(176.5)	(180.9)	(190.7)	(198.9)	(207.1)	(216.0)
Nondefense.....	(70.4)	(76.4)	(71.3)	(72.2)	(81.0)	(76.4)	(70.6)	(71.5)	(71.5)	(70.2)	(69.2)	(67.8)
Transfer payments.....	269.0	271.9	274.8	293.6	297.5	308.4	316.0	326.7	325.5	327.9	329.4	340.7
Domestic (to "persons").....	(262.6)	(267.3)	(270.7)	(287.8)	(291.8)	(302.2)	(309.8)	(320.5)	(319.3)	(321.7)	(323.2)	(334.5)
Foreign.....	(6.4)	(4.7)	(4.1)	(5.8)	(5.7)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
Grants-in-aid to State and local govern- ments.....	91.8	90.2	89.6	85.4	82.9	84.5	88.4	89.2	81.7	77.7	75.5	72.3
Net interest paid.....	55.2	67.7	70.4	75.6	79.4	80.0	82.6	83.6	84.5	93.5	101.0	104.7
Subsidies less current surplus of Govern- ment enterprises.....	13.1	12.6	13.9	13.3	13.1	12.4	11.7	12.8	11.5	11.2	10.8	11.1
Wage disbursements less accruals.....	0	0	0	-0.2	0.1	0.2						
Total expenditures.....	641.1	664.0	668.2	694.0	719.4	735.0	745.8	764.7	765.4	779.4	793.0	812.6
Deficit (-).....	-67.9	-46.6	-47.2	-55.7	-94.4	-95.0	-90.5	-119.8	-111.3	-88.5	-86.4	-119.3

Note.—Because of the methods normally used seasonally adjusting NIA data, the average of seasonally adjusted data for the 4 quarters of a fiscal year may not be equal to the unadjusted fiscal year total.

RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR NIA

Table B-11 shows the major differences between the budget and the Federal sector of the NIA. These differences are explained below.

Table B-11. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIA

(In billions of dollars)

Description	1979 actual	1980 actual	1981 actual	1982 estimate	1983 estimate
RECEIPTS					
Total budget receipts	463.3	517.1	599.3	626.8	666.1
Government contributions for employee retirement (grossing) ..	7.5	8.4	9.4	10.8	11.3
Other netting and grossing	6.5	7.6	9.4	10.2	11.9
Adjustment to accruals	4.5	-4.4	-2.8	-4.8	-1.8
Geographic exclusions	-1.2	-1.2	-1.3	-1.5	-1.6
Other	0.1	-0.1	-1.0	-0.5	-0.3
Federal sector, NIA receipts	480.7	527.3	613.0	641.0	685.7
EXPENDITURES					
Total budget outlays	491.0	576.7	657.2	725.3	757.6
Lending and financial transactions	-7.2	-10.3	-7.4	-3.5	-2.5
Government contribution for employee retirement (grossing) ...	7.5	8.4	9.3	10.8	11.3
Other netting and grossing	6.5	7.6	9.4	10.2	11.9
Defense timing adjustment	-0.6	-0.6	-1.4	-0.3	-3.3
Bonuses on Outer Continental Shelf land leases	1.9	2.2	7.9	4.9	14.7
Geographic exclusions	-3.9	-4.5	-4.6	-4.7	-4.5
Other	-0.4	-1.3	-2.6	-1.3	2.3
Federal sector, NIA expenditures	494.7	578.2	667.9	741.4	787.6

Lending and financial transactions.—Conceptually, the national income and product accounts measure the Nation's current income and production, and therefore do not include transactions, such as loans, that are an exchange of existing assets and liabilities rather than current income or production. Loan transactions have a significant economic impact, affecting income and output, but they are analyzed more appropriately within a financial market framework, such as provided by the flow-of-funds data of the Federal Reserve Board. Special Analysis E (Borrowing and Investment) and Special Analysis F (Federal Credit Programs) both contain information on the financial market implications of the budget.

Most of the lending and financial transactions displayed in table B-11 are shown in Special Analysis F. However, this total differs from the total for direct loans shown in Special Analysis F because: (a) the NIA records nonrecourse agricultural commodity loans as purchases rather than loans; (b) capital contributions to international financial institutions are not loans, but are financial transactions excluded from the NIA; and (c) Special Analysis F includes

lending by off-budget Federal entities; these loans do not require reconciliation with the NIA because they are not included in the budget outlay totals.

Government contribution for employee retirement.—The contributions of Government agencies to the retirement trust funds of their employees are not included in the budget totals. While the outlays are recorded in each agency's budget, they are offset by an intra-governmental deduction. However, the NIA counts Government payments for employee retirement as part of the compensation paid to Government employees and, therefore, as Government expenditures; this treatment maintains comparability with the treatment of employee retirement contributions in the rest of the economy. Contributions for employee retirement by Government enterprises such as the Postal Service are recorded as an increase in the current deficit of enterprises. Contributions by other accounts are recorded as purchases of goods and services. The receipt of these retirement contributions is treated in the NIA as contributions for social insurance. Since receipts and expenditures are increased by identical amounts, this treatment has no effect on the surplus or deficit. Around 80% of these payments go to the civil service retirement fund, while most of the remainder is for social security.

Other netting and grossing.—The budget normally counts as receipts only income from taxation or similar sources that arises from the exercise of governmental power to compel payment. Money received in the course of business-type transactions, therefore, is normally shown as offsets against outlays. For instance, receipts from social insurance programs operated by the Veterans Administration (such as the National Service Life Insurance and U.S. Government Life Insurance) are netted against outlays in the budget since these programs are voluntary, commercial-type activities. However, in the NIA these insurance premiums are treated as social insurance receipts just as are receipts from compulsory Government programs.

In previous budgets, noncompulsory insurance premiums under the supplementary medical insurance program (totaling \$3.3 billion in 1981) and similar but much smaller noncompulsory hospital insurance premiums were classified as receipts in the budget. In the 1983 budget these have been reclassified (retroactively) to be offsetting collections (negative outlays) but they continue to be classified as social insurance contributions in the NIA, therefore significantly increasing the magnitude of the grossing adjustment.

Other netting and grossing includes some imputed contributions for social insurance for Federal employees for unemployment compensation (which adds an equal amount to nondefense purchases)

and workmen's compensation (which adds an equal amount to domestic transfer payments).

One major element of netting and grossing in recent years has been due to budgetary collections arising from the Outer Continental Shelf leases. All such collections are recorded in the budget as negative outlays. The rents and royalties component—but not the bonuses—are recorded in the NIA as indirect business nontaxes; this converts the money from an offset to outlays in the budget to a receipt in the NIA.

Timing adjustments.—The budget records receipts at the time the cash is collected regardless of when the income is earned, and outlays (except interest paid to the public) are generally recorded at the time the checks are issued. The NIA attempts to record most receipts from the business sector in the time period in which the income is earned rather than when taxes are actually paid, while personal income taxes and social insurance contributions are recorded at the time of payment by the individual taxpayer rather than when the liability is accrued or the cash is received by Treasury.

The principal timing adjustment to expenditures is for defense purchases. The major defense timing adjustment normally involves procurement items (such as missiles and airplanes) purchased under most fixed-price contracts. These items are recorded in the Federal sector NIA as defense purchases at the time of delivery to the Federal Government, rather than when the payment is made (as the budget does) or when they are fabricated. Work in progress is counted as part of private business inventories until the goods are completed and delivered to the Government. An additional defense timing adjustment is made to convert foreign military sales, which are recorded on a cash basis in the unified budget, to a basis consistent with net exports in the NIA. In addition, some accounting adjustments are included with the defense timing adjustment in this translation.

Since both the budget and the NIA record public debt interest to the public when it accrues, no timing adjustment is needed for most interest transactions.

Bonuses on Outer Continental Shelf land leases.—In recent years bonuses paid on the Outer Continental Shelf oil leases have become a significant reconciliation item between the unified budget and the NIA. As already noted, the budget records these bonuses as proprietary receipts and, therefore, deducts them from budget outlays. The NIA excludes these transactions as being a transfer of assets, because the payments are not included in calculating book profits under current corporate accounting practice.

Geographic exclusions.—Geographic exclusions arise because Puerto Rico, the Virgin Islands, and other U.S. territories are not included in the United States for purposes of computing the GNP and related data series (such as social insurance taxes, domestic transfer payments, and grants-in-aid) but also are not treated as foreign for purposes of producing data on exports, imports, and foreign transfer payments. Since the budget includes receipts from and payments to persons and local governments in these territories and the NIA excludes such transactions, this constitutes a major reconciliation item between the two data series.

Other.—This category contains miscellaneous adjustments, such as the NIA expenditures by off-budget Federal entities and foreign currency transactions that are included in the NIA but not in the budget.

Table B-12. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME ACCOUNTS, 1972-83

(In billions of dollars)

Description	Actual										Estimate	
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
RECEIPTS, NATIONAL INCOME BASIS												
Personal taxes and nontax receipts.....	100.5	107.4	122.7	127.5	137.2	166.4	186.4	223.1	249.7	290.7	303.5	307.7
Corporate profits tax accruals.....	34.2	41.2	43.4	41.8	52.5	58.8	67.2	75.8	70.6	69.6	58.7	78.1
Indirect business tax and nontax ac- cruals.....	19.9	20.7	21.4	22.2	24.4	24.5	27.2	29.1	35.7	56.6	57.4	57.5
Contributions of social insurance.....	58.9	71.5	84.2	91.9	101.0	116.2	133.4	152.7	171.3	196.1	221.4	242.4
Total receipts, national income basis.....	213.4	240.7	271.6	283.4	314.9	365.9	414.2	480.7	527.3	613.0	641.0	685.7
EXPENDITURES, NATIONAL INCOME BASIS												
Purchases of goods and services.....	100.6	101.1	104.5	117.9	125.1	140.3	150.7	163.4	190.2	218.3	249.0	272.9
Defense.....	(72.2)	(72.8)	(73.6)	(80.2)	(84.4)	(91.9)	(98.0)	(107.4)	(126.1)	(147.1)	(174.1)	(203.2)
Nondefense.....	(28.4)	(28.4)	(30.9)	(37.7)	(40.7)	(48.4)	(52.7)	(56.0)	(64.1)	(71.2)	(74.9)	(69.7)
Transfer payments.....	79.0	89.8	104.8	134.5	156.8	169.8	182.2	201.8	239.3	279.7	312.1	330.8
Domestic ("to persons").....	(76.1)	(87.2)	(101.8)	(131.4)	(153.8)	(166.6)	(178.7)	(197.8)	(234.7)	(273.9)	(306.0)	(324.6)
Foreign.....	(2.8)	(2.7)	(3.0)	(3.1)	(3.0)	(3.2)	(3.5)	(4.0)	(4.6)	(5.8)	(6.1)	(6.2)
Grants-in-aid to State and local govern- ments.....	32.6	40.4	41.6	48.4	57.5	66.3	74.7	79.1	86.7	90.1	86.3	76.8
Net interest paid.....	14.0	15.7	19.6	21.7	25.2	28.4	33.5	40.6	51.2	66.9	81.4	95.9
Subsidies less current surplus of Govern- ment enterprises.....	6.5	9.2	7.6	6.0	6.2	7.0	9.6	9.8	10.8	13.0	12.5	11.2
Wage disbursements less accruals.....		-5	.2	.4			-*	*		-1	.1	
Total expenditures, national income basis.....	232.7	255.7	278.2	328.8	370.7	411.7	450.5	494.7	578.2	667.9	741.4	787.6
Excess of receipts (+) or expendi- tures (-), national income basis.....	-19.2	-14.9	-6.6	-45.4	-55.8	-45.8	-36.3	-14.0	-50.9	-54.9	-100.4	-101.9

* \$50 million or less

Note — Excludes the transition quarter

SPECIAL ANALYSIS B

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SPECIAL ANALYSIS C

FUNDS IN THE BUDGET

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

**OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT
February 1982**

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
 - I. Civilian Employment in the Executive Branch
- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

SPECIAL ANALYSIS C
FUNDS IN THE BUDGET

This analysis provides information on the two major fund groups, Federal and trust, that together after deducting interfund transactions, as shown in table C-1, comprise the budget totals.

Table C-1. **BUDGET RECEIPTS AND OUTLAYS, BY FUND GROUP**
(In millions of dollars)

Description	1981 actual	1982 estimate	1983 estimate
RECEIPTS			
Federal funds:			
Total in fund accounts.....	441,350	448,024	483,425
Intrafund transactions.....	- 3,815	- 4,689	- 4,310
Proprietary receipts from the public.....	-18,283	-18,403	-30,006
Receipts from off-budget Federal entities.....	- 8,830	-12,115	-15,445
Receipts, Federal funds.....	410,422	412,817	433,664
Trust funds:			
Total in fund accounts.....	256,789	295,081	317,695
Intrafund transactions.....	- 1,631	- 2,022	- 472
Proprietary receipts from the public.....	-14,207	-16,162	-18,258
Receipts from off-budget Federal entities.....	- 1,537	- 2,188	- 2,315
Receipts, trust funds.....	239,413	274,710	296,650
Interfund transactions.....	- 50,563	- 60,774	- 64,195
Total budget receipts.....	599,272	626,753	666,118
OUTLAYS			
Federal funds:			
Total in fund accounts.....	506,099	559,142	590,366
Intrafund transactions.....	- 3,815	- 4,689	- 4,310
Proprietary receipts from the public.....	-18,283	-18,403	-30,006
Receipts from off-budget Federal entities.....	- 8,830	-12,115	-15,445
Outlays, Federal funds.....	475,171	523,936	540,604
Trust funds:			
Total in fund accounts.....	249,972	282,541	302,274
Intrafund transactions.....	- 1,631	- 2,022	- 472
Proprietary receipts from the public.....	-14,207	-16,162	-18,258
Receipts from off-budget Federal entities.....	- 1,537	- 2,188	- 2,315
Outlays, trust funds.....	232,596	262,169	281,229
Interfund transactions.....	- 50,563	- 60,774	- 64,195
Total budget outlays.....	657,204	725,331	757,638
Budget deficit.....	- 57,932	- 98,578	- 91,520

Note.—The 1983 Budget reflects the reclassification of the supplementary medical insurance and voluntary hospital insurance enrollee premiums. These premiums, formerly classified as budget receipts, are now classified as proprietary receipts. Accordingly, budget totals have been adjusted retroactively. The adjustment decreases budget receipts and outlays for each year since 1967 by the amount of the premiums collected for that year.

The *Federal funds* are derived mainly from taxes and borrowing and are used for the general purposes of the Government. Most of these funds are not restricted by law to any specific Government program. The *trust funds*, on the other hand, collect certain taxes and other receipts for specified purposes, such as payment of social security benefits, in accordance with the terms of a trust agreement or statute.

Amounts collected by the funds are classified either as budget receipts, also called governmental receipts, or as offsets to budget outlays, known as offsetting collections, depending on the following criteria.

Amounts collected by the Federal Government from the public that arise from the exercise of governmental or sovereign powers are treated as budget receipts. Gifts and contributions to the Government are also included in this category. In prior budgets, voluntary social insurance premiums of the Hospital and supplementary medical insurance trust funds were classified as budget receipts because of their close relationship with compulsory collections. However, since these collections are voluntary, this classification has been changed (retroactively) to record these as proprietary receipts from the public.

Amounts collected from other Government accounts or from transactions with the public that are of a business-type or market-oriented nature, such as the sale of services or goods are treated as deductions from spending in arriving at budget outlays.¹

FEDERAL FUNDS

The Federal fund group is comprised of the *general fund*, *special funds*, *public enterprise (revolving) funds*, and *intragovernmental funds*. Intragovernmental funds include intragovernmental revolving funds, management funds, and consolidated working funds.

Federal fund budget receipts and outlays.—In 1983, the Federal fund budget receipts are estimated at \$433.7 billion and outlays are estimated at \$540.6 billion. The following table, C-2, presents the distribution of budget receipts by source and outlays by agency for the Federal fund group.

The Federal fund budget receipts shown in the table are derived mainly from taxes and borrowing. They are comprised of the amounts collected by the general and special funds that are governmental in nature. Proprietary receipts from the public of the general and special funds arise from market-oriented transactions and thus are offsetting receipts rather than budget receipts.

¹ Additional information on budget receipts and offsetting collections is provided in Part 7 of the Budget of the United States Government, Fiscal Year 1983.

The Federal fund outlays shown are net of all collections credited to the public enterprise and intragovernmental funds and the proprietary receipts of the general and special funds.

Table C-2. FEDERAL FUND RECEIPTS AND OUTLAYS

(In millions of dollars)

Description	1981 actual	1982 estimate	1983 estimate
RECEIPTS BY SOURCE			
Individual income taxes.....	285,917	298,578	304,533
Corporation income taxes.....	61,137	46,752	65,269
Excise taxes.....	34,128	35,283	31,066
Estate and gift taxes.....	6,787	7,162	5,948
Customs duties.....	8,023	8,810	9,360
Miscellaneous receipts.....	14,431	16,232	17,487
Total receipts, Federal funds.....	410,422	412,817	433,644
OUTLAYS BY AGENCY			
Legislative branch.....	1,207	1,500	1,448
The Judiciary.....	637	727	822
Executive Office of the President.....	96	92	99
Funds appropriated to the President.....	6,548	6,245	6,687
Agriculture.....	26,069	29,475	23,533
Commerce ¹	11,469	11,604	9,853
Defense—Military ^{2 3}	156,098	182,791	215,889
Defense—Civil.....	3,127	2,971	2,197
Health and Human Services ³	61,279	67,818	66,405
Housing and Urban Development.....	14,033	14,614	13,130
Interior ^{1 3}	7,005	3,265	3,379
Justice ^{1 3}	2,752	2,643	2,727
Labor.....	13,081	10,185	7,356
State.....	1,999	2,313	2,584
Transportation ⁴	12,029	10,633	7,933
Treasury ⁵	92,920	110,382	124,814
Environmental Protection Agency.....	5,2490	5,344	4,500
National Aeronautics and Space Administration.....	5,421	5,827	6,577
Veterans Administration.....	22,451	23,720	23,936
Other independent agencies ^{1 3}	41,838	40,272	36,991
Allowances ⁵		-624	-1,257
Undistributed offsetting receipts:			
Rents and royalties on the Outer Continental Shelf	-10,138	-7,861	-18,000
Federal surplus property disposition.....			-1,000
Total outlays, Federal funds.....	475,171	523,936	540,604
Excess of outlays (-).....	-64,749	-111,119	-106,940

¹ The budget proposes dismantlement of the Department of Energy (DOE), effective October 1, 1982. Budget data for activities previously performed by DOE are included in the agencies that are proposed to assume these activities.

² Includes allowances for civilian and military pay raises for the Department of Defense.

³ The budget proposes dismantlement of the Department of Education (DEd), effective October 1, 1982. Budget data for activities previously performed by DEd are included in the agencies that are proposed to assume these responsibilities.

⁴ Includes allowances for military pay raises for the Coast Guard.

⁵ Includes allowances for civilian agency pay raises and contingencies.

Obligations.—The obligations (net) for Federal funds are estimated at \$565.6 billion for 1983, as set forth in table C-3. These transactions flow largely from budget authority for Federal funds of \$565.5 billion for the year, although some flow from prior years' budget authority.

Table C-3. OBLIGATIONS INCURRED, NET, IN FEDERAL FUNDS

(In millions of dollars)

Department or other unit	1981 actual	1982 estimate	1983 estimate
Legislative branch	1,239	1,541	1,476
The Judiciary	648	736	833
Executive Office of the President	102	90	102
Funds appropriated to the President:			
International security assistance	2,545	3,224	4,583
International development assistance	2,432	2,728	2,902
Other	3,880	508	431
Agriculture	27,294	28,449	22,821
Commerce ¹	11,439	13,772	9,401
Defense—Military ^{2 3}	174,852	206,118	248,196
Defense—Civil	3,128	3,075	2,344
Health and Human Services ³	61,411	64,962	61,620
Housing and Urban Development	37,671	12,798	13,461
Interior ^{1 3}	6,849	2,972	3,064
Justice ^{1 3}	2,400	2,520	2,651
Labor	12,402	9,488	7,563
State	2,131	2,492	2,551
Transportation ⁴	12,663	11,144	7,486
Treasury ³	92,899	110,449	124,721
Environmental Protection Agency	5,226	4,582	3,437
National Aeronautics and Space Administration	5,673	6,412	6,622
Veterans Administration	22,601	23,904	24,419
Other independent agencies:			
Export-Import Bank	5,780	2,635	1,892
Federal Home Loan Bank Board	446	199	30
Foundation for Education Assistance ³	13,767	11,547	9,218
General Services Administration	391	281	-370
Office of Personnel Management	14,454	15,499	16,509
U.S. Postal Service	1,343	619	500
Railroad Retirement Board	342	379	350
All other independent agencies ^{1 3}	9,789	7,588	7,072
Allowances:			
Civilian agency pay raises		392	757
Fraud, waste, and abuse		-1,000	-1,000
Undistributed debt collections			-1,000
Undistributed offsetting receipts:			
Rents and royalties on the Outer Continental Shelf	-10,138	-7,861	-18,000
Federal surplus property disposition			-1,000
Total	525,660	542,243	565,643

¹ The budget proposes dismantlement of the Department of Energy (DOE), effective October 1, 1982. Budget data for activities previously performed by DOE are included in the agencies that are proposed to assume these activities.

² Includes allowances for civilian and military pay raises for the Department of Defense.

³ The budget proposes dismantlement of the Department of Education (Ded), effective October 1, 1982. Budget data for activities previously performed by Ded are included in the agencies that are proposed to assume these responsibilities.

⁴ Includes allowance for military pay raises for the Coast Guard.

Balances of Federal fund budget authority.—Table C-4 shows the balances of budget authority carried forward in Federal funds at the end of each fiscal year. To the extent that valid Government obligations have been incurred and remain unpaid, amounts sufficient to pay them (obligated balances) may be carried over into the next year. Unobligated balances may be carried forward in accordance with specific provisions of law, usually in order to permit completion of major procurement or major construction programs

that are fully funded, to provide funding for activities of a continuing nature (such as research and development), for financing loan programs, for standby emergency purposes (such as backup financing for insurance of the Federal Deposit Insurance Corporation), or for reserves for losses and debt redemption.

Public enterprise funds.—The public enterprise funds conduct a cycle of business-type operations, primarily with the public, on behalf of the Government. These funds are usually supplied with capital from the general fund, and in a few cases they may borrow from the public or from the Federal Financing Bank (FFB). These funds also obtain capital by selling financial assets to the FFB. Data on public enterprise funds are included net of collections in tables C-1 through C-4. Additional information on the gross outlays and applicable collections are shown in table C-5.

Collections of public enterprise funds are estimated at \$54.0 billion in 1983, and gross outlays are planned to total \$61.7 billion, resulting in net outlays of \$7.7 billion.

TRUST FUNDS

There are two types of trust funds—revolving and nonrevolving. Trust revolving funds are similar to intragovernmental revolving funds and public enterprise funds in that they conduct a cycle of business-type operations and are normally stated net of collections.

Cash operations.—Trust fund receipts are estimated at \$296.6 billion in 1983, with outlays planned at \$281.2 billion, as shown in tables C-1 and C-6. The transactions of the Federal old-age and survivors insurance and disability insurance funds are far larger than any other trust fund.

In fiscal years 1981-83, trust funds have excesses of receipts of the following amounts (in millions of dollars):

	<i>1981 actual</i>	<i>1982 estimate</i>	<i>1983 estimate</i>
Total receipts, trust funds	239,413	274,710	296,650
Total outlays, trust funds	232,596	262,169	281,229
Excess of receipts or outlays (—), trust funds	6,817	12,541	15,421

Table C-4. FEDERAL FUND BALANCES OF BUDGET AUTHORITY

(In millions of dollars)

Department or other unit	Start 1981		End 1982		End 1983		End 1984	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
Legislative branch.....	203	241	216	237	256	116	284	104
The Judiciary.....	58	18	56	8	65	2	76	2
Executive Office of the President.....	16		20		18		21	
Funds Appropriated to the President:								
International security assistance.....	5,490	123	4,916		4,716		5,544	
International development assistance.....	7,351	13,117	7,439	13,108	7,809	13,089	8,229	13,142
Other.....	11,362	3,510	11,944	6,642	11,981	6,062	11,953	5,962
Agriculture.....	11,444	4,170	12,628	1,267	11,568	1,942	10,856	2,436
Commerce ¹	7,636	6,983	7,538	6,294	9,732	189	9,285	520
Defense—Military ^{2 3}	67,942	24,125	86,265	26,431	109,592	33,728	141,899	42,999
Defense—Civil.....	736	385	734	336	838	160	985	19
Health and Human Services ³	12,914	939	12,986	683	10,130	161	5,345	101
Housing and Urban Development.....	244,150	11,980	260,454	12,655	247,981	22,623	235,365	21,095
Interior ^{1 3}	5,171	1,953	4,895	759	2,726	259	2,398	202
Justice ^{1 3}	833	133	471	151	348	84	272	77
Labor.....	3,207	617	2,397	1,142	1,530	351	1,301	399
State.....	459	62	568	108	748	38	714	40
Transportation ⁴	9,834	1,502	10,533	1,818	11,042	1,165	10,595	628
Treasury ³	614	25,829	575	25,796	642	28,262	549	28,685
Environmental Protection Agency.....	12,772	3,050	12,414	1,107	11,651	38	10,588	5
National Aeronautics and Space Administration.....	1,212	705	1,457	550	2,042	74	2,087	60
Veterans Administration.....	2,391	2,387	2,507	2,123	2,690	2,216	3,174	2,564
Other independent agencies:								
Export-Import Bank.....	5,737	184	8,877		9,026		8,336	
Federal Deposit Insurance Corporation.....		3,000						
Federal Home Loan Bank Board.....	73	9,686	149	9,240	309	9,041	490	9,011
Foundation for Education Assistance ³	9,616	2,402	10,253	1,466	8,436	1,152	6,253	699
General Services Administration.....	474	428	633	766	656	590	815	600
Office of Personnel Management.....	59	11	29	5	82	5	86	5
Railroad Retirement Board.....		*	*	*	*	*	*	*
All other independent agencies ^{1 3}	5,497	21,364	5,236	2,977	4,509	2,598	4,586	2,918
Allowances ⁵					16		30	
Total.....	427,252	138,902	466,187	115,668	471,140	123,945	482,112	132,275

*500 thousand or less.

¹ The budget proposes dismantlement of the Department of Energy (DOE), effective October 1, 1982. Budget data for activities previously performed by DOE are included in the agencies that are proposed to assume these activities.² Includes balances of allowances for civilian and military pay raises for the Department of Defense.³ The budget proposes dismantlement of the Department of Education (DEd), effective October 1, 1982. Budget data for activities previously performed by DEd are included in the agencies that are proposed to assume these responsibilities.⁴ Includes balances of allowance for military pay raises for the Coast Guard.⁵ Includes balances of allowances for civilian agency pay raises and contingencies.

Table C-5. PUBLIC ENTERPRISE FUND TRANSACTIONS

(In millions of dollars)

Description	Applicable collections			Gross outlays		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Funds appropriated to the President:						
Foreign assistance.....	170	198	215	218	248	255
Agriculture:						
Commodity Credit Corporation.....	10,322	10,130	9,278	14,384	16,614	11,128
Farmers Home Administration:						
Rural housing insurance fund.....	8,051	7,992	6,202	7,921	9,084	7,819
Agricultural credit insurance fund.....	11,642	11,420	9,714	11,414	11,825	10,412
Rural development insurance fund.....	2,032	1,960	1,698	2,336	2,472	2,397
Federal Grain Inspection Service.....	26	43	43	34	44	43
Federal Crop Insurance Corporation...	408	320	262	367	414	345
Commerce ¹	96	122	452	130	197	363
Defense: Military ²	2	4	5	6	6	8
Health and Human Services ²	51	85	55	109	99	83
Housing and Urban Development:						
Government National Mortgage Association.....	1,980	2,135	2,060	3,164	3,145	3,175
Urban renewal programs.....	71	42	20	215	142	90
Low-rent public housing.....	2,119	1,551	1,009	2,197	1,557	1,114
Federal Housing Administration Fund.....	1,593	1,855	2,953	1,775	1,610	1,774
Other.....	313	450	1,004	1,216	1,182	1,276
Interior: ^{1 2}						
Bureau of Reclamation.....	341	374	450	304	374	450
Energy programs.....	897	1,935	2,496	874	1,877	2,756
Other.....	23	27	30	23	35	39
Transportation.....	143	183	116	246	220	134
Treasury ²	1,136	551	592	352	217	206
Veterans Administration.....	755	1,085	2,133	889	998	1,349
Other independent agencies:						
Export-Import Bank.....	2,667	3,289	3,774	4,733	5,144	5,692
Farm Credit Administration.....	14	16	18	14	16	18
Federal Emergency Management Agency.....	244	294	317	337	441	437
Federal Home Loan Bank Board:						
Federal Savings and Loan Insurance Corporation.....	1,027	937	1,122	1,401	972	972
Revolving fund.....	59	65	68	56	69	68
National Consumer Cooperative Bank.....	19			131	67	
National Credit Union Administration.....	213	421	578	203	514	683
Pennsylvania Avenue Development Corporation.....	7	3	3	23	18	8
Small Business Administration.....	1,289	1,556	1,675	2,973	1,840	1,509
Tennessee Valley Authority.....	3,843	4,567	5,113	5,771	6,747	6,803
All other not included above ^{1 2}	129	446	508	99	106	253
Total.....	51,682	54,056	53,963	63,915	68,294	61,659
Offsetting collections from the public.....	(32,645)	(37,161)	(43,108)			
Offsetting collections from other accounts.....	(19,037)	(16,895)	(10,855)			

*\$500 thousand or less.

¹ The budget proposes dismantlement of the Department of Energy (DOE), effective October 1, 1982. Budget data for activities previously performed by DOE are included in the agencies that are proposed to assume these activities.² The budget proposes dismantlement of the Department of Education (Ded), effective October 1, 1982. Budget data for activities previously performed by DEd are included in the agencies that are proposed to assume these activities.

Table C-6. OUTLAYS AND RECEIPTS OF TRUST FUNDS

(In millions of dollars)

Description	Outlays			Receipts		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Federal old-age, survivors, and disability insurance trust funds	139,585	156,644	173,536	134,564	152,129	165,285
Railroad retirement account	5,294	5,328	.....	4,675	5,121	.....
Black lung disability trust fund	680	854	674	792	742	674
Veterans life insurance trust funds	1,035	1,042	1,051	1,138	1,194	1,286
Federal employees retirement funds	17,864	19,600	21,262	28,573	33,293	34,728
Unemployment trust fund	18,739	25,400	23,694	18,104	21,300	23,400
Health insurance trust funds	42,489	49,552	55,352	45,302	55,863	62,672
Highway trust funds	9,174	8,340	8,237	7,434	7,661	7,893
Airport and airway trust fund	1,306	1,600	2,810	582	724	3,073
State and local government fiscal assistance trust fund	5,137	4,570	4,567	4,570	4,567	4,567
Foreign military sales trust fund	9,912	10,951	12,446	9,454	10,827	12,197
Other trust funds (nonrevolving)	998	1,090	1,424	1,601	1,661	1,920
Trust revolving funds	-2,241	-2,429	-2,780	.....	.....	.....
Subtotal	249,972	282,541	302,274	256,789	295,081	317,695
Intrafund transactions	-1,631	-2,022	-472	-1,631	-2,022	-472
Proprietary receipts from the public	-14,207	-16,162	-18,258	-14,207	-16,162	-18,258
Receipts from off-budget Federal entities	-1,537	-2,188	-2,315	-1,537	-2,188	-2,315
Total	232,596	262,169	281,229	239,413	274,710	296,650

Budget receipts by trust fund.—Table C-7 presents information classifying the trust fund receipts by major fund, and by source for each such fund.

Budget outlays by trust fund.—Corresponding information on trust fund outlays, classifying the data for the larger funds, is found in table C-8.

Balances of the trust funds.—Total balances of the trust funds continue to increase, as shown in the following end-of-year figures (in millions of dollars):

	1980 actual	1981 actual	1982 estimate	1983 estimate
Open book balances	11,966	9,422	9,746	9,752
Investments in U.S. securities:				
Public debt	179,376	188,737	197,591	213,004
Agency debt	1,015	1,015	765	765
Total	192,358	199,174	208,103	223,521

A summary of the balances by fund is presented in table C-9. The amounts include both amounts on deposit with the Treasury (open-book balances) and investments in U.S. securities. These bal-

ances include both obligated and unobligated balances. The balances on a budget authority basis differ from the cash balances because, for a few accounts, contract authority (a form of budget authority) has been provided to a trust fund in advance of receiving moneys while unappropriated receipts are included in the cash balances but are not a part of the balances of budget authority. The note to Table C-9 lists these accounts and reconciles the balances on a budget authority basis with the cash balances.

For 1983, the largest net investments are expected to be those of the Federal employees retirement fund.

Trust revolving funds.—The activities of the trust revolving fund subgroup are shown in table C-10. The largest of these funds are those used by the Office of Personnel Management to buy insurance for Government employees.

Table C-7. TRUST FUND RECEIPTS (in millions of dollars)

[Amounts under proposed legislation are shown separately]

Description	1981 actual	1982 estimate	1983 estimate
Federal old-age, survivors, and disability insurance trust funds:			
Social insurance taxes and contributions.....	130,176	147,664	159,444
Interest on Federal securities.....	2,286	1,976	1,458
Federal payment as employer for employee retirement.....	1,430	1,645	1,771
Other (mainly receipts of special Federal payments).....	672	844	1,308
Proposed legislation.....			1,304
Subtotal, Federal old-age, survivors, and disability insurance trust funds.....	134,564	152,129	165,285
Railroad retirement account:			
Social insurance taxes and contributions.....	2,457	2,982	3,178
Interest on Federal securities.....	275	158	122
Receipts from other trust funds.....	1,614	2,001	2,218
Other (mainly receipts of special Federal payments).....	328	-20	-25
Proposed legislation.....			-5,493
Subtotal, railroad retirement account.....	4,675	5,121	
Black lung disability trust fund:			
Excise taxes.....	237	507	612
Advances from general fund.....	555	235	62
Other receipts.....	*		
Subtotal, black lung disability trust fund.....	792	742	674
Veterans life insurance trust funds:			
Interest on Federal securities.....	673	717	816
Other receipts.....	465	476	470
Subtotal, veterans life insurance trust funds.....	1,138	1,194	1,286
Federal employees retirement funds:			
Social insurance taxes and contributions.....	3,978	4,486	4,504
Interest on Federal securities.....	6,086	8,599	9,208

Table C-7. TRUST FUND RECEIPTS (in millions of dollars)—Continued

[Amounts under proposed legislation are shown separately]

Description	1981 actual	1982 estimate	1983 estimate
Federal payment as employer for employee retirement (including payment on prior year liabilities):			
Entities included in budget.....	16,965	17,708	18,828
Entities excluded from budget.....	1,537	2,188	2,192
Other receipts.....	8	3	3
Proposed legislation.....			- 8
Supplemental now requested.....		309	
Subtotal Federal employees retirement funds.....	28,573	33,293	34,728
Unemployment trust fund:			
Social insurance taxes and contributions.....	15,763	16,461	18,469
Interest on Federal securities.....	1,063	686	188
Advances from the general fund.....	1,277	2,206	4,743
Supplemental now requested.....		1,947	
Subtotal, unemployment trust fund.....	18,104	21,300	23,400
Health insurance trust funds:			
Social insurance taxes and contributions.....	30,340	34,881	38,033
Premiums and other charges.....	3,340	3,862	4,418
Interest on Federal securities.....	1,681	2,331	3,001
Federal payment as employer for employee retirement.....	332	397	427
Other (mainly receipts of special Federal payments).....	9,609	14,375	15,632
Proposed legislation.....		17	1,161
Subtotal, health insurance trust funds.....	45,302	55,863	62,672
Highway trust funds:			
Excise taxes.....	6,305	6,582	6,957
Interest on Federal securities.....	1,127	1,079	936
Other receipts.....	2		
Subtotal, highway trust funds.....	7,434	7,661	7,893
Airport and airway trust fund:			
Excise taxes.....	21		
Interest on Federal securities.....	561	440	254
Proposed legislation.....		284	2,819
Subtotal, airport and airway trust fund.....	582	724	3,073
State and local government fiscal assistance trust fund: Deposits for general revenue sharing.....	4,570	4,567	4,567
Foreign military sales trust fund.....	9,454	10,827	12,197
Other trust funds (nonrevolving).....	1,601	1,661	1,920
Subtotal.....	256,789	295,081	317,695
Intrafund transactions.....	-1,631	-2,022	-472
Proprietary receipts from the public.....	-14,207	-16,162	-18,258
Receipts from off-budget Federal entities.....	-1,537	-2,188	-2,315
Total receipts.....	239,413	274,710	296,650

*\$500 thousand or less.

Table C-8. TRUST FUND OUTLAYS (in millions of dollars)

[Amounts under proposed legislation are shown separately]

Description	1981 actual	1982 estimate	1983 estimate
Federal old-age, survivors, and disability insurance trust funds:			
Benefit payments.....	136,267	152,580	167,264
Payments to other trust funds.....	1,614	2,001	2,686
Administrative expenses and other.....	1,703	2,064	2,196
Proposed legislation.....			1,390
Subtotal, Federal old-age, survivors, and disability insurance trust funds.....	139,585	156,644	173,536
Railroad retirement account:			
Benefit payments and claims.....	5,255	5,282	5,678
Administrative expenses and other.....	39	46	44
Proposed legislation.....			-5,722
Subtotal, railroad retirement account.....	5,294	5,328	
Black lung disability trust fund:			
Benefit payments.....	644	549	463
Federal administrative expenses.....	36	36	35
Interest on advances.....		270	176
Subtotal, black lung disability trust fund.....	680	854	674
Veterans life insurance trust funds.....	1,035	1,042	1,051
Federal employees retirement:			
Benefit payments and claims.....	17,401	19,095	21,287
Refunds to former employees.....	433	495	429
Administrative expenses and other.....	30	34	35
Proposed legislation.....		-24	-489
Subtotal, Federal employees retirement.....	17,864	19,600	21,262
Unemployment trust fund:			
Withdrawals for benefit payments.....	16,006	21,284	21,038
Repayment of advances from general fund.....	600		500
Administrative expenses and other.....	2,133	2,036	2,162
Proposed legislation.....			-6
Supplemental now requested.....		2,080	
Subtotal, unemployment trust fund.....	18,739	25,400	23,694
Health insurance trust funds:			
Benefit payments.....	41,254	48,535	55,854
Administrative expenses and other.....	1,235	1,265	1,245
Proposed legislation.....		-248	-1,747
Subtotal, health insurance trust funds.....	42,489	49,552	55,352
Highway trust funds (mainly grants to States):			
Current.....	9,174	8,340	8,233
Proposed legislation.....			4
Subtotal, highway trust funds.....	9,174	8,340	8,237
Airport and airway trust fund:			
Current.....	1,306	1,592	2,637
Proposed legislation.....			166

Table C-8. TRUST FUND OUTLAYS (in millions of dollars)—Continued

[Amounts under proposed legislation are shown separately]

Description	1981 actual	1982 estimate	1983 estimate
Supplemental now requested		8	7
Subtotal, airport and airway trust funds.....	1,306	1,600	2,810
State and local government fiscal assistance trust fund: Payments for general revenue sharing	5,137	4,570	4,567
Foreign military sales trust fund	9,912	10,951	12,446
Other trust funds (nonrevolving)	998	1,090	1,424
Trust revolving funds	-2,241	-2,429	-2,780
Subtotal	249,972	282,541	302,274
Intrafund transactions	-1,631	-2,022	-472
Proprietary receipts from the public.....	-14,207	-16,162	-18,258
Receipts from off-budget Federal entities.....	-1,537	-2,188	-2,315
Total outlays	232,596	262,169	281,229

Table C-9. TRUST FUND BALANCES

(In millions of dollars)

Description	As of Sept. 30			
	1980 actual	1981 actual	1982 estimate	1983 estimate
Federal old-age, survivors, and disability insurance trust funds	32,259	27,239	20,505	15,543
Railroad retirement account	2,719	1,986		
Black lung disability trust fund.....	*	112		
Veterans life insurance funds	8,509	8,612	8,764	8,999
Federal employees retirement funds	74,317	85,026	98,719	112,183
Unemployment trust fund.....	14,886	14,365	10,282	9,988
Health insurance trust funds.....	19,029	21,842	28,528	32,558
Highway trust funds	10,999	9,259	8,581	8,236
Airport and airway trust fund	5,442	4,719	3,843	4,105
State and local government fiscal assistance trust fund.....	1,822	1,255	1,252	1,252
Foreign military sales trust fund.....	5,204	4,746	4,622	4,373
Other trust funds (nonrevolving).....	1,703	2,305	2,870	3,366
Trust revolving funds	15,468	17,708	20,137	22,917
Total	192,358	199,174	208,103	223,521

*\$500 thousand or less.

Note.—The following table reconciles balances on a budget authority basis with the cash balances shown above.

	1980	1981	1982	1983
Balance available on an authorization basis	208,325	220,989	235,760	255,119
Unfinanced contract authority:				
Airport and airway trust fund	-914	-760	-739	-955
Highway trust funds	-18,348	-18,487	-18,685	-18,260
Foreign military sales trust fund	-12,087	-15,653	-20,099	-23,721
Other	-1	-1		
Unappropriated receipts:				
Available as needed, on an indefinite basis.....	-49	5	3	3
Available for appropriation by Congress:				
Soldiers' Home permanent fund	96	98	114	129
Airport and airway trust fund	4,716	3,774	2,894	2,859
Highway trust funds	10,610	9,034	8,439	7,743
Hazardous substance response trust fund.....		78	216	352
Other	3	92	194	246
Retained as permanent endowment.....	6	6	6	6
Balance available on a cash basis	192,358	199,174	208,103	223,521

Table C-10. TRUST REVOLVING FUND TRANSACTIONS

(In millions of dollars)

Description	Offsetting collections			Gross outlays		
	1981 actual	1982 esti- mate	1983 esti- mate	1981 actual	1982 esti- mate	1983 esti- mate
Office of Personnel Management (employees' life insurance and health benefits).....	5,312	6,813	8,376	4,850	6,234	7,643
Federal Deposit Insurance Corporation.....	1,807	1,988	2,204	81	188	204
All other trust revolving funds.....	525	564	594	472	513	547
Total trust revolving funds ¹.....	7,644	9,365	11,174	5,404	6,936	8,394
Receipts from the public.....	(3,287)	(4,096)	(4,776)	.....	.....	.....
Receipts from other accounts.....	(4,357)	(5,269)	(6,397)	.....	.....	.....

¹ Excludes right-of-way revolving fund which is a part of the highway trust funds.

SPECIAL ANALYSIS D

**INVESTMENT, OPERATING, AND OTHER
BUDGET OUTLAYS**

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

**OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT**

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
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- I. Civilian Employment in the Executive Branch
- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

SPECIAL ANALYSIS D

**INVESTMENT, OPERATING, AND OTHER BUDGET
OUTLAYS**

This analysis divides outlays between those of an "investment" or capital nature, and those devoted to "current" or operating purposes.

Investment-type programs yield benefits in future years through the acquisition of physical or financial assets, or through expenditures for less tangible long-term benefits such as education. They include: the construction, rehabilitation, and acquisition of physical assets; education, training, and vocational rehabilitation; research and development; international development; and financial investments such as loans. Outlays for investment-type programs are estimated to be \$155.3 billion in 1983.

Current programs provide benefits primarily in the year in which the outlays that finance them are made. They include: payments for retirement, disability, and other income maintenance; social services; payments (including subsidies) to agriculture, businesses, transportation systems, and other institutions that are not directly used by the institutions to purchase physical assets; payments for the repair, maintenance, and operation of existing physical assets; and regulatory, law enforcement, interest, and other operating costs of the Federal Government. Outlays for current programs are estimated to be \$631.6 billion in 1983.

Outlays or offsetting receipts that cannot be identified as either investment or current in nature are presented as *unclassified*.

INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS

(In billions of dollars)

	1981 actual	1982 estimate	1983 estimate
Investment-type programs.....	146.0	148.0	155.3
Current programs.....	530.8	597.0	631.6
Unclassified.....	-19.6	-19.6	-29.3
Total.....	657.2	725.3	757.6

The Federal Government has never had a capital budget in the sense of financing capital or investment-type programs separately from current expenditures. While the application of accounting concepts for capital budgeting is difficult for private sector entities,

it is much more so for the public sector. For example, the Federal Government holds vast amounts of land and controls off-shore areas; both have potential value as sources of either timber, oil, or minerals. These assets do not have a known or easily estimated market value. Defense procurement poses similar problems in using capital accounting. A capital budget would pose formidable accounting problems in the measurement of depreciation on Government property, especially weapons. Moreover, there would be severe problems in the use of a capital budget. It would be misleading as a measure of the Government's effect on the demand for economic resources. The deficit of a capital budget could not be used as an indication of the demands that Federal borrowing requirements place on the credit market. It might also suggest that programs with intensive expenditures for physical assets, such as construction, are better than those for which future benefits cannot be accurately capitalized, such as education or defense research and development. Likewise, physical assets might be favored relative to current operations in any given program because deficit financing for capital purposes could be easier to justify.

There are inevitable classification difficulties in preparing the kind of analysis presented here. In the case of a few programs—such as general revenue sharing—the recipients are free to utilize the funds for either investment-type or current purposes. In such cases, this analysis classifies the outlays in the category where most of the outlays are expected to occur.

Some programs could logically be put in more than one subcategory within these broader categories. For example, grants for construction of education facilities not only finance the acquisition of physical assets but also are an important element in the conduct of education and training. In cases such as this, the outlays are classified in the subcategory that is most “capital-like” and therefore appears first in the special analysis structure (the order goes from loans to construction and rehabilitation, acquisition of major equipment, conduct of research and development, etc.).

The classification structure used in compiling information for this analysis is designed primarily to distinguish investment-type outlays from current outlays. It does not provide a ready source of information on total outlays or other forms of assistance affecting particular sectors of the economy. For example, the category “aids to agriculture, commerce, and transportation” reflects current benefits, such as subsidies for operating expenses of air, water, and rail transportation activity. It does not include related subsidies for the construction of private merchant ships, which are investment-type outlays included under “acquisition of major equipment”, nor does it include assistance provided by the Federal Government through loan guarantees, tax expenditures, or other methods. Al-

though not measured in this analysis, guaranteed loans, tax expenditures, and other provisions of the tax code are methods by which the Federal Government can affect the type and amount of public and private investment. For example, federally guaranteed loans are substitutes for outlays or direct loans and can result in the creation of certain assets in place of others.¹

The four tables presented in this analysis divide outlays between investment-type and current uses according to the classification categories described below. Table D-1 divides outlays between national defense and civil programs. Table D-2 separates outlays by grants-in-aid,² loans, and other direct Federal programs. This table does not distinguish between defense and civil outlays. Tables D-3 and D-4 correspond to tables D-1 and D-2, respectively, and give further detail. Most of the off-budget outlays (shown as addendum items) are for loans and are, therefore, for investment-type activity.³

The remainder of the text discusses in greater detail the components and rationale for classifying the various types of budget outlays. For each type of outlay classified in the investment category the manner is shown whereby that type yields benefits in the future, in the form of either physical or financial assets or other less tangible benefits. The remaining outlays (except for the allowances) are classified by definition as current.

Investment-type programs.—Total investment-type outlays are estimated to increase from \$148.0 billion in 1982 to \$155.3 billion in 1983. About \$2.9 billion in 1983 outlays are for loans and financial investments, \$90.2 billion are for the acquisition, construction, or rehabilitation of physical assets, and \$62.2 billion are for the conduct of education, training, research and development, and other investment-type programs. Defense investment-type outlays are primarily for the acquisition of major equipment and other physical assets, and for research and development. Civil programs, which account for 40% of total investment-type outlays, are primarily for construction and rehabilitation of physical assets and the conduct of education, research, and development.

Loans and financial investments.—A loan creates a financial asset; if made at competitive market rates, the value of the asset equals to the outlay. For domestic loans, the Government's asset is matched by the liability of the private sector. Most Federal domestic loans finance the acquisition or improvement of either physical

¹ Additional information on guaranteed loan programs and tax expenditures can be found in separate publications entitled Special Analysis F, "Federal Credit Programs" and Special Analysis G, "Tax Expenditures", respectively.

² Grants-in-aid are resources provided by the Federal Government in support of State and local programs of governmental service to the public. A separate publication, Special Analysis H, "Federal Aid to State and Local Governments," discusses grants-in-aid in greater detail.

³ See Part 6 of the *Budget* for a discussion of off-budget Federal entities.

Table D-1. SUMMARY OF INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
National defense:			
Investment-type programs:			
Construction and rehabilitation.....	2,833	3,561	4,501
Acquisition of major equipment and other physical assets.....	36,867	43,224	57,150
Conduct of research and development.....	16,946	20,384	24,453
Other investment-type programs.....	187	113	293
Subtotal, investment-type programs.....	56,832	67,282	86,397
Current programs:			
Provision of benefits.....	13,784	15,084	16,562
Repair, maintenance, and operation of physical assets.....	53,585	62,525	67,370
Other current programs.....	35,563	42,606	50,738
Subtotal, current programs.....	102,933	120,215	134,671
Total, national defense.....	159,765	187,497	221,068
Civil:			
Investment-type programs:			
Loans and financial investments.....	5,678	5,433	2,931
Construction and rehabilitation.....	28,944	28,510	25,747
Acquisition of physical assets.....	7,495	3,561	2,788
Conduct of research and development.....	17,231	17,470	16,846
Conduct of education and training.....	26,124	22,419	17,298
Other investment-type programs.....	3,650	3,301	3,280
Subtotal, investment-type programs.....	89,122	80,695	68,890
Current programs:			
Provision of benefits.....	309,239	345,882	360,356
Social services and related programs.....	9,174	8,440	6,710
Aids to agriculture, commerce, and transportation.....	17,357	16,972	13,297
Repair, maintenance, and operation of physical assets.....	-711	-1,532	-2,967
General purpose fiscal assistance.....	7,092	6,733	7,015
Regulation, control, and law enforcement.....	7,823	7,493	7,138
Net interest.....	68,556	83,015	96,414
Other current programs.....	9,372	9,738	8,979
Subtotal, current programs.....	427,903	476,740	496,942
Unclassified.....	-19,585	-19,602	-29,262
Total, civil.....	497,439	537,833	536,570
Grand total	657,204	725,331	757,638
Addendum:			
Off-budget Federal entities (civil):			
Loans.....	20,999	16,419	12,295
Other investment-type outlays.....	2	2,848	2,801
Aids to agriculture, commerce, and transportation.....	3	422	606
Total, off-budget Federal entities.....	21,005	19,689	15,701

Table D-2. SUMMARY OF BUDGET OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Grants-in-aid:			
Investment-type programs:			
Construction, rehabilitation, and acquisition of physical assets	22,219	21,659	19,468
Conduct of education and training	14,445	10,919	7,477
Other investment-type programs	354	276	217
Subtotal, investment-type programs	37,018	32,853	27,163
Current programs:			
Provision of benefits	39,421	41,355	39,211
Social services and related programs	8,059	7,425	5,966
Aids to agriculture, commerce, and transportation	1,458	1,225	904
General purpose fiscal assistance	7,133	6,777	7,074
Regulation, control, and law enforcement	684	583	441
Other current programs	990	1,002	660
Subtotal, current programs	57,744	58,367	54,255
Total, grants-in-aid	94,762	91,220	81,418
Loans	4,078	4,127	1,592
Direct Federal programs:			
Investment-type programs:			
Construction and rehabilitation	9,954	10,829	11,140
Acquisition of major equipment	37,325	43,122	57,095
Acquisition of commodity inventories and other physical assets	6,640	3,247	2,482
Conduct of research and development	33,926	37,635	41,106
Conduct of education and training	11,688	11,508	9,892
Other investment-type programs	5,325	4,656	4,817
Subtotal, investment-type programs	104,858	110,998	126,532
Current programs:			
Provision of benefits	283,602	319,611	337,707
Social services and related programs	1,115	1,014	744
Aids to agriculture, commerce, and transportation	15,900	15,747	12,393
Repair, maintenance, and operation of physical assets	52,354	60,345	64,000
Regulation, control, and law enforcement	7,139	6,909	6,698
Net interest	68,556	83,015	96,414
Other current programs	44,424	51,947	59,403
Subtotal, current programs	473,091	538,588	577,358
Total, direct Federal programs	577,949	649,586	703,890
Unclassified	-19,585	-19,602	-29,262
Grand total	657,204	725,331	757,638
Addendum: (Direct Federal programs)			
Off-budget Federal entities:			
Loans	20,999	16,419	12,295
Other investment-type programs	2	2,848	2,801
Aids to agriculture, commerce, and transportation	3	422	606
Total, off-budget Federal entities	21,005	19,689	15,701

assets or human capital. This is especially true for loans in the commerce and housing credit, education, and transportation functions. Loans to foreign borrowers are an increase in financial assets held by the United States. Most foreign loans are for economic development programs or the promotion of U.S. exports, including military equipment and farm commodities.

Net loan outlays are estimated to total \$1.6 billion in 1983. This figure is less than the volume of new loans made in a given year because outlays for new loans are offset by loan repayments, or by sales of loans (so-called "loan asset sales") to the private sector or to the Federal Financing Bank. Budget outlays for financial investments are estimated to be \$1.3 billion in 1983 and almost entirely go to international organizations. Off-budget loans are estimated to be \$12.3 billion in 1983. Federal direct and guaranteed loan programs are discussed in greater detail in Special Analysis F, "Federal Credit Programs."

Physical assets.—The benefits provided by the construction and rehabilitation of physical assets, the acquisition of major equipment, and the establishment of commodity inventories are of a long-term nature. Budget outlays designed specifically to purchase such assets are treated as investment-type outlays regardless of whether the asset is owned by the Federal Government, or by State, local, or private entities. Total outlays for physical assets are estimated at \$90.2 billion in 1983; of this amount \$61.6 billion is for national defense. Most national defense outlays for physical assets are for the procurement of military equipment. A large portion of Federal outlays for nondefense physical assets is in the form of grants-in-aid to State and local governments, especially for construction programs such as highways, mass transit, and pollution control facilities. Outlays for the purchase of commodity inventories in 1982 and 1983 are lower than in 1981 by approximately \$2.8 billion. This decrease is caused by legislation which shifted the purchases of oil for the strategic petroleum reserve to off-budget status. Off-budget investment-type outlays reflect a corresponding increase.

Conduct of research and development.—Outlays for research and development increase our base of knowledge and apply that knowledge for its future benefit to the Nation. Total outlays for the conduct of research and development are estimated at \$41.3 billion in 1983. Outlays for defense research and development are estimated to increase by approximately 20% over 1982 and are more than one-half of research and development outlays. Outlays for nondefense research and development are estimated to decrease by approximately 4%. Outlays for health, energy, and space technology research and development account for approximately one-half of nondefense research and development outlays in 1983. Additional information about Federal research and development programs is contained in Special Analysis K, "Research and Development."

Conduct of education and training.—Outlays classified in this category are designed to add to the stock of human capital by developing a more skilled and productive labor force. These outlays are largely for direct payments to individuals, such as scholarships, and grants to institutions and State and local governments. As with physical assets, the benefits accrue over a considerable period of time. Outlays are estimated at \$17.4 billion in 1983, of which \$7.5 billion are in the form of grants to State and local governments.

Collection of information.—This category includes outlays for collection of information, censuses, topographic or other natural resource surveys, and programs that benefit both the present and future by establishing a base of knowledge. Outlays are estimated at \$1.3 billion and \$1.2 billion in 1982 and 1983, respectively.

International development.—Foreign assistance for general international economic development is included in this category. These outlays, which are expected to benefit U.S. interests by enhancing the economic development of friendly foreign nations, are estimated to be \$2.3 billion in 1983.

Current programs.—Programs that provide benefits in the current year are divided into several subcategories briefly discussed below. Outlays classified as current may in part be used by their recipients for investment-type purposes. However, the principal effect of these outlays is to provide short-term benefits—such as unemployment compensation, and retirement and disability payments—rather than providing the means for future benefits. Total outlays for current programs are estimated to increase from \$597.0 billion in 1982 to \$631.6 billion in 1983 and are more than three-quarters of 1983 estimated budget outlays. About \$134.7 billion of current outlays in 1983 are for defense programs and \$496.9 billion for civil programs.

Outlays for “provision of benefits” is the largest category in the budget. Total outlays are estimated to increase from \$361.0 billion in 1982 to \$376.9 billion in 1983. Social security and other disability and retirement benefits are estimated to be \$222.1 billion of the total in 1983. The decrease in 1983 railroad retirement and disability benefits is due to the administration’s proposal to restore the responsibility for railroad employee’s pension benefits to the private sector. Other major outlays in this category are for medicaid, medicare, unemployment, and food and nutrition programs.

Current outlays for “social services and related programs” fund human development and child welfare services, and employment programs. Outlays in 1983 are estimated to be \$6.7 billion, of which \$6.0 billion are in the form of grants to State and local governments.

“Aids to agriculture, commerce, and transportation” are primarily for direct Federal activities, including price support, small business and transportation programs. Outlays for these programs are estimated to decrease from \$17.4 billion in 1981 to \$17.0 billion in 1982 and \$13.3 billion in 1983. Outlays in 1981 include a one-time payment of \$2.1 billion to the Penn Central Corporation for properties transferred to Conrail in 1976.

Other current outlays are largely for operation of the Federal Government, including: the repair, maintenance, and operation of physical assets (primarily defense related); regulatory and law enforcement activities; net interest; and other administrative or operating expenses. Because proprietary receipts from the public—such as receipts from the sale of power and other utilities, the sale of publications and reproductions, and the sale of timber and other natural land products—are offsets against the outlays to which they most nearly apply, net outlays for the operation of the Federal Government are negative in some cases.

Unclassified.—The unclassified category has been redefined to encompass activity not previously included. It now includes the undistributed offsetting receipts (except interest) and the allowances for unallocated budget savings. In addition, most payments from the government to itself and the associated offsetting collections have been moved to this category. This has been done to reduce the confusion involved in deriving the true program level in the categories discussed above. Outlays for this category in 1982 and 1983 are estimated to be $-\$19.6$ billion and $-\$29.3$ billion, respectively.

Table D-3. INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
National defense investment-type programs			
Construction and rehabilitation of physical assets:			
Military construction.....	2,295	2,650	3,768
Family housing.....	102	185	3
Atomic energy defense activities.....	437	725	729
Subtotal, construction and rehabilitation of physical assets.....	2,833	3,561	4,501
Acquisition of major equipment:			
Procurement.....	35,191	41,325	55,144
Atomic energy defense activities and other.....	1,220	1,439	1,761
Subtotal, acquisition of major equipment.....	36,411	42,764	56,904
Other physical assets.....	455	460	246
Conduct of research and development.....	16,946	20,384	24,453
Other investment-type programs.....	187	113	293
Subtotal, investment-type programs.....	56,832	67,282	86,397
National defense current programs			
Provision of benefits:			
Retired military personnel.....	13,729	15,000	16,471
Other.....	55	85	91
Subtotal, provision of benefits.....	13,784	15,084	16,562
Repair, maintenance, and operation of physical assets:			
Department of Defense, Military.....	53,379	62,282	67,106
Other.....	206	243	264
Subtotal, repair, maintenance, and operation of physical assets.....	53,585	62,525	67,370
Other current programs:			
Military personnel.....	35,831	37,610	43,856
Allowance for civilian and military pay raises.....		5,081	4,285
Other national defense.....	-267	-85	2,598
Subtotal, other current programs.....	35,563	42,606	50,738
Subtotal, current programs.....	102,933	120,215	134,671
Total, national defense.....	159,765	187,497	221,068
Civil investment-type programs			
Loans:			
International affairs.....	2,904	2,583	3,289
Agriculture.....	-1,808	948	
Mortgage credit and thrift insurance.....	292	-149	-1,216
Aids to commerce.....	385	107	-75
Transportation.....	169	137	114
Disaster relief.....	1,100	-144	-414
Other community and regional development.....	141	46	83
Education.....	404	536	639
Other.....	501	72	-819

Table D-3. INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS—Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Subtotal, loans.....	4,088	4,137	1,602
Other financial investments:			
International development.....	1,330	1,139	1,293
Other.....	260	157	36
Subtotal, other financial investments.....	1,589	1,297	1,329
Construction and rehabilitation of physical assets:			
Highways.....	8,842	8,015	8,100
Mass transportation.....	2,593	2,726	2,410
Air transportation.....	776	809	748
Other transportation.....	131	132	121
Community development block grants.....	4,042	4,005	3,350
Other community and regional development.....	1,751	1,718	1,351
Pollution control and abatement.....	3,883	4,054	3,354
Water resources.....	2,336	2,284	2,192
Other natural resources and environment.....	1,326	1,374	1,137
Energy.....	2,279	2,228	1,872
Veterans hospitals and other health facilities.....	567	635	654
Other.....	417	530	456
Subtotal, construction and rehabilitation of physical assets.....	28,944	28,510	25,747
Acquisition of major equipment:			
Transportation.....	367	438	286
Other.....	573	-59	-79
Subtotal, acquisition of major equipment.....	940	379	207
Commodity inventories:			
Energy.....	3,352	491	565
Agriculture.....	990	423	
Other.....		29	
Subtotal, commodity inventories.....	4,342	943	565
Other physical assets.....	2,213	2,240	2,016
Conduct of research and development.....	17,231	17,470	16,846
Conduct of education and training:			
Foundation for Education Assistance:			
Higher education.....	6,253	6,227	5,524
Elementary, secondary, and vocational education..	6,008	6,164	4,772
Other.....	277	306	302
Subtotal, Foundation for Education Assistance..	12,538	12,693	10,597
Veterans readjustment benefits.....	2,304	1,959	1,647
Training and employment programs.....	7,755	4,343	2,248
Health training.....	1,123	986	908
Other education and training.....	2,404	2,437	1,898
Subtotal, conduct of education and training....	26,124	22,419	17,298
Collection of information:			
Census Bureau.....	248	158	153
Other.....	1,218	1,099	1,017

Table D-3. INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS—Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Subtotal, collection of information	1,466	1,257	1,170
International development	2,184	2,044	2,110
Subtotal, investment-type programs	89,122	80,695	68,890
Civil current programs			
Provision of benefits:			
Retirement, survivor, and disability benefits:			
Social Security:			
Retirement and survivor benefits	119,413	134,918	150,238
Disability benefits	16,853	17,662	18,415
Subtotal, Social Security	136,267	152,580	168,654
Civil Service:			
Retirement and survivor benefits	14,046	15,412	16,838
Disability benefits	3,158	3,438	3,718
Subtotal, Civil Service	17,204	18,850	20,556
Railroad retirement and disability benefits	5,294	5,328	
Veterans disability benefits	8,670	9,675	10,351
Other retirement and disability benefits	1,336	1,988	1,941
Subtotal, retirement, survivor, and disability benefits	168,771	188,420	201,502
Other provisions of benefits:			
Veterans pension benefits	3,755	3,940	4,014
Medicare	41,242	48,296	54,127
Medicaid	16,833	17,823	17,006
Other health benefits	1,032	1,236	1,691
Unemployment compensation	18,392	23,689	21,159
Housing programs	7,548	9,520	10,089
Food and nutrition programs	15,706	15,015	13,317
Supplemental security income	6,452	7,073	8,028
Assistance payments program	7,203	6,671	5,412
Other	6,123	6,725	4,653
Subtotal, other provisions of benefits	124,285	139,988	139,495
Direct provision of services:			
Hospital and medical care for veterans	5,947	6,547	6,925
Other health services	1,092	972	915
Other	280	313	861
Subtotal, direct provision of services	7,319	7,831	8,702
Administrative expenses:			
Social Security retirement and disability	1,689	1,899	2,161
Medicare	1,247	1,255	1,225
Unemployment compensation and other	5,929	6,489	7,272
Subtotal, administrative expenses	8,865	9,643	10,657
Subtotal, provision of benefits	309,239	345,882	360,356

Table D-3. INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS—Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Social services and related programs:			
Human development services.....	2,793	2,247	2,350
Employment programs.....	1,476	1,085	508
Social services and child welfare services.....	2,571	2,912	1,974
Other.....	2,334	2,197	1,878
Subtotal, social services and related programs.....	9,174	8,440	6,710
Aids to agriculture, commerce, and transportation:			
Agriculture.....	4,650	5,551	2,714
Postal Service.....	1,343	619	500
Small business assistance.....	492	540	595
Mortgage credit and thrift insurance.....	1,111	1,538	1,785
Ground transportation.....	4,705	3,211	1,881
Air transportation.....	2,270	2,137	2,411
Water transportation and waterways.....	1,584	1,750	1,558
Other.....	1,202	1,624	1,854
Subtotal, aids to agriculture, commerce, and transportation.....	17,357	16,972	13,297
Repair, maintenance, and operation of physical assets:			
Natural resources:			
Water resources.....	823	782	574
Conservation and land management.....	433	422	357
Recreation resources and other.....	668	783	885
Offsetting receipts.....	-1,458	-2,232	-3,219
Subtotal, natural resources.....	467	-246	-1,403
Energy (net of naval petroleum reserve and other receipts).....	-1,295	-1,609	-1,684
Indian tribal receipts.....	-315	-349	-372
Other.....	433	673	492
Subtotal, repair, maintenance, and operation of physical assets.....	-711	-1,532	-2,967
General purpose fiscal assistance:			
General revenue sharing.....	5,137	4,570	4,567
Other general purpose grants-in-aid.....	725	759	759
Shared revenues.....	1,230	1,404	1,689
Subtotal, general purpose fiscal assistance.....	7,092	6,733	7,015
Regulation, control, and law enforcement:			
Regulatory and inspection activities:			
Natural resources and environment.....	1,098	1,010	914
Transportation.....	860	868	907
Health.....	701	682	689
Energy.....	631	638	544
Agriculture.....	330	308	256
Savings institutions.....	-1,738	-1,830	-2,015
Tax collections.....	568	619	765
Other.....	832	832	632

Table D-3. INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS—Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Subtotal, regulatory and inspection activities ...	3,283	3,127	2,693
Law enforcement activities:			
Federal law enforcement	2,366	2,443	2,595
Federal litigative and judicial activities	1,479	1,377	1,406
Federal correctional activities	343	351	374
Other law enforcement assistance	353	196	71
Subtotal, law enforcement activities	4,540	4,366	4,445
Subtotal, regulation, control, and law enforcement	7,823	7,493	7,138
Net interest:			
Interest on the public debt	95,333	115,700	132,900
Other interest	-12,967	-16,605	-20,364
Interest received by trust funds	-13,810	-16,080	-16,122
Subtotal, net interest	68,556	83,015	96,414
General Administration:			
International affairs	1,176	1,829	2,107
Legislative branch	1,058	1,235	1,262
Other general government	2,946	3,163	3,079
Other	1,047	807	615
Subtotal, general administration	6,228	7,034	7,063
Other current programs:			
International security assistance	2,880	3,081	2,619
Allowances for civilian agency pay raises		376	743
Other	265	-753	-1,446
Subtotal, other current programs	3,144	2,704	1,916
Subtotal, current programs	427,903	476,740	496,942
Unclassified:			
Fraud, waste, and abuse		-1,000	-1,000
Employer share, employee retirement	-6,371	-7,560	-8,353
Offshore oil receipts	-10,138	-7,861	-18,000
Non-compulsory medicare premiums	-12,921	-18,194	-19,806
Other unclassified	9,845	15,013	17,897
Subtotal, unclassified	-19,585	-19,602	-29,262
Total, civil	497,439	537,833	536,570
Grand total	657,204	725,331	757,638
Addendum:			
Off-budget Federal entities (civil):			
Investment-type programs:			
Loans (see Table D-4)	20,999	16,419	12,295
Strategic petroleum reserve		2,834	2,775
Other investment-type programs	2	13	27

Table D-3. INVESTMENT, OPERATING, AND OTHER BUDGET OUTLAYS—Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Subtotal, investment-type programs	21,001	19,267	15,096
Current:			
Aids to agriculture, commerce, and transportation:			
Postal Service.....	86	540	687
Railways.....	-47	12	9
Other	-36	-130	-90
Subtotal, aids to agriculture, commerce and transportation	3	422	606
Subtotal, current programs.....	3	422	606
Total, off-budget Federal entities.....	21,005	19,689	15,701

*\$500 thousand or less.

Table D-4. BUDGET OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Grants-in-aid			
Investment-type programs:			
Construction and rehabilitation of physical assets:			
Highways	8,835	8,000	8,099
Mass transportation	2,593	2,726	2,410
Other transportation	469	475	374
Pollution control and abatement.....	3,881	4,050	3,350
Other natural resources and environment.....	277	305	196
Community development block grants.....	4,042	4,005	3,350
Other community and regional development.....	1,531	1,433	1,153
Other construction.....	194	248	176
Subtotal, construction and rehabilitation of physical assets.....	21,823	21,242	19,107
Acquisition of equipment and other physical assets...	396	417	361
Conduct of research and development	251	220	193
Conduct of education and training:			
Employment and training assistance	6,778	3,322	1,531
Elementary and secondary education.....	5,877	6,031	4,694
Other.....	1,790	1,566	1,253
Subtotal, conduct of education and training....	14,445	10,919	7,477
Collection of information.....	103	57	24
Subtotal, investment-type programs	37,018	32,853	27,163
Current programs:			
Provision of benefits:			
Medicaid	16,833	17,823	17,006
Nutrition and food programs	4,581	4,103	3,961
Assistance payments.....	7,203	6,671	5,412
Housing payments and subsidies.....	4,015	4,754	4,884
Other.....	3,509	4,268	3,652
Administrative expenses:			
Unemployment compensation and other.....	3,281	3,737	4,296
Subtotal, provision of benefits.....	39,421	41,355	39,211
Social services and related programs:			
Employment programs.....	1,201	832	470
Human development services	2,707	2,168	2,270
Social services and child welfare services.....	2,571	2,912	1,974
Other.....	1,579	1,514	1,252
Subtotal, social services and related programs.....	8,059	7,425	5,966
Aids to agriculture, commerce, and transportation:			
Transportation	1,453	1,220	902
Other.....	4	5	2
Subtotal, aids to agriculture, commerce, and transportation	1,458	1,225	904

Table D-4. BUDGET OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Repair, maintenance, and operation of physical assets	520	648	403
General purpose fiscal assistance:			
General revenue sharing.....	5,137	4,570	4,567
Shared revenues.....	1,230	1,404	1,689
Other.....	766	803	818
Subtotal, general purpose fiscal assistance	7,133	6,777	7,074
Regulation, control, and law enforcement:			
Law enforcement assistance	257	196	76
Other.....	427	388	365
Subtotal, regulation, control, and law enforcement.....	684	583	441
Other current programs	470	354	256
Subtotal, current programs.....	57,744	58,367	54,255
Total, grants-in-aid	94,762	91,220	81,418
Loans			
International affairs	2,904	2,583	3,289
Energy supply	100	97	119
Agriculture.....	-1,808	948	.....
Mortgage credit and thrift insurance.....	292	-149	-1,216
Commerce and housing credit	378	99	-83
Transportation.....	169	137	114
Small Business Administration, disaster loans	1,101	-144	-414
Education.....	404	536	639
Veterans	217	-41	-1,025
Other	321	-60	168
Total, loans	4,078	4,127	1,592
Direct Federal Programs			
Investment-type programs:			
Financial investments	1,589	1,297	1,329
Construction and rehabilitation of physical assets:			
National defense	2,800	3,522	4,454
Water resource projects	2,264	2,215	2,143
Other natural resources and environment.....	1,121	1,143	995
Energy.....	2,279	2,228	1,872
Transportation	446	480	497
Veterans hospitals and other health facilities.....	552	574	637
Other construction.....	492	667	543
Subtotal, construction and rehabilitation of physical assets.....	9,954	10,829	11,140
Acquisition of major equipment:			
National defense	36,411	42,764	56,904
Other.....	914	358	191
Subtotal, acquisition of major equipment.....	37,325	43,122	57,095

Table D-4. BUDGET OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Commodity inventories.....	4,797	1,403	811
Other physical assets.....	1,843	1,844	1,671
Conduct of research and development.....	33,926	37,635	41,106
Conduct of education and training:			
Assistance to veterans.....	2,533	2,178	1,899
Higher education.....	6,246	6,279	5,585
Elementary and secondary education.....	395	391	328
Employment and training assistance.....	911	934	640
Health training.....	672	549	437
Other.....	931	1,177	1,003
Subtotal, conduct of education and training....	11,688	11,508	9,892
Collection of information.....	1,385	1,222	1,171
International development.....	2,351	2,138	2,317
Subtotal, investment-type programs.....	104,858	110,998	126,532
Current programs:			
Provision of benefits:			
Social Security retirement and disability.....	136,267	152,580	168,654
Other retirement and disability benefits.....	50,043	54,864	53,425
Medicare.....	41,242	48,296	54,127
Medical care for veterans.....	5,947	6,547	6,925
Other health.....	1,126	1,023	938
Unemployment compensation.....	18,392	23,689	21,159
Food and nutrition programs.....	10,841	10,493	8,990
Housing payments and subsidies.....	3,590	4,805	6,034
Supplemental security income.....	6,407	7,050	8,012
Earned income tax credit.....	1,318	1,254	1,180
Other.....	2,846	3,103	1,900
Administrative expenses:			
Social Security retirement and disability.....	1,689	1,899	2,161
Medicare.....	1,247	1,255	1,225
Nutrition and food programs and other.....	2,648	2,752	2,976
Subtotal, administrative expenses.....	5,584	5,907	6,362
Subtotal, provision of benefits.....	283,602	319,611	337,707
Social services and related programs.....	1,115	1,014	744
Aids to agriculture, commerce, and transportation:			
Agriculture.....	4,650	5,551	2,714
Postal Service.....	1,343	619	500
Small business assistance.....	492	540	595
Mortgage credit and thrift insurance.....	1,109	1,536	1,785
Ground transportation.....	3,255	1,994	981
Air transportation.....	2,270	2,137	2,411
Water transportation and waterways.....	1,035	1,176	1,057
Other.....	1,746	2,194	2,350

Table D-4. BUDGET OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Subtotal, aids to agriculture, commerce, and transportation	15,900	15,747	12,393
Repair, maintenance, and operation of physical assets:			
National defense	53,585	62,525	67,370
Other (includes offsetting collections)	-1,231	-2,180	-3,370
Subtotal, repair, maintenance, and operation of physical assets	52,354	60,345	64,000
Regulation, control, and law enforcement	7,139	6,909	6,698
Net interest	68,556	83,015	96,414
Other current programs:			
Military personnel	35,831	37,610	43,856
Allowance for Department of Defense pay raises		5,081	4,285
Other national defense	-309	-128	2,539
Allowance for civilian agency pay raises		376	743
Other	8,902	9,008	7,980
Subtotal, other current programs	44,424	51,947	59,403
Subtotal, current programs	473,091	538,588	577,358
Total, direct Federal programs	577,949	649,586	703,890
Unclassified:			
Fraud, waste, abuse		-1,000	-1,000
Employer share, employee retirement	-6,371	-7,560	-8,353
Offshore oil receipts	-10,138	-7,861	-18,000
Non-compulsory medicare premiums	-12,921	-18,194	-19,806
Other unclassified	9,845	15,013	17,897
Subtotal, unclassified	-19,585	-19,602	-29,262
Grand total	657,204	725,331	757,638
Addendum (Direct Federal):			
Off-budget Federal entities:			
Investment-type programs:			
Loans:			
International	1,940	2,644	3,709
Energy	4,899	5,740	5,919
Agriculture	5,790	1,066	-394
Mortgage credit and thrift insurance	4,164	3,473	1,031
Transportation	31	-42	-2
Community and regional development	1,200	1,307	947
Education	1,955	700	
Income security	810	1,224	969
Other	211	286	115
Subtotal, loans	20,999	16,419	12,295
Other investment-type programs:			
Strategic petroleum reserve		2,834	2,775
Other	2	13	27

Table D-4. BUDGET OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Subtotal, other investment type.....	2	2,848	2,801
Subtotal, investment	21,001	19,267	15,096
Current:			
Aids to agriculture, commerce, and transportation:			
Postal Service	86	540	687
Railways	-47	12	9
Other	-36	-130	-90
Subtotal, aids to agriculture, commerce, & transportation.....	3	422	606
Subtotal, current	3	422	606
Total, off-budget Federal entities	21,005	19,689	15,701

SPECIAL ANALYSIS E

BORROWING AND DEBT

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
 - I. Civilian Employment in the Executive Branch
- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

SPECIAL ANALYSIS E

BORROWING AND DEBT

The major fiscal operations of the Federal Government include not only taxation and expenditure but also:

- the borrowing of cash to meet current outlays not covered by receipts and to refinance maturing debt;
- the investment of balances that trust funds and other Government accounts do not currently need for outlays; and
- the provision of guarantees and other assistance for certain private borrowing.

This analysis summarizes current developments in Federal borrowing. It also discusses the size and growth of the Federal debt and the interest on the Federal debt, the amount of U.S. Government debt held by foreign residents, agency borrowing, agency investment in Federal securities, the statutory debt limitation, Government-guaranteed borrowing, and borrowing by Government-sponsored enterprises. The analysis concludes with a brief discussion of the trend in Federal and federally assisted borrowing and the relationship of this trend to the total borrowing by the nonfinancial sector of the economy. Excluded from this analysis are other types of Federal liabilities, which include accounts payable, obligations for undelivered orders, long-term contracts, insurance commitments, and the obligation for such future payments as social security and employee retirement.¹

Special Analysis F, "Federal Credit Programs,"² examines the related subject of Federal credit programs, which provide direct loans, loan guarantees, and loans by Government-sponsored enterprises. The factors discussed in both Special Analyses E and F are significant in appraising the impact on financial markets of the programs contained in the 1983 Federal budget.

BORROWING AND REPAYING DEBT

The Federal Government sells debt for two principal reasons. First, it sells debt to the public, largely in order to finance the Federal deficit. Second, it sells debt to the Government agencies that accumulate surpluses in separate funds, primarily trust funds,

¹ Information on many of these liabilities is contained in "Statement of Liabilities and Other Financial Commitments of the United States Government," an annual report prepared by the Bureau of Government Financial Operations of the Department of the Treasury.

² This publication is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

that are required by law to be invested in Federal securities. Most Federal debt has been issued by the Treasury and is called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."³

Borrowing from the public—whether by the Treasury or by an agency—has a significant impact on financial markets and the rest of the economy, and is consequently an important concern of Federal fiscal policy. Borrowing from the public includes borrowing from the Federal Reserve System as well as borrowing from commercial banks, foreign central banks, other financial institutions and businesses, and individuals. The term "borrowing from the Federal Reserve System" does not imply that the Treasury sells debt securities directly to the Federal Reserve. Instead, the Federal Reserve normally buys securities in the open market. In the past the Federal Reserve was able to buy securities directly from the Treasury only under exceptional circumstances and in amounts limited by statute. The statutory authority for even these exceptions expired in 1981.

For most purposes borrowing from the Federal Reserve System should be distinguished from borrowing from the rest of the public. Federal Reserve purchases of debt are undertaken to carry out monetary policy, not to earn income, and affect the economy by expanding bank reserves and the money stock. They thus have a markedly different motivation and effect on financial markets than do purchases by other sectors of the public. The debt held outside the Federal Reserve System enters into investment portfolios of businesses and individuals and by this means affects interest rates, other financial conditions, and the size and composition of private assets. Almost all interest received by the Federal Reserve System is returned to the Treasury as receipts, called deposits of earnings, so the Federal Reserve holdings of debt have only a small effect on the budget surplus or deficit. The estimates in this analysis for the current and future years do not divide the debt held by the public between the Federal Reserve System and the rest of the public, despite the significance of this distinction, because the Federal Reserve's open market operations depend on future economic developments and on policy decisions not yet made.

Table E-1 summarizes Federal borrowing from 1981 through 1985. In 1981 the total Federal borrowing (net of the refunding of securities)—i.e., the rise in gross Federal debt—was \$89.6 billion. The sale of debt to Government agencies was \$10.3 billion, and the sale of debt to the public was \$79.3 billion. Of the increase in debt held by the public, \$3.6 billion was purchased by the Federal Re-

³ The term "agency debt" is defined more narrowly in the budget than in the securities market, where it may include not only the debt of the Government agencies listed in table E-6 but also certain Government-guaranteed securities and the debt of the Government-sponsored enterprises listed in table E-10.

serve System and \$75.7 billion by the rest of the public. As a result of this borrowing, Federal debt held by the public increased to \$794.4 billion at the end of 1981. Gross Federal debt reached one trillion dollars on the last day of the fiscal year, with the amount being \$1,003.9 billion.

Table E-1. FEDERAL BORROWING

(In millions of dollars)

Description	Borrowing or repayment (—) of debt					Debt outstanding, end of year	
	1981 actual	1982 ² estimate	1983 estimate	1984 estimate	1985 estimate	1983 estimate	1985 estimate
Gross Federal debt:							
Treasury debt	90,153	131,259	124,306	NA	NA	1,253,420	NA
Agency debt	— 530	— 1,014	— 87	NA	NA	4,985	NA
Gross Federal debt	89,623	130,245	124,219	114,373	113,314	1,258,405	1,486,092
Less debt held by Gov. agencies:							
Treasury debt	10,313	15,115	16,230	NA	NA	235,795	NA
Agency debt	— 19	— 264	— 10	NA	NA	1,176	NA
Debt held by Gov. agencies ¹	10,294	14,851	16,220	17,913	31,279	236,971	286,163
Total, debt held by public	79,329	115,394	108,000	96,459	82,036	1,021,434	1,199,929
Composed of:							
Debt held by the Federal Reserve System	3,620	NA	NA	NA	NA	NA	NA
Debt held by others	75,709	NA	NA	NA	NA	NA	NA

NA = Not available.

¹ Agency investment in 1984 and 1985 is estimated as equal to the total trust fund surplus.² Borrowing from the public in 1982 excludes the change in debt held by the public due to the proposed legislation under which the ownership of an estimated \$3,606 million of debt would be transferred from the railroad retirement account to a newly created private rail industry pension corporation as of September 30, 1982. Agency investment excludes the corresponding change in debt held by Government agencies.

Borrowing from the public has fluctuated widely in recent years, largely in response to fluctuations in the economy. It rose from \$3.0 billion in 1974 to \$82.9 billion in 1976 primarily because of the 1974-75 recession and its aftermath, and it declined to \$33.6 billion in 1979 as the economy recovered. The rise in borrowing to \$70.5 billion in 1980 and \$79.3 billion in 1981 was caused in considerable part by economic slowdown and recession.

Borrowing from the public is estimated to increase to \$115.4 billion in 1982 and then decline a little to \$108.0 billion in 1983. The economic assumptions underlying these estimates are displayed and discussed in Part 2 of the *Budget*. The current recession automatically reduces tax receipts and raises outlays for unemployment benefits and certain other programs; the current decrease in the rate of inflation, which is estimated to continue throughout the projection period, reduces tax receipts more quickly than it reduces outlays. By the end of 1983 gross Federal debt is estimated to be \$1,258.4 billion, with \$1,021.4 billion or 81% held by the public (including the Federal Reserve System) and the remainder by the

agencies. Almost all of the gross Federal debt will have been issued by the Treasury.

Borrowing from the public for years beyond the budget year is estimated as part of the Government's multi-year budget planning. As explained in Part 2 of the *Budget*, the economic assumptions underlying the receipts and outlay estimates for 1984 and 1985 are not forecasts of the probable economic conditions in these years, unlike the economic forecast underlying the 1982 and 1983 estimates. Instead, the 1984-85 assumptions are projections consistent with the economic policy objectives of the administration that assume steady progress in reducing unemployment, inflation, and interest rates and in sustaining strong real growth. The receipts and outlay estimates also assume that current tax laws are continued, as modified by the proposals in the budget, and that existing and proposed programs are carried out in 1984 and 1985 at the levels currently planned. Under these assumptions, the total Government deficit continues to decline, and borrowing from the public decreases steadily to \$82.0 billion in 1985.

BORROWING AND GOVERNMENT DEFICITS

Table E-2 shows the relationship between borrowing from the public and the Federal deficit. Until several years ago the budget deficit comprised practically the entire deficit of the Federal Government, but the deficit of the off-budget Federal entities is now significant. These entities, such as the Federal Financing Bank and the Postal Service, are parts of the Federal Government but have been excluded from the budget under provisions of law.

The Government deficit is financed either by borrowing from the public or by several other means. The other means of financing are:

- a decrease in cash or other kinds of monetary assets;
- an increase in monetary liabilities for checks outstanding, accrued interest payable to the public, etc.;
- an increase in deposit fund balances, which are discussed on pages 21-22 together with their effect on the means of financing; and
- seigniorage, which is the face value of minted coins less the cost of their production.

All of these other means of financing except seigniorage are changes in Government asset or liability accounts and so may be either positive or negative. In most years they add up to a positive total amount, in which case they finance part of the deficit. Sometimes, however, they add up to a negative total amount, in which case they, like the deficit, must themselves be financed by borrowing from the public. In 1981 the Government borrowed \$79.3 billion from the public. Almost all of this amount, \$78.9 billion, was used

to finance the Government deficit. The remainder was used to finance the other means of financing, which had a small negative total amount.

Table E-2. MEANS OF FINANCING THE FEDERAL DEFICIT ¹

(In millions of dollars)

Description	1981 actual	1982 estimate	1983 estimate	1984 estimate	1985 estimate
Budget surplus or deficit (—)	— 57,932	— 98,578	— 01,52.	— 92,019	— 81,993
Deficit (—) of off-budget Federal entities ²	— 21,005	— 19,689	— 15,701	— 14,285	— 10,950
Total, surplus or deficit (—)	— 78,936	— 118,267	— 107,221	— 978,204	— 82,833
Means of financing other than borrowing from the public:					
Decrease or increase (—) in cash and monetary assets.....	— 1,668	3,700			
Increase or decrease (—) in liabilities for:					
Checks outstanding, etc. ³	— 1,301	329	326		
Deposit fund balances ⁴	2,125	— 1,709	— 1,621		
Seigniorage on coins.....	450	553	516	744	797
Total, means of financing other than borrowing from the public	— 393	2,873	— 779	744	797
Total, requirements for borrowing from the public.....	— 79,329	— 115,394	— 108,000	— 96,459	— 82,036
Transfer of debt holdings ⁵		— 3,606			
Change in debt held by the public.....	79,329	119,000	108,000	96,459	82,036

¹ Several amounts have been assumed to be zero during 1983-85 because they are usually small and cannot be estimated accurately.

² The off-budget Federal entities consist of the Rural Electrification and Telephone revolving fund, Rural Telephone Bank, Federal Financing Bank, Postal Service fund, one program of the U.S. Railway Association, Synthetic Fuels Corporation, and (beginning in 1982) the Strategic Petroleum Reserve account.

³ Besides checks outstanding, includes military payment certificates, accrued interest (less unamortized discount) payable on Treasury debt, and, as an offsetting change in assets, certain collections in transit.

⁴ Does not include investment in Federal debt classified as debt held by the public.

⁵ As of September 30, 1982, \$3,606 million of debt held by trust funds are estimated to be reclassified as debt held by the public, because under proposed legislation the ownership of the assets of the railroad retirement account are to be transferred to a newly created private rail industry pension corporation.

The other means of financing are normally small relative to borrowing from the public. This is because they are limited by their own nature. Decreases in cash balances, for example, are necessarily limited by past accumulations, which themselves required financing when they were built up. Thus, the extent to which means other than borrowing can finance a deficit are limited in any 1 year and are still more limited over a longer period of time. When the total Government deficit is sizable, it is necessarily the principal determinant of borrowing from the public.

The debt estimated to be held by the public at the end of 1982 is increased by \$3.6 billion due to proposed legislation that would transfer the ownership of the assets of the railroad retirement account as of September 30, 1982, to a newly created private corporation that was chartered to operate the rail industry pension. The transfer of these debt securities is not defined as constituting an outlay. This transaction therefore does not give rise to any financing requirement, and the transfer is a reclassification of debt hold-

ings rather than a borrowing from the public. The change in debt held by the public during 1982 is consequently \$3.6 billion more than the borrowing from the public. Correspondingly, the change in debt held by Government agencies is \$3.6 billion less than agency investment. Gross Federal debt is not affected.

The structure of table E-2 demonstrates that, because of the off-budget Federal entities, balancing the budget is not enough to prevent an increase in the Federal debt held by the public. Even if the budget were balanced, the off-budget deficit would have to be financed by borrowing. The budget and the off-budget entities combined must be in balance in order for the Government not to have to borrow from the public (aside from the effects of the other means of financing).

The amount of debt issued to Federal agencies depends largely on the surpluses of the trust funds, which own 90% of the Federal debt held by Government agencies. Agency investment in Federal securities and the total trust fund surplus during 1980-83 are compared in the table below (in billions of dollars):

	<i>1980 actual</i>	<i>1981 actual</i>	<i>1982 estimate</i>	<i>1983 estimate</i>
Agency investment in Federal debt.....	10.1	10.3	14.9	16.2
Total trust fund surplus.....	8.8	6.8	12.5	15.4

As the table shows, the agency investment in Federal securities is similar in size to the total trust fund surplus throughout this period. This relationship has historically been close, with the small differences accounted for by two factors. Certain agencies other than trust funds buy or sell Federal debt, as shown in table E-7, and the trust funds may increase or decrease their cash assets not currently invested.⁴

SIZE AND GROWTH OF FEDERAL DEBT

Gross Federal debt has risen substantially over the past half century, from \$16.9 billion in 1929 to \$1,003.9 billion at the end of 1981. Table E-3 compares the trends since 1954 in gross Federal debt and the amounts of debt held by Government accounts, the public (including the Federal Reserve System), and the Federal Reserve System. During this period the gross Federal debt increased nearly four times, with over a fifth of the increase being held in Federal Government accounts (primarily trust funds) rather than being owed to the public. In the quarter century from the end of 1956 to the end of 1981, gross Federal debt increased at an average annual rate of 5.3% and debt held by the public in-

⁴These "open book balances" are small relative to trust fund holdings of Federal debt, as shown in Special Analysis C, "Funds in the Budget."

Table E-3. COMPARISON OF TRENDS IN FEDERAL DEBT AND GROSS NATIONAL PRODUCT

(Dollar amounts in billions)

Fiscal year	Debt outstanding, end of year					GNP	Debt held by public as percent of GNP
	Gross Federal debt	Held by					
		Federal Government accounts	The public				
			Total	Federal Reserve System	Other		
1954.....	270.8	46.3	224.5	25.0	199.5	364.2	61.6
1955.....	274.4	47.8	226.6	23.6	203.0	380.6	59.5
1956.....	272.8	50.5	222.2	23.8	198.5	411.8	54.0
1957.....	272.4	52.9	219.4	23.0	196.4	433.9	50.7
1958.....	279.7	53.3	226.4	25.4	200.9	443.1	51.1
1959.....	287.8	52.8	235.0	26.0	209.0	474.4	49.5
1960.....	290.9	53.7	237.2	26.5	210.7	497.9	47.6
1961.....	292.9	54.3	238.6	27.3	211.4	509.3	46.8
1962.....	303.3	54.9	248.4	29.7	218.7	548.2	45.3
1963.....	310.8	56.3	254.5	32.0	222.4	578.0	44.0
1964.....	316.8	59.2	257.6	34.8	222.8	618.2	41.7
1965.....	323.2	61.5	261.6	39.1	222.5	659.5	39.7
1966.....	329.5	64.8	264.7	42.2	222.5	724.1	36.6
1967.....	341.3	73.8	267.5	46.7	220.8	777.3	34.4
1968.....	369.8	79.1	290.6	52.2	238.4	831.3	35.0
1969 ¹	367.1	87.7	279.5	54.1	225.4	910.6	30.7
1970 ²	382.6	97.7	284.9	57.7	227.2	968.8	29.4
1971.....	409.5	105.1	304.3	65.5	238.8	1,031.5	29.5
1972.....	437.3	113.6	323.8	71.4	252.3	1,128.8	28.7
1973 ³	468.4	125.4	343.0	75.2	267.9	1,252.0	27.4
1974.....	486.2	140.2	346.1	80.6	265.4	1,379.4	25.1
1975.....	544.1	147.2	396.9	85.0	311.9	1,479.9	26.8
1976 ⁴	631.9	151.6	480.3	94.7	385.6	1,640.1	29.3
TQ.....	646.4	148.1	498.3	96.7	401.6	1,723.3	28.9
1977.....	709.1	157.3	551.8	105.0	446.8	1,864.1	29.6
1978.....	780.4	169.5	610.9	115.5	495.5	2,083.8	29.3
1979.....	833.8	189.2	644.6	115.6	529.0	2,353.3	27.4
1980.....	914.3	199.2	715.1	120.8	594.3	2,567.5	27.9
1981.....	1,003.9	209.5	794.4	124.5	670.0	2,858.6	27.8
1982 estimate ⁵	1,134.2	220.8	913.4	NA	NA	3,082.9	29.6
1983 estimate.....	1,258.4	237.0	1,021.4	NA	NA	3,433.6	29.7
1984 estimate.....	1,372.8	254.9	1,117.9	NA	NA	3,791.9	29.5
1985 estimate.....	1,486.1	286.2	1,199.9	NA	NA	4,163.5	28.8

NA = Not available.

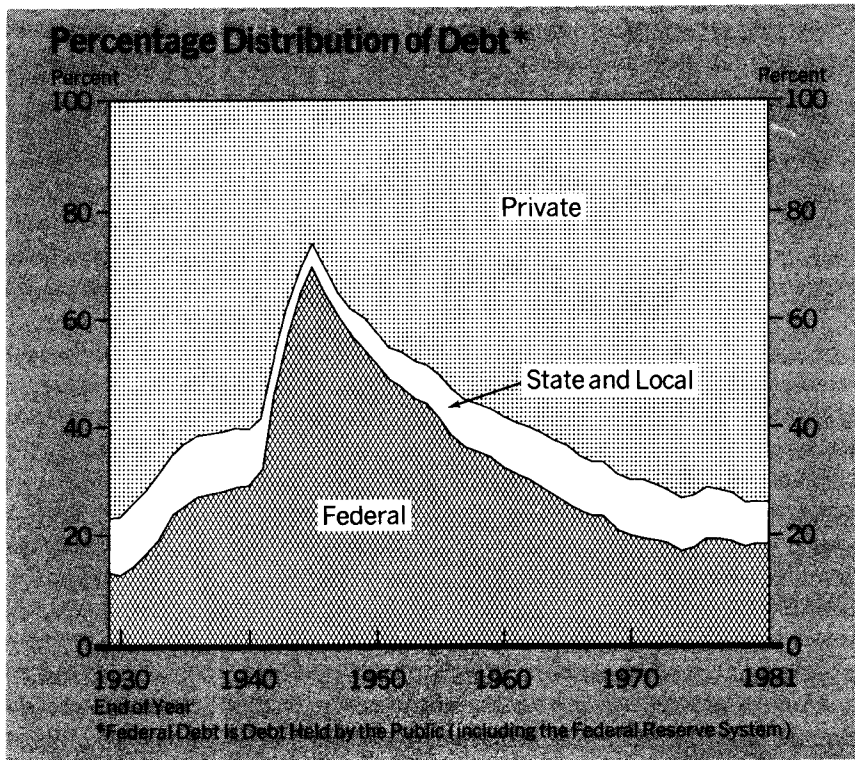
¹ During 1969, 3 Government-sponsored enterprises became completely privately owned, and their debt was removed from the totals for the Federal Government. At the dates of their conversion, gross Federal debt was reduced \$10.7 billion, debt held by Government accounts was reduced \$0.6 billion, and debt held by the public was reduced \$10.1 billion.

² Gross Federal debt and debt held by the public increased \$1.6 billion due to a reclassification of the Commodity Credit Corporation certificates of interest from loan assets to debt.

³ A procedural change in the recording of trust fund holdings of Treasury debt at the end of the month increased gross Federal debt and debt held in Government accounts by about \$4.5 billion.

⁴ Gross Federal debt and debt held by the public increased \$0.5 billion due to a retroactive reclassification of the Export-Import Bank certificates of beneficial interest from loan assets to debt.

⁵ As of September 30, 1982, \$3.6 billion of Federal debt held by Government accounts are estimated to be reclassified as debt held by the public, because under proposed legislation the ownership of the assets of the railroad retirement account are to be transferred to a newly created private rail industry pension corporation.



creased at an average annual rate of 5.2%. Federal debt held by the public apart from the Federal Reserve System rose a little more slowly, at an average annual rate of 4.9%, because during this period the Federal Reserve System bought a large quantity of Federal debt in the market, thereby expanding the reserves of the banking system and increasing the Nation's money stock.

During the depression of the 1930's and during World War II, Federal debt held by the public increased greatly, not only in absolute amount but also, as shown in the chart above, as a proportion of the total credit market debt owed by nonfinancial sectors of the economy: Federal, State and local, and private.⁵ Whereas Federal debt held by the public was only 13% of total debt at the end of calendar year 1929, it had risen to 70% by the end of calendar year 1945. Federal borrowing was large during these years, particularly to finance World War II, and borrowing by other sectors was restricted by low incomes and poor credit-worthiness during the depression and by controls and scarcities during the war.

⁵The estimates for 1946 to the present are from the Federal Reserve Board flow-of-funds accounts; the estimates for earlier years are from the Bureau of Economic Analysis of the Department of Commerce and are linked to the flow-of-funds estimates on the basis of their respective 1946 levels. The data are for calendar years during 1929-51 and for fiscal years thereafter. The private sector debt includes debt of foreigners.

From 1945 to 1974, however, private debt increased as a proportion of total credit market debt in every single year, and likewise in every year the Federal debt held by the public (including the Federal Reserve System) decreased as a proportion of the total. This uninterrupted trend ended in 1975 because of the large Federal deficit caused by recession. Another large Federal deficit in 1976 caused Federal debt held by the public to rise as a percentage of total debt again in that year, and the 1980-81 recessions led to further increases in the percentage. As a result of these events, Federal debt held by the public remained at about the same percentage of total debt during the past decade. The percentage was 18% at the end of 1981, which is the same as in 1973 and only a little less than the 20% in 1971.

Over a longer period, however, the decrease in the relative importance of Federal debt is unmistakable in comparison with both private debt and State and local government debt. During the years from 1961 to 1981, for example, the average annual rate of growth was 6.1% for Federal debt held by the public, 7.7% for State and local debt, and 10.3% for private debt. As a result of these trends, Federal debt, though still important, is a relatively smaller influence in the financial market than it was twenty or thirty years ago. (As described in the final section of this special analysis, however, the relative influence of the combined total of Federal and federally assisted borrowing has been rising in the last few years.)

During the same period Federal debt has decreased relative to gross national product (GNP). As shown in table E-3, debt held by the public equaled 61.6% of GNP at the end of 1954 but declined steadily to 25.1% by the end of 1974. Since then, however, primarily due to recessions and economic slowdowns, debt held by the public has fluctuated as a percentage of GNP, at the same time as it has fluctuated as a percentage of total credit market debt. As a result, Federal debt held by the public remained at about the same percentage of GNP during the past decade. The percentage was 27.8% at the end of 1981, which is above the levels reached in several years and only slightly less than the 29.5% in 1971. The percentage is estimated to be 29-30% during 1982-85.

The interest cost of the debt may be more significant than the amount of the debt for some types of comparison designed to measure the importance of Federal indebtedness. Interest on the debt held by the public has risen much faster than the debt itself, due to a strong upward trend since World War II in the interest rates that must be paid on new borrowings and on refunded debt. The interest rate on 91-day Treasury bills, for example, averaged 14.1% in calendar year 1981 and 11.5% in calendar year 1980 compared to 6.3% in the 1970's, 4.0% in the 1960's, and 2.0% in the 1950's. Consequently, whereas the Federal debt held by the public increased by almost 4 times between 1954 and 1981, table E-4 shows that the interest paid on this debt increased by 15 times.

Table E-4. COMPARISON OF TRENDS IN INTEREST ON FEDERAL DEBT

(Dollar amounts in billions)

Fiscal year	Interest on the gross Federal debt					Interest on debt held by the public as a percent of	
	Total ¹	Paid to				GNP	Budget outlays ³
		Federal Government ac- counts	The public				
			Total	Federal Reserve Sys- tem ²	Other		
1954.....	6.4	1.3	5.2	0.5	4.7	1.42	7.29
1955.....	6.4	1.2	5.2	.4	4.8	1.36	7.56
1956.....	6.8	1.3	5.6	.5	5.1	1.35	7.90
1957.....	7.3	1.4	5.9	.7	5.3	1.37	7.73
1958.....	7.8	1.4	6.3	.7	5.6	1.43	7.68
1959.....	7.8	1.4	6.4	.8	5.6	1.35	6.96
1960.....	9.5	1.5	8.1	1.0	7.1	1.62	8.73
1961.....	9.3	1.5	7.8	1.0	6.8	1.53	7.96
1962.....	9.5	1.6	7.9	1.0	6.9	1.44	7.40
1963.....	10.3	1.6	8.7	1.1	7.6	1.50	7.78
1964.....	11.0	1.8	9.2	1.2	8.0	1.50	7.80
1965.....	11.8	2.0	9.8	1.4	8.4	1.49	8.29
1966.....	12.6	2.1	10.4	1.7	8.7	1.44	7.75
1967.....	14.2	2.6	11.6	2.0	9.6	1.50	7.39
1968.....	15.6	3.0	12.6	2.4	10.2	1.52	7.09
1969.....	17.6	3.5	14.1	2.9	11.2	1.55	7.70
1970.....	20.0	4.4	15.6	3.5	12.2	1.61	7.99
1971.....	21.6	5.3	16.3	3.7	12.6	1.58	7.78
1972.....	22.5	5.8	16.6	3.7	12.9	1.47	7.20
1973.....	24.8	6.3	18.5	4.3	14.2	1.48	7.54
1974.....	30.0	7.7	22.4	5.5	16.9	1.62	8.35
1975.....	33.5	8.8	24.7	6.1	18.6	1.67	7.60
1976.....	37.7	9.0	28.7	6.3	22.5	1.75	7.89
TQ.....	8.3	.6	7.6	NA	NA	1.77	8.11
1977.....	42.6	9.6	33.0	6.8	26.2	1.77	8.24
1978.....	49.3	10.2	39.2	8.0	31.2	1.88	8.73
1979.....	60.3	12.1	48.3	9.6	38.6	2.05	9.83
1980.....	75.2	14.8	60.4	12.5	47.9	2.35	10.48
1981.....	96.0	17.1	78.9	13.6	65.3	2.76	12.00
1982 estimate.....	116.0	19.6	96.4	NA	NA	3.13	13.29
1983 estimate.....	133.2	19.9	113.4	NA	NA	3.30	14.96

NA = Not available.

¹Total interest significantly exceeds the outlays for the interest function in the budget, because the interest function includes collections of interest as an offset to outlays.²These figures are approximate. For most years they are estimated as the average of calendar year amounts. The 1981 estimate is tentative.³Budget outlays for all years are published in the *Budget*, Part 9, table 23.

As a result, interest payments to the public have tended to grow faster than GNP over this entire period. In the late 1950's interest was equal to 1.4% of GNP, whereas by 1971 it had risen to 1.6% and by 1981 it had reached a record high of 2.8%. This percentage is estimated to be higher still in 1982 and 1983, even though it is assumed that market interest rates will decline with the estimated decrease in the rate of inflation.

Interest paid to the public as a percentage of budget outlays does not show the same sustained trend over the period as a whole. In recent years, however, this percentage has also been rising stead-

ily. In 1981 interest paid to the public was 12.0% of budget outlays, which was much higher than the 7.8% just 10 years before and was also above the percentage of any earlier year in the last quarter century. In 1982 and 1983 this percentage is estimated to be even higher, in part because of the slowdown in the rate of growth of other budget outlays. Thus, by either measure the importance of interest on the debt is now relatively high and rising.

Since the end of World War II the composition of the Federal debt has changed. Until a few years ago an increasingly large proportion of marketable securities had a short maturity. One contributing factor was the statutory ceiling of 4¼% that has been maintained since 1918 on the interest rate for Treasury bonds. Long-term market rates exceeded 4¼% after 1965, so after that year the ceiling prevented the Treasury from selling long-term obligations.

This restriction on Treasury borrowing has been relaxed in two ways. One method has been to increase the maximum maturity of notes, which are not subject to the interest rate ceiling. The maximum maturity was raised by law from 5 to 7 years in 1967 and to 10 years in 1976. As of December 31, 1981, the amount of notes outstanding with an original maturity over 5 years was \$149.9 billion, of which \$71.7 billion had an original maturity over 7 years.

The other method of relaxing the restriction has been to allow limited amounts of bonds to be sold at interest rates above the ceiling. In 1971 the Treasury was allowed by law to issue up to \$10 billion of bonds at interest rates above 4¼%. In 1973 those bonds held by Government accounts and the Federal Reserve System were exempted from the interest rate limit, and since 1976 the amount of the exception for other bonds has been raised in seven steps to \$70 billion. As of December 31, 1981, \$90.4 billion of bonds outstanding had been sold since the change of law in 1971, of which \$67.1 billion were held by the public exclusive of the Federal Reserve System. The effective interest rates have ranged from 6.1 to 15.8%.

Notwithstanding the initial relaxations of the interest rate ceiling, the average maturity of privately held, marketable Treasury debt decreased steadily from 4 years at the end of 1967 to about 2½ years at the end of 1976. Since then, however, as the restriction has been relaxed further, the average maturity has gradually lengthened to about 4 years.

DEBT HELD BY FOREIGN RESIDENTS

During most of American history the debt of the Federal Government was held almost entirely by individuals and institutions within the United States. In 1946, just after World War II, the debt

held in foreign official balances and international accounts was about \$2 billion, less than 1% of the total debt held by the public. In the following years the debt held by foreign residents tended to grow gradually, and, as shown in table E-5, rose to just over \$10.0 billion by the late 1960's. This was still less than 5% of the total Federal debt held by the public. Interest paid to foreign residents was a correspondingly small proportion of the total interest paid on debt held by the public.

Table E-5. FOREIGN HOLDINGS OF FEDERAL DEBT

(In billions of dollars)

Fiscal year	Debt held by the public		Borrowing from the public		Interest on debt held by the public	
	Total	Foreign ¹	Total ²	Foreign	Total	Foreign ³
1965.....	261.6	12.3	4.1	0.3	9.8	0.5
1966.....	264.7	11.6	3.1	-7	10.4	.5
1967.....	267.5	11.4	2.8	-2	11.6	.6
1968.....	290.6	10.7	23.1	-7	12.6	.7
1969.....	279.5	10.3	-1.0	-4	14.1	.7
1970.....	284.9	14.0	3.8	3.8	15.6	.8
1971.....	304.3	31.8	19.4	17.8	16.3	1.3
1972.....	323.8	49.2	19.4	17.3	16.6	2.4
1973.....	343.0	59.4	19.3	10.3	18.5	3.2
1974.....	346.1	56.8	3.0	-2.6	22.4	4.1
1975.....	396.9	66.0	50.9	9.2	24.7	4.5
1976.....	480.3	69.8	82.9	3.8	28.7	4.4
TQ.....	498.3	74.6	18.0	4.9	7.6	1.2
1977.....	551.8	95.5	53.5	20.9	33.0	5.0
1978.....	610.9	121.0	59.1	25.5	39.2	7.9
1979.....	644.6	125.1	33.6	4.1	48.3	10.7
1980.....	715.1	126.4	70.5	1.3	60.4	11.9
1981.....	794.4	135.5	79.3	9.1	78.9	16.0

¹ Estimated by Treasury Department. These estimates exclude agency debt, the holdings of which are believed to be small.

² Borrowing from the public is defined as equal to the change in debt held by the public from the beginning of the year to the end, except to the extent that the amount of debt is changed by reclassification. Reclassifications are identified in the footnotes to table E-3.

³ Estimated by Bureau of Economic Analysis, Department of Commerce. These estimates include small amounts of interest on the debt of Government-sponsored enterprises, which are not part of the Federal Government.

Foreign holdings began to grow much faster starting in 1970. This change arose in part out of decisions by foreign monetary institutions to intervene in foreign exchange markets. Because of the role of the dollar as an international currency, large amounts of the official reserves and other financial assets of foreign nations are held in dollar denominated form. Thus, the exchange market intervention by foreign monetary institutions often acted to increase their official reserves of dollars. U.S. Government securities are the safest and one of the most liquid forms of holding dollar assets. Consequently, as foreign countries acquired more dollar denominated official reserves, they purchased a large amount of U.S. Government securities.

The second principal reason for the growth of foreign holdings has been the massive current account surpluses of some countries, particularly the OPEC nations, since 1974. The counterpart to these surpluses has been the acquisition of financial assets, and the financial assets acquired in the United States have largely taken the form of U.S. Government securities.

The increase in foreign holdings of U.S. Government securities during the past decade has therefore been primarily the product of foreign decisions. By the end of 1981 foreign holdings of Treasury debt had reached \$135.5 billion, which was 17% of the total debt held by the public. Because of the rising interest rates, the interest paid on foreign holdings of debt grew much faster than did the foreign holdings themselves. The proportion of total interest paid to foreign residents grew in roughly the same way as did the proportion of the total debt held by foreigners.

In the years before 1970, when debt held by foreign residents was relatively small, borrowing from the public was approximately the same as borrowing from the domestic public. Since 1970, though, borrowing from the domestic public has in some years been quite different from total borrowing. As table E-5 shows, borrowing from foreign residents was nearly all or a major part of total borrowing from the public during 1970-73 and 1977-78, although it was only 8% during the past 3 years, 1979-81. For the period as a whole, borrowing from foreign residents was 24% of borrowing from the public.

Most of the Federal debt held by foreign residents is owned by foreign central banks or other official institutions and is denominated in dollars. Beginning in December 1978, however, the Treasury sold the equivalent of \$6.4 billion of securities denominated in Deutsche marks and Swiss francs to residents of Germany and Switzerland, respectively. By selling these securities, the Treasury acquired foreign currencies for use in intervention operations. No securities of this kind have been sold since January 1980, and \$4.1 billion of these securities are still outstanding.

BORROWING BY FEDERAL AGENCIES

A few Government agencies are authorized to sell their own debt instruments to the public and to other Government agencies and funds. This agency borrowing is part of the gross Federal debt. The authorization to borrow is budget authority, and the disbursement of borrowed money is an outlay. Borrowing by the off-budget Federal entities is treated in the same manner as any other agency borrowing.

Agency borrowing was shown in total in table E-1 and is shown by agency in table E-6. In all 3 years more debt is repaid than is newly borrowed, and over the period as a whole total agency debt

Table E-6. AGENCY BORROWING ¹

(In millions of dollars)

Description	Borrowing or repayment (-) of debt			Debt end 1983 estimate
	1981 actual	1982 estimate	1983 estimate	
Borrowing from the public:				
Agriculture: Farmers Home Administration ²		-31		141
Defense	-97	-137	-110	230
Health and Human Services ²				5
Housing and Urban Development:				
Federal Housing Administration	-72	-32	-58	172
Housing for elderly or handicapped ²				52
Government National Mortgage Assoc. ²	-47	-115		240
Revolving fund (liquidating programs) ²		-24		44
Transportation: Coast Guard	*	*	*	*
Treasury:				
College housing loans ²		-7		242
Higher education facilities ²		-30		61
Veterans Administration ²	-80			309
Export-Import Bank	-215	-410	-17	18
National Credit Union Central Liquidity Facility		118	109	227
Postal Service				250
Small Business Administration ²		-81		93
Tennessee Valley Authority				1,725
Total, borrowing from the public	-511	-750	-77	3,809
Borrowing from other funds:				
Agriculture: Farmers Home Administration ²		-28		118
Defense	-28	9	-14	35
Health and Human Services ²				5
Housing and Urban Development:				
Federal Housing Administration	9	-12	4	163
Housing for elderly or handicapped ²				45
Government National Mortgage Assoc. ²		-104		188
Revolving fund (liquidating programs) ²		-22		34
Treasury:				
College housing loans ²		-6		209
Higher education facilities ²		-27		47
Veterans Administration ²				269
Small Business Administration ²		-74		63
Total, borrowing from other funds	-19	-264	-10	1,176
Total, agency borrowing included in gross Federal debt	-530	-1,014	-87	4,985
ADDENDUM				
Borrowing from Federal Financing Bank:				
Export-Import Bank	2,342	2,234	1,965	16,608
National Credit Union Central Liquidity Facility	11	-3	-4	94
Postal Service	-232	433	-87	1,634
Tennessee Valley Authority	1,975	2,100	1,675	14,685
United States Railway Association	-267	-94	-13	108
Total, agency borrowing from Federal Financing Bank	3,830	4,669	3,537	33,129

* \$500 thousand or less.

¹ Excludes agency borrowing from Treasury.² Certificates of participation in loans issued by the Government National Mortgage Association on behalf of several agencies.

decreases by \$1.6 billion or by one-quarter. The agency debt outstanding at the end of 1983 is less than 1% of gross Federal debt.

As shown in the addendum to table E-6, the amount of agency borrowing has been profoundly affected by the Federal Financing Bank (FFB).⁶ The FFB was created in December 1973 under the Treasury Department as an off-budget Federal entity and began financial operations in May 1974. Its purposes are to assist and coordinate agency borrowing and guaranteed borrowing and to reduce the cost to the Government of some of its borrowing operations. It has the authority to purchase agency debt and guaranteed obligations and, in turn, to finance these transactions by borrowing from the Treasury. With the approval of the Secretary of the Treasury, the FFB is authorized to borrow from the Treasury without a statutory limit on the amount.⁷ Since the FFB can borrow from the Treasury at lower interest rates than other agencies would have to pay in the market, this practice reduces the cost of agency borrowing. The FFB thus serves as a conduit for agency borrowing, and Treasury securities replace the securities of other agencies in the market. Agency borrowing from the FFB is not included in gross Federal debt. It would be triple counting to add together the agency borrowing from the FFB, the FFB borrowing from Treasury, and the Treasury borrowing from the public that was necessary to provide the FFB with funds to lend to the agencies.

As a result of the FFB, several agencies that would otherwise borrow mostly in the market borrowed \$3.8 billion from the FFB in 1981 and are estimated to borrow \$4.7 billion in 1982 and \$3.5 billion in 1983. Because these agencies now borrow almost entirely from the FFB instead of the public, almost no new agency borrowing in the market took place in the last 7 years or is scheduled to take place in the future. The change in agency debt outstanding is therefore determined almost entirely by the repayment of maturing debt and consequently is negative each year. If the FFB had not been created, the agency component of gross Federal debt would be several times greater than it is now, though not by the exact amount that agencies have borrowed from the FFB. The Treasury component would be correspondingly less.

By the end of 1983, \$2.0 billion of agency debt, or two-fifths of the total, will be obligations of three of the five agencies listed in table E-6 that in recent years have borrowed almost exclusively from the FFB: the Export-Import Bank, Postal Service, and Tennessee Valley Authority. A total of \$2.2 billion, or another two-fifths of

⁶ FFB purchases of guaranteed obligations are shown in table E-11.

⁷ The FFB also is authorized to have outstanding up to \$15 billion of publicly issued debt. Treasury classifies this as public debt rather than agency debt. The FFB borrowed \$1.5 billion in 8-month bills from the public in July 1974. All of its other borrowing has been from Treasury, because Treasury can borrow from the public at slightly lower interest rates than FFB would have to pay. No further FFB borrowing from the public is planned.

all agency debt, will consist of certificates of participation in pools of loans issued by the Government National Mortgage Association as trustee on behalf of several agencies, which are identified in table E-6. These certificates have not been issued since 1968. A further \$265 million of agency debt will be family housing mortgages assumed by the Department of Defense (and Coast Guard) under programs almost entirely terminated about two decades ago.

The remaining agency debt—\$561 million, or 11% of the total—will have been issued by two agencies, the Federal Housing Administration (FHA) and the National Credit Union Central Liquidity Facility. The FHA conducts the only program that has normally continued to borrow from the public. It issues debentures as payment for insurance claims on defaulted loans, so these securities could not be sold to the FFB. The National Credit Union Central Liquidity Facility has borrowed from the FFB in the past but is scheduled to borrow from the public instead beginning during 1982.

The Treasury supplies capital to business-type Government enterprises in return for both capital stock and debt. The debt is shown as "borrowing from Treasury" on the statements of financial condition for enterprises in the *Budget Appendix*. However, the equity and the debt instruments are the same in substance; and it would be double counting to add together the agency borrowing from the Treasury and the Treasury borrowing from the public that was necessary to provide the agencies with this capital. Therefore, agency borrowing from Treasury is excluded from the figures on agency borrowing and debt and from the discussion of this subject both in this special analysis and in all other parts of the budget documents.

AGENCY INVESTMENT IN FEDERAL SECURITIES

Trust funds and some public enterprise funds accumulate cash in excess of current requirements in order to meet future claims and demands. Such cash surpluses are invested mostly in Treasury debt and, to a very small extent, in agency debt. Since these are debt transactions, purchases are not counted as budget outlays and redemptions are not counted as budget receipts.

Net investment by trust funds and other Federal agencies rose steadily during the late 1970's from the relatively low level of \$4.3 billion in the high unemployment year of 1976 to \$19.7 billion in 1979. This was caused primarily by the rise in gross national product, the growing payment from the general fund to the civil service retirement and disability trust fund, and the tax increase resulting from the Social Security Amendments of 1977. In 1980, however, agency investment declined to \$10.1 billion, and in 1981, as shown in table E-7, it was \$10.3 billion. Agency investment is estimated to rise moderately in 1982 and reach \$16.2 billion in 1983.

Table E-7. AGENCY INVESTMENT IN FEDERAL SECURITIES

(In millions of dollars)

Description	Investment or disinvestment (-)			Holdings end of 1983 estimate
	1981 actual	1982 estimate	1983 estimate	
Investment in Treasury debt:				
Health and Human Services:				
Federal old-age and survivors insurance trust fund.....	-322	-10,331	125	12,495
Federal disability insurance trust fund.....	-4,282	3,525	-5,087	1,831
Federal hospital insurance trust fund.....	3,535	4,480	1,989	24,610
Federal supplementary medical insurance trust fund.....	-737	2,083	2,042	7,946
Housing and Urban Development:				
Federal Housing Administration.....	161	390	1,000	3,582
Government National Mortgage Association.....	-20	-281	133	1,247
Other.....	48	121	150	534
Interior: Outer Continental Shelf deposit funds.....	1,993	2,059	-337	5,804
Labor: Unemployment trust fund.....	815	-4,116	-300	9,111
Transportation:				
Highway trust fund.....	-1,674	-679	-345	8,163
Airport and airway trust fund.....	-711	-881	263	4,093
Treasury:				
Exchange stabilization fund ¹	-414	350	368	3,848
Federal Financing Bank ²	-78			
Veterans Administration:				
National service life insurance trust fund.....	142	183	266	8,520
Other trust funds.....	9	28	21	1,150
Veterans reopened insurance fund.....	14	13	9	490
Federal Deposit Insurance Corp.: Trust fund.....	1,716	1,810	2,000	15,704
Federal Home Loan Bank Board: FSLIC.....	-373	-24	150	4,683
Office of Personnel Management:				
Civil Service retirement and disability trust fund.....	10,477	13,537	13,201	110,469
Other trust funds.....	458	579	733	6,107
Postal Service fund ²	-545	-182	-850	950
Railroad Retirement account: Trust fund ³	-736	1,663		
Other Federal funds.....	165	208	195	1,642
Other trust funds.....	670	578	506	2,805
Other off-budget Federal entities.....		*		3
Other deposit funds ⁴	2			8
Total, investment in Treasury debt ³.....	10,313	15,115	16,230	235,795
Investment in agency debt:				
Agriculture: Commodity Credit Corp.....	-6	-5		
Health and Human Services:				
Federal old-age and survivors insurance trust fund.....		-100		455
Federal hospital insurance trust fund.....		-50		
Housing and Urban Development:				
Federal Housing Administration.....	-4			169
Government National Mortgage Association.....	-9	2	-10	175
Veterans Administration: National service life insurance trust fund.....				135
Federal Home Loan Bank Board: FSLIC.....		-11		67
Office of Personnel Management: Civil Service retirement and disability trust fund.....		-100		175
Total, investment in agency debt.....	-19	-264	-10	1,176
Total, investment in Federal debt ³.....	10,294	14,851	16,220	236,971
MEMORANDUM				
Investment by Federal funds.....	-440	763	1,994	16,438
Investment by trust funds ³	9,361	12,210	15,413	213,769
Investment by off-budget Federal entities.....	-623	-182	-850	953
Investment by deposit funds ⁴	1,996	2,059	-337	5,812

* \$500 thousand or less.

¹ Investment in 1982 and 1983 is estimated as equal to interest collections.² Off-budget Federal entity.³ Investment in 1982 does not include the reclassification of an estimated \$3,606 million of debt held by the railroad retirement account as debt held by the public. Under proposed legislation this is scheduled to occur as of September 30, 1982, when the ownership assets of the account is to be transferred to a newly created private rail industry pension corporation.⁴ Only those deposit funds treated as Government accounts.

Total agency holdings of Federal securities will reach an estimated \$237.0 billion by the end of 1983. This will comprise 19% of the gross Federal debt. One major trust fund—the civil service retirement and disability trust fund—will account for nearly half of total agency holdings and will have accounted for almost nine-tenths of total agency investment during 1981–83. All the trust funds together will account for 90% of the holdings at the end of 1983. Nearly all of the holdings in Government accounts will be Treasury debt, and the holdings of agency debt will continue to decline by small amounts.

The trust funds financed by the social security tax—old age and survivors insurance (OASI), disability insurance, and hospital insurance—disinvest as a whole each year during 1981–83 for a cumulative decrease in holdings of Government debt of \$6.4 billion. The short-term financial problems reflected in this disinvestment have developed in spite of the very large increase in tax receipts generated by the Social Security Amendments of 1977. Recessions and slow economic expansion in recent years raised unemployment, which reduced payrolls and, thereby, payroll tax receipts below what they would otherwise have been; inflation as measured by the consumer price index exceeded the rate of wage increase, so OASI benefit payments, which are fully indexed to changes in the consumer price index, increased faster than the payroll tax receipts used to finance the benefits.

The financial condition of these three funds differs markedly, with OASI having the most severe short-term problem. Because of the divergent conditions, legislation was enacted in 1980 to shift some of the disability insurance tax receipts to OASI during 1981 and 1982. This has not been enough, however, to prevent estimated OASI disinvestment of \$10.3 billion during 1982, which will reduce its holdings of Government securities to only \$12.4 billion. Legislation was therefore enacted in 1981 to limit certain social security benefits and to permit OASI to borrow from the disability insurance and hospital insurance trust funds through December 1982. Borrowing of \$15.1 billion is assumed during this period for the calculations leading to the investment figures in table E-7, and this is estimated to be large enough to finance the full benefit payments of OASI through September 1983. Because of the temporary shift of tax receipts and the borrowing between funds, the respective amounts of investment or disinvestment shown in table E-7 do not reflect the underlying financial conditions of the respective funds. A National Commission on Social Security Reform has been established to address the financial problems of the social security system and to report its recommendations by January 1983.

As stated previously in this special analysis, under proposed legislation an estimated \$3.6 billion of debt securities held by the railroad retirement account will be transferred as of September 30, 1982, to a newly created private rail industry pension corporation. This \$3.6 billion comes from two sources: the holdings that the railroad retirement account would normally have had at the end of 1982; and the net effect of transferring balances in 1982 equal to the amount of payments that would otherwise have taken place in 1983 between this account and the old age and survivors insurance, disability insurance, and hospital insurance trust funds. The transfer from the railroad retirement account to the private corporation is treated as a reclassification of debt holdings, which does not constitute disinvestment by a trust fund or borrowing from the public. As a result, agency investment in 1982 is an estimated \$3.6 billion more than the change in agency holdings of Federal debt.

A comparatively small amount of Federal debt is held by deposit funds. Deposit funds are amounts held by the Federal Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States); cash collections awaiting determination as to their final disposition; and other sums held temporarily before being refunded or paid into some other fund. Deposit fund balances are thus not the property of the Federal Government, and changes in balances are not included in the budget totals.

In most cases deposit funds consist of uninvested balances, but some funds are invested in Treasury debt and collect interest on their investments. Since a deposit fund is not Federal property, its holding of Federal debt is normally treated as debt held by the public rather than as debt held by a Government account. However, the investments of three deposit funds are treated as agency investments rather than as debt held by the public. One of these is a relatively small account that has the same characteristics as a trust fund. The other two deposit funds contain receipts from rents and royalties on the Outer Continental Shelf, the title to which is in dispute between the Federal Government and the States. Until title is settled, these amounts are being held in deposit funds. The balances of these funds were first invested in Federal debt in 1980, when they acquired \$2.1 billion of Treasury securities. As shown in table E-7, they acquired \$2.0 billion more in 1981 and are estimated to hold \$5.8 billion at the end of 1983. The Treasury concluded that the Federal claim on these receipts is sufficiently strong that it would be more accurate to classify them as Government holdings of Federal debt rather than as debt held by the public.

Because increases in uninvested deposit funds increase Treasury cash balances without affecting the Government deficit or debt,

they provide a means of financing the deficit without borrowing from the public (decreases have the opposite effect). Such increases appear as one of the "means of financing other than borrowing" in tables E-2 and E-9. Under the normal rule, with the deposit funds treated as part of the public, deposit fund investment in Federal debt decreases the deposit fund balances available to finance the deficit by means other than borrowing from the public. This is because the debt issued by the Treasury to the deposit fund is itself defined to be an increase in debt held by the public.

However, when deposit fund holdings are treated as holdings by a Government account, the investment of deposit fund balances in Federal debt does not reduce the amount of balances available to finance the deficit by means other than borrowing from the public. The debt issued by Treasury to the deposit fund is an increase in agency investment, and borrowing from the public is therefore unchanged. This transaction does, however, increase the gross Federal debt and the debt subject to statutory limit (as shown in table E-9).

LIMITATIONS ON FEDERAL DEBT

Statutory limitations have normally been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount for each debt issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. The latter type of limitation has been in effect since 1941. The limit currently applies to the total of:

- almost all public debt issued by the Treasury since September 1917, whether held by the public or by the Government;
- agency debt in the form of participation certificates issued during 1968 under the Participation Sales Act of 1966; and
- other debt issued by Federal agencies that, according to explicit statute, is fully guaranteed as to principal and interest by the United States.

The debt subject to statutory limit⁸ includes virtually all Treasury debt. The small amount of Treasury debt not subject to limit is shown in table E-8. It consists almost entirely of currencies no

⁸The statutory debt limit is sometimes called the public debt limit. However, as explained in the text, the limit does not apply to all public debt and does apply to some debt other than public debt.

Table E-8. DEBT SUBJECT TO STATUTORY LIMIT

(In millions of dollars)

Descriptions	End of year		
	1981 actual	1982 estimate	1983 estimate
Federal debt held by the public.....	794,434	913,434	1,021,434
Federal debt held by Government agencies.....	209,507	220,752	236,971
Total, gross Federal debt.....	1,003,941	1,134,186	1,258,405
Deduct:			
Treasury debt not subject to limit.....	607	607	607
Agency debt not subject to the general limit:			
Department of Defense.....	517	389	265
Export-Import Bank.....	446	35	18
National Credit Union Central Liquidity Facility.....		118	227
Postal Service.....	250	250	250
Tennessee Valley Authority.....	1,725	1,725	1,725
Participation certificates ¹	1,580	1,030	1,030
Coast Guard.....	1	1	*
Total, Federal debt not subject to limit.....	5,125	4,155	4,122
Gross Federal debt subject to statutory limit.....	998,815	1,130,031	1,254,283
Other debt subject to limit, and adjustments.....	3	3	3
Total, debt subject to statutory limit.....	998,818	1,130,034	1,254,285

* \$500 thousand or less.

¹ Certificates of participation in loans issued by the Government National Mortgage Association on behalf of several agencies (this excludes the certificates issued during 1968, which are subject to the debt limit).

longer being issued, such as silver certificates and national bank notes, which were generally reclassified as Federal debt some time after being discontinued.

The major part of agency debt is not subject to the general statutory limit. The only categories now included are the debentures issued by the Federal Housing Administration and the participation certificates sold in 1968. These securities comprise about one-quarter of all agency debt. However, most other agency debt is subject to special statutory limits. For example, the Tennessee Valley Authority was first authorized to issue revenue bonds to finance power facilities in 1959. The limit was \$750 million. Subsequently, in order to enable TVA to finance additional facilities, Congress raised the limit several times. It is now \$30 billion. The Postal Service is limited to \$10 billion of securities outstanding and \$2 billion of annual borrowing. Proposed appropriation bill limitations would restrict its annual borrowing to \$1 billion in 1983 and would require that any borrowing for operating expenses during 1983 be limited to half this amount and repaid within 12 months.

The only other debt subject to the general statutory limit is a very small amount, less than a million dollars, of matured principal and interest. This is not defined as part of gross Federal debt. To derive the debt subject to limit from the gross Federal debt also requires a very small accounting adjustment.

The level of the statutory limit on the Federal debt has frequently been changed by Congress. During the 1960's Congress passed 13 separate acts to raise the limit or to extend the duration of a temporary increase in the limit, and during the 1970's Congress passed 18 such acts. Congress passed three more such acts in 1981. These frequent changes have come about both because the Federal debt has grown steadily and substantially and because of the nature of the debt limit legislation. Since 1971 the statutory debt limit has consisted of a permanent limit of \$400 billion plus a temporary increment that was usually scheduled to expire in a year or less. Because the debt subject to limit has been more than \$400 billion, new legislation has been required no later than the date when each temporary increment expired. Three times in recent years the temporary increment expired without having been extended, so for a few days on each occasion the Federal debt exceeded the statutory limit. The validity of debt issued prior to the expiration of the temporary ceiling was not affected, but the Treasury Department had to suspend all auctions of new securities and all sales of savings bonds. Such a situation creates uncertainty in the securities market and forces the Treasury to take actions that produce administrative costs.

The statutory debt limit was formerly raised only by normal legislation. In September 1979, however, the method of enacting statutory debt limits was altered by statute (Public Law 96-78). The purpose of the change was for the House of Representatives to vote on the debt limit as a part of the congressional budget process. The first and second concurrent resolutions on the budget (scheduled to be adopted by May 15 and September 15, respectively, for the forthcoming fiscal year) establish targets or ceilings for budget outlays, receipts, and the budget deficit and also recommend an appropriate level for the debt subject to limit. The recommendation as to the appropriate level of debt had not previously had the effect of law, nor had it been part of the direct process whereby the debt limit was established.

However, beginning with the resolutions adopted in calendar year 1980, the budget resolution that is adopted by the Congress has been a part of the process that establishes a debt limit. The vote in the House of Representatives is deemed to have been a vote in favor of a joint resolution setting the statutory limit. The joint resolution is thus deemed to have passed the House and is trans-

mitted to the Senate for further legislative action. Upon final passage, it is sent to the President for his signature. This new procedure relates the decision on the debt limit to the congressional decision on the Federal deficit and the other factors, explained in the following section, that determine the change in the debt subject to limit. It is also intended to ensure that a new increase in the debt limit will be enacted well before the previous increase is scheduled to expire, thereby reducing the uncertainty about extension of the debt limit and eliminating the costs that occur when the level of debt exceeds or is about to exceed the debt limit. The debt limit may still be changed by a separate act as in the past.

This new procedure went into effect after the first budget resolution was passed on June 12, 1980. This resolution, which contained revised totals for 1980 as well as the initial targets for 1981, had two separate provisions for changing the debt limit. In the section revising the second budget resolution for 1980, it declared that the appropriate debt limit from the date of enactment through February 28, 1981, was \$925 billion; and in the section on the 1981 totals, it declared that the appropriate debt limit for the fiscal year beginning on October 1, 1980, was \$935.1 billion. Both provisions were deemed to have passed the House, as separate joint resolutions (as well as being part of the concurrent resolution on the budget), and were sent to the Senate. The Senate passed the former resolution, and it was signed into law by the President on June 28. Thus, the debt limit was set at \$925 billion for the period from June 28, 1980, to February 28, 1981.

The second budget resolution, which passed Congress on November 20, 1980, declared that the appropriate level of the debt limit was \$978.6 billion through the end of fiscal year 1981. A separate joint resolution to this effect was deemed to have passed the House, but the Senate did not concur. An increase in the debt limit was needed, and the Senate instead went back to the joint resolution (arising from the first budget resolution) that it had received from the House in June but had not passed. The Senate passed this resolution, which raised the debt limit to \$935.1 billion through September 30, 1981, and it was signed into law by the President on December 19, 1980.

A further increase was needed soon thereafter, however. On February 7, 1981, the debt limit was increased by ordinary legislation to \$985 billion for the period ending September 30, 1981.

The first budget resolution for 1982 was adopted by the Congress on May 20, 1981. The section revising the totals for 1981 declared that the appropriate debt limit for the rest of the 1981 fiscal year was \$999.8 billion; the section on the 1982 totals declared that the appropriate debt limit for the 1982 fiscal year was \$1,079.8 billion.

Two joint resolutions were thus deemed to have passed the House. The Senate did not take action until September 29, 1981, when it passed both resolutions. Because of uncertainty over when Congress would act, the Treasury had to briefly postpone one auction of Treasury bills. The President signed the resolutions on September 30, so the debt limit was raised to \$999.8 billion for September 30 and \$1,079.8 billion for the period from October 1, 1981, through September 30, 1982. However, a further increase will be necessary before the end of the fiscal year in order for the Federal Government to meet its obligations.

The outstanding debt subject to limit is compared in table E-8 with the gross Federal debt and the Federal debt held by the public. The debt subject to limit was \$998.8 billion at the end of 1981 and is estimated to rise to \$1,254.3 billion by the end of 1983. These amounts are more than twice as large as the permanent limit of \$400 billion. As shown in table E-8, the debt subject to limit is much larger than the debt held by the public and is almost as large as the gross Federal debt. The debt subject to limit is so much larger than the debt held by the public because it includes Federal debt held by Government agencies. The small difference between debt subject to limit and gross Federal debt is mostly accounted for by agency debt not subject to the general limitation.

FEDERAL FUNDS FINANCING AND THE CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT

The year-to-year change in debt subject to limit, unlike the change in debt held by the public, is not determined principally by the size of the total Government deficit (that is, by the sum of the budget deficit and the deficit of the off-budget Federal entities). The trust fund surplus or deficit, which makes up part of the budget surplus or deficit, has no essential effect on the amount of debt that is subject to limit. This is explained below in a discussion that is more technical than the rest of this special analysis.

The budget consists of two major groups of funds: Federal funds and trust funds.⁹ The trust funds collect certain taxes and other receipts to be used for specified purposes, such as paying social security or unemployment insurance benefits. The Federal funds comprise the rest of the budget. Their resources are derived mainly from taxes and borrowing and are used for the general purposes of the Government. The off-budget Federal entities make up a third group of fiscal operations, analogous to the Federal funds and trust

⁹ Data for Federal funds and trust funds are presented in Special Analysis C, "Funds in the Budget."

funds groups. If the off-budget entities were included in the budget, they would be classified as Federal funds.

When the Federal funds have a deficit, this deficit must generally be financed by borrowing. The borrowing is necessary regardless of whether the trust funds have a surplus. This is because the trust fund surpluses are mostly invested in securities issued by Federal funds, the Federal funds securities held by trust funds are treated as Federal debt, and therefore the trust fund surplus does not reduce the need for the Federal funds to issue debt in order to finance the Federal funds deficit. Federal funds borrowing consists almost exclusively of the Treasury selling debt securities, and these Treasury debt securities are all subject to the statutory limit. The deficits of the off-budget Federal entities are generally financed in the same way as the Federal funds deficit. Therefore, the Federal funds deficit and the deficit of the off-budget Federal entities generally have to be financed by selling debt securities that are subject to the statutory limit; and these securities are sold to either the public, the trust funds, or certain Federal revolving funds or deposit funds.

Table E-9. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT ¹

(In millions of dollars)

Description	1981 actual	1982 estimate	1983 estimate	1984 estimate	1985 estimate
Federal funds surplus or deficit (—).....	— 64,749	— 111,119	— 106,940	— 100,832	— 103,161
Deficit (—) of off-budget Federal entities.....	— 21,005	— 19,689	— 15,701	— 14,285	— 10,950
Total, amount to be financed.....	— 85,754	— 130,808	— 122,641	— 115,117	— 114,111
Means of financing other than borrowing:					
Decrease or increase (—) in cash and monetary assets.....	— 1,668	3,700			
Increase or decrease (—) in liabilities for:					
Checks outstanding, etc.....	— 3,845	660	334		
Deposit fund balances ²	2,125	— 1,709	— 1,621		
Seigniorage on coins.....	450	553	516	744	797
Total, means of financing other than borrowing.....	— 2,938	3,204	— 771	744	797
Decrease or increase (—) in investments in Federal debt by Federal funds, off-budget entities, and deposit funds ³	— 933	— 2,641	— 807		
Increase or decrease (—) in Federal funds and off-budget entity debt not subject to limit.....	— 467	— 971	— 33		
Total, requirements for borrowing subject to debt limit.....	— 90,092	— 131,216	— 124,251	— 114,373	— 113,314
Change in debt subject to limit but not part of Federal debt, and adjustments.....	3				
Change in debt subject to limit.....	90,095	131,216	124,251	114,373	113,314

¹ Several amounts have been assumed to be zero during 1983-85 because they are usually small and cannot be estimated accurately.

² Does not include investment in Federal debt securities classified as debt held by the public.

³ Only those deposit funds treated as Government accounts.

Table E-9 shows in detail the relationship of the change in debt subject to limit to the Federal funds deficit and the deficit of the off-budget Federal entities. The total of these deficits is an amount that has to be financed. Some relatively small portion may be financed by means other than borrowing, such as seigniorage and a decrease in those cash assets held by Federal funds and off-budget Federal entities (however, if the sum of these other means of financing is negative, then these other means comprise a further amount that has to be financed.)¹⁰ A small portion may be financed by the Federal funds or off-budget entities (or certain deposit funds¹¹) selling their investments in Federal debt. Another small portion may be financed by these funds or entities issuing debt that is not subject to the statutory limit. The remainder of the amount to be financed can only be financed by selling debt subject to the statutory limit. This ordinarily comprises most of the total. Thus, the sum of the deficits of the Federal funds and the off-budget Federal entities approximately determines the increase in debt subject to statutory limit.

In 1981, for example, the total Federal funds and off-budget deficit to be financed was \$85.8 billion. The means of financing other than borrowing required an additional \$2.9 billion of financing by debt subject to limit, because of such reasons as a decrease in cash assets. The Federal funds, the off-budget entities, and certain deposit funds increased their holdings of Federal debt by \$0.9 billion, which had to be financed by still further borrowing in the same way as their deficits had to be financed; and they decreased their debt outstanding that was not subject to limit by \$0.5 billion, which had to be replaced by an equal amount of debt that was subject to limit. Therefore, a total of \$90.1 billion had to be borrowed subject to the debt limit.

The trust fund surplus does not have an explicit effect in table E-9. However, to the extent that trust fund surpluses are used to increase the trust fund holdings of uninvested cash assets instead of Federal debt securities, the debt subject to limit is reduced. This is because the cash available from the trust funds surplus can be used to finance Federal funds outlays without recording an increase in Federal debt. In table E-9 the increase in uninvested cash assets of the trust funds is recorded as an increase in the liabilities of Federal funds for checks outstanding, etc. (i.e., an increase in the liabilities of Federal funds to trust funds). This increases the Federal funds means of financing other than borrowing, which in turn reduces the requirement for borrowing subject to the statutory

¹⁰ The amounts for means of financing other than borrowing exclude the amounts attributable to trust funds. It is not known how the trust fund open book balances are divided between cash and monetary assets and liabilities for checks outstanding, etc. In table E-9 they are all assumed to be in liabilities for checks outstanding, etc.

¹¹ Only those deposit funds treated as Government accounts.

limit. The trust fund uninvested cash assets do change from year to year, but they do not usually change a great deal. By law the trust fund surpluses must generally be invested in Federal debt, and during 1972-81 the increase in trust fund holdings of Federal debt equalled 97% of the cumulative trust fund surplus. Consequently, the effect of the trust fund surplus on debt subject to limit is minor.

Since the trust fund holdings of Federal debt are included almost entirely in debt subject to limit, but not in debt held by the public, the amount of debt held by the public is substantially less than the amount of debt subject to limit. Since the trust funds as a group almost always have a surplus, the change in debt held by the public from one year to the next is almost always less than the change in debt subject to limit. As can be calculated from table E-8, during 1982 and 1983 the debt subject to limit is estimated to increase by \$255.5 billion, whereas the debt held by the public is estimated to increase by \$227.0 billion.

The present analysis helps to demonstrate the difficulty in preventing a continual rise in the Federal debt. The structure of table E-2 showed that the Government would have to borrow from the public even if the budget were exactly balanced, because it would have to finance the deficit of the off-budget Federal entities. The structure of table E-9 shows that the debt subject to statutory limit would almost surely continue to rise even if the total Government deficit were exactly zero and, as a result, the debt held by the public remained constant (that is, even if the budget had a surplus and this surplus was large enough so that the budget and the off-budget entities were together just in balance). In order for the debt subject to limit to remain constant, the Federal funds portion of the budget must (as an approximation) have a surplus and this surplus must be large enough so that the Federal funds and the off-budget entities are together in balance. (The same condition must be met in order for the gross Federal debt to remain constant, since the gross Federal debt is approximately equal to debt subject to limit.) It is more difficult to have a balance in the Federal funds plus the deficit of the off-budget Federal entities than it is to have a balance in the budget plus the off-budget Federal entities, because the trust funds almost always have a surplus.

This can be illustrated by comparing the borrowing from the public in table E-2 with the borrowing subject to the debt limit in table E-9. From 1982 to 1985, borrowing from the public decreases by \$33.4 billion, in line with the decline in the total Government deficit. Table E-9 shows, however, that borrowing subject to the debt limit decreases by only \$17.9 billion. This difference is primarily because a large part of the reduction in the total Government deficit is accounted for by an \$18.7 billion increase in the trust

fund surplus. This reduces borrowing from the public by an equal amount but does not reduce the need to issue debt subject to the statutory limit.

FEDERALLY ASSISTED BORROWING

The effect of the Government on borrowing in the credit market arises not only from its own borrowing to finance Federal operations but also from its assistance to certain borrowing by the public. Federally assisted borrowing is of two principal types: Government-guaranteed borrowing, and borrowing by Government-sponsored enterprises.

Guaranteed borrowing consists of loans for which the Federal Government guarantees (or insures) the payment of the principal and/or interest in whole or in part. Guaranteed loans have diverse characteristics. The loans may be made to individuals, businesses, State and local governments, or foreign governments. The guaranteed obligation may be a loan made by a bank or other institutional lender, it may be a security sold in the capital market, or it may be a security sold to the Federal Financing Bank (FFB). Guaranteed borrowing is another term for guaranteed lending.

Guaranteed loans include most loan asset sales made by Federal agencies. Loan asset sales occur when an agency makes a direct loan and then sells it. A guarantee by the selling agency is usually attached. Loan asset sales are offsets to the outlays of the agency that sells them. Therefore, if the selling agency is in the budget, the budget outlays caused by the direct loans are offset by the sale of the loan assets.

In some cases the agency sells the direct loans themselves, and in other cases the agency sells securities (sometimes called participation certificates or certificates of beneficial ownership) that are backed by loans that the agency continues to hold and service. The certificates of beneficial ownership sold by the Farmers Home Administration (a budget agency) and the Rural Electrification and Telephone revolving fund (an off-budget Federal entity) would be classified as Federal debt according to the recommendations of the President's Commission on Budget Concepts.¹² However, according to statute these certificates are required to be treated as loan assets instead of Federal debt. Since the certificates are guaranteed, they are classified as guaranteed loans. These certificates of beneficial ownership are currently sold almost entirely to the FFB, but some certificates sold by Farmers Home before FFB was established are outstanding and continue to mature. The net amount of sales to the FFB less repayments (i.e., the increase in certificates

¹² *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), pp. 8, 47-48, and 54-55.

outstanding held by the FFB) is shown below for 1980-83 (in millions of dollars):

	1980 <i>actual</i>	1981 <i>actual</i>	1982 <i>estimate</i>	1983 <i>estimate</i>
Farmers Home Administration.....	6,881	10,860	5,352	1,149
Rural Electrification and Telephone revolving fund	689	683	623	525

Loan guarantees are designed to allocate economic resources toward particular uses by providing credit at more favorable terms than would otherwise be available in the private market. The major use of loan guarantees is to support housing, but in recent years guarantees have increasingly been used for other purposes. As shown subsequently in table E-11, guaranteed borrowing net of repayments (but including direct loans made by one Federal agency and guaranteed by another) was \$49.0 billion in 1981 and is estimated to be \$59.7 billion in 1982 and \$58.0 billion in 1983. Special Analysis F presents detailed data on guaranteed loans and loan asset sales.

The other type of federally assisted borrowing is borrowing by Government-sponsored enterprises. They were established and chartered by the Federal Government to perform specific credit functions but are now entirely privately owned. The rule governing the budget treatment of these enterprises was established in 1967 in accordance with a recommendation by the President's Commission on Budget Concepts. The Commission, whose report led to the adoption of the unified budget, recommended that the budget exclude those Government-sponsored enterprises that are entirely privately owned.¹³ Therefore the transactions of these enterprises are not included within the Federal budget, and their debt is not part of gross Federal debt.

The seven Government-sponsored credit enterprises are essentially financial intermediaries. They borrow in the securities market and lend their borrowed funds for specifically authorized purposes either directly or by purchasing loans originated by the private groups that they were established to assist. The borrowing programs of these enterprises are subject to Federal supervision. In addition, they all consult the Treasury Department, either by law or by custom, in planning their market offerings. The Federal National Mortgage Association and the Federal Home Loan Banks are required to obtain Treasury approval of the terms and timing of specific offerings. The Student Loan Marketing Association (SLMA) borrowed exclusively from the Federal Financing Bank

¹³ *Ibid.*, pp. 29-30.

from the time of FFB's establishment until May 1981.¹⁴ Since then SLMA has also sold notes to the public, without a guarantee, and beginning in 1982 plans to finance all of its increases in debt outstanding by borrowing from the public.

Government sponsorship of these enterprises has given them various direct benefits. Their securities are legally eligible to be held for specified uses by federally regulated financial institutions, and they generally have certain tax exemptions. Furthermore, all of these enterprises have a history of successful financial performance. Hence, despite the absence of Federal guarantees, the obligations of these enterprises are sold at interest rates only a little higher than the rates on comparable Treasury issues.

The three enterprises regulated by the Farm Credit Administration—the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks—formerly borrowed on the market separately under their own names. Since January 1979, however, the Farm Credit banks have borrowed solely by issuing consolidated bonds.

The operations of the Government-sponsored enterprises are not subject to the Federal budget review process; and the economic assumptions on which their borrowing estimates are based for 1982-83 are not necessarily the same as the Administration's economic forecast, which is used for the budget. In order to show the borrowing by this sector as a whole from the rest of the market, the total borrowing figures in table E-10 are calculated net of the borrowing by one Government-sponsored enterprise from another. Most of this adjustment is accounted for by the Federal Home Loan Mortgage Corporation borrowing from the Federal Home Loan Banks or repaying its debt to them.

Borrowing by Government-sponsored enterprises has recently risen to a much higher level than in earlier years. Until 1978 the largest amount of borrowing had been \$14.9 billion in 1974. Borrowing increased sharply to \$24.1 billion in 1978, however, and then grew further to \$27.5 billion in 1980. Borrowing in 1981 expanded substantially to \$38.7 billion, and the Government-sponsored enterprises estimate that it will increase substantially again to \$49.6 billion in 1982 and \$53.4 billion in 1983. This will be double the 1980 level.

Sharp shifts in borrowing, such as these, are typical of the Government-sponsored sector as a whole. They generally arise from the operations of the three enterprises that borrow to support the housing mortgage market: the Federal National Mortgage Association (FNMA), the Federal Home Loan Banks (FHLB), and the

¹⁴SLMA is the only Government-sponsored enterprise whose new securities can be guaranteed by the Government and therefore bought by the FFB. The Secretary of Education has authority to guarantee SLMA securities issued prior to October 1, 1984.

Table E-10. **BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Description	Borrowing or repayment (—)				Debt outstanding end 1983 estimate
	1980 actual	1981 actual	1982 estimate	1983 estimate	
Housing and Urban Development: Federal National Mortgage Association.....	6,347	4,342	11,646	11,657	79,991
Farm Credit Administration: ¹					
Banks for cooperatives.....	1,542	737	1,093	1,136	11,351
Federal intermediate credit banks.....	3,536	1,921	2,882	3,502	27,666
Federal land banks.....	7,076	6,819	6,842	7,494	55,411
Federal Home Loan Bank Board:					
Federal home loan banks.....	6,454	21,029	3,662	4,075	65,365
Federal Home Loan Mortgage Corporation.....	3,141	1,847	20,948	23,460	67,752
Foundation for Education Assistance: Student Loan Marketing Association.....	1,070	2,223	1,603	1,543	7,713
Total.....	29,165	38,917	48,676	52,867	315,249
Less increase in holdings of debt issued by Government-sponsored enterprises.....	1,691	230	—882	—500	3,170
Total, borrowing by Government-sponsored enterprises.....	27,473	38,687	49,558	53,367	312,079

¹ The debt represented by consolidated bonds is attributed to the respective Farm Credit banks.

Federal Home Loan Mortgage Corporation (FHLMC). The degree of tightness in the mortgage market sometimes varies a good deal, and during periods of high and rising interest rates these enterprises usually increase their lending and borrowing substantially. This condition has led to much of the rise in the level of Government-sponsored borrowing during recent years.

The \$11.2 billion increase in sponsored borrowing in 1981 was more than fully accounted for by the \$14.6 billion rise in FHLB borrowing. The FHLB increased its advances to member savings institutions, primarily savings and loan associations, which lend most of their funds for new mortgages. The \$17.9 billion of higher advances were offset by only \$3.3 billion of higher repayments. Except for SLMA, the other Government-sponsored enterprises reduced their borrowing in 1981.

In 1982 the \$10.9 increase in estimated borrowing arises from a \$30.6 billion increase in mortgage purchases by the FHLMC and FNMA. This more than offsets the \$14.7 billion decrease in net advances (new advances less repayments) by the FHLB. This decrease in net advances is due to an increase in repayments; new advances to member savings institutions increase moderately. In 1983 the \$3.8 billion increase in Government-sponsored borrowing is led by a \$5.2 billion further increase in mortgage purchases by the FHLMC. The other sponsored enterprises, on balance, estimate a small further increase in borrowing.

During 1981-83 nearly three-quarters of the estimated borrowing is done by the three Government-sponsored enterprises that primarily support the mortgage market. They account for a higher percentage of sponsored borrowing in these years than they have on average during the past.

The Federal Government provides a different kind of assistance to State and local government borrowing than it does through loan guarantees and Government-sponsored enterprises. It exempts the interest on State and local debt from Federal income tax. This reduces the interest rate these governments have to pay and encourages them to borrow larger amounts. Tax exemption has also been extended to certain bonds nominally issued by a State or local government to raise funds for private purposes. These private purpose bonds, such as industrial development bonds, now comprise about half of all new long-term, tax-exempt issues. In 1981 the total tax-exempt borrowing estimated in the Federal Reserve flow-of-funds accounts was \$25.6 billion, of which \$1.1 billion was also guaranteed by the Government. Tax-exempt borrowing is discussed further in Special Analysis F, "Federal Credit Programs," and, from a different perspective, in Special Analysis G, "Tax Expenditures."

TOTAL FEDERAL AND FEDERALLY ASSISTED BORROWING

Table E-11 summarizes net Federal and federally assisted borrowing. Federal borrowing from the public is presented in total. Guaranteed borrowing and borrowing by Government-sponsored enterprises are presented both as total amounts for the sector as a whole and as net amounts. The latter were adjusted in order to remove double counting in the aggregation of total Federal and federally assisted borrowing. Double counting would otherwise occur when a Federal agency or a Government-sponsored enterprise bought (or sold) a Federal or federally assisted debt security. This is because borrowing would occur both when the security was initially sold and when the Federal agency or Government-sponsored enterprise borrowed in order to finance its purchase.

Almost one-half of Federal and federally assisted borrowing during 1981-83 is made up of Federal borrowing to finance the budget deficit. Federal borrowing also finances the off-budget deficit, most of which is accounted for by the Federal Financing Bank's purchases of guaranteed obligations. As shown in table E-11, the FFB is estimated to buy over one-quarter of the total increase in guaranteed obligations outstanding during these years. Since the FFB finances these purchases by borrowing from the Treasury, which in turn borrows from the public, these transactions substitute Federal borrowing in the market for guaranteed borrowing. Federal borrowing for all purposes during 1981-83 comprises 55%

Table E-11. NET BORROWING BY GOVERNMENT, GOVERNMENT-GUARANTEED BORROWERS, AND GOVERNMENT-SPONSORED ENTERPRISES

(In billions of dollars)

Description	Borrowing or repayment (-)			Debt outstanding end 1983 estimate
	1981 actual	1982 estimate	1983 estimate	
Federal borrowing from the public ¹	79.3	115.4	108.0	1,021.4
Guaranteed borrowing ²	49.0	59.7	58.0	513.6
Less increase in guaranteed loans held by Federal agencies:				
Federal Financing Bank	21.0	16.2	12.1	111.2
Government National Mortgage Association	*	-.5	-.6	3.1
Net guaranteed borrowing	28.0	44.0	46.6	399.3
Borrowing by Government-sponsored enterprises ³	38.7	49.6	53.4	312.1
Less increase in holdings of Federal debt	-.5	.6	.2	2.7
Less increase in Government-sponsored debt held by Federal agencies:				
Federal Financing Bank	2.0	.7		5.0
Less increase in holdings of guaranteed loans: ⁴				
Federal National Mortgage Association	2.2	.9	1.6	42.3
Federal Home Loan Banks	*	*	*	.1
Federal Home Loan Mortgage Corporation	-.1	-.1	-.1	.8
Farm Credit Banks	*	*	*	*
Student Loan Marketing Association .....	.3	.9	1.5	2.7
Net Government-sponsored borrowing	34.8	46.6	50.1	258.5
Total, Federal and federally assisted borrowing	142.1	206.0	204.7	1,679.2

* \$50 million or less.

¹ See table E-1. Borrowing from the public in 1982 excludes the change in debt held by the public due to the proposed legislation under which the ownership of an estimated \$3.6 billion of debt would be transferred from the railroad retirement account to a newly created private rail industry pension corporation as of September 30, 1982.

² This line is the same as "guaranteed loans (net)" in table F-6 of Special Analysis F. To avoid double counting, it is calculated net of guarantees of loan previously guaranteed and guarantees of Federal debt. "Net guaranteed borrowing" in this table is the same as "primary guaranteed loans" in table F-6.

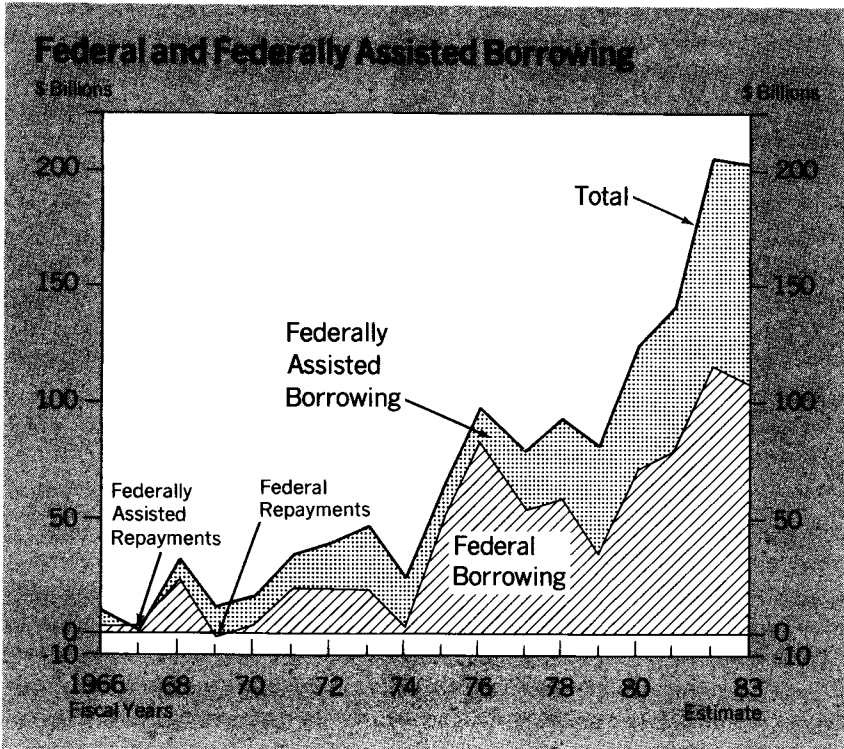
³ See table E-10.

⁴ The increase in holdings of guaranteed loans by the Student Loan Marketing Association is not subtracted out, because these loans are ultimately financed by Federal borrowing (through the FFB) and therefore are classified as direct loans rather than as guaranteed loans.

of total Federal and federally assisted borrowing; Federal debt held by the public at the end of 1983 is 61% of the total Federal and federally assisted debt outstanding.

The following chart depicts the trends in Federal and federally assisted borrowing from 1966 to 1983. The series are volatile, and the fluctuations are dominated by Federal borrowing. These fluctuations are primarily driven by the Federal deficit. Total Federal and federally assisted borrowing fell sharply in 1974 and, to a lesser extent, in 1977 and 1979, because of the large drop in the deficit in these years. Total borrowing rose markedly during recessions, increasing from \$24.2 billion in 1974 to \$98.1 billion in 1976 and increasing from \$80.8 billion in 1979 to \$123.5 billion in 1980 and \$142.1 billion in 1981. Federal and federally assisted borrowing is estimated to increase still further in 1982, with substantial increases spread across Federal borrowing, guaranteed borrowing, and Government-sponsored borrowing. In 1983, however, all three

types of Federal and federally assisted borrowing are estimated to be further restrained, and the total is expected to level off.



As the chart shows, Federal and federally assisted borrowing is now a great deal higher than a decade ago. Much of the increase parallels the growth in the economy and in the total funds raised by the non-financial sector through borrowing. However, total Federal and federally assisted borrowing has increased as a proportion of the total funds raised. This proportion increased from 17% during 1960-69 to 21% during the first half of the 1970's and 28% during the second half. In 1980 and 1981 the proportion was higher still, reaching 36% and 35% in these 2 years, respectively. Thus Government programs have recently influenced the allocation of funds raised in financial markets more than they did in the preceding years.

BUDGET FINANCING AND OUTSTANDING DEBT

(In millions of dollars)

BUDGET FINANCING

	1981 actual	1982 estimate	1983 estimate
Budget surplus or deficit (—)	— 57,932	— 98,578	— 91,520
Deficit (—), off-budget Federal entities	— 21,005	— 19,689	— 15,701
Total deficit (—)	— 78,936	— 118,267	— 107,221
Means of financing other than borrowing from the public:			
Decrease or increase (—) in cash and other monetary assets	— 1,668	3,700	
Increase or decrease (—) in liabilities for:			
Checks outstanding, etc. ¹	— 1,301	329	326
Deposit fund balances	2,125	— 1,709	— 1,621
Seigniorage on coins	450	553	516
Total, means of financing other than borrowing from the public	— 393	2,873	— 779
Total requirements for borrowing from the public	— 79,329	— 115,394	— 108,000
Transfer of debt holdings ²		— 3,606	
Change in debt held by the public	79,329	119,000	108,000
Nonbank investors	73,292		
Commercial banks	2,417		
Federal Reserve System	3,620		

OUTSTANDING DEBT, END OF YEAR

	1980 actual			
Gross Federal debt:				
Debt issued by Treasury	907,701	997,855	1,129,114	1,253,420
Debt issued by other agencies	6,616	6,086	5,072	4,985
Total gross Federal debt	914,317	1,003,941	1,134,186	1,258,405
Held by:				
Government agencies	199,212	209,507	220,752	236,971
The public	715,105	794,434	913,434	1,021,434
Federal Reserve System	120,846	124,466		
Others	594,259	669,968		

DEBT SUBJECT TO STATUTORY LIMITATION, END OF YEAR

Debt issued by Treasury	907,701	997,855	1,129,114	1,253,420
Treasury debt not subject to limitation	— 608	— 607	— 607	— 607
Agency debt subject to limitation	1,629	1,570	1,527	1,472
Total debt subject to statutory limitation ³	908,723	998,818	1,130,034	1,254,285

¹ Includes military payment certificates, accrued interest (less unamortized discount) on Treasury debt, and as an offsetting change in assets, certain collections in transit.

² As of September 30, 1982, \$3,606 million of Federal debt held by trust funds are estimated to be reclassified as debt held by the public, because under proposed legislation the ownership of the assets of the railroad retirement account is to be transferred to a newly created private rail industry pension corporation.

³ The statutory debt limit is permanently established at \$400 billion. Public Law 97-49 temporarily increased the statutory debt limit to \$1,079.8 billion through September 30, 1982. Legislation is required to change the limitation.

SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

**OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT**

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
 - I. Civilian Employment in the Executive Branch
- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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SPECIAL ANALYSIS F
FEDERAL CREDIT PROGRAMS

Federal and federally assisted credit programs play a significant role in the functioning of the Nation's economy and financial markets. This credit assistance is primarily in four forms: direct loans from the Federal Government, Federal guarantees of private lending, lending by privately owned Government-sponsored enterprises, and access to tax-exempt credit. Much like Federal expenditures on goods and services or transfer payments, credit programs change the allocation of resources and the distribution of income. But these programs are not without cost. Recent experience has shown that when used in excess these programs begin to preempt private sector investment resources, and this absorption of much needed capital has an inhibiting effect on productivity and economic growth. Moreover, Federal credit distorts the market's assessment of true risk and return.

An element of subsidy is involved in any Federal credit program, since assistance is given on terms or conditions more favorable than would have occurred in private capital markets. A subsidy is provided, in general, because the Federal Government accepts risks that lenders in private capital markets are unwilling to bear or would bear only at higher interest rates than the Federal Government charges. Because interest subsidies reduce the cost of borrowing to the recipient, they are equivalent to cash grants to the borrower. In a wide variety of instances, Federal assistance of comparable value can be provided either with cash payments, credit assistance, or tax incentives. The subsidy is most easily recognized when Federal credit assistance provides an interest rate lower than could be provided in private capital markets. The subsidy is less visible if the Federal credit assistance provides for longer maturities, higher loan-to-value ratios, or greater liquidity than would have been available in private capital markets.

Direct loans are payments of cash, secured by a promise to repay the Government. The promise to repay may be in the form of a mortgage, a bond, a debenture, or a promissory note. Loan guarantees occur when a Government agency enters into a firm commitment to use Government funds as necessary to repay a lender upon

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default by the borrower.¹ The amount of the guarantee may be less than the full principal of the loan and may include the guarantee of interest. Loan insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of insurance premiums to secure a lender against default on the part of a borrower.² Tax-exempt bonds are obligations with tax exemption on the interest income they produce, which allows them to be sold at interest rates below those for taxable securities. The subsidy is the difference between the tax-exempt and taxable interest rates.

This special analysis compiles basic information on Government credit programs and plans over the budget period. It summarizes major trends in the credit activity of the Federal Government and Government-sponsored enterprises and presents the estimates of direct loans and guaranteed loans by major program groupings, agencies, and enterprises from 1981 to 1983.

Reporting on Federal credit activities in the budget has expanded considerably in recent years. Part 3 of the *Budget* contains aggregated data on the totals of the credit budget, covering all direct loan and loan guarantee programs. Part 5 of the *Budget* presents information about major credit programs in the context of meeting national needs. Part 5 also shows the lending activities of the Federal Financing Bank according to function. Part 6 examines the debt transactions of the Federal Government, the outlays of off-budget Federal entities, loan guarantees, and Government-sponsored enterprises. Part 7 describes the credit budget and its place in the budget process. The *Budget Appendix* shows details and descriptions of the lending activities of individual budget accounts.

TRENDS AND DIRECTIONS

Table F-1 summarizes data on Federal participation in domestic credit markets during the last decade. It measures the volume of Federal and federally assisted credit relative to total lending and borrowing in U.S. credit markets by nonfinancial sectors.³ This table uses two measures of Federal participation—lending (funds advanced) and borrowing (funds raised).

The total amount of funds advanced under Federal auspices has risen fourfold in the last decade, reaching \$86.5 billion in 1981 and

¹ A loan guarantee can be thought of as the action of attaching a Federal guarantee to a loan. A guaranteed loan refers to the loan, usually contracted in the private sector, with a Federal guarantee attached. In some cases, however, one Federal agency guarantees a loan, and another Federal agency makes the loan.

² For the remainder of this analysis, the term loan guarantees will include insurance. The Federal Government is, in essence, the co-signer of a federally-guaranteed loan.

³ The Government-sponsored enterprises are financial intermediaries, whereas the data for total funds raised are defined as only including nonfinancial sectors. Financial institutions are excluded to avoid double counting. Nevertheless, the Government-sponsored enterprise borrowing, as well as Federal borrowing from the public and guaranteed loans, is properly compared with total funds raised. This is because the Government-sponsored enterprise borrowing stands as a proxy for the borrowing by nonfinancial sectors that is intermediated by the sponsored enterprises. The Federal assistance to Government-sponsored enterprises assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprises.

is estimated to reach \$113.9 billion in 1983. The Federal participation rate for total funds advanced in U.S. credit markets reached a high for this decade of 23.3% in 1980, falling only slightly, to 21.2%, in 1981.

The other measure of Federal participation is funds raised (borrowed) under Federal auspices, which includes funds raised for Federal and Government-sponsored credit programs as well as funds raised to finance the Federal deficit. This Federal participation rate is much more volatile, ranging from 13.0% to 40.6% of total borrowing over the past decade. The volatility is due primarily to swings in the budget deficit. This participation rate peaked in 1976.

Table F-1. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS

(Dollars in billions)

	Actual											Estimates	
	1972	1973	1974	1975	1976	TQ	1977	1978	1979	1980	1981	1982	1983
Total funds advanced in U.S. credit markets ¹	151.9	198.5	186.7	174.4	241.8	65.0	310.8	378.9	412.9	342.5	407.8	(²)	(²)
Advanced under Federal auspices	22.0	26.1	25.5	27.0	26.9	6.7	36.7	58.4	72.9	79.9	86.5	114.9	113.9
Direct loans:													
On-budget	3.0	0.9	3.3	5.8	4.2	1.1	2.6	8.6	6.0	9.5	5.2	4.5	1.9
Off-budget		0.1	0.8	7.0	6.7	2.6	9.0	11.2	13.6	14.7	20.9	16.4	12.3
Guaranteed loans	18.9	16.6	10.3	8.6	11.1	-0.1	13.5	13.4	25.2	31.6	28.0	44.0	46.6
Government-sponsored enterprise loans	0.1	8.5	11.2	5.6	4.9	3.1	11.7	25.2	28.1	24.1	32.4	50.1	53.1
Federal participation rate (percent)	14.5	13.1	13.7	15.5	11.1	10.3	11.8	15.4	17.7	23.3	21.2	(²)	(²)
Total funds raised in U.S. credit markets ¹	151.9	198.5	186.7	174.4	241.5	65.0	310.8	378.9	412.9	342.5	407.8	(²)	(²)
Raised under Federal auspices	39.1	46.5	24.2	64.8	98.1	19.3	79.0	93.9	80.7	123.5	142.1	206.0	204.7
Federal borrowing from public	19.4	19.3	3.0	50.9	82.9	18.0	53.5	59.1	33.6	70.5	79.3	115.4	108.0
Borrowing for guaranteed loans	18.9	16.6	10.3	8.6	11.1	-0.1	13.5	13.4	25.2	31.6	28.0	44.0	46.6
Government-sponsored enterprise borrowing	0.7	10.6	10.9	5.3	4.1	1.4	12.0	21.4	21.9	21.4	34.8	46.6	50.1
Federal participation rate (percent)	25.7	23.4	13.0	37.2	40.6	29.7	25.4	24.8	19.5	36.1	34.8	(²)	(²)

¹ Nonfinancial sectors, excluding equities. Source: Federal Reserve Board Flow of Funds Accounts.² Not estimated.

Another form of Federal Government involvement in the credit market is the granting of tax exemption for the interest income on State and local government debt securities. This includes securities that finance both general government and private purpose securities, such as industrial development bonds. Tax exempt status induces purchasers of these securities to accept lower yields than they demand for taxable securities. In this way, State and local governments receive an interest subsidy, and the Federal Government forgoes an amount of tax revenues. Because of the interest subsidy and its effect on the allocation of credit towards State and local borrowers, this tax exemption has many of the characteristics of the forms of Federal participation in credit markets shown in Table F-1. It differs, however, in that the choice of borrowers is not governed by the regulations of a Federal or federally chartered entity. The only means of Federal control over this lending is revision of the U.S. tax code. Table F-1a supplements Table F-1 to show the growth of tax exempt credit, and how the Federal participation rates would change if tax exempt credit were included.

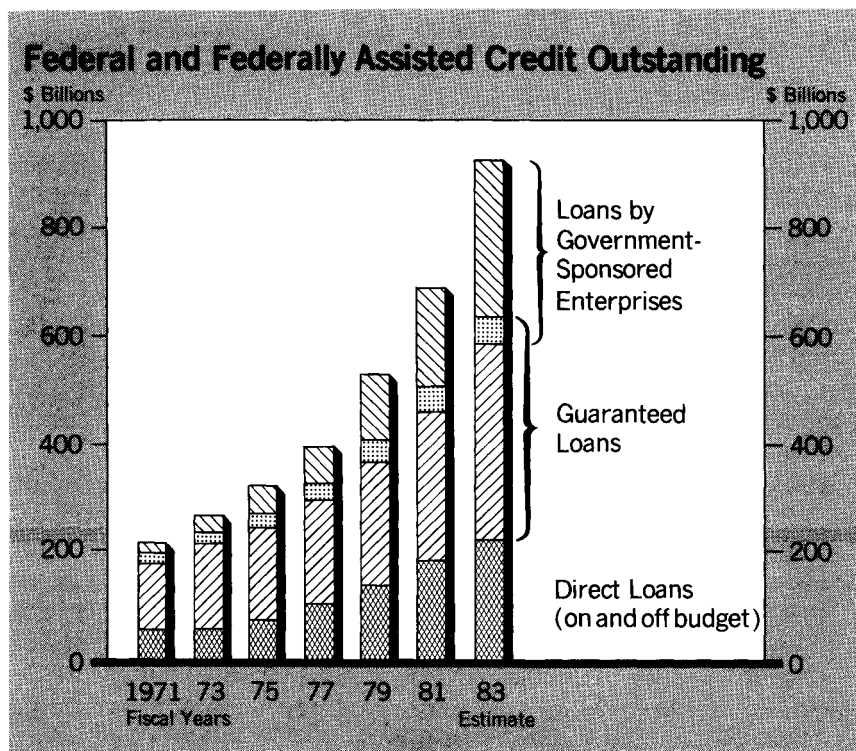
Table F-1a.—FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS, INCLUDING TAX EXEMPT CREDIT

(Dollars in billions)

	1972	1973	1974	1975	1976	TQ	1977	1978	1979	1980	1981	1982	1983
Tax exempt credit.....	13.7	12.2	16.5	11.4	20.9	3.8	20.5	23.5	20.5	20.4	24.5	(¹)	(¹)
Funds advanced under Federal auspices, plus tax exempt credit.....	35.7	38.3	42.0	38.4	47.8	10.5	57.2	81.9	93.4	100.2	111.0	(¹)	(¹)
Federal participation rate, including tax exempt credit (percent).....	23.5	19.3	22.5	22.0	19.8	16.2	18.4	21.6	22.6	29.3	27.2	(¹)	(¹)
Funds raised under Federal auspices, plus tax exempt credit.....	52.7	58.7	40.7	76.2	119.0	23.1	99.5	117.3	101.3	143.9	166.6	(¹)	(¹)
Federal participation rate, including tax exempt credit (percent).....	34.7	29.6	21.8	43.7	49.2	35.6	32.0	31.0	24.5	42.0	40.8	(¹)	(¹)

¹ Not estimated.

The net funds advanced in a given year are simply the difference between the amount of loans outstanding at the beginning and at the end of that year. The accompanying chart shows the growth of Federal and federally-assisted credit outstanding in the last decade. Since 1971, the total amount of loans outstanding has risen by \$217 billion, to \$676 billion in 1981, an increase of over 300%.



THE CREDIT BUDGET

Two years ago budgeting for Federal credit was significantly improved through the initiation of the credit budget. This framework has enabled the annual activity of many loan programs to be controlled for the first time, and has provided a means of making decisions on credit programs in the context of all Federal credit and other budget activity. The credit budget supplements the regular budget during the executive formulation and transmittal of the President's program and during subsequent congressional action. It achieves control over individual program levels through appropriation bill language limiting the gross amount of direct loan obligation and loan guarantee commitments to be extended.

The credit budget consists of all direct loan obligations and loan guarantee commitments of Federal agencies. It is based on four principal concepts, all of which are designed to present the total

amount of credit activity clearly and to facilitate legislative and administrative control.

First, the credit budget makes no distinction between on- and off-budget entities. All direct loan and loan guarantee programs of the Government are included.

Second, the credit budget totals are based on gross levels of credit activity, without offsets for repayments. By excluding repayments, the credit budget measures the current level of program activity, and thereby enables control to be based on new activity, over which the Government has discretion.

Third, the credit budget is based on direct loan obligations and guaranteed loan commitments. Obligations for direct loans are contracts requiring that the Government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the Government to guarantee a loan when the borrower or lender fulfills stipulated preconditions. Both concepts define the point at which the Government becomes legally bound to extend credit, which is the point most amenable to executive and legislative control. The relationship of obligations and commitments to new direct loans and guaranteed loans is loosely analogous to the relationship of budget authority to outlays.

Fourth, guaranteed loan totals are based on the full principal of the loan, even if the contingent liability (i.e., the amount covered by the guarantee) is partial. In past budgets the guaranteed loan totals only included the contingent liabilities. This revision allows the credit budget to reflect the full impact of Federal credit on the economy more accurately. There are only a few programs where less than the full principal is guaranteed. The following table shows the differences between the contingent liability and full principal in loan guarantees outstanding.

DIFFERENCE BETWEEN CONTINGENT LIABILITY AND FULL PRINCIPAL FOR GUARANTEED LOANS

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Veterans Administration mortgage insurance:			
Contingent liability.....	48,758	54,609	61,359
Full principal.....	105,868	118,574	133,225
Federal Housing Administration mortgage insurance:			
Contingent liability.....	131,989	148,208	168,131
Full principal.....	135,445	152,210	172,840
All other loan guarantees programs:			
Contingent liability.....	262,249	317,600	368,749
Full principal.....	264,092	319,732	370,989
Total outstanding:			
Contingent liability.....	442,996	520,417	598,239
Full principal.....	505,405	590,516	677,054

Some netting adjustments are required in calculating the credit budget totals to eliminate double-counting of loans involved in intragovernmental financing transactions. First, secondary guarantees, i.e. guarantees of loans that have a prior guarantee from another agency, are deducted from the gross guaranteed loan total. Second, guarantees by one agency of direct loans disbursed by another agency, usually the Federal Financing Bank (FFB), are deducted from the guaranteed loan total and shown only as direct loans. Third loan assets sold by agencies to the FFB, and guarantees of those loan assets, are not included in credit budget totals, because the original loans are already recorded as direct loans of the originating agency.

Appropriation bill limitations.—Limitations on new direct loan obligations and guaranteed loan commitments are proposed for enactment in the appropriation language for the budget accounts that support credit programs. Unlike appropriations of budget authority, appropriation bill limitations are not the source of authority to make obligations or commitments; rather, they place a ceiling on that authority. Because authority is provided in authorizing legislation, and, for direct loan programs, in appropriations of budget authority, these programs can extend credit even if there is no appropriation bill limitation. Without the appropriation bill limitations the annual activity of many credit programs would not be limited by annual congressional action and would in no case be limited in the context of total credit activity.

Appropriation bill limitations are proposed for programs amounting to about three-fourths of the credit budget totals. The remainder are programs for which a limitation on annual activity is deemed unsuitable. Several kinds of programs are exempt from appropriation limitations. For these programs, control is generally exercised through authorizing legislation.

The first type of exemption is for clear entitlements to qualified applicants, such as veterans mortgage guarantees. The second are programs that provide insurance against unforeseen circumstance, such as insurance of bank deposits against bank failure. These two exemptions preclude the appearance of control where none can exist without changing the basic nature of the programs. The programs in these two categories are similar to those budgetary activities considered relatively uncontrollable, many of which are also not acted on in annual appropriations bills.

The third exemption is for intragovernmental financing transactions, such as guarantees of certificates of beneficial ownership issued by the FmHA and all activity of the Federal Financing Bank. Since the loans they finance are controlled through annual appropriation bill limitations, they need not be limited at the financing stage.

Fourth, direct loans to cover claims on defaulted guaranteed loans are exempted for all credit programs. Payment of these default claims is mandatory.

Several other programs are exempted because of circumstances unique to the program itself. Table F-2 provides a complete listing of programs proposed to be exempt in the 1983 credit budget.

Table F-2.—CREDIT BUDGET PROGRAMS EXEMPT FROM APPROPRIATION BILL LIMITATIONS

(In millions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Programs under appropriations control.....	16,649	16,344	14,812	77,582	93,783	93,073
Programs exempt from appropriations control:						
Entitlement and mandatory programs:						
CCC price supports.....	5,849	8,554	6,600			
Public housing.....	2,196	1,500	1,000	19,343	18,293	19,771
Veterans mortgage insurance.....				11,719	19,542	22,451
Other veterans program.....	248	120	154			
Guaranteed student loans.....				7,762	9,500	10,300
Insurance programs:						
Credit union share insurance.....	8	6	5	121	100	75
Pension Benefit Guaranty Corporation.....	*	3	3			
Diplomatic emergencies.....	1	1	1			
Other policy exemptions:						
Public Law 480 export sales.....	821	754	767			
CCC export credit.....				2,015	2,500	2,500
Federal Highway Administration.....	13	19	32			
College housing loans.....	71	344	100			
Tennessee Valley Authority.....	102	83	80	3,624	4,285	5,289
NASA satellite leases.....				111	206	171
Financing transactions:						
Guarantees and repurchases of CBO's (FmHA).....	4,516	7,652	6,749	14,636	12,550	7,824
Federal Financing Bank.....	30,269	28,377	24,701			
Defaulting guaranteed loans:						
Foreign military sales credit.....	164	170	180			
FHA mortgage insurance.....	400	307	266			
Small Business Administration.....	871	712	513			
Guaranteed student loans.....	238	410	548			
VA mortgage insurance.....	738	756	780			
All other.....	55	82	47			
Programs previously exempt from appropriations control.....	9,193	3,329		15,816	5,371	
Subtotal, exempt programs.....	55,753	53,180	42,527	75,147	72,347	68,381
Less: Deductions to eliminate double counting ¹	15,208	13,173	8,346	76,214	79,065	63,100
Total, credit budget.....	57,194	56,351	48,994	76,515	87,065	98,354

DIRECT LOANS

Direct loans are made by both on-budget agencies and off-budget Federal entities. They are financed from a variety of sources including taxation, borrowing, and loan repayments.⁴ (For a discussion of off-budget Federal entities, see Part 6 of the *Budget*.) Table F-3 shows loan activity by the headings "obligations" and "loans". Obligations are firm written agreements by the Government to extend direct loans. Obligations in a given year need not always result in an equal volume of new direct loans since the conversion of obligations to loans can take time, and some prospective borrow-

⁴Taxation and borrowing are in many cases indistinguishable sources of funds for a specific program. However, the treatment of loan repayments can differ from program to program.

ers to whom obligations are made do not convert the obligations into borrowing.

Loans, in turn, are the loans actually made in the specified year. New direct loans, shown in the top line of the right hand column for each program, are the sum of disbursements to make new loans and disbursements to pay guarantee claims.⁵ Net outlays are equal to the sum of all transactions that alter the column of loans outstanding, including new loans less repayments⁶ of loans, liquidation of collateral, loan writeoffs, and sales of loan assets. Net outlays of direct loans are also equal to the difference between the volume of loans outstanding at the end of the year and the volume outstanding at the beginning of the year.⁷

Net outlays of direct loans by on-budget Federal agencies are counted as budget outlays. Net outlays of direct loans by off-budget Federal entities, although similar to on-budget net outlays, are excluded by law from the budget totals.

Net outlays of direct loans on-budget decreased by \$4.3 billion from 1980 to 1981 to \$5.2 billion, and are expected to fall still farther, to \$1.9 billion by 1983. The decreases are the result of a general reduction in lending activity, particularly by the Small Business Administration, whose direct business loan program is proposed to be ended, and by the Government National Mortgage Association, whose mortgage purchase activities will end in 1982. Another contribution to low net loan outlays in 1983 results from the sale of a large amount of housing loan assets to the public by the Veterans Administration and the Department of Housing and Urban Development.

⁵ Upon default of a loan guarantee, the Government assumes ownership of the guaranteed loan. The lender is reimbursed for the amount of the guarantee, while the borrower owes the Federal Government directly rather than the original lender. Claims paid under insurance or guarantee programs are considered as direct loans until the acquired loans or collateral are paid off or liquidated. Proceeds of liquidation are considered repayments and realized losses are writeoffs.

⁶ Loan repayments and receipts from the sale of loans are generally netted from gross loan disbursements in determining net loan outlays, rather than being counted as budget receipts.

⁷ The volume of loans outstanding is a stock concept referring to the total of loans that have ever been made, less principal repaid to date, loans written off and receipts from the sale of loans. Net loan outlays is a flow concept, the difference in loans outstanding at the beginning and at the end of a particular year.

Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)

Agency or program		Obligations			Loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
ON-BUDGET AGENCIES							
Funds Appropriated to the President:							
International Security Assistance:							
Economic Support Fund.....	New transactions.....	274	216	895	691	737	1,100
	<i>Net outlays</i>				<i>512</i>	<i>694</i>	<i>1,049</i>
	Outstandings				4,553	5,247	6,296
Foreign Military Sales Credit.....	New transactions.....	664	920	1,919	671	925	1,093
	<i>Net outlays</i>				<i>-130</i>	<i>-172</i>	<i>231</i>
	Outstandings ²				694	522	753
Other programs.....	New transactions.....				*	5	5
	<i>Net outlays</i>				*	5	5
	Outstandings				40	45	50
International development assistance.....	New transactions.....	401	403	403	429	379	384
	<i>Net outlays</i>				<i>166</i>	<i>66</i>	<i>25</i>
	Outstandings				11,874	11,940	11,966
Agriculture:							
Farmers Home Administration:							
Agricultural Credit.....	New transactions.....	9,229	8,196	7,218	9,035	8,369	7,269
	<i>Net outlays</i>				<i>-898</i>	<i>-800</i>	
	Outstandings				1,036	236	236
Rural Housing.....	New transactions.....	6,079	6,369	3,895	5,906	6,304	4,782
	<i>Net outlays</i>				<i>-1,000</i>	<i>-424</i>	<i>-12</i>
	Outstandings				825	401	388

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Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Obligations			Loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Rural Development	New transactions.....	1,669	1,046	948	1,678	1,560	1,303
	<i>Net outlays</i>				-50	-43	2
	Outstandings				285	242	244
Commodity Credit Corporation	New transactions.....	5,872	8,600	6,600	5,861	8,720	6,600
	<i>Net outlays</i>				-920	1,709	-6
	Outstandings				6,160	7,869	7,863
Public Law 480 long-term export credits	New transactions.....	821	754	767	781	754	767
	<i>Net outlays</i>				544	533	520
	Outstandings				7,718	8,250	8,770
Rural Electrification Administration.....	New transactions.....	17			3	5	10
	<i>Net outlays</i>				3	5	10
	Outstandings				3	8	18
Commerce:							
Economic Development Administration	New transactions.....	55	30		137	141	143
	<i>Net outlays</i>				72	78	79
	Outstandings				996	1,073	1,152
National Oceanic and Atmospheric Administration	New transactions.....	11	1		38	31	15
	<i>Net outlays</i>				38	28	15
	Outstandings				71	99	114
Health and Human Services:							
Health Resources Administration	New transactions.....	30			27	20	5
	<i>Net outlays</i>				13	12	-3
	Outstandings				848	860	857

Other Health programs	New transactions.....	33	54	40	45	35	31
	<i>Net outlays</i>				25	-17	4
	Outstandings				88	72	76
Housing and Urban Development:							
Low-rent public housing.....	New transactions.....	2,196	1,500	1,000	2,196	1,500	1,000
	<i>Net outlays</i>				90	-25	
	Outstandings				184	159	159
Other HUD programs.....	New transactions.....	1,398	1,273	766	1,496	1,288	1,163
	<i>Net outlays</i>				2,006	730	-643
	Outstandings				8,479	9,209	8,565
Government National Mortgage Association	New transactions.....	1,836	1,993	6	2,172	2,124	2,023
	<i>Net outlays</i>				4	-516	-642
	Outstandings				4,333	3,817	3,175
Interior	New transactions.....	38	83	123	40	82	123
	<i>Net outlays</i>				22	43	101
	Outstandings				442	485	586
Transportation:							
Railroad programs.....	New transactions.....	39	144	2	143	112	76
	<i>Net outlays</i>				143	112	76
	Outstandings				514	626	702
Other	New transactions.....	37	44	57	43	89	57
	<i>Net outlays</i>				35	70	50
	Outstanding				403	473	523
Treasury:							
Education programs.....	New transactions.....	138	344	100	109	114	114
	<i>Net outlays</i>				9	18	17
	Outstandings				3,415	3,433	3,450
Veterans Administration:							
Housing loans and default claims	New transactions.....	738	757	781	742	758	783
	<i>Net outlays</i>				124	-33	-1,048
	Outstandings				1,846	1,813	764

Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Obligations			Loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Insurance policy and other loans	New transactions.....	248	120	155	248	120	155
	<i>Net outlays</i>				92	-8	24
	Outstandings				1,485	1,477	1,500
District of Columbia	New transactions.....	214	225	145	214	225	145
	<i>Net outlays</i>				107	117	116
	Outstandings				1,567	1,684	1,799
Export-Import Bank	New transactions.....	5,431	4,400	3,830	3,512	3,603	3,834
	<i>Net outlays</i>				2,037	1,721	1,680
	Outstandings				15,802	17,523	19,203
Federal Deposit Insurance Corporation.....	New transactions.....						
	<i>Net outlays</i>				-45	-22	-21
	Outstandings				431	409	388
Federal Home Loan Bank Board.....	New transactions.....	266			266		
	<i>Net outlays</i>				187	-74	-75
	Outstandings				844	770	695
Foundation for Education Assistance	New transactions.....	421	589	548	484	621	734
	<i>Net outlays</i>				397	537	644
	Outstandings				5,688	6,225	6,869
National Consumer Cooperative Bank ²	New transactions.....	130	11		43	11	
	<i>Net outlays</i>				32	-59	
	Outstandings ¹				59		

National Credit Union Administration.....	New transactions.....	75	336	478	75	336	478
	<i>Net outlays</i>				1	123	119
	Outstandings				116	239	358
Small Business Administration:							
Business and investment loans.....	New transactions.....	871	712	554	789	706	601
	<i>Net outlays</i>				349	158	-74
	Outstandings				2,703	2,861	2,787
Disaster loans.....	New transactions.....	1,522	640	440	1,652	590	325
	<i>Net outlays</i>				1,100	-144	-414
	Outstandings				6,444	6,300	5,886
Tennessee Valley Authority.....	New transactions.....	102	83	80	102	83	80
	<i>Net outlays</i>				99	58	59
	Outstandings				198	256	315
United States Railway Association (Conrail).....	New transactions.....						
	<i>Net outlays</i>						
	Outstandings				1,000	1,000	1,000
Other agencies and programs.....	New transactions.....	4	18	4	5	13	5
	<i>Net outlays</i>				-14	-46	-26
	Outstandings				145	99	73
Subtotal, on-budget agencies.....	New transactions.....	40,857	39,861	31,754	39,630	40,360	35,205
	<i>Net outlays</i>				5,153	4,435	1,860
	Outstandings				91,287	95,722	97,581
OFF-BUDGET FEDERAL ENTITIES							
Rural electrification and telephone revolving fund.....	New transactions.....	1,100	1,100	700	1,089	1,125	1,000
	<i>Net outlays</i>				43	112	72
	Outstandings				9,529	9,641	9,713
Rural Telephone Bank.....	New transactions.....	160	185	185	149	185	185

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Table F-3. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Obligations			Loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
	<i>Net outlays</i>				140	175	173
	Outstandings				1,071	1,246	1,419
Federal Financing Bank.....	New transactions.....	30,269	28,377	24,701	30,269	28,377	24,701
	<i>Net outlays</i>				20,956	16,217	12,071
	Outstandings				82,911	99,127	111,198
United States Railway Association.....	New transactions.....	17	1		17	1	
	<i>Net outlays</i>				-220	-106	-21
	Outstandings				164	58	37
Subtotal, off-budget Federal entities.....	New transactions.....	31,545	29,663	25,586	31,523	29,688	25,886
	<i>Net outlays</i>				20,920	16,397	12,295
	Outstandings				93,675	110,072	122,367
Less loan asset purchases by the Federal Financing Bank ³	New transactions.....	15,208	13,173	8,346	15,208	13,173	8,346
	<i>Net outlays</i>						
	Outstandings						
Grand total, net direct loans.....	New transactions.....	57,194	56,351	48,994	55,945	56,875	52,745
	<i>Net outlays</i>				26,073	20,832	14,155
	Outstandings				184,962	205,794	219,948

¹ Estimates of outstandings do not include deferred interest.

² As of the Omnibus Budget Reconciliation Act of 1981, the National Consumer Cooperative Bank is a private organization. After 1982 its new loans will no longer be assets of the Federal Government.

³ To avoid double counting, new loan assets purchased from agencies by the Federal Financing Bank are deducted. The amounts of the loan assets are already recorded as direct loans by the originating agency. This deduction affects new transactions only.

LOAN ASSET SALES AND OTHER LOAN OFFSETS

Loan asset sales are sales of direct loans to the public or the FFB. In most cases, the agency selling the loan also guarantees it. In the unified and credit budgets, loan asset sales are treated as offsets to agency outlays, which is the same way that loan repayments are treated. Loan asset sales reduce the agency's outlay totals, and if the agency is on-budget, reduce total budget outlays. After the sale, the loan is held privately or by a Federal account other than the original seller (usually an off-budget Federal entity), but the Federal Government continues to bear the risk of default of the borrower.

Traditionally, loan asset sales meant selling of title to the loans to the public. However, since the creation of the FFB, most loan assets are sold by on-budget accounts to the off-budget FFB, converting them from direct loans on-budget to loans off-budget.

The largest volume of loan assets are certificates of beneficial ownership (CBO's) sold by the Farmers Home Administration and Rural Electrification Administration to support their direct loan programs. CBO's are backed by pools of direct loans, rather than by an individual loan. When a CBO is sold, the ownership of the specific loans is retained by the originating agency, and the agency continues to incur the servicing costs and to fully assume the risk of default on the loans. The President's Commission on Budget Concepts recommended that the sale of such securities be treated as borrowing, arguing that, as a means of financing outlays, there is no difference in substance between an agency selling securities labeled "certificates of beneficial ownership," the same agency selling securities labeled "debt" and the Treasury selling securities labeled "debt." In certain cases, however, legislation requires that it be treated instead as the sale of loan assets.

Another form of loan asset sale occurs when direct loans have been acquired through payments on guarantee claims upon default, or through sale of collateral and are subsequently sold to the public, usually with guarantees attached.

The final form of loan asset transaction is the "tandem" plan of the Government National Mortgage Association (GNMA). Under this program designated types of mortgages are purchased at below-market yields and then resold to the private market at prices sufficiently low to afford a normal return to investors. This program is being phased out during 1982.

Table F-4 shows all loan offsets—repayments, other capital recoveries, asset sales, non-cash adjustments or other offsets that are counted against the volume of new loans extended to derive net loan outlays. Table F-3 displays new direct loan transactions and net direct loan outlays; table F-4 provides a four-way distribution

of those loan offsets that are the difference between these two measures of direct lending. The four-way split is as follows:

- Loan asset sales to the public result in a flow of cash from the public to the agency in exchange for title to direct loans. In most cases this form of transaction converts direct loans into privately held notes guaranteed by the Government.
- Loan asset sales to the FFB shift title to direct loans (or CBO's) from the agency to the FFB. For an on-budget agency, this reduces the recorded budget outlays by the amount of the sale but raises the off-budget outlays of the FFB by an equal amount. For an off-budget entity, sales to the FFB reduce the recorded off-budget outlays of the selling entity and raises the off-budget outlays of the FFB by an equal amount. All loans purchased by the FFB are fully guaranteed by some other Federal agency.
- Repayments, prepayments, and other capital recoveries are cash paid to the Government, to draw down loan principal and thereby reduce indebtedness. They are counted as a reduction in direct loans outstanding.
- Non-cash adjustments are non-cash accounting entries to take cognizance of losses, write-offs, or other adjustments in cases in which the recorded value of the loans is greater than the amount of money collected or collectable on the loans.

Table F-4. LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS (in millions of dollars)

Agency or program	Transactions with	Loan assets sales				Repayments and adjustments		
		1981 actual	1982 est.	1983 est.		1981 actual	1982 est.	1983 est.
ON-BUDGET AGENCIES								
Agriculture:								
Commodity Credit Corporation.....	the Public.....				Repayments, etc. ⁴	6,998	7,196	6,826
	the FFB.....				Non-cash adjustments.....	20	35	28
Agricultural credit insurance fund.....	the Public.....				Repayments, etc. ⁴	3,181	3,824	4,228
	the FFB.....	6,815	5,391	3,071	Non-cash adjustments.....	-62	-46	-30
Rural housing insurance fund.....	the Public.....	31	29	20	Repayments, etc. ⁴	996	1,283	1,521
	the FFB.....	6,045	5,619	3,537	Non-cash adjustments.....	-166	-203	-284
Rural development insurance fund.....	the Public.....				Repayments, etc. ⁴	78	93	107
	the FFB.....	1,650	1,511	1,196	Non-cash adjustments.....	*	-1	-2
Health and Human Services:								
Health maintenance organization loans.....	the Public.....	3		8	Repayments, etc. ⁴		2	*
	the FFB.....	15	28	16	Non-cash adjustments.....			
Housing and Urban Development:								
Federal Housing Administration fund.....	the Public.....		81	124	Repayments, etc. ⁴	57	126	180
	the FFB.....				Non-cash adjustments.....	-750	212	250
Other housing programs.....	the Public.....			544	Repayments, etc. ⁴	2,262	1,662	1,096
	the FFB.....				Non-cash adjustments.....	27	2	612
Veterans Administration:								
Direct loan revolving fund.....	the Public.....				Repayments, etc. ⁴	50	50	279
	the FFB.....				Non-cash adjustments.....	*	*	*
Loan guarantee revolving fund.....	the Public.....				Repayments, etc. ⁴	417	702	1,514
	the FFB.....				Non-cash adjustments.....	151	39	39
Export-Import Bank:								
.....	the Public.....				Repayments, etc. ⁴	1,475	1,882	2,154
	the FFB.....				Non-cash adjustments.....			
Foundation for Education Assistance:								
.....	the Public.....				Repayments, etc. ⁴	85	84	90
	the FFB.....				Non-cash adjustments.....	2		
Small Business Administration:								
.....	the Public.....				Repayments, etc. ⁴	733	986	1,098
	the FFB.....				Non-cash adjustments.....	259	296	316
Other agencies and programs.....	the Public.....	11	6	2	Repayments, etc. ⁴	1,290	1,558	1,650

Table F-4. LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS (in millions of dollars)—Continued

Agency or program	Transactions with	Loan assets sales				Repayments and adjustments		
		1981 actual	1982 est.	1983 est.		1981 actual	1982 est.	1983 est.
	the FFB.....				Non-cash adjustments.....	662	860	508
Subtotal, excluding tandem plans ¹	the Public.....	45	116	698	Repayments, etc. ⁴	17,621	19,447	20,742
	the FFB.....	14,525	12,550	7,821	Non-cash adjustments.....	143	1,193	1,438
Housing and Urban Development (GNMA):								
Tandem plan sales—FHA/VA mortgages.....	the Public.....	1,170	1,401	1,413	Repayments, etc. ⁴	126	120	100
	the FFB.....				Non-cash adjustments.....	849	1,099	1,135
Subtotal, with tandem plan.....	the Public.....	1,216	1,517	2,111	Repayments, etc. ⁴	17,747	19,567	20,842
	the FFB.....	14,525	12,550	7,821	Non-cash adjustments.....	991	2,292	2,572
OFF-BUDGET FEDERAL ENTITIES								
Rural electrification and telephone revolving fund.....	the Public.....				Repayments, etc. ⁴	363	390	403
	the FFB.....	683	623	525	Non-cash adjustments.....			
Other.....	the Public.....				Repayments, etc. ⁴	9,557	12,278	12,663
	the FFB.....				Non-cash adjustments.....			
Subtotal, off-budget Federal entities.....	the Public.....				Repayments, etc. ⁴	9,920	12,668	13,066
	the FFB.....	683	623	525	Non-cash adjustments.....			
Grand Total.....	the Public ³	1,216	1,517	2,111	Repayments, etc. ⁴	27,667	32,235	33,908
	the FFB.....	15,208	13,173	8,346	Non-cash adjustments.....	991	2,292	2,572

¹ All loans sold, except conventional tandem plan sales, are guaranteed upon sale, and reflected in the guaranteed loan totals in Table F-5.

² The "Public" includes Government-sponsored enterprises such as FNMA and FHLMC, which are among the principal purchasers of HUD and VA mortgages.

³ See Table F-4 for detail of FFB purchases.

⁴ Includes prepayments and other capital recoveries.

THE FEDERAL FINANCING BANK

The Federal Financing Bank began operations in May 1974 and has been a significant factor in financing Federal credit activities. The bank is administered by the Treasury Department. Its transactions are excluded by law from the budget totals. Hence, its lending transactions are not counted as budget outlays, although it finances its operations through borrowing by the Treasury.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold or guaranteed by Federal agencies. The FFB performs three functions, two of which generate Federal outlays that are excluded from the budget. First, most loan assets are now sold to the FFB rather than to the public. This converts the loans from outlays of the original agencies to off-budget FFB outlays. Second, the FFB makes loans directly to borrowers whose obligations are guaranteed by a Federal agency. These guaranteed loans are in effect converted into direct loans off-budget. The FFB assures the efficient financing of these guaranteed loans and reduces borrowing costs.

Third, with some exceptions, the Treasury generally requires agencies authorized to borrow from the public to borrow from the FFB instead. Borrowing by agencies from the FFB does not result in FFB outlays just as borrowing by agencies from the Treasury does not result in Treasury outlays. The use of the proceeds from borrowing is counted as outlays of the borrowing agency. However, the agency must pay interest to the FFB on these borrowings and in turn the FFB pays interest to Treasury on its borrowing. The Treasury can finance its lending to the FFB by borrowing at lower interest rates than the agencies would have to pay.

Table F-5. FFB ACQUISITIONS (in millions of dollars)

Agency or program	1981 actual	1982 estimate	1983 estimate
Purchase of loan assets from:			
Overseas Private Investment Corporation:			
New acquisitions			
<i>Net outlays</i>	-5	-6	-6
Outstandings	28	23	17
Farmers Home Administration (USDA):			
Agricultural credit insurance fund:			
New acquisitions	6,815	5,391	3,071
<i>Net outlays</i>	5,790	1,066	-394
Outstandings	22,357	23,423	23,029
Rural housing insurance fund:			
New acquisitions	6,045	5,619	3,537
<i>Net outlays</i>	4,045	3,249	852
Outstandings	21,121	24,370	25,223
Rural development insurance fund:			
New acquisitions	1,650	1,511	1,196
<i>Net outlays</i>	1,025	1,036	691
Outstandings	5,343	6,379	7,070
Rural Electrification Administration (USDA):			
New acquisitions	683	623	525
<i>Net outlays</i>	683	623	525
Outstandings	2,595	3,219	3,743
Medical facilities guarantees (HHS):			
New acquisitions			
<i>Net outlays</i>	-6	-5	-5
Outstandings	158	154	149
Health Maintenance Organizations (HHS):			
New acquisitions	15	28	16
<i>Net outlays</i>	13	27	16
Outstandings	118	145	161
Small business development loans(SBA):			
New acquisitions			
<i>Net outlays</i>	-12	-16	-16
Outstandings	76	60	44
Subtotal, purchase of loan assets:			
New acquisitions	15,208	13,173	8,346
<i>Net outlays</i>	11,534	5,975	1,663
Outstandings	51,797	57,772	59,436
Direct loans (purchases of loans guaranteed by agencies):			
Foreign military sales credit (FAP):			
New acquisitions	2,505	3,320	4,400
<i>Net outlays</i>	1,945	2,670	3,715
Outstandings	9,148	11,818	15,533

Table F-5. FFB ACQUISITIONS (in millions of dollars)—Continued

Agency or program	1981 actual	1982 estimate	1983 estimate
Rural Electrification Administration (USDA):			
New acquisitions	4,007	4,311	4,136
<i>Net outlays</i>	3,918	4,309	4,129
Outstandings	12,343	16,652	20,781
Guarantees of SLMA obligations (FEA):			
New acquisitions	1,955	700	
<i>Net outlays</i>	1,955	700	
Outstandings	4,300	5,000	5,000
Alternative fuels and other energy (Commerce):			
New acquisitions	18	498	915
<i>Net outlays</i>	18	498	915
Outstandings	18	516	1,431
Low-rent public housing (HUD):			
New acquisitions	822	1,261	1,026
<i>Net outlays</i>	810	1,224	969
Outstandings	928	2,153	3,122
Community development grants (HUD):			
New acquisitions	45	110	120
<i>Net outlays</i>	34	96	83
Outstandings	74	170	253
New Communities Administration (HUD):			
New acquisitions			
<i>Net outlays</i>			
Outstandings	34	34	34
Loans to territories (Interior):			
New acquisitions		30	
<i>Net outlays</i>	*	30	-1
Outstandings	66	96	95
Railroad programs (DOT):			
New acquisitions	1,794	173	58
<i>Net outlays</i>	250	42	19
Outstandings	1,521	1,563	1,583
Public building CBI's ¹ (GSA):			
New acquisitions	14	35	
<i>Net outlays</i>	13	28	-8
Outstandings	514	542	535
Satellite leases (NASA):			
New acquisitions	111	206	171
<i>Net outlays</i>	111	206	112
Outstandings	638	844	956
Small business investment companies and other SBA:			
New acquisitions	165	275	240
<i>Net outlays</i>	131	240	195
Outstandings	608	848	1,043

Table F-5. FFB ACQUISITIONS (in millions of dollars)—Continued

Agency or program	1981 actual	1982 estimate	1983 estimate
Seven States Energy Corporation (TVA):			
New acquisitions.....	3,624	4,285	5,289
<i>Net outlays</i>	237	198	278
Outstandings	922	1,120	1,398
Subtotal, direct loans (purchase of loans guaranteed by agencies):			
New acquisitions.....	15,061	15,204	16,355
<i>Net outlays</i>	9,422	10,242	10,407
Outstandings	31,113	41,355	51,763
Subtotal, all direct loans and purchases of agency loan assets:			
New acquisitions.....	30,269	28,377	24,701
<i>Net outlays</i>	20,956	16,217	12,071
Outstandings	82,911	99,127	111,198
AGENCY BORROWING			
ADDENDUM			
By: on-budget agencies:			
Export-Import Bank:			
<i>Net change</i>	2,342	2,234	1,965
Outstandings	12,409	14,643	16,608
Tennessee Valley Authority:			
<i>Net change</i>	1,939	2,136	1,675
Outstandings	10,874	13,010	14,685
National Credit Union Association:			
<i>Net change</i>	11	-3	-4
Outstandings	101	98	94
By: off-budget Federal entities:			
U.S. Railway Association:			
<i>Net change</i>	-267	-94	-13
Outstandings	215	121	108
Postal Service:			
<i>Net change</i>	-232	433	-87
Outstandings	1,288	1,721	1,634
Total agency borrowing:			
<i>Net change</i>	3,794	4,705	3,537
Outstandings	24,888	29,593	33,129

* \$500,000 or less.

† Certificates of beneficial interest.

Table F-5 lists the activities of the FFB for 1981-83 by agency and account. The first set of entries lists FFB purchases of agency loan assets. The second set of entries lists FFB direct loans, i.e. disbursements of loans guaranteed by Federal agencies. The adden-

dum lists borrowing (debt issues) by on-budget agencies and off-budget entities from the FFB.

The FFB's net outlays from lending are expected to fall from \$21.0 billion in 1981 to \$16.2 billion in 1982, and to \$12.1 billion in 1983, a decrease over the 2 years of \$8.9 billion. This decrease can be attributed to reduced purchases of CBO's issued by FmHA. Net purchases of FmHA loan assets fall from \$10.9 billion in 1981 to \$1.1 billion in 1983. Net FFB disbursements of loans guaranteed by other agencies will remain stable in 1982 and 1983, as increases in foreign military sales credit offset reductions in loans to the Student Loan Marketing Association.

LOAN GUARANTEES

Loan guarantees are agreements in which a Government agency pledges to use Government funds, as necessary, to secure a lender against default on the part of the borrower. The loan guarantee is the Federal Government's contingent liability, which may be less than the full face value of the loan. A guaranteed loan is the resulting loan, with a guarantee attached. Loan insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of accumulated insurance premiums to secure a lender against default on the part of a borrower. The major use of loan guarantees has been to support housing, but in recent years guarantees have increasingly been used for other purposes.

Loan guarantees are designed to allocate economic resources to particular uses by providing credit at more favorable terms than would otherwise be available in the private market. In cases where the loan guarantee recipients are not sufficiently creditworthy to borrow without Federal assistance, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit to be allocated to those potential borrowers who do not receive assistance. However, the guarantee does not always change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately, without Government support. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased anyway. In such a case, the guarantee does not alter the allocation of credit resources.

The loan guarantee is used in widely varying programs. The guaranteed loan may be made to individuals, businesses, State and local governments, or foreign governments. The guaranteed obligation may be a loan made by a bank or other institutional lender, it may be a security sold in the capital market, or it may be a security sold to the FFB. In the case of fully guaranteed loans, the

Government guarantees the repayment of all principal and interest. In the case of partially guaranteed loans, the Government guarantees only partial repayment of principal and interest. Guaranteed loans also include loans on which the Government promises to pay a share of the interest, though none of the principal. Credit may be indirectly guaranteed without being explicitly labeled as a loan guarantee program under various contractual agreements, including guarantees of private leases, contracts to make subsidy payments over extended periods and debt service grants. Guaranteed loans include most loan assets sold by Federal agencies.

Guaranteed loans are not reflected in budget outlays when credit is extended. Guaranteed loans generally result in budget outlays only when there is a default, requiring the Government to pay the lender's claims for losses. Losses from loan guarantee programs have generally been small, partly because most of the loans were protected with liens on marketable property. Some of the newer loan guarantee programs, such as student loans, have greater losses.

Data for guaranteed loans, for 1981-83, organized by agency or program, are presented in table F-6. The table includes the full amount of the principal of guaranteed loans, even though in some cases the Government guarantees less than the total amount. The structure of table F-6 is comparable to that for direct loans in table F-3. Information on the amount of the Federal contingent liability under these guarantees may be found in the *Budget Appendix*.

Commitments for new guaranteed loans are agreements by the Government to guarantee loans upon the prospective borrowers' and lenders' fulfillment of specific conditions. Commitments in a given year do not always result in new guaranteed loans in that year, since conversion of a commitment to a guaranteed loan can take time and some prospective borrowers to whom commitments are made do not ever convert the commitments into borrowing. The net change in loans guaranteed is equal to the amount of new guaranteed loans less repayments and other adjustments. The net change is also equal to the difference in guaranteed loans outstanding at the end and at the beginning of the year.

Table F-6. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)

Agency or program		Commitments			Loans guaranteed			
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate	
Funds Appropriated to the President:								
	International security assistance	New transactions.....	2,546	3,084	3,929	2,505	3,320	4,400
		<i>Net change</i>				2,038	2,775	3,815
		Outstandings				9,425	12,200	16,015
International development assistance								
		New transactions.....	229	250	250	105	275	350
		<i>Net change</i>				71	241	292
		Outstandings				964	1,205	1,497
Agriculture:								
	Farmers Home Administration	New transactions.....	15,434	13,327	7,955	15,329	13,375	8,542
		<i>Net change</i>				10,555	5,257	1,282
		Outstandings				54,879	60,137	61,418
Commodity Credit Corporation export credit								
		New transactions.....	2,015	2,500	2,500	1,516	2,500	2,500
		<i>Net change</i>				1,298	1,739	641
		Outstandings				2,005	3,744	4,384
Rural Electrification Administration								
		New transactions.....	5,134	4,245	3,760	4,793	5,039	4,771
		<i>Net change</i>				4,704	5,037	4,764
		Outstandings				15,543	20,581	25,344
Commerce:								
	Economic development assistance	New transactions.....	178	50		178	50	
		<i>Net change</i>				113	-39	-90
		Outstandings				702	663	573

Table F-6. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Commitments			Loans guaranteed		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
National Oceanic and Atmospheric Administration	New transactions.....	31	50	25	31	50	25
	<i>Net change</i>				21	38	12
	Outstandings				192	230	242
Energy Research and Technology.....	New transactions.....	3,298	2		1,278	2,022	
	<i>Net change</i>				1,278	2,022	
	Outstandings				1,374	3,397	3,397
Defense: military	New transactions.....				1		
	<i>Net change</i>				*	*	*
	Outstandings				*	*	*
Health and Human Services: Health programs	New transactions.....	69	116	104	69	108	104
	<i>Net change</i>				43	74	65
	Outstandings				1,364	1,437	1,503
Housing and Urban Development: Subsidized low-rent public housing	New transactions.....	19,343	18,293	19,771	16,968	18,338	19,603
	<i>Net change</i>				1,032	2,018	2,269
	Outstandings				17,522	19,540	21,810
Federal Housing Administration.....	New transactions.....	23,635	28,609	35,000	17,742	23,621	28,251
	<i>Net change</i>				10,994	16,765	20,630
	Outstandings				135,445	152,210	172,840
Community development	New transactions.....	156	125		45	110	120
	<i>Net change</i>				28	96	83
	Outstandings				74	170	253

GNMA: Mortgage-backed securities.....	New transactions.....	42,150	48,000	38,400	16,853	28,500	32,000
	<i>Net change</i>				15,185	24,963	28,700
	Outstandings				104,637	129,600	158,300
Interior:							
Indian programs.....	New transactions.....	1	58	24	1	63	24
	<i>Net change</i>				-2	58	14
	Outstandings				119	178	191
Transportation:							
Rail programs.....	New transactions.....	16	135		104	62	58
	<i>Net change</i>				635	427	557
	Outstandings				1,277	1,285	1,304
Washington M.T.A. bonds.....	New transactions.....						
	<i>Net change</i>						
	Outstandings				997	997	997
Federal ship financing fund.....	New transactions.....	1,047	675	600	928	750	700
	<i>Net change</i>				635	427	557
	Outstandings				6,568	6,995	7,552
Aircraft loans.....	New transactions.....	408	56		429	209	
	<i>Net change</i>				371	134	-71
	Outstandings				605	740	669
Treasury:							
Guarantees of New York City notes.....	New transactions.....	300	300		300	300	
	<i>Net change</i>				211	207	-132
	Outstandings				938	1,144	1,012
Chrysler Corporation loan guarantee program.....	New transactions.....	400			400		
	<i>Net change</i>				400		
	Outstandings				1,200	1,200	1,200
Biomass energy development.....	New transactions.....		700			700	

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Table F-6. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Commitments			Loans guaranteed		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
	<i>Net change</i>					700	
	Outstandings					700	700
NASA: Long term satellite leases	New transactions.....	111	206	171	111	206	171
	<i>Net change</i>				111	206	112
	Outstandings				638	844	956
Veterans Administration (housing)	New transactions.....	11,719	19,542	22,451	10,354	17,377	20,307
	<i>Net change</i>				6,434	12,707	14,650
	Outstandings				105,868	118,574	133,225
Export-Import Bank	New transactions.....	7,416	8,000	8,000	4,899	5,625	6,005
	<i>Net change</i>				766	420	725
	Outstandings				6,984	7,404	8,129
Foundation for Education Assistance: Guarantees of SLMA debt issues	New transactions.....	1,955	700		1,955	700	
	<i>Net change</i>				1,955	700	
	Outstandings				4,300	5,000	5,000
Student loan insurance fund	New transactions.....	7,762	9,500	10,300	7,762	9,500	10,300
	<i>Net change</i>				6,066	7,105	7,211
	Outstandings				17,715	24,821	32,032
General Services Administration	New transactions.....	14	35		14	35	
	<i>Net change</i>				-15	10	-26
	Outstandings				1,222	1,233	1,206

National Credit Union Administration.....	New transactions.....	121	100	75	85	100	75
	<i>Net change</i>				58	44	12
	Outstandings				118	162	174
Small Business Administration:							
Business loan guarantees.....	New transactions.....	3,516	3,000	2,700	2,986	3,000	2,700
	<i>Net change</i>				1,269	1,256	834
	Outstandings				9,977	11,233	12,067
Disaster Loan fund.....	New transactions.....	1	6		1	6	
	<i>Net change</i>				*	5	-1
	Outstandings				8	12	11
Pollution control bond guarantees.....	New transactions.....	100	150	150	100	150	150
	<i>Net change</i>				100	150	150
	Outstandings				256	406	556
Tennessee Valley Authority.....	New transactions.....	3,624	4,285	5,289	3,624	4,285	5,289
	<i>Net change</i>				237	198	278
	Outstandings				922	1,120	1,398
Other agencies and programs.....	New transactions.....		31		14	36	5
	<i>Net change</i>				-144	-42	-77
	Outstandings				1,566	1,524	1,447
Subtotal, guaranteed loans (gross).....	New transactions.....	152,729	166,130	161,454	111,480	140,413	146,451
	<i>Net change</i>				65,721	85,281	86,718
	Outstandings				505,405	590,686	677,404
Less secondary guaranteed loans: ¹							
GNMA guarantees of FHA/VA/FmHA pools.....	New transactions.....	42,150	48,000	38,400	16,853	28,500	32,000
	<i>Net change</i>				15,185	24,963	28,700
	Outstandings				104,637	129,600	158,300
Education Foundation guarantees of SLMA debt issues.....	New transactions.....	1,955	700		1,955	700	

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Table F-6. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Commitments			Loans guaranteed		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
	<i>Net change</i>				1,955	700	
	Outstandings				4,300	5,000	5,000
DOT guarantees of USRA debt.....	New transactions.....	8			68	19	8
	<i>Net change</i>				-369	-101	-17
	Outstandings				299	198	181
Subtotal, guaranteed loans (net).....	New transactions.....	108,616	117,430	123,054	92,604	111,194	114,443
	<i>Net change</i>				48,950	59,719	58,035
	Outstandings				396,170	455,888	513,923
Less guaranteed loans held as direct loans: ²							
By budget agency (GNMA).....	New transactions.....	1,832	1,988		2,168	2,119	2,017
	<i>Net change</i>				22	-501	-631
	Outstandings				4,203	3,702	3,071
By off-budget Federal Financing Bank.....	New transactions.....	30,269	28,377	24,701	30,269	28,377	24,701
	<i>Net change</i>				20,956	16,217	12,071
	Outstandings				82,911	99,127	111,198
Total, primary guaranteed loans ³	New transactions.....	76,515	87,065	98,354	60,168	80,698	87,725
	<i>Net change</i>				27,972	44,003	46,595
	Outstandings				309,056	353,059	399,654
Memorandum:							
Callable capital contributions to international financial organizations.....	New transactions.....	1,133	2,340	2,361	1,133	2,340	2,361
	<i>Net change</i>				1,133	2,340	2,361

ADDENDUM					13,508	15,848	18,209
Less guaranteed loans held as direct loans by Government sponsored enterprises:							
Federal National Mortgage Association.....	New transactions.....	1,806	2,244	2,575	3,545	2,500	1,950
	<i>Net change</i>				<i>2,234</i>	<i>858</i>	<i>1,641</i>
	Outstandings				39,792	40,650	42,291
Federal home loan banks.....	New transactions.....	7	3	3	7	3	3
	<i>Net change</i>				<i>4</i>	<i>2</i>	<i>2</i>
	Outstandings				86	88	90
Federal Home Loan Mortgage Corporation.....	New transactions.....						
	<i>Net change</i>				<i>-119</i>	<i>-66</i>	<i>-115</i>
	Outstandings				989	923	808
Student Loan Marketing Association.....	New transactions.....	575	1,166	2,000	575	1,166	2,000
	<i>Net change</i>				<i>97</i>	<i>855</i>	<i>1,421</i>
	Outstandings				31	866	2,307
Farm Credit Administration.....	New transactions.....	12	9	11	12	9	11
	<i>Net change</i>				<i>3</i>	<i>*</i>	<i>4</i>
	Outstandings				24	24	28
Total Enterprise holdings.....	New transactions.....	2,400	3,422	4,589	4,139	3,678	3,964
	<i>Net change</i>				<i>2,219</i>	<i>1,649</i>	<i>2,953</i>
	Outstandings				40,922	42,551	45,524

¹ Secondary guarantees by the Export-Import Bank of the debt of the Private Export Finance Corporation have not been estimated and are excluded from the table.

² When guaranteed loans are acquired by a budget account, they become direct loans, and are counted as such in Table F-3. This deduction eliminates the overlap with Table F-3

³ Outstanding guaranteed loans exclude adjustments for deferred interest and transfers.

The aggregation of loan guarantees for each program to derive a gross total involves some double counting. Elimination of this double counting requires two adjustments. The first adjustment deducts loans previously guaranteed, or secondary guaranteed loans. They occur, for example, in the case of the GNMA mortgage-backed securities program, which guarantees securities that are backed by pools of federally guaranteed or insured loans held by the seller. The second adjustment deducts guarantees of loans that are also direct loans by the Government—by either on- or off-budget accounts. The total after these two deductions represents what are defined as primary guaranteed loans. An addendum includes guaranteed loans purchased by a Government-sponsored enterprise.

Net loans guaranteed are expected to increase significantly in 1982, from \$30.0 billion in 1981 to \$44.0 billion in 1982, a change of \$14.0 billion. The growth will continue at a much slower pace in 1983, rising by \$2.6 billion to \$46.6 billion. This increase is due primarily to improved economic conditions for housing. As the housing industry recovers from its depressed 1981 level, net guaranteed loans are expected to increase between 1981 and 1983 by \$9.6 billion in the FHA mortgage insurance program and \$8.2 billion in the Veterans Administration mortgage insurance program. Net guaranteed loan levels for most other programs are being held stable or decreasing during 1982 and 1983.

FUNCTIONAL AREAS SUPPORTED BY FEDERAL CREDIT ASSISTANCE

The distributions of direct and guaranteed loans by function are given in table F-7. Table F-7 records the levels of new direct loans and new guaranteed loans. The largest Federal credit activity occurs in commerce and housing credit, international affairs, and veterans benefits. These three functions are expected to comprise 59% of new commitments and obligations in 1983. Part 5 of the *Budget* discusses Federal credit activities by function together with Federal outlays.

Table F-7. DIRECT LOANS AND GUARANTEED LOANS BY FUNCTION

(In millions of dollars)

Function	Direct loans obligations			Guaranteed loan commitments		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
International affairs.....	10,097	10,014	12,215	7,687	8,014	7,779
General science, space and technology..	111	206	171			
Energy.....	8,855	10,317	11,182	3,722	-484	-1,816
Natural resources and environment.....	25	27	39			
Agriculture.....	15,101	16,796	13,818	2,158	2,701	2,631
Commerce and housing credit	10,714	10,913	5,938	25,843	29,707	37,730
Transportation.....	1,886	362	117	-330	693	542
Community and regional development....	3,601	2,096	1,715	1,039	676	-104
Education, training, employment, and social services.....	2,514	1,633	648	5,807	8,800	10,300
Health.....	57	54	40	52	88	88
Income security.....	3,020	2,766	2,031	18,520	17,032	18,745
Veterans benefits and services.....	987	878	936	11,719	19,542	22,451
General government.....	14	65				8
General purpose fiscal assistance.....	214	225	145	300	300	
Total credit budget ².....	57,194	56,351	48,994	76,516	87,068	98,354

GOVERNMENT-SPONSORED ENTERPRISES

Government-sponsored enterprises have been established and chartered by the Federal Government to perform specialized credit functions. They are financial intermediaries, designed to facilitate the financing of selected kinds of economic activity, by serving as reserve facilities or performing secondary market functions. They are all privately owned and most are independent of Federal control to a substantial degree. Since they are privately owned, their activities are not included in the budget totals. They are all subject, however, to some form of Federal supervision, and by law or by custom they consult with the Treasury Department in planning the marketing of their debt. The enterprises included in this category are the Student Loan Marketing Association (SLMA), the Federal National Mortgage Association (FNMA), three components of the Farm Credit System, and the Federal Home Loan Bank system (FHLBS) which includes the Federal Home Loan Mortgage Corporation (FHLMC). Part 6 of the *Budget* discusses Government-sponsored enterprises.

Government sponsorship has provided these enterprises with characteristics that differentiate them in credit markets from completely private institutions. They have been given special preferences and certain tax exemptions, and their securities may be offered as investments of federally regulated institutions. These advantages give their security obligations a preferred position in the securities markets, enabling them to borrow at rates only slightly higher than those of the Treasury.

Funds lent by Government-sponsored enterprises are generally obtained from private bond markets. The sole exception, SLMA, had, until 1981, borrowed exclusively from the FFB, although beginning in 1983 it will raise all its additional funds in private markets. Sale of capital stock and retained earnings provide only a very small portion of the resources used for lending. The pattern of borrowing and lending varies widely over time. For example, some enterprises, such as FNMA, were created to establish secondary markets, thereby increasing liquidity in mortgage markets; others, such as the Federal home loan banks, are facilities advancing reserves to member institutions, in this case savings and loan associations.⁸ These enterprises provide liquidity to primary lenders in times of tight monetary conditions, by either purchasing loans from the primary lenders or by making advances to the primary lenders. These loans and advances are then paid back as monetary and financial conditions improve. In recent years, this latter group of enterprises has expanded its role by seeking to draw new funds into mortgage markets at all times. By borrowing additional funds themselves, they can provide more funds to the basic mortgage lending institutions.

Table F-8 shows the lending and borrowing of Government-sponsored enterprises for 1981-83. The format of this table closely resembles that used in table F-3 for direct loans and F-6 for guaranteed loans. Total gross lending and borrowing are adjusted to avoid the double counting that arises from loans between enterprises and between enterprises and the Federal Government. The deductions in the table remove this double counting.

Lending by Government-sponsored enterprises has been growing rapidly in recent years. This trend will continue in 1982 and 1983, according to the plans of FHLMC and FNMA. Both enterprises expect to expand their new programs of conventional mortgage-backed securities greatly beginning in 1982. These securities are packaged by mortgage lenders and guaranteed by FHLMC and FNMA in much the same way as GNMA mortgage-backed securities are issued and guaranteed. However, the FHLMC and FNMA programs will guarantee conventional mortgages, insured by private mortgage insurers, rather than FHA and VA insured mortgages. For FHLMC the expansion shown in table F-7 is dependent

⁸The program of GNMA (a budget entity in HUD) to guarantee mortgage-backed securities achieves a similar or more of financial intermediation. GNMA guarantees securities issued against privately held pools of federally guaranteed or insured mortgages. The Federal Reserve Board flow-of-funds data include this GNMA program within the definition of Government-sponsored enterprises. GNMA data for this activity appear as entries in table F-5, Guaranteed Loans.

Table F-8. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES (in millions of dollars)

Agency or program		Obligations			Loans made		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
LENDING (FUNDS ADVANCED)							
Student Loan Marketing Association.....	New transactions.....	2,530	1,866	2,000	2,530	1,866	2,000
	<i>Net change</i>				<i>2,052</i>	<i>1,555</i>	<i>1,421</i>
	Outstandings				4,331	5,886	7,307
Federal National Mortgage Association.....	New transactions.....	5,277	13,820	15,629	6,069	16,025	15,950
	<i>Net change</i>				<i>4,050</i>	<i>12,638</i>	<i>12,496</i>
	Outstandings				59,682	72,320	84,816
Farm Credit Administration: Banks for cooperatives.....	New transactions.....	24,938	28,550	33,192	24,938	28,550	33,192
	<i>Net change</i>				<i>777</i>	<i>1,157</i>	<i>1,276</i>
	Outstandings				9,429	10,587	11,862
Federal intermediate credit banks.....	New transactions.....	17,637	21,034	23,932	17,637	21,034	23,932
	<i>Net change</i>				<i>1,977</i>	<i>3,212</i>	<i>3,773</i>
	Outstandings				21,889	25,100	28,873
Federal land banks.....	New transactions.....	11,083	11,919	13,172	11,083	11,919	13,172
	<i>Net change</i>				<i>7,230</i>	<i>7,511</i>	<i>8,190</i>
	Outstandings				44,452	51,964	60,154
Federal home loan bank system: Federal home loan banks.....	New transactions.....	52,864	59,003	65,003	52,864	59,003	65,003
	<i>Net change</i>				<i>20,516</i>	<i>4,572</i>	<i>5,002</i>
	Outstandings				68,306	72,878	77,880
Federal Home Loan Mortgage Corporation: Corporation accounts.....	New transactions.....	3,011	23,740	28,924	3,011	23,740	28,924
	<i>Net change</i>				<i>- 876</i>	<i>- 710</i>	<i>- 716</i>
	Outstandings				5,343	4,634	3,917
Participation certificate pools ¹	New transactions.....	1,884	23,840	29,048	1,884	23,840	29,048
	<i>Net change</i>				<i>1,215</i>	<i>21,592</i>	<i>24,101</i>
	Outstandings				17,985	39,576	63,677

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Table F-8. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES (in millions of dollars)—Continued

Agency or program		Obligations			Loans made		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Subtotal, lending (gross)	New transactions	119,225	183,772	210,899	120,017	185,977	211,220
	<i>Net change</i>				36,940	51,528	55,543
	Outstandings				231,417	282,945	338,487
Less loans between sponsored enterprises: Federal home loan banks to FHLMC.....	New transactions	660			660		
	<i>Net change</i>				326	-882	-500
	Outstandings				3,872	2,990	2,490
Less secondary funds advanced from Federal sources: ² SLMA from FFB	New transactions	1,955	700		1,955	700	
	<i>Net change</i>				1,955	700	
	Outstandings				4,300	5,000	5,000
Less guaranteed loans held as direct loans by: Federal National Mortgage Association.....	New transactions	1,806	2,244	2,575	3,545	2,500	1,950
	<i>Net change</i>				2,234	858	1,641
	Outstandings				39,792	40,650	42,291
Federal home loan banks	New transactions	7	3	3	7	3	3
	<i>Net change</i>				4	2	2
	Outstandings				86	88	90
Federal Home Loan Mortgage Corporation.....	New transactions						
	<i>Net change</i>				-119	-66	-115
	Outstandings				989	923	808
Farm Credit Administration	New transaction.....	12	9	11	12	9	11
	<i>Net change</i>				3	*	4
	Outstandings				24	24	28
Student Loan Marketing Association ²	New transactions	575	1,166	2,000	575	1,166	2,000
	<i>Net change</i>				97	855	1,421

	Outstandings				31	886	2,307
Total credit advanced.....	New transactions.....	114,210	179,650	206,310	113,263	181,599	207,255
	<i>Net change</i>				<i>32,440</i>	<i>50,062</i>	<i>53,089</i>
	Outstandings				182,323	232,384	285,474
BORROWING (FUNDS RAISED)							
Student Loan Marketing Association.....	<i>Net change</i>				<i>2,223</i>	<i>1,603</i>	<i>1,543</i>
	Outstandings				4,568	6,171	7,713
Federal National Mortgage Association ³	<i>Net change</i>				<i>4,342</i>	<i>11,646</i>	<i>11,657</i>
	Outstandings				56,688	68,334	79,991
Farm Credit Administration:							
Banks for cooperatives.....	<i>Net change</i>				<i>737</i>	<i>1,093</i>	<i>1,136</i>
	Outstandings				9,122	10,215	11,351
Federal intermediate credit banks.....	<i>Net change</i>				<i>1,921</i>	<i>2,882</i>	<i>3,502</i>
	Outstandings				21,281	24,163	27,666
Federal land banks.....	<i>Net change</i>				<i>6,819</i>	<i>6,842</i>	<i>7,494</i>
	Outstandings				41,076	47,918	55,411
Federal home loan bank system:							
Federal home loan banks.....	<i>Net change</i>				<i>21,029</i>	<i>3,662</i>	<i>4,075</i>
	Outstandings				57,628	61,290	65,365
Federal Home Loan Mortgage Corporation.....	<i>Net change</i>				<i>1,847</i>	<i>20,948</i>	<i>23,460</i>
	Outstandings				23,344	44,291	67,752
Subtotal, borrowing (gross).....	<i>Net change</i>				<i>38,917</i>	<i>48,676</i>	<i>52,867</i>
	Outstandings				213,706	262,382	315,249
Less borrowing from other sponsored enterprises.....	<i>Net change</i>				<i>230</i>	<i>- 882</i>	<i>- 500</i>
	Outstandings				4,552	3,670	3,170
Less borrowing from Federal sources: ²							
SLMA from FFB.....	<i>Net change</i>				<i>1,955</i>	<i>700</i>	
	Outstandings				4,300	5,000	5,000

Table F-8. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES (in millions of dollars)—Continued

Agency or program		Obligations			Loans made		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Total borrowing from the public and Government.....	<i>Net change</i>				36,732	48,858	53,367
	Outstandings				204,854	253,712	307,079
Less investments in Federal securities:							
Investments in Federal securities.....	<i>Net change</i>				-464	566	225
	Outstandings				1,898	2,464	2,689
Less borrowings for guaranteed loans held as direct loans by:							
Federal National Mortgage Association.....	<i>Net change</i>				2,234	858	1,641
	Outstandings				39,792	40,650	42,291
Federal home loan banks.....	<i>Net change</i>				4	2	2
	Outstandings				86	88	90
Federal Home Loan Mortgage Corporation.....	<i>Net change</i>				-119	-66	-115
	Outstandings				989	923	808
Farm Credit Administration.....	<i>Net change</i>				3	*	4
	Outstandings				24	24	28
Student Loan Marketing Administration ²	<i>Net change</i>				268	903	1,543
	Outstandings				268	1,171	2,713
Total credit raised.....	<i>Net change</i>				34,806	46,595	50,067
	Outstandings				161,798	208,392	258,460

¹ All new transactions are loans purchased from FHLMC corporation accounts.

² Until recently, all SLMA lending has been financed through the FFB, and therefore has been counted above (table F-3) as direct loans. All SLMA loans are student loans guaranteed by the Federal Government. They have, therefore, been counted above (table F-6) as guaranteed loans. The first deduction eliminates the overlap of this table with the direct loan table. The second deduction removes the non-FFB financed remainder of SLMA, to eliminate overlap with the guaranteed loan table.

³ Loans purchased at discount are recorded at their acquisition cost.

⁴ These deductions include those borrowings involved in double-counting to give the adjusted total that is carried over to table F-7.

on passage of a reform of the FHLMC's charter, now pending in Congress. For FNMA, the figures shown do not include this new program; they do, however, reflect assumptions of expansion of FNMA in purchases of conventional mortgages, based on recovery in housing markets. Lending by the FHLB's is expected to fall sharply during 1982 and rise only slightly during 1983; the change results from improved access to funds by savings and loan institutions, which will reduce their need to borrow from the FHLB's. The activity of the other Government-sponsored enterprises is expected to remain relatively stable during 1982 and 1983. The FHLMC has been shifting its portfolio to include conventional mortgages only, leaving FNMA as the primary Government-sponsored enterprise holder of FHA and VA insured loans.

The economic assumptions on which the estimates rest are not necessarily the same as the administration's economic forecast, which is used for the budget. Special Analysis E discusses the borrowing of Government-sponsored enterprises in detail.

SUMMARY OF CREDIT ADVANCED AND RAISED UNDER FEDERAL AUSPICES

The credit advanced and raised under Federal auspices is summarized in table F-9. Credit advanced by direct and guaranteed loan programs reached \$54.0 billion in 1981. This lending level is estimated to increase to \$64.8 billion in 1982, and fall to \$60.8 billion in 1983. Loans by Government-sponsored enterprises will increase by \$17.7 and \$2.0 billion in 1982 and 1983, respectively. Outstanding credit advances to the public under Federal auspices are expected to total \$806.7 billion by the end of 1983.

Net credit raised under Federal auspices totaled \$142.1 billion net in 1981, and is expected to reach to \$206.0 billion in 1982, and \$204.7 billion in 1983.

TAX EXEMPT CREDIT

Since the adoption of the Federal income tax in 1913, interest on State and local government obligations generally has been exempt from Federal income tax.⁸ The resulting subsidy to borrowers has historically been a saving of 30 to 35% of the interest rate.

The large interest subsidies provided through tax-exempt credit result in reallocation of credit resources to the assisted borrowers, just as do Federal direct loan and loan guarantee programs. Borrowers aided by tax exemption gain a position of preferred access to credit resources over competing taxable borrowers, just as do borrowers with other forms of Federal credit assistance, although in a different form.

⁸Tax exempt interest is one type of tax expenditure, the subject of Special Analysis G.

Table F-9. SUMMARY OF CREDIT ADVANCED AND CREDIT RAISED UNDER FEDERAL AUSPICES

(In billions of dollars)

	Net Change			Outstanding		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
LENDING (Credit advanced)						
Direct loans (from table F-3):						
On-budget agencies	5.2	4.4	1.9	91.3	95.7	97.6
Off-budget entities	20.9	16.4	12.3	93.7	110.1	122.4
Guaranteed loans (primary, from table F-6)	28.0	44.0	46.6	309.1	353.1	399.7
Total Federal Government credit advanced	54.0	64.8	60.8	494.1	558.9	619.6
Loans by Government-sponsored enterprises (from table F-8)	32.4	50.1	53.1	182.3	232.4	285.5
Total, credit advanced to the public under Federal auspices	86.5	109.9	113.6	676.4	791.3	905.1
BORROWING (Credit raised)						
Federal borrowing from the public (from table E-1)	79.3	115.4	108.0	794.4	913.4	1,021.4
Guaranteed borrowing (same as guaranteed loans, above) ¹	28.0	44.0	46.6	309.1	353.1	399.7
Total Federal Government credit raised	107.3	159.4	154.6	1,103.5	1,266.5	1,421.1
Borrowing by Government-sponsored enterprises (from table F-8)	34.8	46.6	50.1	161.8	208.4	258.5
Total, credit raised from the public under Federal auspices	142.1	206.0	204.7	1,265.3	1,474.9	1,679.6

¹ Outstanding totals for direct and guaranteed loans exclude adjustments for deferred interest and transfers.

Table F-9 also shows the annual revenue loss to the Treasury from all tax-exempt bonds issued each year, the value of the long-term subsidy received by the borrower, and the present value of the tax loss from newly issued tax-exempt bonds. The annual tax loss reflects the amount of reduction in receipts resulting from the issuance of tax-exempt rather than taxable debt in that year. However, further tax losses and subsidies from tax-exempt financing occurs over the entire life of the security. Therefore, the present value of the total tax loss is substantially larger than the annual tax loss. The cost to the Treasury in lost tax revenues exceeds the financial benefits to the borrower, because the lender also shares in the subsidy. (See Special Analysis G for a discussion of revenue losses attributable to special provisions of the tax code, including tax-exempt bonds.)

During the first half century of income tax, this tax exemption was confined mainly to State and local governmental borrowing for public purposes. During the 1960's, however, tax exempt financing

was increasingly made available to certain private uses. These uses were curtailed by the 1968 and 1969 tax acts, but a number of exceptions were permitted that have allowed major growth of some private uses.

As table F-9 shows, the sale of tax-exempt bonds used for private purposes has increased greatly in recent years, while nominal State and local government new issues (adjusted for advanced refunding) for public purposes has remained relatively constant. Tax-exempt bonds issued for private purposes in five activities—owner occupied and rental housing, private nonprofit hospitals, pollution-control facilities, student loans, and business financed with “small-issue” IDB’s—will reach an estimated \$35.3 billion of new obligations in calendar year 1982, accounting for over half (56%) of the total long-term tax-exempt market. This compares with \$8.5 billion in new issues and 24% of the long-term tax-exempt market just 6 years earlier. The Omnibus Reconciliation Act of 1980 imposed major restrictions on the use of tax-exempt credit for owner-occupied housing, where the largest growth has occurred in recent years.

The “small-issue” exemption on industrial development bonds has the largest potential for growth. Forty States permit “small-issue” IDB’s, and at least 23 States have virtually no limits on the projects that they can finance. Industrial development bonds (IDB’s) are the principal form of obligations nominally issued by a State or local government to raise funds for private purposes. In almost all cases, a State or local authority that issues IDB’s is a conduit for providing tax-exempt financing to the private borrower. The authority lends its tax exempt status to the private borrower’s debt obligations, but is not responsible for the payment of interest and principal in the event of default.

The administration is proposing to reduce the use of private purpose tax-exempt bonds through several changes in the tax code. The administration proposes that assets financed with tax-exempt bonds issued after 1982 must be depreciated using the straight-line method over an extended recovery period. Tax-exempt financing will be limited to bonds that are publicly approved by local governments and which, after 1985, receive a financial contribution, commitment, or obligation from the local government. Small issue IDB’s will not be allowed for large businesses.

While direct and guaranteed loan programs are included in the credit budget, tax-exempt credit is not. Although tax-exempt financing has market effects and costs similar to other credit assistance, its current statutory structure gives it entitlement status and its use is unilaterally elected by the borrower. Effective control can only be achieved through legislated changes to the tax code.

Although tax-exempt credit is the most visible and direct form of tax expenditure influencing credit allocations, others not treated

here but described in Special Analysis G are also important. These include: (1) investment tax credits, (2) personal deductions for mortgage interest and property taxes, and (3) the all-savers certificate.

Table F-10. TAX EXEMPT FINANCING; PRESENT VALUE OF TAX SUBSIDIES TO NEW ISSUES

(In billions of dollars)

	Calendar years ¹												
	Actual										Estimated		
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total new Issues, long-term tax exempts.....	24.9	23.6	23.9	24.2	30.5	34.9	46.8	49.1	48.1	53.7	53.7	63.1	69.4
State and local government uses ²	(¹)	(¹)	(¹)	(¹)	(¹)	26.4	34.4	34.2	23.3	25.6	28.0	27.8	29.2
Private purpose tax-exempts.....	(¹)	(¹)	(¹)	(¹)	(¹)	8.5	12.4	14.9	24.8	28.1	25.7	35.3	40.2
Housing bonds.....	(¹)	(¹)	(¹)	(¹)	(¹)	3.0	3.8	5.9	12.2	13.5	6.9	13.2	14.5
Private hospitals.....	(¹)	(¹)	(¹)	(¹)	(¹)	1.9	3.3	2.2	2.4	2.8	3.5	3.9	4.2
Student loans.....	(¹)	(¹)	(¹)	(¹)	(¹)	0.1	0.1	0.3	0.6	0.5	1.0	1.4	1.8
Pollution control.....	(¹)	(¹)	(¹)	(¹)	(¹)	2.1	3.0	2.8	2.5	2.5	3.8	4.2	4.6
Other private business (IDBs).....	(¹)	(¹)	(¹)	(¹)	(¹)	1.4	2.2	3.5	7.1	8.8	10.5	12.6	15.1
Subsidy estimates (new issues only): ³													
All new issues:													
Annual tax loss, all new issues.....	0.8	0.7	0.7	0.9	1.1	1.2	1.6	1.8	1.9	2.7	3.2	3.7	3.8
Present value, tax loss.....	7.6	7.1	7.3	7.8	10.0	11.2	14.8	16.1	16.3	19.6	20.5	23.9	25.9
Present value, borrower benefit.....	5.3	5.1	5.7	5.9	6.5	8.8	12.4	14.1	15.0	16.0	11.5	16.5	19.0
Private purpose issues only:													
Present value, private use tax loss.....	(¹)	(¹)	(¹)	(¹)	(¹)	2.7	3.9	4.9	8.4	10.3	9.8	13.4	15.0
MEMORANDUM													
AAA State and local bond yields (Moody's), percent.....	5.22	5.04	4.99	5.86	6.42	5.66	5.20	5.52	5.92	7.85	10.83	9.78	9.03
AAA corporate bond yields (Moody's), percent.....	7.39	7.21	7.44	8.57	8.83	8.43	8.02	8.73	9.63	11.94	14.17	13.78	13.03
Outstanding, long-term tax-exempt issues.....	146.1	160.7	175.1	188.9	205.3	225.0	249.8	275.4	296.4	320.4	341.5	368.3	397.3
Outstanding, all tax-exempt issues.....	161.8	176.5	191.2	207.7	223.8	239.5	261.4	287.5	309.3	336.2	363.2	395.4	431.4

¹ 1976-80 estimates of tax-exempt volume and distribution and 1981-83 projections are by the Department of the Treasury, Office of Tax Analysis. Estimates are unavailable for private purpose tax-exempts before 1976.² Includes some private purpose tax-exempt debt, and advance refunding, that could not be identified or classified.³ Assumed: Average marginal tax rate = .42; taxable securities of comparable quality; average maturity = 18 years; discount rate = Aaa corporate bond yield.

Sources: Federal Reserve Board, Public Securities Association; subsidy estimates by Office of Management and Budget.

INTEREST SUBSIDIES

Federal credit programs provide credit to selected groups on more favorable terms than would otherwise be available in private credit markets. The largest subsidy is usually in the form of a lower interest rate, although other subsidies, such as longer maturities, are commonly offered as well. For direct loans the subsidy arises through formulas in law setting interest rates at a fixed ceiling or tying them to fluctuations in some other rate. While risk is a crucial factor in determining private interest rates, it may be largely ignored in setting rates for direct loan programs. For guaranteed loans, the subsidy usually occurs because the guarantee removes all risk of default facing the lender; the lender is therefore willing to lend to the guaranteed borrower at lower rates that do not include a premium for risk.

This section presents estimates of the subsidies provided through lower interest rates for Federal direct loan programs and one guaranteed loan program. The total interest subsidy is measured by estimating the difference between the interest payments on a federally assisted loan and those the borrower would otherwise have paid in the private market. The reduced interest rate lowers payments throughout the life of a loan. The measurement of the interest subsidy therefore requires that the series of annual interest payment reductions be converted into a single discounted present value. This capitalizes all future payments and allows comparison of the value of the federally assisted and wholly private loan through a single number.

There is no generally accepted method for quantifying the present value of interest subsidies in Federal credit programs. Measurement of the total subsidy depends on an accurate assessment of what the wholly private interest rate would have been. For many Federal credit programs this private rate is impossible to find, either because the risk of a Government-assisted loan is unknown or because comparable loans are not made in the private market. Federally assisted borrowers and projects are frequently riskier than the private market would accept under any terms. To make a rough estimate of the subsidy without complete private rate information, two simplified approaches are used, reflecting, first, the value of the subsidy to borrowers, and, second, the cost to the Government.

The first approach compares Federal credit program rates against aggregate data on private sector rates for the most comparable loans. It is intended to show the value of the subsidy to the borrower. This approach relies on broad categories of loan types rather than detailed analysis of individual program characteristics

(see table 11a).¹¹ For example, the subsidies on Rural Electrification Administration loans are computed by comparing the average REA interest rates against rates for Aaa utility bonds. The private rates are proxies for the actual private rate because they are calculated and compared at such a high level of aggregation. For some programs the rates shown here are better proxies than for others.

The second approach applies a single interest rate to all Federal credit programs: the 10-year Treasury bond rate averaged over the last 6 months (see table F-11b). This calculation, in contrast to the calculations for table 11a, is intended to estimate the cost to the Federal Government of the interest subsidies. The estimates in table F-11b are less than the estimates in table F-11a in large part because the Government can borrow to fund its lending more cheaply than can private lending institutions. Thus, the value of the subsidy to the borrower is larger than the cost of the loan to the Government. Remaining costs of the subsidy fall on the economy at large in the form of upward interest rate pressure for unsubsidized borrowers.

The subsidy estimates are intended to provide a picture of the order of magnitude of interest subsidies, and to suggest the relative distribution of subsidies among the programs. Each of the two methods quantifies only part of the total subsidy provided in Federal credit programs.

The measurement of interest subsidies currently includes:

- the effect of the Federal Government making a direct loan at an interest rate lower than a normal private borrower would have to pay on a similar loan in the private market;
- the effect of the Federal Government paying part of the interest costs of a private loan.

The measurement of interest subsidies does *not* include:

- the value of the Government's assumption of risk on a direct loan or the value of a loan guarantee;
- the effect of making credit available to unusually risky borrowers, under unusually risky terms (such as a higher loan to value ratio or a long maturity), or for unusually risky ventures; i.e., the effect of not charging premiums that would be adequate to cover probable losses on direct or guaranteed loans;
- the effect of not charging fees or premiums that would cover the administrative costs of the program.

Thus, the estimates of interest subsidies only measure part of the total subsidy that is provided in Federal credit programs. Since the amount of interest rate reduction resulting from the Government's assumption of risk on guaranteed loans is not measured, interest subsidies are calculated only for guaranteed student loans, where

¹¹ Private sector rates are computed from data published in the Federal Reserve Bulletin.

the Federal Government directly contributes all or part of the interest payments on the loan.

The sensitivity of interest subsidy estimates to assumptions.— Estimates of interest subsidy in tables F-11a and F-11b are highly sensitive to changes in assumptions. A single percentage point change in the assumed private sector interest rate can substantially change the present value of the interest subsidy. For instance, if the rate on a \$100 million direct loan is 10% and the average private sector interest rate on loans in the same category is also 10% (assuming that the discount rate is the same as the private market interest rate), then there is no explicit interest subsidy. If, however, the private market interest rate is assumed to be 12% then the present value of the interest subsidy is \$15 million, and if the interest rate is assumed to be 15% then the present value of the interest subsidy increases to \$31 million.

The present value will also change dramatically depending on the maturity and amortization plan. For instance, the present value of the subsidy on a 10%, \$100 million loan over 30 years at a 15% discount rate is \$31 million. This subsidy would be only \$18 million if the maturity were 10 years. With a 30-year maturity and a 5-year grace period the subsidy would be \$66 million, more than twice the subsidy of a nondeferred loan.

Since the estimates are so sensitive to the assumptions they are likely to change considerably from year to year, regardless of policy changes. Nevertheless, the estimates of the interest subsidies in credit programs for 1983 can be used to indicate which programs are more deeply subsidized than others, and the general magnitude of the subsidies.

Table F-11a. INTEREST SUBSIDY VALUES FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			Market rate discount			
	Percent	Years	1981	1982	1983	Market rate	Present value of subsidy stream		
							1981	1982	1983
DIRECT LOANS									
Funds Appropriated to the President:									
Economic support fund	2.8	33.2	274	216	895	16.8	199	157	651
Foreign military sales credit.....	12.0	8.0	664	920	1,919	16.8	96	133	278
Functional development assistance.....	2.5	36.5	387	389	392	16.8	291	292	295
Agriculture:									
Price support and related programs.....	13.1	0.7	5,872	8,600	6,600	19.5	270	395	303
Agricultural credit.....	9.0	7.0	9,229	8,196	7,218	18.9	2,329	2,069	1,822
Rural housing.....	3.6	37.2	6,079	6,371	3,895	15.1	4,126	4,324	2,644
Farm export credits—Public Law 480.....	2.3	30.0	821	754	767	16.8	597	548	558
Rural development.....	7.8	40.0	1,669	1,046	948	20.3	999	626	567
Rural telephone bank.....	12.3	30.0	160	185	185	17.1	43	50	50
Rural electric and telephone.....	4.7	35.0	1,117	1,100	700	17.1	736	725	461
Commerce	11.2	25.3	132	44	.....	16.8	40	13	.....
Health and Human Services:									
Health maintenance organizations....	12.0	20.0	27	41	38	20.6	10	15	14
Other health programs.....	6.9	13.4	30	13	1	18.0	13	5	.....
Housing and Urban Development:									
Federal Housing Administration ..	10.0	20.0	414	383	311	15.1	112	104	84
Government National Mortgage Assn.....	7.5	20.0	1,836	1,993	6	15.1	718	779	2
Housing for elderly and handicapped.....	9.0	40.0	873	819	453	15.1	339	318	176
Housing rehabilitation.....	3.0	20.0	85	68	.....	15.1	49	40	.....
Low rent public housing	12.3	0.3	2,196	1,500	1,000	15.1	10	7	5
Interior:									
Water resources.....	9.4	35.0	25	27	39	11.6	4	5	7
Indian loan funds.....	14.5	30.0	11	17	22	20.6	3	5	6

Table F-11a. INTEREST SUBSIDY VALUES FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—
Continued

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			Market rate discount			
	Percent	Years	1981	1982	1983	Market rate	Present value of subsidy stream		
							1981	1982	1983
Bonneville Power Administration ..	1.3	19.5	2	40	62	17.1	1	27	42
Transportation:									
Highway programs ¹	8.4	40.0	13	19	32	11.6	3	5	8
Rail programs	4.9	20.6	39	143	2	16.8	22	79	1
Treasury:									
College housing	3.0	30.0	138	344	100	15.1	92	230	67
Veterans Administration:									
Housing programs	14.6	29.0	739	757	781	15.1	22	23	23
Insurance policy loans ¹	6.9	40.0	241	120	153	19.7	151	75	96
Education loans	8.3	10.0	7	3	2	18.0	2	1	1
District of Columbia ..	9.2	30.0	134	145	145	13.2	36	39	39
Education Foundation:									
Student financial assistance	1.7	13.0	183	179		18.0	104	102	
Student loan insurance	9.0	12.0	238	410	548	18.0	79	135	181
Export-Import Bank ..	10.5	11.0	5,431	4,400	3,830	20.6	1,808	1,465	1,275
NCUA	14.0	2.0	76	390	478	19.7	4	21	25
Small Business Administration:									
Business loans	15.0	8.5	871	712	554	20.6	144	117	91
Disaster loans	10.5	9.0	1,522	640	440	20.6	452	190	131
Tennessee Valley Authority	3.7	0.9	102	83	81	17.1	6	5	5
Other agencies and programs	11.0	5.1	497	80	42	16.8	61	10	5
Federal Financing Bank:									
Disbursement of loans otherwise guaranteed	15.1	4.8	15,060	15,204	16,355	16.8	531	536	576
Total—Direct loan subsidies ²			57,194	56,351	48,994		14,502	13,670	10,499
GUARANTEED LOANS									
Education Foundation:									
Student loan insurance	9.0	12.0	7,762	9,500	10,300	18.0	2,563	3,137	3,401
Grand total			64,956	65,851	59,294		17,065	16,807	13,990

¹ There is no specified maturity period. Forty years is used as a proxy for an indefinite maturity.

² Only explicit subsidies are represented; implicit arising from the Government's assumption of risks are not included. (See text)

Table F-11b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			15,000 discount			
	Percent	Years	1981	1982	1983	Annual subsidy per \$100 million	Present value of subsidy stream		
							1981	1982	1983
DIRECT LOANS									
Funds Appropriated to the President:									
Economic support fund	2.8	33.2	274	216	895	10.5	191	150	623
Foreign military sales credit.....	12.0	8.0	664	920	1,919	2.0	63	87	181
Functional development assistance.....	2.5	36.5	387	389	392	10.9	280	281	283
Agriculture:									
Price support and related programs.....	13.1	0.7	5,872	8,600	6,600	2.3	82	120	92
Agricultural credit.....	9.0	7.0	9,229	8,196	7,218	3.8	1,524	1,354	1,192
Rural housing.....	3.6	37.2	6,079	6,371	3,895	10.2	4,113	4,311	2,635
Farm export credits—Public Law 480.....	2.3	30.0	821	754	767	10.6	571	524	534
Rural development	7.8	40.0	1,669	1,046	948	6.9	764	479	434
Rural telephone bank.....	12.3	30.0	160	185	185	2.6	27	32	32
Rural electric and telephone.....	4.7	35.0	1,117	1,100	700	9.2	684	673	428
Commerce	11.2	25.3	132	44	.....	3.4	29	10	.....
Health and Human Services:									
Health maintenance organizations.....	12.0	20.0	27	41	38	2.6	4	7	6
Other health programs.....	6.9	13.4	30	13	1	5.9	10	4	.....
Housing and Urban Development:									
Federal Housing Administration ..	10.0	20.0	414	383	311	4.2	111	102	83
Government National Mortgage Assn.....	7.5	20.0	1,836	1,993	6	6.1	712	773	2
Housing for elderly and handicapped	9.0	40.0	873	819	453	5.8	336	315	174
Housing rehabilitation	3.0	20.0	85	68	.....	9.1	49	39	.....
Low rent public housing	12.3	0.3	2,196	1,500	1,000	1.8	10	7	4

Table F-11b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—
Continued

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			15,000 discount			
	Percent	Years	1981	1982	1983	Annual subsidy per \$100 million	Present value of subsidy stream		
							1981	1982	1983
Interior:									
Water resources....	9.4	35.0	25	27	39	5.3	9	10	14
Indian loan funds..	14.5	30.0	11	17	22	0.5	*	1	1
Bonneville Power Administration...	1.3	19.5	2	40	62	10.1	1	25	39
Transportation:									
Highway programs ¹	8.4	40.0	13	19	32	6.4	5	8	14
Rail programs	4.9	20.6	39	143	2	8.0	20	73	1
Treasury:									
College housing.....	3.0	30.0	138	344	100	10.1	92	229	67
Veterans Administration:									
Housing programs	14.6	29.0	739	757	781	0.4	18	18	19
Insurance policy loans ¹	6.9	40.0	241	120	153	7.6	123	61	78
Education loans.....	8.3	10.0	7	3	2	4.6	2	1	*
District of Columbia...	9.2	30.0	134	145	145	5.3	47	51	51
Export-Import Bank ...	10.5	11.0	5,431	4,400	3,830	3.2	947	767	668
Foundation for Education Assistance:									
Student financial assistance.....	1.7	13.0	183	179		8.9	93	91	
Student loan insurance.....	9.0	12.0	238	410	548	4.4	58	99	132
NCUA.....	14.0	2.0	76	390	478	0.5	1	4	4
Small Business Administration:									
Business loans.....	15.0	8.5	871	712	554				
Disaster loans.....	10.5	9.0	1,522	640	440	3.1	231	97	67
Tennessee Valley Authority.....	3.7	0.9	102	83	81	6.3	5	4	4
Other agencies and programs	11.0	5.1	497	80	42	2.4	43	7	4
Federal Financing Bank acquisitions of loans otherwise guaranteed.....	15.1	4.8	15,060	15,204	16,355				
Total—direct loan subsidies ²			57,194	56,351	48,994		11,255	10,814	7,867
GUARANTEED LOANS									
Education Foundation: Student loan insurance.....	9.0	12.0	7,762	9,500	10,300	4.4	1,876	2,297	2,490

Table F-11b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—
Continued

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			15,000 discount			
	Percent	Years	1981	1982	1983	Annual subsidy per \$100 million	Present value of subsidy stream		
							1981	1982	1983
Grand total.....			64,956	65,851	59,294		13,131	13,111	10,357

¹There is no specified maturity period. Forty years is used as a proxy for an indefinite maturity.²Only explicit subsidies are represented; implicit subsidies arising from the Government's assumption of risks are not included. (See text).

PROPOSED LEGISLATION

The administration is seeking to reduce the amount of direct loans and loan guarantees issued by the Federal Government. Its primary method for accomplishing this goal is to reduce the appropriation bill limitations on credit programs, and in many cases to terminate the programs. The proposed new levels of activity are displayed in tables F-3 and F-6. For several programs expected to continue operation, changes in authorizing law are being sought that would reduce subsidies and Federal costs. This section outlines the legislative proposals.

For the Guaranteed Student Loan program the administration is submitting legislation to restrict eligibility for subsidized loans and reduce the subsidy. The proposed changes include: raising the origination fee from 5 to 10%, extending the needs analysis to students at all income levels, allowing graduate and professional students to borrow only under the less subsidized auxiliary loan program (and increasing their borrowing limits), and discontinuing special allowance interest subsidy payments in the third year following a student's graduation or withdrawal from school.

The Federal Housing Administration's (FHA) mortgage insurance programs are the subject of legislation proposed to keep the FHA abreast of recent changes in housing finance and to reflect an expanding role for private mortgage insurers. The legislation would allow FHA to insure variable rate and shared appreciation mortgages for single family homes, and would expand the graduated payment program to multi-family mortgages. At the same time, the program would be targeted to home buyers not adequately served by private insurers, such as first-time home buyers. An additional set of provisions (such as eliminating ceilings on the interest rates and points charged, and requiring that premiums be paid at the time of purchase rather than throughout the life of the mortgage) would assist FHA in achieving efficiency. A 0.5% origination fee is proposed for the Veterans Administration mortgage insurance program and an increase in the commitment fee is proposed for the

FNMA mortgage-backed securities program, which provides a secondary market for FHA and VA guaranteed mortgages.

The administration is also proposing changes in the eligibility rules and loan terms of the Farmers Home Administration's disaster loan program, including discontinuing loans to creditworthy borrowers, raising the interest rate on most of its loans from 8% to the cost of Treasury borrowing, and lowering the maximum loan size from \$500,000 to \$300,000.

The District of Columbia is preparing to turn fully to the private market for all its borrowing. Legislation is now being proposed to end the District's authority to borrow short term from the Federal Government.

RECENTLY ENACTED LEGISLATION

This section summarizes legislation affecting Federal credit programs enacted during the first session of the 97th Congress.

The Omnibus Budget Reconciliation Act of 1981 was the single most important piece of credit program legislation enacted in 1981. The act set limits on the credit to be extended by the Farmers Home Administration, the Export-Import Bank, and the Small Business Administration, and for the food for peace program, the District of Columbia and the GNMA tandem plan. It also changed the operation of several credit programs.

The Farmers Home Administration program standards and loan terms were revised as follows:

- Water and waste disposal and community facilities loan interest rates and maturities must be comparable to similar municipal securities, except that a 5% rate is allowed if the loan enables health or sanitation standards to be met in certain areas.
- Farm ownership and operating loans on prime farmland will have interest rates increased by 2%. For limited resource borrowers, the interest rate is reduced by 3% below the FmHA rates for comparable loans to other borrowers.
- Emergency loans to cover losses suffered will be at market rates if the borrower is creditworthy and at 8% if the borrower cannot obtain credit elsewhere.

Interest rates for Rural Electrification Administration direct loans were set at 5%, except for utilities facing "extreme financial hardship" a 2% rate was allowed. The Federal Financing Bank was also directed to provide loans to any borrower receiving an REA guarantee.

Steps were mandated to make the National Consumer Cooperative Bank a fully private lending institution, including redemption of all Federal Government equity by December 31, 1981, and new procedures for selecting the board of directors. After that date, new

obligations of the Bank will not be backed in any way by the Federal Government. The Bank will continue to serve the cooperative organizations it was originally designated to serve.

For the guaranteed student loan program a needs test was reinstated for students with family incomes over \$30,000, restricting the amount of loan to remaining need after expected family contributions are estimated. Interest rates on the auxiliary loan program for parents and graduate students were set at 12% or 14%, depending on Treasury bill interest rates. Finally, a 5% origination fee was established to be paid through the lenders to the Federal Government.

The act made changes in the business and disaster loan programs of the Small Business Administration. For disaster loans:

- Interest rates on loans to creditworthy businesses were raised from the Government's cost of money to market levels.
- The maximum amount of loss coverage for a business was reduced from 100 to 85%.
- Interest rates on loans to noncreditworthy businesses and homeowners were raised from 5% and 3%, respectively, to 8% and one-half of the Government's cost of money (but not to exceed 8%).
- Authorization for nonphysical disaster loans was ended.

For business loans, interest rates on direct loans (except for a rate of 3% on loans to the handicapped) have been raised to the Government's cost of money.

Minor changes in the act included:

- Standards were set for federally insured health student loans, including limits on annual loans of \$20,000 and on total indebtedness of \$80,000 for medical students. Repayment terms were also set.
- CCC Farm Storage Facility Loans were given discretionary rather than entitlement status.
- The authority of local public housing agencies to borrow from the Federal Financing Bank with HUD backing was limited to \$400 million.
- The methods for Federal Housing Administration foreclosure on defaulted mortgages were reformed to make the foreclosure process shorter and less costly to FHA.
- The authority of the Student Loan Marketing Association to provide a secondary market for all types of insured student loans, including health profession loans, was expanded.
- The Rural Development Loan Fund was transferred to the Department of Health and Human Services from the Community Services Administration.

—The Health Maintenance Organization loan program was given flexibility to adjust interest rates to keep them comparable to Treasury interest rates.

Several other recently enacted bills affected credit programs.

The Overseas Private Investment Corporation Amendments Act of 1981 extended OPIC's authority to issue investment insurance, loans and loan guarantees through 1985. The act allows OPIC to operate in countries with per capita incomes up to \$2,950 in 1979 dollars. The previous maximum had been \$1,000 in 1975 dollars.

The District of Columbia Bond Amendments of 1981 gave the District of Columbia additional debt management powers and flexibility to allow it to begin borrowing in the private bond market, rather than from the Federal Government. For example, the act authorizes the District to secure general obligation bonds by creating a security interest in specified District revenues, such as certain tax receipts.

The Agriculture and Food Act of 1981 extended the Commodity Credit Corporation (CCC) price support programs, the Public Law 480 food export program and the rural development programs of the Farmers Home Administration for 4 years. The CCC was given greater flexibility to raise loan interest rates and other terms above minimum levels, in order to reduce subsidies. The act established an export credit revolving fund for use by CCC in carrying out a wide variety of direct loan export activities. This fund, however, has not yet received an appropriation.

The International Security and Development Cooperation Act of 1981 extends through 1983 the authorization for the economic support fund, the foreign military sales credit program, the functional development assistance programs of the Agency for International Development, as well as several noncredit programs. The programs are authorized without major changes in operations. A number of provisions regulate the amount and type of aid to be provided to specific countries.

The Mortgage Purchase Amendments of 1981 remove certain limitations on the mortgage loan purchase authority of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA), allowing FHLMC and FNMA to purchase a larger amount of existing conventional mortgages from thrift institutions. The purchase activity is intended to enable residential lenders to replace older mortgages, frequently carrying relatively low interest yields, with more highly liquid and higher yielding securities. The act also authorizes FHLMC to purchase loans from the National Credit Union Administration (NCUA) and the Federal Deposit Insurance Corporation (FDIC). This provision is intended to assist the FDIC and the NCUA manage their loan portfolios more efficiently.

SPECIAL ANALYSIS G

TAX EXPENDITURES

The Budget of the United States Government, 1983

**OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT**

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
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Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

SPECIAL ANALYSIS G

TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires a listing of "tax expenditures" in the budget. The act defines "tax expenditures" as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." The very term "tax expenditure" is misleading in several respects, and there are formidable difficulties in trying to define the underlying concept or to measure the effect of "special" tax provisions.

Rarely, if ever, is it the case that a tax provision is actually equivalent to direct outlays by the Government for purchase of goods or services. These outlays involve a direct preemption of the production inputs used to produce the goods or services the Government buys. "Tax expenditures" never involve such a direct impact on the use of production inputs. Instead, the effect of most special tax provisions is to subsidize a particular activity. Their operation is therefore directly comparable only to those outlay programs, such as milk price supports and rent subsidies, that also provide a subsidy to particular activities. For this reason, the term "tax subsidies" is more descriptive of these special tax provisions than is "tax expenditures."

The term "tax expenditures" is also unfortunate in that it seems to imply that Government has control over all resources. If revenues which are not collected due to "special" tax provisions represent Government "expenditures," why not consider all tax rates below 100% "special," in which case all resources are effectively Government-controlled? Previous budgets have indefensibly included such items as graduated corporate tax rates and the maximum tax on earned income as if only the highest rates are "normal."

This year's analysis deals exclusively with "tax subsidies," and uses the misleading term "tax expenditures," only where that term is required by the Budget Act. The definition of tax subsidies relies on the distinction between the "normal" or "reference" provisions of the tax structure, which are necessary to make the tax operational, and the "special" provisions which are exceptions to the reference tax provisions designed to further functional program objectives, such as health care, export promotion, or employment of

the handicapped. This distinction between the reference and special provisions is not essential for tax policy purposes. For certain budget purposes, however, it is useful to distinguish between these two kinds of provisions. For example, review of housing policy would be incomplete without estimates of both direct outlays and those tax subsidies that are directed to the housing function.

The reference tax provisions are those which deal with the basic structural features of the income tax. These features include the definition of income subject to tax and allowable deductions, including cost recovery for depreciable assets; taxable units and their threshold levels of taxability; the relationship between the taxation of corporations and their shareholders; the schedule of tax rates; the basic tax accounting rules, including the accounting period for taxation and whether income is taxed as it is realized or as it accrues; the treatment of international transactions; and the system of tax administration. All of these structural features must be dealt with in some manner in order to have an operational income tax. In contrast to these reference provisions, it would be possible to have a full operational income tax which did not contain any of the special provisions which give rise to tax subsidies.

However, while the distinction between the reference and special provisions of the Code may be clear as general concepts, there are inevitable difficulties in applying these concepts to obtain a definitive list of tax subsidies. The inclusion of wages in the tax base is a clear example of reference tax structure, just as the exclusion of fringe benefits is due to special provisions, and therefore clearly constitute tax subsidies. A less clear example is provided by the capital gains provisions, which apply to a broad class of transactions and taxpayers, but which are exceptions to the general rules governing taxation of income from other sources. As explained more fully below, the capital gains provisions are considered to involve a tax subsidy.

It should be noted that other analyses of tax subsidies in the income tax have used standards quite different from the standard of the reference tax structure used here. The standard of an "ideal" income tax has often been suggested for delineating tax subsidies. However, there is no common agreement on the details of such a normative standard and many would regard such a standard as an impractical tax base. In practice, previous tax subsidy lists have not used a clear standard. Instead, they have sometimes been simply a list of possible "tax reform" items. Both the "ideal tax" and "menu of tax reforms" approaches lack the pragmatic advantage of the standard used here of identifying those provisions of the Internal Revenue Code that deal with basic structural features of the income tax, and those that provide special exceptions to those structural rules.

Tax subsidies have objectives similar to those programs funded through direct appropriations. There are numerous examples of this. Direct expenditures and tax subsidies reduce the cost of ship acquisition by shipping companies; direct interest subsidies and the issuance of tax-exempt bonds result in lower financing costs for eligible issuers of mortgage bonds or for eligible businesses. Similarly, State and local governments benefit both from direct grant programs and from the ability to borrow funds at tax-exempt rates; individuals benefit both from direct medicare payments and from the deductibility of medical expenses for income tax purposes; and individuals also benefit both from social security payments and from the tax exemption of these payments.

This special analysis contains quantitative estimates of tax subsidies to be used in conjunction with the budget review. Like the formal listing of comparable direct outlays, the listing of specific tax subsidy items implies neither approval or disapproval of the special provisions of the tax system that authorize them. Further, distinguishing between the reference tax structure and exceptions leading to tax subsidies does not imply that features of the reference tax system as enacted should be exempt from periodic analysis and review. Many features of what is now defined as the normal tax structure, such as the rate structure, exemption levels and basic accounting rules, have major effects upon the level and composition of economic activity and the distribution of income. Although the Internal Revenue Code contains individual income, corporate income, estate and gift, excise and employment taxes that include special provisions that have expenditure program-like objectives, this analysis deals only with deviations from the reference structure in the taxation of individual and corporate income.

DEFINING TAX SUBSIDIES

For a provision to involve a tax subsidy, two conditions are necessary:

- The provision must be “special” in that it applies to a narrow class of transactions or taxpayers; and
- There must be a “general” provision to which the “special” provision is a clear exception.

If these two conditions are satisfied, the special tax provision clearly has the characteristic of a direct outlay program: a program objective and a method of reimbursing program costs. Some examples will illustrate the application of these conditions to specific provisions of the Internal Revenue Code.

Under the general provisions of the income tax code, interest received from any source is includable in income subject to tax. However, a special provision allows interest on obligations of State and local governments to be excluded from taxable income. The

exclusion is therefore considered a tax subsidy. A second example is the allowance of deductions for homeowners' mortgage interest and property taxes paid. Under the general provisions of the Code, no deductions are allowed for any expenses allocable to income exempt from tax. The income from homeownership, that is, the (imputed) rental value of owner-occupied housing, is exempt from tax under the reference income tax rule requiring "realization." The special provisions which allow homeowners to reduce their housing costs by deducting mortgage interest and property taxes are therefore considered tax subsidies.

Much more difficult definitional issues are raised by the capital gains provisions. These provisions apply to a very broad class of transactions and taxpayers, and they constitute the basic provisions governing the taxation of gains from the sale of capital assets held more than one year. On these grounds it can be argued that the capital gains provisions do not involve a tax subsidy. However, under the capital gains provisions income from the sale of capital assets held more than one year is taxed in a different manner than income from any other source. Because the reference provisions for taxing income without regard to source are more general than the capital gains provisions, capital gains has been retained on the list of tax subsidies.

While the preceding examples illustrate provisions that have previously been considered tax subsidies, some items included on previous lists should not be considered tax subsidies. As noted above, graduated corporate rates and the maximum tax on earned income clearly do not involve subsidies. Another example is provided by the exclusion from the tax base of Government transfer payments, such as public assistance benefits, where there is little or no relationship between the benefit payment to the recipient and any user charge, or tax, previously paid or service performed by the recipient. Under the general provisions of the Internal Revenue Code, gifts and other receipts of payments for which no value is exchanged are specifically excluded from taxable income. Therefore, the exclusion of Government transfer payments should not be considered a tax subsidy, because the exclusion is not a special provision.

A further illustration of the definition of tax subsidies is provided by the Accelerated Cost Recovery System (ACRS) provisions enacted in the Economic Recovery Tax Act of 1981. Any income tax requires a set of rules for determining how the cost of depreciable assets is recovered. The ACRS provisions now constitute the general income tax rules for that purpose. To see this, one need only ask: If ACRS is "special," what is the "general" rule in the Internal Revenue Code governing the recovery of cost of depreciable property to which ACRS is an exception? The treatment of ACRS may be

contrasted with that of the investment tax credit, which has very similar economic effects for machinery and equipment. The investment credit is considered a tax subsidy because, unlike ACRS, it does not deal with one of the basic structural elements of an income tax. Note further that the fact that the ACRS provisions are clearly a divergence from any measure of economic income is not relevant to the determination that they do not constitute a tax subsidy.

Because they set forth general rules, the ACRS provisions are part of the reference rules, not a tax subsidy, and therefore do not appear in table G-1. They are, nevertheless, very important provisions of the reference tax structure, both because of their sizeable revenue cost (\$205 million in 1981, \$7,250 million in 1982, and \$12,670 million in 1983), and because of their importance as investment incentives. Other items enacted in the Economic Recovery Tax Act of 1981 which are properly considered tax subsidies, including the "safe harbor" leasing provision, are included in table G-1 under the appropriate budget classification.

Several issues relating to the distinction between the reference structure of the income tax system and tax subsidy provisions are discussed in the following paragraphs.

- *Threshold income levels for tax liability.*—The reference structure includes those tax code provisions that determine threshold levels of income below which no tax liability is imposed for the different types and sizes of taxpaying units. These threshold levels have been affected by legislated changes in personal exemptions and standard deductions in recent years. However, the additional personal exemptions for taxpayers 65 and over and for the blind result in tax subsidies because they are special provisions directed at groups in special circumstances.
- *The progressive rate schedules.*—The progressive rate schedules for the individual and corporate income taxes are a part of the reference tax structure, as would be a proportional or even a regressive rate schedule. Tax subsidies do not result because some income from any source is taxed at lower rates than other income. The income averaging provision of the code for individuals is also considered to be part of the reference structure.
- *Separate rate schedules for single and married taxpayers, married taxpayers filing separately, and heads of households.*—Existing provisions regarding the definition of taxpaying units and separate rate schedules for different types of taxpayers are considered part of the reference tax structure. The concept of tax subsidies is not characterized by any specific set of rate schedules applicable to the particular tax filing

units. Similarly, the deduction for second earners enacted in the Economic Recovery Tax Act of 1981 is part of the reference tax structure.

- *Forms of business organization.*—The tax law recognizes different forms of business organization including corporations, partnerships and Subchapter S Corporations treated in a manner somewhat similar to partnerships, cooperatives, mutual insurance companies and individual proprietorships. The provisions of the tax law that accommodate different forms of business organization do not generally result in tax subsidies so long as income is subject to tax at either the corporate or the individual level.
- *Treatment of individuals and corporations as separate taxpaying entities.*—The separate taxation of individuals and regular corporate entities is part of the reference tax structure.
- *Deduction of business expenses.*—The deduction of business expenses is necessary to determine taxable income under the reference rules of the tax code. Tax subsidies, therefore, do not result when deductions for “ordinary and necessary” business expenses are taken. No attempt was made in this analysis to determine whether certain expenses such as those for entertainment and meals should not only reduce the taxable income of employers, but should also be excluded from the taxable income of the employees receiving these in-kind benefits.
- *Foreign tax credits.*—The reference structure of the income tax includes tax credits for foreign income taxes paid; this prevents the double taxation of income earned abroad.

No estimates are made in this analysis for “negative tax subsidies” or tax penalties—that is, exceptions to the reference structure of income taxes that result in increased tax liabilities for certain groups of taxpayers to discourage specified kinds of activities. At present there are only a few such exceptions. One example is the nondeductibility of gambling losses in excess of gambling gains where gambling is engaged in for profit. Also, under the Tax Reform Act of 1976 deductions for the costs associated with the demolition of certain historic buildings were disallowed, and crediting of foreign taxes paid was denied taxpayers who cooperate with, or participate in, an international boycott. These are all Government receipts normally recorded as such in the budget, or as “off-setting receipts” netted against expenditures.

MEASURING TAX SUBSIDIES

Accounting for budget outlays on a functional or programmatic basis, as in Part 5 of the *Budget*, provides measures of the extent to which the Federal Government influences the allocation of re-

sources, and for what purposes. The functional purposes may be broadly divided into (1) the provision of "public goods and services"; (2) the provision of subsidies; and (3) the payment of transfers. Budget outlays for public goods and services, such as national defense and administration of justice, are used to acquire labor and capital services directly used in production of these goods. Subsidies, such as those for school lunches and to encourage the use of U.S. flag shipping, are intended to reduce market prices below the cost of resources used to produce them. Transfers, such as aid to families with dependent children and revenue sharing are intended to provide a level of income to recipients they otherwise could not achieve.

Outlays are said to "reallocate resources" because they change the composition of GNP. The decisions to provide public goods and services, to subsidize certain prices (and hence outputs), and to make transfers directly result in producing a menu of goods and services that otherwise would not be produced because the resources to accomplish these purposes are either removed from the private sector by taxation or by borrowing. Functional budget outlay figures, then, provide a basis for evaluating programs and their total may serve as an index of the size of Government. They measure the resource cost of accomplishing the program objective, that is, outlays represent the market value of resources rechanneled, or reallocated, by Government. Since GNP is a (gross) measure of the market value of goods and services, the ratio of total budget outlays to GNP is often used as an indicator of the relative size of Government.

Whether functional budget outlay figures are used to aid in program evaluation or to provide an aggregate of outlays for evaluating the degree to which Government reallocates resources, it is essential that the outlay figures be both consistent and comprehensive measures of resource costs. In this regard, the important characteristic of market prices, the measure of resource cost, is that prices are gross of all taxes. Thus, the market value of all goods and services summarized in GNP not only includes the effects of indirect taxes (sales and property taxes) on market prices, but also the before-tax incomes of suppliers of labor (wages) and capital (rent, interest, and profit). Consistency of budget outlay figures requires that they also be stated in pre-tax magnitudes. Generally, budget outlays for the purchase of goods and services used in the provision of public goods are gross of taxes; the payments to vendors and Government employees are gross incomes of the sellers out of which taxes will be paid as determined by the reference tax laws in effect. Similarly, subsidy outlays in the budget generally enter the gross incomes of sellers of subsidized goods and services, along with the remainder of the sales proceeds realized by sellers

as payments by private purchasers of the subsidized goods. Budget outlays that are transfer payments to individuals, being nontaxable under the reference tax laws, are automatically in "pre-tax" magnitudes.

In some instances budget outlays for goods and services or subsidies are exempted from tax by a special tax provision. When this occurs, the outlay figure understates the resource cost of the program of which it is a part and is, therefore, not strictly comparable with other outlay amounts. For example, the budget outlays for certain housing and meal allowances of military personnel are not includable in their incomes and therefore understate the cost of this National Defense budget element. If this form of compensation of military personnel were treated by the generally applicable reference tax rule as income taxable to the employee, the Defense Department would have to make larger cash payments to its military personnel to leave them as well-off after-tax and to continue to attract and retain the same quantity and quality of personnel as with nontaxable allowances. The exemption from tax of these allowances involves a tax subsidy. When the tax subsidy is added to the tax-exempt budget outlay, this element of National Defense expenditure becomes comparable with other defense outlays.

Resource reallocations in the nature of subsidies and transfers may be accomplished as easily by special exceptions to reference tax law rules as by the expenditure of appropriated funds. Just as U.S. flag shipping is encouraged by outlays authorized by the Congress, U.S. flag shipping is encouraged by special income tax provisions designed to reduce shipowners' cost of acquiring ships. A review of water transportation programs would therefore be incomplete if no accounting were made of these shipping subsidies implemented through the tax system. Similarly, a Federal budget accounting of aid provided State and local governments would be incomplete if it did not include the aid provided through tax exemption of interest received by holders of bonds issued by State and local governments. Nor is a total of Federal Government expenditures which omits these tax subsidies a comprehensive accounting of the resources reallocated by Federal Government fiscal measures.

The estimates of tax subsidies in table G-1 have been prepared this year to conform them to the objectives of functional budget accounting for outlays. Unlike the estimates of prior years, the table G-1 figures are estimated as outlay *equivalents*, the magnitudes of which are consistent with direct budget outlays. The methodology used assumes that the program objective served by the special tax provision is to be achieved within all the constraints that determine market prices, and, hence, resource costs, including the rules of the reference tax structure and all other laws govern-

ing market exchanges. The estimated tax subsidy is therefore equal to the direct expenditure of funds that would be required to accomplish the same objective.

If a program is paid for with appropriated funds, the Government makes payments to individuals and corporations who perform certain stipulated acts, or qualify for transfers by reason of their characteristics, and the recipients compute their tax liability under reference tax rules, and pay that amount to the Treasury. If a program is paid for with a tax subsidy, the special tax provision in effect permits recipients to compute their tax liability as if they had received the payment, but to actually pay to the Treasury an amount equal to their tax liability *less* the payment for which they have qualified. If the program is paid for with appropriated funds, the outlay is displayed in the budget, along with the full amount of taxes actually paid; but if the program is paid for with a tax subsidy, the budget effect is registered only as a reduction in Federal tax receipts. Therefore, the entries in table G-1 may be viewed as amounts which should be both added to functional budget outlays and restored to budget receipts-to provide a more consistent and comprehensive display of the resource reallocations implied by fiscal measures. Note that these adjustments leave the budget balance unaltered.

The basic difference between the new and previous tax subsidy estimates is that the new estimates account for the tax treatment of the implicit payment provided by the special tax provision. That is, the new estimates reflect the taxability of the payment under the reference tax rules. The following examples will clarify the difference in estimating technique for major classes of tax subsidies.

1. *Government outlays that are exempt from tax.*—Certain housing and meal allowances for military personnel are not included in the pre-tax incomes of military personnel, as has been noted. The former tax subsidy estimate for this item merely computed the tax that would be paid by military personnel if these payments had been taxable. The new estimates recognize that the intent of this personnel policy is to attract and retain the existing military force and that the pay equivalent taxable under reference tax law would therefore have to be sufficient to yield the same personnel an after-tax (disposable) income large enough to permit them the same housing and meal expenditure they now enjoy. Since virtually all military personnel have otherwise taxable incomes, the present estimate exceeds prior estimates which did not take account of this fact. The new tax subsidy estimate is measured in a consistent manner with other Defense Department outlays, whereas the previous estimate was not.

2. *Subsidies to reduce market prices.*—The new incremental R. & D. credit provides a subsidy for the performance of industrial R. & D. The firm qualifying for the credit is not required to include the credit in computing its taxable income, as it would were it to receive the same subsidy for R. & D. as a cash payment from the Government. Under the methodology used this year, the expenditure equivalent of the incremental R. & D. tax credit is estimated as the amount of subsidy subject to reference tax rules that would have to be paid firms for their qualified R. & D. expenditures and which would reduce their R. & D. costs by as much as the tax credit. This estimate of the R. & D. tax credit expenditure equivalent is larger than the amount that would have been estimated in previous tax subsidy budgets.

Other tax subsidies that have the effect of reducing market prices are paid by reducing the tax payments of the purchaser. For example, the deduction allowed for medical insurance obviously reduces the cost of medical insurance to the purchasers of medical insurance. Under the reference tax rules, this deduction is unrelated to the computation of individuals' (purchasers') taxable income. Further, the full expenditure of the insured taxpayer enters the taxable incomes of medical practitioners and others whose fees are thereby covered. The expenditure equivalent of this subsidy is therefore simply the reduction in tax payments of purchasers resulting from the preferential deduction. The present tax subsidy estimate for this item is therefore made in the same manner that it was previously made.

3. *Capital subsidies.*—The Government may subsidize the acquisition of capital in the private sector in either of two ways. It might provide capital grants with respect to the acquisition of specified classes of assets, or it might provide preferential loans to entities acquiring particular assets. The investment tax credit for machinery and equipment is an example of a capital grant, similar to construction subsidies paid shipowners who have ships built in U.S. shipyards, or to the furnishing of equipment to Government contractors.

In general, under the reference tax laws the beneficiary of a capital grant is regarded as not having contributed to the cost of the asset to the extent it is paid for by the Government. The asset is shown in the beneficiary's books at its net private cost. Depreciation of only the cost net of subsidy is recovered. However, in the case of the investment tax credit, the private firm is allowed cost recovery deductions for the entire cost of credited assets. Under the methodology used this year, this additional cost recovery is accounted for as an addition to the initial grant (tax credit) to derive the expenditure equivalent. Previous tax subsidy estimates have not accounted for this characteristic of the investment tax credit

and are therefore less than the expenditure equivalent reported in table G-1.

Tax deferrals resulting from special accelerated capital cost recovery allowances are a form of Government lending. For example, under reference tax rules, investments for the discovery and development of mineral deposits would be capitalized when incurred and recovered as depletion allowances as production from the deposit ensues. Under special tax rules, however, these investment expenditures are recovered as deductions when made, reducing tax liability due and payable when the investment is made and increasing tax liability due and payable in later years. The deferral of tax, as compared with the tax stream that would have occurred under reference tax rules, is in the nature of an interest-free loan. The expenditure equivalent of tax deferrals shown in table G-1 is comparable to the treatment of net lending in the outlay section of the budget. Only net new lending (deferrals) is accounted for; the subsidy element attributable to a zero interest rate on the deferral is not. Thus, the expenditure equivalents for deferral items shown in table G-1 are measured in the same way as they were in previous tax subsidy budgets.

The tax subsidy estimates reported in table G-1 have been prepared by the Treasury Department and are based upon tax law enacted as of December 31, 1981. The estimates show the expenditure equivalent of each special tax provision by fiscal year. For those tax subsidies resulting from the exclusion from taxable income of Federal Government payments to individuals, the estimates of such payments upon which the tax subsidy estimates are based are those shown elsewhere in the budget; hence they reflect any proposed changes in these programs.

The tax subsidy estimating procedure uses the same implicit assumption that governs estimates of out-year budget outlays, namely that the existing tax structure and all other institutional determinants of resource costs are given. It is also assumed that aggregate output and incomes remain at the levels that underlie the 1983 budget estimates.

The tax subsidy estimates presented in this *Special Analysis*, including those computed on a "revenue loss" basis as shown in table G-2, are *not* estimates of the increase in Federal receipts that would accompany the repeal of the special provisions that give rise to the tax subsidies. There are several reasons for these differences.

Tax subsidy estimates are based on the actual level of tax-subsidized activities; in some instances the level of these activities could be expected to change dramatically if the tax subsidy were removed. Because of these behavioral changes, the repeal revenue gain may be much lower than the tax subsidy figure. One example is the realization of capital gains, which could be expected to be

much lower if such gains were subject to tax at ordinary rates. Another example would be the response to the taxation of a particular employee fringe benefit which is currently untaxed, such as employer-paid medical insurance premiums. The expected response would be a decrease in the amount of employer-paid medical insurance premiums, but an increase in the amount of other fringe benefits, such as employers' pension contributions and educational assistance. Note that there would be analogous behavioral responses if many direct outlay programs were eliminated or curtailed. For example, the removal of a price support for a particular agricultural commodity could be expected to lead to somewhat higher production of other price-supported commodities. In such cases, the net reduction in budget outlays would be less than the savings from the eliminated (or curtailed) program.

A second reason for the difference between repeal revenue gains and tax subsidy estimates is the effect that repeal would have on the aggregate level of income and economic growth. For example, all receipts as well as expenditure figures in the budget are based on projections of income and growth which assume the investment tax credit, as currently enacted, will continue to operate. If, however, the investment credit were repealed (or curtailed) without being replaced by a comparable investment incentive, the current projections of income and growth would have to be revised downward. Consistent with these revisions, receipts and expenditure projections would also have to be revised. The estimated net effect of repeal of the investment tax credit on receipts, therefore, would not be equivalent to the tax subsidy shown here.

As is the case with estimates of proposed changes in tax law, tax subsidy estimates are computed on a "cash-flow" basis. However, for purposes of the present analysis, the estimates show the difference between tax subsidies under current law and tax subsidies under the assumption that a law without the particular tax subsidy provision had always been in effect. These figures, therefore, generally show larger amounts than would be saved in the first years of transition to a tax law without the special provisions. This is analogous to the "phase-out" likely to accompany reductions in outlay programs as previously authorized and appropriated funds are spent. The estimates take into account any changes scheduled under existing law, such as the phasing in or out of specific provisions.

Tax subsidy estimates cannot simply be added together to obtain totals for functional areas or a grand total. Simply adding tax subsidies produces inaccurate totals because certain tax subsidies affect the value of other tax subsidies. This interaction may be demonstrated by comparing the result of deleting two tax subsidies simultaneously to that of deleting them separately.

In some cases, the reduction in tax subsidies from the deletion of two tax subsidy items simultaneously would be greater than the sum of the reductions from the deletion of the two items separately. For example, if interest income from State and local government bonds were made taxable and capital gains on home sales were not deferred, more individuals would be pushed into higher tax brackets than if just one of these sources of income were treated under the normal rules of the tax code; the combined reduction in tax subsidies would be greater than the sum of the two separate effects.

In other cases, the reduction in tax subsidies from the deletion of two items together would be smaller than the sum of the reductions considered separately. For example, if the deductibility of mortgage interest payments and homeowner property taxes were both repealed and the zero bracket amount (standard deduction) were left unchanged, more individuals who now itemize their deductions would opt for the zero bracket amount than if only one preference were repealed. The reduction in tax subsidies would therefore be lower from repealing both preferences together than the sum of the two estimates obtained from repealing each one separately.

In general, elimination of several itemized deductions at one time would reduce tax subsidies by less than the sum of the reductions measured by eliminating each item separately because more taxpayers would use the zero bracket amount. Conversely, simultaneous elimination of multiple items that are exclusions from adjusted gross income would reduce tax subsidies by more than the sum of the individual reductions because more taxpayers would be pushed into higher tax brackets.

Aside from these interaction effects, resources allocated to public purposes would not necessarily be reduced by the total amount of a group of tax subsidies if all the tax subsidy provisions in that group were removed together. Tax subsidies and other provisions of tax law have frequently been changed together or viewed as substitutes for one another. Furthermore, a direct outlay may be substituted for a tax subsidy. Thus, an aggregation of tax subsidies that did take interaction into account would simply indicate the total resources available for some combination of cutting tax rates, increasing outlays, and reducing the deficit. If a group of tax subsidy provisions were removed, the overall effects on budget receipts and on resource allocation and income distribution would therefore depend on the particular decisions made as to which changes in tax rates and outlays—out of a limitless number of alternatives—were used to compensate for their removal.

Finally, although personal and corporation income tax returns continue to be the basic sources of data from which tax subsidy

estimates have been derived, the estimates are not reported separately for individuals and corporations. This is consistent with the treatment of outlays which are reported by function (or by Agency with fiscal responsibility), not by whether the payee is a person or a corporation.

TAX SUBSIDIES BY FUNCTION

Estimates of tax subsidies for 1981-83 are grouped together by functional category in table G-1. Each tax subsidy has been classified in the functional category used for budget outlays into which it most closely fits.

National defense.—The housing and meals provided military personnel, either in cash or in kind, are excluded from income subject to tax. Most of the disability related military pension income received by current retirees is also excluded.

International affairs.—A U.S. citizen or resident alien who is a resident of a foreign country or who is present in one or more foreign countries for a prescribed period is allowed special tax relief on his foreign earnings. For years prior to 1982, the prescribed period for physical presence abroad was 17 out of 18 months. The Economic Recovery Tax Act of 1981 reduced the prescribed period to 11 out of 12 months beginning January 1, 1982.

For 1980 and 1981, eligible taxpayers could deduct certain additional expenses incurred in living abroad. The deductions were for annual home leave travel, education of dependents through grade 12, a general cost of living allowance, and housing costs in excess of one-sixth of foreign earned income less the other special deductions. Taxpayers living in certain hardship areas could deduct an additional \$5,000 per year. Taxpayers required to live in camps in hardship areas and individuals performing charitable services in less developed countries could elect to exclude \$20,000 per year of foreign earned income instead of claiming the special deductions. These provisions did not apply to U.S. Government employees or persons paid from U.S. Government funds.

Beginning in 1982, the deductions and exclusions described in the preceding paragraph no longer apply. Under the Economic Recovery Tax Act, in 1982 eligible taxpayers may exclude \$75,000 per year of foreign earned income and may exclude or deduct reasonable housing costs in excess of one-sixth of the salary of a civil servant at grade GS-14, step 1. The \$75,000 exclusion increases by increments of \$5,000 per year until it reaches \$95,000 in 1986. These reliefs do not apply to persons who are employed by the U.S. Government; however, they do apply to persons who are not U.S. Government employees but who are paid from public funds. The tax-exempt status of certain allowances received by Federal em-

ployees working abroad has not changed. These exemptions also result in tax subsidies.

The profits of a domestic international sales corporation (DISC) are not taxed to the DISC but instead are taxed to the shareholders (usually parent corporations) when distributed or deemed distributed to them. For DISC's with more than \$150,000 in otherwise taxable income, the deemed distribution equals all income attributable to base period exports plus 50% of income attributable to exports in excess of the base period exports. Base period exports equal 67% of average annual exports during an earlier 4-year base period. For DISC's with less than \$100,000 in otherwise taxable income, the deemed distribution equals 50% of total income. The base-period rule is phased in for DISC's with taxable income between \$100,000 and \$150,000.

General science, space, and technology.—Research and development expenditures are intended to result in new products or processes, cost reductions, or other effects whose benefits will in nearly all cases continue into the future. Businesses may deduct all research and development expenditures in the year when they are incurred rather than amortize them over several years. The Economic Recovery Tax Act of 1981 added a credit for increasing research activities. The credit is equal to 15% of the increase in research expenditures over average expenditures in a base period. The base period for 1981 is 1980, for 1982 is 1980 and 1981, and for 1983 and subsequent years, the preceding 3 years. The credit expires in 1985.

Energy.—Certain capital costs necessary to discover and develop certain fuel mineral properties may be deducted as current expenses rather than amortized over the useful life of the property. Included in this category are the intangible drilling costs of oil wells, such as the wages of drilling crews, and the cost of developing other mineral deposits, such as expenditures for mine shafts, tunnels and stripping. Intangible drilling costs for oil and gas wells are a preference item for purposes of the individual's minimum tax to the extent that such costs exceed either cost depletion or 10-year amortization. However, they may exclude intangible drilling costs from their minimum tax base to the extent that the deductions did not exceed oil and gas income. The same rules apply to intangible drilling costs of geothermal wells.

Extractive industries generally use percentage depletion rather than cost depletion. Under cost depletion, actual outlays, to the extent not immediately recovered through expensing of exploration and discovery and development costs, may be deducted over the productive life of the property, much as businesses may take deductions for the depreciation of other capital goods, the cost of which

are capitalized when acquired. Percentage depletion is not likewise limited to the cost of the investment. Under percentage depletion, taxpayers may deduct a percentage of gross income from mineral production at rates ranging from 22% for oil and gas and certain other minerals to 5%; however, the deduction is limited to 50% of net income from the property or 65% of taxable income in the case of oil and gas. Percentage depletion for oil and natural gas is available only to limited quantities of output of independent oil and gas producers and royalty owners. In addition, the percentage depletion rate for oil and gas is being phased out from 22% through 1980 to 15% in 1984 and thereafter. Production from geothermal deposits is eligible for percentage depletion at the same rate as for oil and gas, but with no limit on output and no limitation with respect to qualified producers. In lieu of percentage depletion, royalties from coal deposits are treated as capital gains rather than ordinary income.

A variety of tax incentives stimulate energy conservation and encourage conversion to energy sources other than oil or natural gas. Individuals may take a 15% income tax credit for home insulation and other energy-conserving components up to a maximum credit of \$300. A credit of 40% of the first \$10,000 of qualifying expenditures is allowed for expenditures on solar and other renewable energy source property.

In addition to the 10% investment tax credit for machinery and equipment, a credit is allowed for business investments in specified energy property. A 10% additional credit is allowed for alternative energy property (i.e., property using fuel other than oil or natural gas, including biomass property); specially defined energy property (i.e., property used in an existing industrial, agricultural or commercial facility to reduce the amount of energy consumed or heat wasted); recycling equipment; shale oil equipment; cogeneration equipment; alumina electrolytic cells; certain intercity buses; and equipment for producing natural gas from geopressurized brine. An 11% additional credit is available for certain small-scale hydroelectric generating property, and a 15% additional credit is allowed for solar, wind, ocean thermal and geothermal equipment.

A \$3 per barrel of oil-equivalent production credit is provided for several forms of alternative fuels, but, as a general rule, is not available unless the price of oil drops below \$29.50 (in 1979 dollars). The credit is available without this price limitation for processed wood fuel and steam produced from solid agricultural byproducts. Gasohol is exempt from the 4 cents per gallon Federal excise tax and there is a corresponding production income tax credit for alcohol used as a fuel in applications where the excise tax is not assessed. Certain small scale hydroelectric generating facilities owned by a governmental unit and facilities which produce steam

or alcohol from solid waste may be financed with tax-exempt industrial development bonds.

Natural resources and environment.—As is true for fuel-minerals, certain capital costs associated with exploration and development of nonfuel-minerals may be expensed rather than capitalized and depreciated over the life of the asset. Most nonfuel-mineral extractors also make use of percentage depletion rather than cost depletion.

Interest on State and local government debt issued to finance the pollution control facilities of private firms is excluded from income subject to tax.

Expenditures made before January 1, 1982 to preserve and restore certain historic structures were eligible for special accelerated depreciation under prior law. This provision did not apply to owner-occupied housing.

The gains on the cutting of timber and royalties from iron ore deposits are taxed at rates applicable to long-term capital gains rather than ordinary income.

Up to \$10,000 (\$5,000 for a married taxpayer filing a separate return) of direct costs incurred in a taxable year to forest or reforest a site for the commercial production of timber may be amortized over a 7-year period rather than capitalized and recovered when the timber is cut. The \$10,000 of costs are also eligible for the 10% investment tax credit notwithstanding the nondepreciability of investments in timber stands.

Agriculture.—Farmers, other than certain corporations and partnerships engaged in agriculture, are allowed to deduct certain costs as current expenses even though these expenditures are for inventories held at the end of the year or for capital improvements that are required to be capitalized under reference income accounting. Capital gains treatment generally applies to the sale of livestock and certain other agriculture products.

Commerce and housing credit.—This category includes a number of tax subsidy provisions that also affect economic activity in other functional categories. In general, provisions related to investment, such as the investment tax credit, might alternatively have been classified under the natural resources and environment, energy, agriculture, or transportation categories.

An exclusion of \$200 (\$400 on a joint return) is allowed for most dividend and interest income. Under the Economic Recovery Tax Act of 1981, beginning in 1984 the exclusion is reduced to \$100 (\$200 on a joint return) and is applicable only to dividend income.

The interest on industrial development bonds issued by State and local governments is excluded from income subject to tax.

Credit unions are exempt from Federal income taxes. Commercial banks, mutual savings banks, and savings and loan associations are permitted to deduct additions to bad debt reserves in excess of actual loss experience and reasonable expectations as to future losses. Mutual savings banks and savings and loan associations may deduct 40% of income provided they maintain stipulated fractions of their assets in "qualifying assets," primarily residential mortgages.

Life insurance policies other than term policies generally contain a savings element. Savings in the form of policyholder reserves are accumulated from premium payments and interest is earned on the reserves. Such interest income is taxable neither as it accrues nor when received by beneficiaries.

Interest paid on consumer credit is allowed as an itemized deduction for individuals.

Owner-occupants of homes may deduct mortgage interest and property taxes (but not maintenance outlays or depreciation) as itemized nonbusiness deductions.

Interest on State and local government debt issued to finance below-market rate mortgages for owner-occupied housing is excluded from income subject to tax. The Omnibus Budget Reconciliation Act of 1980 restricts the use of mortgage subsidy bonds with a State-by-State ceiling on the annual volume of such use for single family housing equal to 9% of the average of all mortgages that originated in the State during the preceding 3 years of \$200 million, whichever is greater. A total ban on mortgage subsidy bonds for single family housing becomes effective January 1, 1984.

Prior to the Tax Reform Act of 1976, taxpayers deducted interest and property tax payments made while a building was under construction rather than following the general rule of the code which requires that all costs of a depreciable asset be capitalized and be recovered over its recovery period. The 1976 act reduced this tax subsidy by requiring that construction period interest and taxes be capitalized and recovered over a 10-year period for noncorporate taxpayers. The provision is being phased in over a 7-year period with more generous transition rules available for housing projects receiving direct expenditure subsidies under Government housing programs. However, the Economic Recovery Tax Act of 1981 excepted from the construction period phase-in, interest and taxes on low-income housing, which can be expensed.

Sixty percent of net long-term gains from the sale of capital assets may be excluded from income. The excluded 60% of net long-term gains is no longer included as a preference item in computing the minimum tax for individuals. However, the capital gains exclusion is treated as a preference item in the "alternative minimum tax." This tax is applicable only if the sum of a taxpay-

er's regular income and minimum tax is less than his alternative minimum tax. Half of net long-term capital losses and 100% of net short-term capital losses may be offset against ordinary income up to a maximum deduction of \$3,000 per year with an unlimited carryforward. Under the Economic Recovery Tax Act of 1981, net capital gains from sales or exchanges occurring after June 9, 1981 are taxed at a maximum rate of 20%. This maximum rate is equal to the 40% inclusion rate times the maximum individual rate that will apply after 1981 of 50%.

Corporations may elect a 28% alternative tax rate on capital gains. The tax subsidy is estimated on the assumption that these gains would otherwise be taxed at ordinary rates.

Capital gains on the sale of a home are recognized only to the extent that the "adjusted sales price" exceeds the cost of a new home purchased and occupied within 2 years (increased from 18 months by the Economic Recovery Tax Act of 1981) before or after the sale. If a new house is constructed, it must be occupied within 2 years after the sale. The "adjusted sales price" is the amount realized (gross proceeds less selling expenses) minus qualified "fixing up" expenses. To the extent that the gain on the sale of a home is not recognized, the basis of the home purchased is reduced, thereby resulting in a deferral of the gain. A loss on the sale of a home is not deductible.

A taxpayer who is 55 years of age or older at the time of the sale of his principal residence may elect to exclude up to \$125,000 (increased from \$100,000 by the Economic Recovery Tax Act of 1981) of gain from the sale. This is a once in a lifetime election.

The gain on the sale of capital assets acquired by inheritance is computed as the excess of the sale price over their value at the time of the original owner's death, rather than as the excess over their value at the time of acquisition by the original owner. The estimate assumes that the difference in the computed gain would be taxed as part of the capital gain in the year of sale.

The 10% investment tax credit is applied to the cost of qualifying property (generally, tangible, depreciable personal property used in a trade or business) in the 5-, 10-, and 15-year recovery classes under the Accelerated Cost Recovery System (ACRS). Assets in the 3-year recovery class are entitled to a 6% credit. Notwithstanding the reduction in cost of acquiring qualified property provided by the credit, taxpayers may recover the original cost gross of the credit. As a general rule, the credit cannot be claimed for investments in land or buildings or for property used abroad. The investment tax credit may be claimed as progress payments are made on property that takes 2 or more years to construct. Prior to the Revenue Act of 1978, the maximum credit allowed against income tax liability in a taxable year was generally limited to \$25,000 plus

50% of tax liability in excess of \$25,000. The 1978 act raised the excess liability percentage to 60% for 1979 and increases it through annual increments of 10 percentage points to 90% by 1982. Before enactment of the Economic Recovery Tax Act of 1981, excess credits could generally be carried back 3 taxable years and forward 7 taxable years, after which unused credits expired. The 1981 Act extended the carry-forward period to 15 years.

The 1981 act also provided "safe harbors" for tax leases of business machinery and equipment. Under these leases, depreciation and the investment tax credit are normally claimed by the lessor, although the lessee is the actual user and owner of the machinery or equipment.

The Economic Recovery Tax Act of 1981 allows financial institutions to issue special 1-year certificates until December 31, 1982, that pay tax-exempt interest. The interest rate on the certificates issued during any week is limited to 70% of the interest rate on the last 52-week Treasury bills issued in a preceding week. The total amount of interest that is exempt on these certificates for an individual is limited to \$1,000 (\$2,000 on a joint return). Financial institutions must invest at least 75% of the proceeds from these certificates in housing or agricultural loans.

The Economic Recovery Tax Act of 1981 allows public utilities between 1982 and 1985 to distribute stock in lieu of cash dividends to shareholders who may then deduct up to \$750 per year (\$1,500 on a joint return) of the stock dividends.

Transportation.—Certain companies that operate U.S.-flag vessels receive an indefinite deferral of income taxes on that portion of their income which is used for shipping purposes, primarily construction, modernization and major repairs of ships. An investment credit of one-half the regular credit may be claimed on the tax-deferred amounts withdrawn from capital construction funds.

The Economic Recovery Tax Act of 1981 allows State and local governments to issue tax-exempt obligations to finance the purchase of mass commuting vehicles.

Community and regional development.—Under certain conditions, taxpayers may elect to amortize rehabilitation expenditures for low- and moderate-income rental housing over a 5-year period. Rehabilitation expenditures may not exceed \$20,000 per dwelling unit and must exceed \$3,000 to qualify. The Economic Recovery Tax Act of 1981 increased the limit to \$40,000 per dwelling unit if the rehabilitation is on units which the tenants may purchase at a price that limits the profit to the seller. This provision expires on January 1, 1984.

The Economic Recovery Tax Act of 1981 also provides an investment tax credit for the rehabilitation of buildings that are used for

business or productive activities (other than for residential purposes). The credit is 15% of rehabilitation expenditures for buildings at least 30 years old and 20% for buildings at least 40 years old. The basis of the rehabilitation recoverable as depreciation must be reduced by the amount of the credit. In addition, a 25% credit for rehabilitation of historic structures, including rental residential properties, was added by the 1981 act. Under prior law, a 10% credit was allowed for buildings at least 20 years old, with no reduction in basis.

Education, training, employment, and social services.—Interest on State and local government debt issued to finance student loans is excluded from income subject to tax.

Taxpayers may claim personal exemptions for dependent children 19 or over who receive income of \$1,000 or more per year if the children are full-time students. The student may also claim an exemption on his own return, thus providing a double exemption. The extra exemption for parents results in a tax subsidy.

Many employers provide employee benefits that are excluded from employee income. The employers' costs for these benefits are deductible business expenses. The exclusion from an employee's income of the value of meals and lodgings provided by an employer for his own convenience is a tax subsidy, as is the exclusion of housing allowances and the rental value of parsonages from the taxable income of ministers. An employer may set up an educational assistance program to provide educational benefits to his employees from January 1, 1979, through December 31, 1983. The program can pay for tuition, fees, books, and supplies. Amounts received under the program are excluded from an employee's gross income. Employer contributions to prepaid legal services plans and the value of legal services received under the plans are also excluded from employee income.

For qualifying investment made prior to January 1, 1983, a corporation may claim an additional 1% investment tax credit if an equivalent amount of its common stock is set aside in a employee stock ownership plan (ESOP). A further one-half of 1% investment tax credit may be claimed to the extent that additional employer contributions to an ESOP are matched by employee contributions. Under the Economic Recovery Tax Act of 1981, the tax credit for contributions to an ESOP is limited to a prescribed percentage of total compensation paid to all employees under the plan. The percentage is one-half of 1% in 1983 and 1984, and three-quarters of 1% in 1985, 1986, and 1987. The ESOP credit expires in 1987. Employees are generally prohibited from withdrawing their share of an ESOP for 7 years.

Contributions to charitable, religious and certain other nonprofit organizations are allowed as an itemized deduction for individuals,

generally up to 50% of adjusted gross income. The Economic Recovery Tax Act of 1981 provides that nonitemizers may deduct a portion of charitable contributions, beginning in 1982. Taxpayers whose contributions to charitable or educational organizations are in the form of capital assets, usually securities that have appreciated in value above their cost, obtain a deduction for the contribution at the appreciated value of the asset without taxation on the appreciation in value. Corporations may deduct charitable contributions of up to 5% of their income. The deduction is increased to 10%, beginning in 1982, by the Economic Recovery Tax Act of 1981. Tax subsidies resulting from the deductibility of contributions are shown separately here for contributions to educational and other institutions. Contributions to health institutions are reported under the health function.

A 20% tax credit may be claimed by married couples for child and dependent care expenses incurred when both spouses work full time or when one spouse works part time or is a student. The credit may also be claimed by divorced or separated parents who have custody of children and by single parents. Expenditures up to a maximum of \$2,000 for one dependent and \$4,000 for two or more dependents are eligible for the 20% credit. The credit may be taken for payments to relatives of the taxpayer even if their services are not qualified for coverage under the social security laws. Under the Economic Recovery Tax Act of 1981, beginning in 1982, the credit is increased to 30% for taxpayers with incomes of \$10,000 or less with the credit reduced by one percentage point for each \$2,000 of income between \$10,000 and \$28,000, expenditures for out-of-home noninstitutional care of a disabled spouse or dependent are eligible for the credit, and the limits on eligible expenditures are raised to \$2,400 for one dependent and \$4,800 for two or more. Note that in the absence of the credit, expenses for child and dependent care would be deductible as employee business expenses. Therefore, the estimates reflect the excess of the value of the credit over the value of a deduction.

The targeted jobs credit allows tax credits for qualified wages paid to individuals certified as members of a targeted group. The Economic Recovery Tax Act of 1981 eliminated the AFDC-WIN credit, but made individuals who qualified under that credit—those employed under the WIN (work incentive) program and other recipients of AFDC (Aid to Families with Dependent Children)—eligible for the targeted jobs credit. A credit of 50% of first-year wages and 25% of second-year wages up to \$6,000 of each employee's wages (the wage base for unemployment taxes) can be taken by the employer to offset up to 90% of his tax liability. The provision that the credit may not be taken for first-year wages in excess of 30% of the employer's total unemployment tax wage base was removed by

the Economic Recovery Tax Act of 1981. The employer's deduction for wages is reduced by the amount of the credit.

Health.—Payments by employers for health insurance premiums and other medical expenses are deducted as business expenses by employers and excluded from employee income. The exclusion from employee income gives rise to a tax subsidy.

Medical expenses in excess of 3% of adjusted gross income, including payments for prescribed drugs and medicines in excess of 1% of adjusted gross income, may be deducted by individuals as itemized nonbusiness deductions. Individuals may also deduct half of the premiums they pay for medical care insurance up to a maximum deduction of \$150 per year without regard to the 3% limit.

Interest on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

Expenditures up to \$25,000 per year for removing architectural and transportation barriers to the handicapped and the elderly in any facility or public transportation vehicle used in a trade or business that otherwise would have been treated as a capital outlay can be treated as a current expense prior to January 1, 1983.

Contributions to nonprofit health institutions are allowed as a deduction for individuals and corporations. Contributions to other charitable institutions are discussed under the education, training, employment, and social services function.

Income security.—Most Government transfer payments to individuals, such as social security benefits, are excluded from taxable income. If the taxpayer had no other source of income, these payments, even if taxable, would not generally be large enough to result in tax liability, given present levels of personal exemptions and the zero bracket amount. However, because some recipients have property income, receive earnings (in some instances for only part of a year), or file jointly with working spouses, tax subsidies result from these exclusions.

If the sum of a taxpayer's adjusted gross income, unemployment compensation and excludable disability income is over \$20,000 (\$25,000 for a joint return), the lesser of his unemployment benefits or one-half of the amount over the \$20,000 limit is taxable.

Certain payments up to \$100 per week financed by an employer in lieu of wages during periods of employee injury or sickness are excluded from the taxable income of persons under the age of 65, who are permanently and totally disabled. For these individuals the exclusion is reduced dollar for dollar by adjusted gross income plus disability income in excess of \$15,000.

Certain contributions to pension plans by employers and amounts set aside by the self-employed and those not covered by an employer's plan are excluded from the individual's adjusted gross

income in the year of contribution. Self-employed persons could make deductible contributions to their own retirement plans equal to 15% of their income up to a maximum of \$7,500 per year. Employees not covered by an employer's plan could deduct annual contributions of 15% of compensation up to a maximum of \$1,500 or \$1,750 if the retirement account was owned jointly by a husband and wife. Under the Economic Recovery Tax Act of 1981, beginning in 1982 the maximum deductible contribution for self-employed persons is \$15,000. For employees, the requirement that they not be covered by an employer's plan was removed, and the maximum was raised to \$2,000 (or 100% of compensation, if less) for each employee or \$2,250 on a joint return if one spouse has no compensation. The investment income earned by pension funds is not taxable when earned.

The exclusion from employee income of certain other employer payments, including payments for premiums of group life insurance and accident and disability insurance, are listed here because of their relationship to income security. The exclusion of certain other fringe benefits is listed under the education, training, employment, and social services function.

Additional personal exemptions of \$1,000 may be taken by taxpayers who are 65 years of age or older or blind. These additional exemptions may not be claimed for a taxpayer's dependents.

The retirement credit for the elderly allows individuals who are 65 years of age or older to take a tax credit equal to 15% of earned and retirement income up to \$2,500 for single individuals and married couples filing a joint return where only one spouse is 65 years of age or older, and up to \$3,750 for joint returns where both spouses are 65 years of age or older. The \$2,500/\$3,750 base is reduced by one-half of the taxpayer's adjusted gross income over \$7,500 for single individuals and \$10,000 for married couples filing a joint return.

Taxpayers generally may take as an itemized nonbusiness deduction each loss due to fire, theft or other casualty in excess of \$100 to the extent not compensated by insurance or other payments.

The earned income credit, which low-income workers with minor dependents may claim, is 10% of earned income up to \$5,000 with a phase-out at the rate of 12.5% per dollar earned over \$6,000. The maximum annual credit is \$500.

Earned income tax credits in excess of tax liabilities are paid to individuals. This portion of the credit is included in outlays while the amount that offsets tax liabilities is included as a tax subsidy.

Rental housing assistance is provided through State and local housing authorities for eligible families. The Omnibus Budget Reconciliation Act of 1980 restricts the use of tax-exempt bonds for multifamily rental housing projects to those that include a substan-

tial number of units for low- and moderate-income individuals. The restrictions apply to such bonds issued after April 25, 1979 with exceptions allowed for bonds in process as of that date.

The Economic Recovery Tax Act of 1981 allows an itemized deduction of up to \$1,500 for expenses incurred in the adoption of children with special needs. The act also allows a 5-year write-off of the loss in value of motor carrier operating authorities due to deregulation of the industry.

Veterans benefits and services.—All compensation due to death or disability and pensions paid by the Veterans Administration are excluded from taxable income. GI bill benefits are also excluded.

General government.—A 50% credit may be claimed on political contributions up to \$100 (\$200 for joint returns).

General purpose fiscal assistance.—Interest on State and local government debt is excluded from Federal taxation. Both corporations, mainly commercial banks, and individuals receive this tax exempt income. As a result, these governments can sell debt obligations at a lower interest cost than would be possible if such interest were subject to tax. The exclusion of interest on State and local government securities issued to finance pollution control facilities, other industrial development bonds, and housing bonds is classified elsewhere. Only the effect of excluding interest on general purpose obligations and revenue bonds for public purposes such as toll roads is included in this function.

The deductibility of nonbusiness State and local taxes gives indirect assistance to these governments. The estimates shown here are primarily for the deductibility of State and local income and sales taxes. The deductibility of property taxes on owner-occupied homes is classified under commerce and housing credit.

Under certain conditions, U.S. corporations receiving income from sources in a U.S. possession can claim a special tax credit equal to the U.S. tax, but only on income from such sources.

Interest.—The interest on U.S. savings bonds is not taxable until the bonds are redeemed, thereby deferring tax liability.

Table G-1. OUTLAY EQUIVALENT ESTIMATES FOR TAX SUBSIDIES BY FUNCTION

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
National defense:			
Exclusion of benefits and allowances to Armed Forces personnel.....	2,365	2,335	2,450
Exclusion of military disability pensions.....	160	165	165
Total (after interactions).....	2,525	2,500	2,615
International affairs:			
Exclusion of income earned abroad by United States citizens.....	1,045	1,850	2,155
Deferral of income of domestic international sales corporations (DISC).....	2,790	2,750	2,775
Total (after interactions).....	3,835	4,600	4,930
General science, space, and technology:			
Expensing of research and development expenditures.....	760	730	-1,260
Credit for increasing research activities.....	205	650	1,060
Total (after interactions).....	1,060	1,515	-220
Energy:			
Expensing of exploration and development costs:			
Oil and gas.....	4,725	5,195	5,595
Other fuels.....	40	45	45
Excess of percentage over cost depletion:			
Oil and gas.....	3,110	2,855	2,325
Other fuels.....	540	550	615
Capital gains treatment of royalties on coal.....	195	160	145
Exclusion of interest on State and local government industrial development bonds for certain energy facilities.....	*	5	15
Residential energy credits:			
Supply incentives.....	230	295	365
Conservation incentives.....	560	540	520
Alternative, conservation and new technology credits:			
Supply incentives.....	235	315	380
Conservation incentives.....	285	370	400
Alternative fuel production credit.....	60	120	65
Alcohol fuel credit ¹	5	25	50
Energy credit for intercity buses.....	5	5	10
Total (after interactions).....	8,475	8,830	8,800
Natural resources and environment:			
Expensing of exploration and development costs, nonfuel minerals.....	75	85	90
Excess of percentage over cost depletion, nonfuel minerals.....	555	595	640
Exclusion of interest on State and local government pollution control bonds.....	745	875	1,010
Tax incentives for preservation of historic structures.....	70	80	75
Capital gains treatment of iron ore.....	40	35	30
Capital gains treatment of certain timber income.....	1,050	1,065	1,080
Investment credit and seven-year amortization for reforestation expenditures.....	10	20	30
Total (after interactions).....	2,510	2,705	2,910
Agriculture:			
Expensing of certain capital outlays.....	530	550	570
Capital gains treatment of certain income.....	710	635	555
Total (after interactions).....	1,315	1,250	1,180
Commerce and housing credit:			
Dividend and interest exclusion.....	3,350	1,570	650
Exclusion of interest on State and local industrial development bonds.....	1,310	1,785	2,340
Exemption of credit union income.....	-50	25	60
Excess bad debt reserves of financial institutions.....	420	550	1,030
Exclusion of interest on life insurance savings.....	6,255	6,625	6,775
Deductibility of interest on consumer credit.....	8,790	9,325	9,345
Deductibility of mortgage interest on owner-occupied homes.....	20,595	23,275	25,775

Table G-1. OUTLAY EQUIVALENT ESTIMATES FOR TAX SUBSIDIES BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
Deductibility of property tax on owner-occupied homes.....	9,270	9,945	10,490
Exclusion of interest on State and local housing bonds for owner-occupied housing.....	730	1,020	1,335
Expensing of construction period interest and taxes.....	775	710	615
Capital gains (other than agriculture, timber, iron ore and coal).....	33,240	25,060	22,180
Deferral of capital gains on home sales.....	1,550	1,640	2,120
Exclusion of capital gains on home sales for persons age 55 and over.....	600	635	820
Carryover basis of capital gains at death.....	3,355	3,220	3,325
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures.....	24,640	24,250	27,005
Safe harbor leasing rules.....	1,510	3,065	4,600
Amortization of start-up costs.....	70	135	215
Exclusion of interest on certain savings certificates.....		1,660	2,805
Reinvestment of dividends in public utility stock.....		400	590
Total (after interactions).....	117,470	114,355	120,910
Transportation:			
Deferral of tax on shipping companies.....	65	70	90
Exclusion of interest on State and local government bonds for mass transit.....		*	15
Total (after interactions).....	65	70	105
Community and regional development:			
Five-year amortization for housing rehabilitation.....	35	45	60
Investment credit for rehabilitation of structures.....	240	390	315
Total (after interactions).....	275	435	375
Education, training, employment, and social services:			
Exclusion of interest on State and local student loan bonds.....	70	115	170
Parental personal exemption for students age 19 or over.....	1,025	1,020	1,020
Exclusion of employee meals and lodging (other than military).....	695	730	755
Employer educational assistance.....	45	55	55
Exclusion of contributions to prepaid legal services plans.....	30	30	30
Investment credit for ESOP's.....	1,730	1,910	2,015
Deductibility of charitable contributions (education).....	910	900	940
Deductibility of charitable contributions, other than education and health.....	8,550	8,295	8,095
Credit for child and dependent care expenses.....	1,390	1,755	2,020
Credit for employment of AFDC recipients and public assistance recipients under work incentive programs.....	115	30	*
General jobs credit.....	200	30	
Targeted jobs credit.....	250	385	200
Total (after interactions).....	15,370	15,620	15,665
Health:			
Exclusion of employer contributions for medical insurance premiums and medical care.....	19,215	20,615	21,455
Deductibility of medical expenses.....	3,670	3,950	4,210
Exclusion of interest on State and local hospital bonds.....	590	715	845
Deductibility of charitable contributions (health).....	1,395	1,355	1,355
Total (after interactions).....	25,110	26,895	28,135
Income security:			
Exclusion of social security benefits:			
Disability insurance benefits.....	880	920	910
OASI benefits for retired workers.....	9,105	10,130	10,595
Benefits for dependents and survivors.....	1,785	1,935	1,975
Exclusion of railroad retirement system benefits.....	370	375	375
Exclusion of workmen's compensation benefits.....	2,755	3,165	3,520
Exclusion of special benefits for disabled coal miners.....	95	90	90
Exclusion of untaxed unemployment insurance benefits.....	2,010	2,565	2,250

Table G-1. OUTLAY EQUIVALENT ESTIMATES FOR TAX SUBSIDIES BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
Exclusion of disability pay	210	190	170
Net exclusion of pension contributions and earnings:			
Employer plans.....	34,230	36,695	37,885
Plans for self-employed and others	3,660	5,030	5,820
Exclusion of other employee benefits:			
Premiums on group term life insurance	2,485	2,545	2,475
Premiums on accident and disability insurance.....	140	140	130
Income of trusts to finance supplementary unemployment benefits	15	20	20
Additional exemption for the blind.....	30	30	30
Additional exemption for elderly.....	2,250	2,355	2,370
Tax credit for the elderly.....	130	135	135
Deductibility of casualty losses.....	1,100	1,125	1,165
Earned income credit ²	690	525	500
Exclusion of interest on State and local housing bonds for rental housing....	455	500	565
Deduction for motor carrier operating rights	95	115	115
Deduction for certain adoption expenses	15	15	15
Total (after interactions)	64,070	70,295	72,850
Veterans benefits and services:			
Exclusion of veterans disability compensation.....	1,290	1,405	1,405
Exclusion of veterans pensions.....	95	85	90
Exclusion of GI bill benefits.....	205	180	150
Total (after interactions)	1,605	1,685	1,660
General government:			
Credits and deductions for political contributions	85	80	80
General purpose fiscal assistance:			
Exclusion of interest on general purpose State and local debt.....	6,100	6,925	7,740
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	19,345	20,470	21,680
Tax credit for corporations receiving income from doing business in United States possessions	2,110	2,260	2,425
Total (after interactions)	27,755	29,860	32,060
Interest:			
Deferral of interest on savings bonds.....	480	620	710

*\$5 million or less. All estimates have been rounded to the nearest \$5 million.

¹ In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of \$55 million in 1981, \$55 million in 1982, and \$55 million in 1983.

² The figures in the table indicate the tax subsidies provided by the earned income tax credit. The effect on outlays is: 1981, \$1,320 million; 1982, \$1,255 million; 1983, \$1,180 million.

PROPOSED CHANGES IN TAX SUBSIDIES

The administration has proposed a number of tax revisions that would remove or reduce the value of existing tax subsidies. The revisions include the repeal of business energy tax credits, restrictions on tax-exempt bonds for private activities, capitalization of construction period interest and taxes incurred by corporations, and a new corporate minimum tax. These revisions are described briefly below, including estimates of their impact on 1983 receipts.

Repeal Business Energy Tax Credits.—Under current law, businesses are allowed investment tax credits for energy property in addition to the regular investment tax credit. Some energy tax credits expire at the end of 1982, but others extend through 1985 and beyond. Current law also provides an excise tax exemption, or an equivalent tax credit, for gasohol.

With decontrol of oil and some natural gas prices, businesses no longer need additional investment incentives for energy conservation and development of alternative energy sources. Such subsidies interfere with business decisions by preempting free market resource allocations.

Effective January 1, 1983, the administration proposes to repeal all business energy tax subsidies and to repeal special provisions allowing States and localities to issue tax-exempt industrial development bonds to finance low-head hydroelectric facilities and other energy property. Transition rules will mitigate the effect of repeal on taxpayers who have relied on existing law.

The repeal of these provisions will increase 1983 receipts by \$0.1 billion.

Restrict Tax-Exempt Bonds for Private Activities.—Current law permits States and localities to issue tax-exempt revenue bonds for industrial development, housing, and other specific purposes. The volume of tax-exempt bonds issued for use by private business has grown rapidly over the past few years, raising the cost of financing traditional public projects such as schools and roads. There is no requirement under current law that industrial development bonds serve a genuine public purpose. In addition, tax-exempt financing combined with Accelerated Cost Recovery and the investment tax credit can result in unintended tax benefits.

The administration proposes that assets financed with tax-exempt bonds issued after 1982 must be depreciated using the straight-line method over an extended recovery period. Tax-exempt financing will be limited to bonds that are publicly approved by local governments and which, after 1985, receive a financial contribution or commitment from the local government. Small issue

industrial development bonds will not be allowed for large businesses.

These restrictions on tax-exempt bonds for private activities will encourage anticipatory issues in 1982 and, therefore, reduce 1983 receipts by \$0.2 billion. There will be an increase in receipts in 1984 and subsequent years.

Capitalization of Construction Period Interest and Taxes.—Individual taxpayers must capitalize interest and taxes incurred during the construction of commercial buildings and deduct those costs over 10 years. The write-off period for rental housing is 8 years, but is scheduled to become 10 years by 1984. However, for corporations, the law permits an immediate write-off of these costs. The substantial acceleration of cost recovery provided by the Economic Recovery Tax Act of 1981 makes it unnecessary to grant corporations an immediate deduction for a portion of construction costs.

The administration proposes that construction period interest and taxes incurred by corporations to develop real property after December 31, 1982 be capitalized. Costs will be recovered over 10 years. Low-income housing will be exempted, as under present law.

This proposal will increase 1983 receipts by \$0.5 billion.

Corporate Minimum Tax.—Corporations currently must pay a minimum tax, in addition to regular income tax, equal to 15% of certain tax preferences. This “add-on” minimum tax is not limited to those corporations that pay very little or no regular income tax. It may apply to any corporation that has reduced its tax liability through the use of designated tax preferences.

The administration proposes to repeal the add-on minimum tax, effective January 1, 1983, and to replace it with an alternative minimum tax that would apply only to those corporations that pay very low regular rates of tax. Corporations will be required to pay the greater of their regular income tax or an alternative tax equal to 15% of their alternative tax base in excess of \$50,000. This alternative tax base consists of regular taxable income plus certain tax preferences. The investment tax credit will not be allowed against the alternative tax.

This new corporate minimum tax will increase 1983 receipts by \$2.3 billion.

REVENUE LOSS ESTIMATES FOR “TAX EXPENDITURES”

Table G-2, which follows, shows the estimated “revenue loss” associated with each tax subsidy item for which an “outlay equivalent” estimate was provided in table G-1. As explained in the text under the heading “Measuring Tax Subsidies,” revenue loss estimates do not take into account the additional resources (if any) that would be required to provide the same after-tax incentive if

the expenditure program were administered as a direct outlay rather than through the tax system. As was also previously explained, these "revenue loss" estimates, for several reasons, are *not* equivalent to estimates of the increase in Federal receipts that would accompany the repeal of tax subsidy provisions.

Table G-2. REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
National defense:			
Exclusion of benefits and allowances to Armed Forces personnel.....	1,735	1,885	1,940
Exclusion of military disability pensions.....	155	165	170
International affairs:			
Exclusion of income earned abroad by United States citizens.....	610	985	1,285
Deferral of income of domestic international sales corporations (DISC)	1,595	1,465	1,490
General science, space, and technology:			
Expensing of research and development expenditures.....	1,550	380	-810
Credit for increasing research activities.....	15	405	580
Energy:			
Expensing of exploration and development costs:			
Oil and gas.....	3,525	4,065	4,530
Other fuels.....	25	25	30
Excess of percentage over cost depletion:			
Oil and gas.....	1,865	1,965	1,695
Other fuels.....	380	380	425
Capital gains treatment of royalties on coal.....	100	105	95
Exclusion of interest on State and local government industrial development bonds for certain energy facilities.....	*	5	15
Residential energy credits:			
Supply incentives.....	150	205	260
Conservation incentives.....	425	415	410
Alternative, conservation and new technology credits:			
Supply incentives.....	180	235	290
Conservation incentives.....	220	285	315
Alternative fuel production credit.....	25	55	50
Alcohol fuel credit ¹	5	20	35
Energy credit for intercity buses.....	5	5	5
Natural resources and environment:			
Expensing of exploration and development costs, nonfuel minerals.....	45	50	55
Excess of percentage over cost depletion, nonfuel minerals.....	385	405	440
Exclusion of interest on State and local government pollution control bonds.....	715	835	970
Tax incentives for preservation of historic structures.....	60	80	75
Capital gains treatment of iron ore.....	20	20	20
Capital gains treatment of certain timber income.....	585	600	615
Investment credit and seven-year amortization for reforestation expenditures.....	5	10	15
Agriculture:			
Expensing of certain capital outlays.....	525	545	560
Capital gains treatment of certain income.....	425	460	375
Commerce and housing credit:			
Dividend and interest exclusion.....	1,335	2,185	475
Exclusion of interest on State and local industrial development bonds.....	1,200	1,650	2,185
Exemption of credit union income.....	-25	5	40
Excess bad debt reserves of financial institutions.....	325	250	515
Exclusion of interest on life insurance savings.....	4,060	4,535	4,805
Deductibility of interest on consumer credit.....	8,675	9,285	9,355
Deductibility of mortgage interest on owner-occupied homes.....	20,145	23,030	25,490
Deductibility of property tax on owner-occupied homes.....	9,125	10,065	10,635
Exclusion of interest on State and local housing bonds for owner-occupied housing.....	685	920	1,245
Expensing of construction period interest and taxes.....	755	745	645
Capital gains (other than agriculture, timber, iron ore and coal).....	17,965	18,315	14,390
Deferral of capital gains on home sales.....	1,160	1,070	1,200

Table G-2. REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
Exclusion of capital gains on home sales for persons age 55 and over	450	415	465
Carryover basis of capital gains at death	2,070	2,190	2,135
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	19,445	20,035	20,150
Safe harbor leasing rules	*	3,560	3,945
Amortization of start-up costs	20	75	120
Exclusion of interest on certain savings certificates		515	2,820
Reinvestment of dividends in public utility stock	*	130	365
Transportation:			
Deferral of tax on shipping companies	70	65	85
Exclusion of interest on State and local government industrial development bonds for mass transit		*	5
Community and regional development:			
Five-year amortization for housing rehabilitation	30	45	55
Investment credit for rehabilitation of structures	220	255	300
Education, training, employment, and social services:			
Exclusion of interest on State and local student loan bonds	60	100	155
Parental personal exemption for students age 19 or over	1,045	995	900
Exclusion of employee meals and lodging (other than military)	620	655	680
Employer educational assistance	35	40	40
Exclusion of contributions to prepaid legal services plans	20	20	25
Investment credit for ESOP's	975	1,005	1,095
Deductibility of charitable contributions (education)	925	895	925
Deductibility of charitable contributions, other than education and health	8,485	8,345	8,085
Credit for child and dependent care expenses	935	1,120	1,465
Credit for employment of AFDC recipients and public assistance recipients under work incentive programs	70	45	*
General jobs credit	300	65	5
Targeted jobs credit	305	235	75
Health:			
Exclusion of employer contributions for medical insurance premiums and medical care	14,050	15,330	16,380
Deductibility of medical expenses	3,615	3,925	4,175
Exclusion of interest on State and local hospital bonds	560	680	810
Deductibility of charitable contributions (health)	1,390	1,360	1,345
Income security:			
Exclusion of social security benefits:			
Disability insurance benefits	860	915	910
OASI benefits for retired workers	8,845	9,980	10,525
Benefits for dependents and survivors	1,735	1,915	1,970
Exclusion of railroad retirement system benefits	365	380	370
Exclusion of workmen's compensation benefits	2,730	3,100	3,495
Exclusion of special benefits for disabled coal miners	90	95	90
Exclusion of untaxed unemployment insurance benefits	1,985	2,060	2,710
Exclusion of disability pay	170	155	145
Net exclusion of pension contributions and earnings:			
Employer plans	23,390	25,765	27,500
Plans for self-employed and others	2,170	2,560	3,760
Exclusion of other employee benefits:			
Premiums on group term life insurance	1,840	1,900	1,895
Premiums on accident and disability insurance	100	100	100
Income of trusts to finance supplementary unemployment benefits	15	20	20
Additional exemption for the blind	30	30	30
Additional exemption for elderly	2,250	2,355	2,370
Tax credit for the elderly	130	135	135

Table G-2. REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
Deductibility of casualty losses.....	775	800	850
Earned income credit ²	610	555	495
Exclusion of interest on State and local housing bonds for rental housing....	435	485	535
Deduction for motor carrier operating rights.....	*	140	75
Deduction for certain adoption expenses.....	10	10	10
Veterans benefits and services:			
Exclusion of veterans disability compensation.....	1,255	1,360	1,380
Exclusion of veterans pensions.....	95	85	90
Exclusion of GI bill benefits.....	200	175	145
General government:			
Credits and deductions for political contributions.....	100	80	80
General purpose fiscal assistance:			
Exclusion of interest on general purpose State and local debt.....	5,855	6,685	7,505
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes.....	19,085	20,395	21,530
Tax credit for corporations receiving income from doing business in United States possessions.....	1,120	1,200	1,285
Interest:			
Deferral of interest on savings bonds.....	-270	-80	50

*\$5 million or less. All estimates have been rounded to the nearest \$5 million.

¹ In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of \$55 million in 1981, \$55 million in 1982, and \$55 million in 1983.

² The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1981, \$1,320 million; 1982, \$1,255 million; 1983, \$1,180 million.

PROVISIONS PREVIOUSLY DESIGNATED "TAX EXPENDITURES"

Table G-3, which follows, shows "revenue loss" estimates for current provisions of the Internal Revenue Code that were designated as involving "tax expenditures" in last year's budget, but which should be considered part of the reference tax structure rather than as special exceptions to it.

Table G-3. REVENUE LOSS ESTIMATES OF PROVISIONS PREVIOUSLY DESIGNATED "TAX EXPENDITURES"

(In millions of dollars)

Description	Fiscal years		
	1981	1982	1983
International affairs:			
Deferral of income of controlled foreign corporations	480	520	560
Natural resources and environment:			
Exclusion of payments in aid of construction of water, sewage, gas and electric utilities	35	30	45
Agriculture:			
Deductibility of noncash patronage dividends and certain other items of cooperatives	525	545	560
Exclusion of certain cost-sharing payments	70	60	50
Commerce and housing credit:			
Reduced rates on the first \$100,000 of corporate income	6,555	5,680	6,280
Education, training, employment, and social services:			
Exclusion of scholarship and fellowship income	450	465	415
Income security:			
Exclusion of public assistance benefits	450	445	430

SPECIAL ANALYSIS H

**FEDERAL AID TO STATE AND LOCAL
GOVERNMENTS**

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

**OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT
February 1982**

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
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- G. Tax Expenditures
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- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

SPECIAL ANALYSIS H

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹

State and local governments have a vital constitutional role in providing government services. The Federal Government contributes directly to that role by providing grants-in-aid and loans to States and localities, and contributes indirectly through policies designed to improve the economy.

In the last two decades, the Federal Government role in domestic programs has become excessive. Grant-in-aid outlays grew by an extraordinary annual rate of 11.0% from 1961 to 1981, with many regulations and restrictions on what States and localities could and could not do. As a result, the Federal Government imposed its programs and priorities on States or localities. This growing Federal role has been reversed. Narrow categorical grants are being cut back sharply. At the same time, there are significant increases in broad-based Federal aid that allow States and localities to determine how funds should be spent.

The administration proposes grant-in-aid outlays that are estimated to be \$81.4 billion in 1983, \$9.8 billion below the 1982 estimate of \$91.2 billion, and \$13.3 billion lower than the 1981 total of \$94.8 billion. General purpose and broad-based aid is expected to grow from \$16.9 billion in 1981 to \$20.7 billion in 1983. All other grants decline from \$77.9 billion in 1981 to \$60.8 billion in 1983.

Many substantial successes have already been achieved in reducing the intrusion of the Federal Government. The Omnibus Budget Reconciliation Act of 1981 established nine new block grants, consolidating 57 categorical grants. These consolidations were for: maternal and child health; preventive health and health services; alcohol, drug abuse, and mental health; primary health care; social services; low-income home energy assistance; community services; State education block grant; and State community development for small cities. This latter grant was a change to an existing block grant—the community development block grant program—and allowed States, on an optional basis, to administer a portion of this program. These block grants have been established with much simpler administrative requirements than the predecessor pro-

¹ Federal aid to State and local governments is defined as the provision of resources by the Federal Government to support a State or local program of governmental service to the public. The three primary forms of aid are grants-in-aid (including shared revenues), loans, and tax expenditures. Unless specifically indicated to the contrary, reference to "Federal aid" or "grants" in this analysis is confined only to grants-in-aid (including shared revenues).

grams. For example, for grants that are now covered by the seven recently enacted block grants administered by the Department of Health and Human Services, regulations have been reduced from 318 to 6 pages in the Federal Register. Paperwork requirements associated with these programs are estimated to be reduced by an estimated 5.2 million hours in 1982, or by 86%.

The major new proposals in this budget that further reduce the Federal role in domestic programs are for:

- the federalism initiative, a major reshaping of the fiscal relationship between the Federal Government and State and local governments, that would begin in 1984 and dramatically reduce the Federal role in domestic programs; and
- proposals for 1983 for seven new consolidated grants and additions to three existing block grants.

THE FEDERALISM INITIATIVE

The federalism initiative has two major components:

- a Federal take-over of medicaid in return for State takeover of food stamps and aid to families with dependent children (AFDC)—a \$20 billion exchange; and
- a turnback of more than 40 Federal education, transportation, community development, and social service programs to States, financed by existing excise taxes on gasoline, tobacco, alcohol, and telephone services, and by the oil windfall profit tax.

Swap component.—In this component, the Federal Government would assume the full cost of medicaid, which is estimated to cost States and localities \$19.1 billion in 1984. States and localities would no longer be responsible for these expenses. In return they would be responsible for the full costs of AFDC and food stamp programs, estimated to be \$16.5 billion in 1984. This exchange would result in a clear distinction of governmental roles. The Federal Government would be responsible for health insurance and medical assistance—including both medicaid and medicare—and the States and localities would be responsible for cash assistance for the non-elderly needy, through State and local substitutes for existing food stamp and AFDC programs.

Turnback component.—In this component, a separate allocation would be established for each State beginning in 1984 and lasting through 1987, which would receive receipts from the Federal taxes on gasoline, tobacco, alcohol, telephone services, and the oil windfall tax. Outlays from the fund would depend on decisions made by the States. For specified programs, States could continue to receive grants controlled by the Federal Government or they could cancel participation in the Federal grant program, and receive in place of

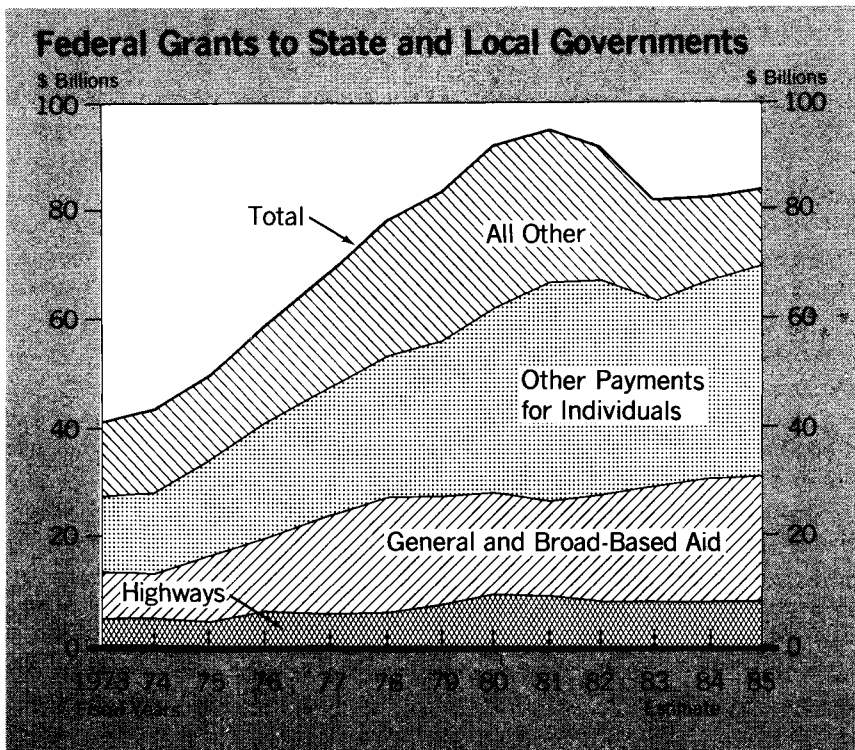
the grants equal amounts of funds that could be used for any purpose.

Beginning in 1988 the Federal Government would no longer fund these grants. Federal taxes to finance these programs would be reduced 25% each year and States would have the choice of taking over these taxes themselves to assist in financing the programs they choose to continue.

The swap and turnback components of the federalism initiative would involve about \$50 billion in 1984, more than 60% of estimated grant-in-aid outlays.

Further details of this initiative will be worked out in close consultation with the Congress and State and local officials. Therefore, details are not yet available and the grants-in-aid data for 1984 in this Special Analysis do not take into consideration the financial transactions of the federalism initiative. The initiative is discussed further in Part 3 of the *1983 Budget of the United States Government*.

Federal lending to State and local governments and loan guarantees are another significant source of Federal aid. In 1983 the Federal Government is expected to disburse \$2.9 billion for new loans to State and local governments. Loan outlays net of repay-



ments and sales are expected to be \$0.8 million. New guaranteed loans to State and local governments are estimated to be \$167 million in 1983.

The accompanying chart shows trends in major grant categories since 1973. General purpose and broad-based aid are expected to grow substantially in the next few years. Payments for individuals, such as medicaid, are a large and growing part of grants-in-aid. Grants for highways continue to be significant. All other grants are expected to decline through 1985.

HIGHLIGHTS OF THE FEDERAL AID PROGRAM

Summary of changes.—When this administration took office a dramatic change in Federal policy was necessary to revitalize the economy and to devolve authority for certain government functions to State and local governments. This new policy has resulted in a reduction in grants and a shift away from categorical grants to block grants.

The increased tax base available to State and local governments due to the recently enacted Federal tax cuts, and the existing and proposed block grants, allow the States the capacity to meet their greatest priorities and needs.

Table H-1 shows outlay changes from 1981 to 1982 and 1982 to 1983 divided into two categories: those grants that finance State or local payments for individuals, and all other grants.

Grants that are subsequently paid as income support for individuals—such as medicaid, child nutrition, assistance payments, and housing programs—are estimated to increase, on a net basis, \$1.6 billion from 1981 and 1982 and decrease \$3.9 billion from 1982 to 1983. These grants, which will amount to an estimated \$37.6 billion in 1983 outlays, take a substantial financial burden off State and local governments and provide large supplements to the economies of the area in which the beneficiaries live.

All other grants are expected to decrease by \$5.1 billion from 1981 to 1982 and decrease \$5.9 billion from 1982 to 1983.

Major proposals.—The major grant proposals in this budget are designed to consolidate categorical grants, give States and localities more discretion over the use of the funds, and decrease State and local dependence on Federal financing. Grant consolidation proposals are for:

Vocational and adult education.—This proposal combines eight smaller grants into one consolidated grant. The eight smaller grants are: basic grants, program improvement and supportive services, programs of national significance, special programs for the disadvantaged, consumer and homemaker education, State advisory councils, State planning, and adult education grants to States.

Table H-1. FEDERAL GRANT-IN-AID CHANGES, 1981-83

(Outlays in billions of dollars)

	Outlays
Total grants, 1981 actual	94.8
Changes	
Payments for individuals:	
Medicaid	1.0
Child nutrition programs	-0.7
Assistance payments (AFDC)	-0.4
Housing programs	0.7
Other	0.9
Subtotal payments for individuals	1.6
Other programs:	
General revenue sharing	-0.6
Federal aid highways (trust fund)	-0.8
Training and employment	-3.8
Other	0.1
Subtotal, other programs	-5.1
Total grants, 1982 estimate	91.2
Changes	
Payments for individuals:	
Medicaid ¹	-0.8
Nutrition assistance for Puerto Rico	0.8
Assistance payments program (AFDC) ¹	-2.6
Other	-1.3
Subtotal, payments for individuals ¹	-3.9
Other programs:	
Sewage treatment plant construction	-0.7
Elementary, secondary and vocational education	-1.6
Training and employment	-2.2
Social services activities	-1.3
Other	-0.2
Subtotal, other programs	-5.9
Total grants, 1983 estimate	81.4

¹ Decline is explained in part due to the proposed consolidation of State administration grants for Medicaid, food stamps, and assistance payments and their reclassification in 1983 as "other programs," not "payments for individuals."

Education for the handicapped.—This proposal will consolidate 13 different education programs for the handicapped. Budget authority of \$836 million is proposed for 1983, roughly \$50 million less than for the 13 programs in 1982.

Employment and training.—Four separate programs authorized by the Comprehensive Employment and Training Act are proposed for consolidation to allow States more flexibility in responding to local needs. Proposed 1983 budget authority is \$1.8 billion compared to \$2.2 billion for the individual programs in 1982.

Rehabilitation services.—This proposal would combine basic State grants together with several project grant authorities into one consolidated grant for rehabilitation services. Proposed budget authority for 1983 for the consolidated grant is \$624 million, compared to \$835 million for 1982 for the predecessor programs.

Child welfare grant.—This proposal would combine the four current programs for foster care, child welfare services, adoption

assistance, and child welfare training into one grant. Budget authority proposed for 1983 is \$380 million, \$185 million less than in the four smaller programs in 1982.

Rental rehabilitation grants.—This proposal would combine the rehabilitation loan fund and the Section 8 moderate rehabilitation program into one grant program to States and localities to assist them in rehabilitating multi-family, rental properties, principally for lower-income tenants. Budget authority of \$150 million is proposed for 1983, compared to a level of \$49 million in new 1982 budget authority for the programs that this grant would replace. It is estimated that this requested budget authority would assist in the rehabilitation of 30,000 housing units. Outlays are expected to begin in 1984.

Combined welfare administration.—This consolidation would combine grants for State administration of medicaid, AFDC, and food stamps. Budget authority, in the Departments of Agriculture and Health and Human Services, of \$2.2 billion is proposed for 1983, compared to \$2.3 billion for 1982. This consolidated grant will encourage more efficient and effective administration of these programs until the transfer of these programs under the federalism initiative.

In addition to these new grant consolidations, the administration proposes to expand three block grants enacted in 1981:

Primary care.—The health grant for primary care would be expanded to cover the black lung clinics, migrant health, and family planning programs. Budget authority for the proposal would be \$417 million for 1983, an increase of \$166 million to cover the three smaller programs. This increase is the same amount of budget authority proposed for the three smaller programs for 1982.

Services for women, infants, and children.—The maternal and child health services block grant enacted in 1981 would be expanded to include the nutrition program for women, infants, and children (WIC). Proposed 1983 budget authority for the block grant is \$1.0 billion, an increase of \$652 million from 1982. The requested 1983 budget authority is \$0.3 billion less than the 1982 level for the separate programs. This reflects administrative economies and the strengthening of programs resulting from consolidation.

Energy and emergency assistance.—This proposal would add the emergency assistance program to the existing low-income home energy assistance block grant, in order to increase flexibility available to States in aiding low-income persons who need special assistance for hardships, including aid to help pay fuel bills. Budget authority of \$1.2 billion is proposed for 1983, compared to \$1.6 billion for 1982.

Other highlights.—*Energy conservation grants* for low income home weatherization and for energy saving investments in schools and hospitals and for other purposes are proposed to be phased out by 1984. Termination of these programs will be administered by the Department of Commerce beginning in 1983, as part of the administration's proposal to dismantle the Department of Energy. Realistic energy prices have eliminated the need for government spending on these conservation subsidies.

Outlays for the Environmental Protection Agency's program for construction of *sewage treatment plants* are expected to be \$3.4 billion in 1983, a decrease of \$0.7 billion from 1982. The administration requests budget authority of \$2.4 billion for the program in both 1982 and 1983. This program provides grants to both State and local governments for 75% of the cost of planning, designing, and constructing sewage treatment plants. Under the Federal Water Pollution Control Act, as amended, more than \$33 billion has been provided to implement this program. With almost 12,000 projects currently underway, the administration is encouraging the States to assume responsibility for program management and implementation. This program is proposed for inclusion in the federalism initiative discussed earlier.

Budget authority of \$228 million in 1982 and \$184 million in 1983 for grants to support State regulatory, enforcement, and administrative pollution control activities is requested. These grant programs include: air quality, water quality, public water supply, underground injection control, hazardous wastes, pesticides certification and training, and pesticides enforcement. Several other abatement, control, and compliance grants in EPA are proposed to be phased out.

Grants through the land and water conservation fund, the urban parks program, the historic preservation fund and other programs assist States and localities in the management of natural resources. No new budget authority is requested for these programs in 1983, although grants awarded in prior years will have outlays in 1983 and 1984.

Grants from the abandoned mine fund allow States to reclaim lands degraded by coal mining. Outlays are estimated to be \$96 million in 1983, an increase of \$20 million from \$76 million in 1982. Grants for State fish and wildlife restoration and management projects, funded from federally collected excise taxes, are estimated to be \$133 million in 1983. This is an increase of \$5 million from the 1982 outlays of \$128 million.

Grants in the agriculture function are made through the Commodity Credit Corporation, the extension service, and cooperative State research service. Outlays for these programs are estimated to be \$896 million in 1982, and \$859 million in 1983.

Outlays for *highways* are estimated to be \$8.4 billion in 1983 and will focus on needs of the interstate and primary highway systems. States and localities will be expected to assume greater responsibility for roads used mostly for intrastate traffic. The Federal-aid highway programs, with the exception of the interstate system, have been identified for inclusion in the new federalism initiative and eventual turnback to the States.

Grant outlays for *urban mass transportation*, are estimated to be \$3.1 billion in 1983, \$0.6 billion lower than the 1982 estimate. Formula grants for operating subsidies will be phased out by 1985. Construction grants will be directed primarily toward modernization and repair of existing, proven transit systems. Transit grant programs have been identified for inclusion in the new federalism initiative and eventual turnback to the States.

Funding for the planning and construction of new rail transit systems will be postponed at least until the economy improves.

The administration proposes to eliminate the *economic development assistance* administered by the Economic Development Administration in 1983. As these programs are phased out, funds for State and local community and economic development programs will continue to be available under the more flexible grant programs administered by the Department of Housing and Urban Development. Specialized assistance for rural areas will continue to be available through the Farmers Home Administration.

Community development block grant funds will continue to provide assistance directly to local governments through either entitlement or discretionary grants. Recipients have considerable freedom in selecting projects under this program, so long as they are within the general guidelines of community and economic development and mainly assist people with low and moderate incomes. Budget authority proposed for 1983—the same as approved for 1982—is \$3,456 million. It is estimated that \$2.5 billion of this amount would be used for large cities and urban counties and \$0.9 billion would be used for nonentitlement small cities and rural communities. This \$0.9 billion portion of the program that States may elect to administer is the recently enacted *State community development block grant program for small cities*.

The *urban development action grant* program provides discretionary grants to severely distressed cities and urban counties to supplement local government and private sector financing for major economic development projects. They are designed to promote local economic revitalization, generate new jobs, and increase local tax bases. Budget authority proposed for 1983 for this program is \$440 million, the same as in 1982.

Federal support for the Title V regional commissions was discontinued at the end of 1981. Continuation of the commissions was unnecessary because nearly all of the commissions' projects dupli-

cated activities that would normally be undertaken by State agencies without Federal support.

Grant outlays for *elementary, secondary, and vocational* education are estimated to be \$5.1 billion in 1983, \$1.6 billion less than in 1982. The largest of these grants go to State and local education agencies as grants for disadvantaged students.

State education block grants enacted in 1981 combined 40 categorical programs, only 27 of which have been funded in recent years. This consolidation will give States considerably more flexibility in the use of these funds. Outlays for the block grant and related programs are estimated to be \$527 million in 1983, \$56 million less than in 1982.

The budget also includes a substantial reduction in the *impact aid* program. This program is intended to compensate school districts for the burdens imposed by federally related activities. Much of the aid now goes to school districts where the Federal activity does not place a special burden on the local community. The budget request would limit *impact aid* to only those districts that serve pupils who live on and whose parents work on Federal property.

Grant programs that provided for temporary federally subsidized jobs in State and local governments have been phased out. Legislation creating a new block grant to the States for training activities is proposed to replace four grants now authorized by CETA. This proposal will include provisions to encourage increased coordination between State education and training programs and would, by eliminating stipends, prevent overlap with income maintenance programs. Total outlays are expected to be \$1.5 billion in 1983, \$900 million of which is from the new block grant.

During 1981 a new social services block grant was created, combining a number of social services and related activities. Outlays for this block grant are expected to be \$2.0 billion in 1983, \$0.9 billion less than 1982. A new community services block grant was also enacted in 1981. Outlays in 1983 will be \$100 million, \$248 million less than in 1982.

The *medicaid* program continues to be a large grant-in-aid with estimated outlays of \$17.0 billion in 1983. This program supports State efforts to provide health services to low-income residents. The administration is proposing reforms to medicaid that would save an estimated \$1.9 billion in outlays in 1983. The largest of these reforms would reduce the Federal matching share for optional services and beneficiaries by 3%, and require beneficiary copayments. State administrative costs of \$0.9 billion in 1982 are proposed to be transferred to a combined welfare administration consolidation grant, which is described above. The medicaid program is a major part of the federalism initiative described earlier.

Four health block grants were enacted in 1981 to provide States more flexibility in the use of these funds. They were for maternal and child health; preventive health and health services; alcohol, drug abuse and mental health, and primary care. Outlays for these four programs are estimated to be \$1.7 billion in 1983.

Outlays for *assistance payments* (aid to families with dependent children) and child support enforcement are expected to be \$8.1 billion in 1982, and \$5.4 billion in 1983. Legislation is proposed for 1983 that would save an estimated \$1.3 billion of Federal outlays and about an equal amount for States and localities. Some of the major items would require those who are able to work to do so as a condition of AFDC eligibility, and would include income and other resources that have not previously been counted in determining AFDC benefits. An additional \$0.9 billion of the decline is explained by the transfer of State administrative costs from this program to a combined welfare administration grant consolidation, which is described above. The assistance payments program is a major part of the federalism initiative described earlier.

Proposed budget authority for grants to State and local housing authorities declines sharply in 1982 and 1983, to \$0.6 billion in 1982 and -\$3.7 billion in 1983. These figures result from the administration's proposal to discontinue new construction of subsidized housing under the section 8 and public housing programs with the exception of housing for the elderly and handicapped. A modified version of the section 8 existing rental housing program—to be called the modified section 8 certificate program—is proposed for 1983. This program will place much greater reliance upon existing rental markets to meet the housing needs of low-income households. In addition, a portion of prior year commitments for unstarted new units is expected to be cancelled.

Law enforcement assistance grants in the Office of Juvenile Justice and Delinquency Prevention will be eliminated. These programs, if needed, could be financed directly by States and localities.

Payments in lieu of taxes are made to some jurisdictions that contain Federal open space lands. Outlays for this program are estimated to be \$96 million in 1982, and \$45 million in 1983. Reforms are proposed to make the distribution of funds more equitable. Revenues are also shared with State and local governments from receipts received from timber and mineral sales on Federal lands. These payments are estimated to increase from \$594 million in 1982 to \$756 million in 1983.

One of the largest grants is general revenue sharing, which provides grants to local governments with virtually no restrictions on the use of funds. Outlays are estimated to be \$4.6 billion in 1983. This program is part of the federalism initiative described earlier.

Additional information on many of these grant programs is in Part 5 of the *Budget*.

Loans.—Another form of Federal aid to State and local governments is assistance in obtaining credit, either directly or through loan guarantees. Direct loan disbursements (excluding repayments) are estimated to be \$2.9 billion in 1983, and \$167 million of new guaranteed loans are estimated in 1983.

One of the large guarantee loan programs was enacted by Congress in 1978 to assist New York City. The legislation allows for the guarantee of principal and interest for \$1,650 million. The remaining guarantee authority is \$300 million. The authority to make new guaranteed loans ends June 30, 1982. (More information on Federal credit activities is available in Special Analysis F.)

Tax Expenditures.—Federal aid is also provided through tax expenditures. (More information on tax expenditures is provided in Special Analysis G and, on the assistance from tax-exempt financing, in Special Analysis F.) The method of measuring tax expenditures has been modified in this year's budget to make them more comparable with direct budget outlays. In previous budgets tax expenditures were estimates of revenue losses. In this year's budget, tax expenditures are measured as the amount of outlays that would be required to provide an equal after-tax income to taxpayers.

The two major tax expenditures are the deductibility of many State and local taxes and the exclusion of interest on State and local securities from Federal taxation.

Individuals can claim nonbusiness sales, income, and property tax payments to State and local governments (other than payments already taken as business deductions) as itemized deductions on their Federal tax returns. This permits States and localities to raise a dollar of revenue with less than a dollar of net cost to their citizens. The 1983 outlay equivalent tax expenditure for property taxes on owner-occupied homes is estimated to be \$10.5 billion and the outlay equivalent tax expenditure for other nonbusiness State and local taxes—primarily income and sales taxes—is estimated to be \$21.9 billion.

Interest on virtually all State and local government securities is tax exempt. This permits State and local jurisdictions to borrow at reduced interest rates. The outlay equivalent tax expenditure for the exclusion of interest on State and local general purpose debt is estimated to be \$7.7 billion in 1983.

Interest on State and local industrial revenue bonds is also tax exempt. These bonds finance industrial and transportation projects, pollution control facilities and public and, more recently, selected

private housing. Tax expenditures in 1983 equivalent to outlays are estimated to be \$2.3 billion for industrial facilities, \$1.0 billion for pollution control facilities, and \$565 million for State and local rental housing bonds.

State and local governments have been using the proceeds of tax-exempt borrowing to provide mortgage funds for private housing. The tax exemption of interest on State and local securities makes it possible to provide such funds at interest rates well below the rates for private mortgages. At first, tax-exempt housing bonds were used mainly to assist low-income, multifamily housing; recently, there has been a dramatic increase in the use of such bonds for owner-occupied housing, including housing purchased by middle and upper income families. The 1983 outlay equivalent tax expenditure is estimated to be \$1.3 billion.

Expensive, direct Federal involvement to encourage the redevelopment of distressed urban areas has not solved the most pressing problems of the Nation's cities. The administration, therefore, is proposing the establishment of enterprise zones as an experimental, free-market approach to these problems. By reducing tax and regulatory burdens in clearly delineated geographic areas, the enterprise zone proposal would place greater reliance on the ability of the private sector to create new jobs and new investment in distressed urban areas.

FEDERAL GRANTS-IN-AID BY FUNCTION, AGENCY, AND REGION

Under the Congressional Budget Act of 1974, the Congress reviews the budget and sets targets by function. Consequently, the functional classification of the budget has become important not only for analysis but also for congressional control. Part 5 of the budget discusses the entire Federal budget by function, and the associated national needs met by these programs.

In recent years the budget has included data for two years beyond the budget year to provide an improved means of planning for the longer term. Consequently, the discussions and data in many parts of this budget include the 1983-85 planning period. Consistent with that approach, this *Special Analysis* shows estimates through 1985 in many of the tables and the chart on a previous page.

Because many of the programs discussed are involved in the federalism initiative, the actual amounts in 1984 and 1985 will depend upon their relation to the initiative or on State's decisions about continuing the programs.

Table H-2 shows a functional distribution of Federal grant-in-aid outlays. Major trends in 1983 are discussed above.

The functional composition of the grant programs has changed significantly over the years, as shown in table H-3. The most

Table H-2. FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION

(In millions of dollars)

Function	Actual 1981	Estimate			
		1982	1983	1984 ¹	1985 ¹
National defense.....	75	82	106	72	72
Energy.....	617	679	409	100	.....
Natural resources and environment.....	4,944	5,110	4,166	3,554	3,389
Agriculture.....	829	896	859	860	876
Commerce and housing credit.....	4	5	2	2	2
Transportation.....	13,462	12,534	11,889	11,654	11,899
Community and regional development.....	6,124	5,933	5,010	4,441	4,551
Education, training, employment, and social services.....	21,146	17,310	12,281	11,853	10,737
Health.....	18,895	20,122	19,469	20,799	22,544
Income security.....	21,341	21,718	20,331	21,411	22,076
Veterans benefits and services.....	74	66	65	70	72
Administration of justice.....	333	257	118	55	33
General government.....	208	190	163	182	160
General purpose fiscal assistance.....	6,710	6,319	6,549	6,798	7,104
Total outlays.....	94,762	91,220	81,418	81,853	83,517

¹ Data for 1984 and 1985 are included here to be consistent with the multi-year planning system. They have not received as much review as the estimates for 1982 and 1983.

dramatic growth has occurred in the health function, which has increased from 3% of Federal aid in 1960 to an estimated 24% in 1983 and in the education, training, employment and social services function, which increased from 7% in 1960 to 27% in 1970 and has now decreased to an estimated 15% in 1983. Other changes are the addition of general revenue sharing, increases in outlays for environmental protection, and the relative decline in grants for highways and income security. The latter is primarily due to the assumption by the Federal Government of the food stamp program and the public assistance programs for the aged, blind, and disabled.

Table H-3. PERCENTAGE DISTRIBUTION OF FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION

	Actual				Estimate			
	1960	1970	1980	1981	1982	1983	1984 ¹	1985 ¹
Energy.....	*	*	1	1	1	1	*	*
Natural resources and environment.....	2	2	6	5	6	5	4	4
Agriculture.....	3	3	1	1	1	1	1	1
Transportation.....	43	19	14	14	14	15	14	14
Community and regional development.....	2	7	7	6	7	6	5	5
Education, training, employment, and social services.....	7	27	24	22	19	15	14	13
Health.....	3	16	17	20	22	24	25	27
Income security.....	39	24	20	23	24	25	26	26
General purpose fiscal assistance.....	2	2	9	7	7	8	8	9
Other.....	*	1	1	1	1	1	*	*
Total.....	100	100	100	100	100	100	100	100

* 0.5% or less.

¹ Data for 1984 and 1985 are included here to be consistent with the new multi-year planning system. They have not received as much review as the estimates for 1982 and 1983.

Table H-4. FEDERAL GRANT-IN-AID OUTLAYS BY AGENCY

(In millions of dollars)

Agency	Actual 1981	Estimate	
		1982	1983
Funds appropriated to the President	597	562	539
Department of Agriculture.....	6,700	6,449	6,114
Department of Commerce.....	1,180	1,027	512
Department of Health and Human Services.....	35,536	36,719	33,447
Department of Housing and Urban Development.....	8,664	9,459	8,894
Department of the Interior	1,477	1,663	1,602
Department of Justice.....	317	233	95
Department of Labor.....	8,972	5,492	3,648
Department of Transportation.....	13,401	12,458	11,822
Department of the Treasury.....	6,118	5,465	5,254
Environmental Protection Agency.....	4,181	4,291	3,585
Community Services Administration.....	622	183	33
Foundation for Education Assistance.....	6,047	6,195	4,841
Other.....	951	1,024	1,032
Total outlays.....	94,762	91,220	81,418

Table H-4 shows grant outlays by agency. The Department of Health and Human Services will provide 41% of total estimated grant-in-aid outlays in 1983, far more than any other agency.

Distribution of grants by region.—Table H-5 shows that Federal aid on a per capita basis varies widely among regions. The thinly populated Western States traditionally rank high because of highway construction grants and shared revenues from Federal land holdings. For example, the Rocky Mountain States have the lowest regional population density, extensive Federal land holdings and, until recently, the highest per capita aid.

This effect has diminished in recent years, however, as human resource programs have grown relative to physical resource programs. Further, the addition of general revenue sharing has tended to equalize per capita figures among the regions. Region VIII, which had per capita grants 27% above the national average in 1971, now has grants only 5% over the average, while Region V has risen from 26% below the average to only 2% below. Grants per capita to Region V have grown the most during the period, averaging 13.8% per year.

HISTORICAL PERSPECTIVES

In recent decades, Federal aid to States and local governments has become a major factor in the financing of certain government functions. The rudiments of the present system date back to the Civil War. The Morrill Act, passed in 1862, established the land grant colleges and instituted certain federally required standards, characteristic of the present grant-in-aid system. Federal aid was later initiated for agriculture, highways, vocational education and reha-

Table H-5. DISTRIBUTION OF GRANTS BY REGION, SELECTED FISCAL YEARS

	Federal Region	1981 ¹ total grants	Dollars per capita		Average annual percent increase, 1971-81
			1971	1981	
I.	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island.....	5.7	144	455	11.9
II.	New York, New Jersey, Puerto Rico, Virgin Islands.....	14.7	160	521	12.2
III.	Virginia, Pennsylvania, Delaware, Maryland, West Virginia, District of Columbia.....	11.3	148	456	11.6
IV.	Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida.....	13.9	145	350	9.0
V.	Illinois, Indiana, Michigan, Ohio, Wisconsin, Minnesota.....	18.2	106	398	13.8
VI.	Arkansas, Louisiana, Oklahoma, New Mexico, Texas.....	8.5	148	330	8.1
VII.	Iowa, Kansas, Missouri, Nebraska.....	3.9	118	331	10.6
VIII.	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming.....	3.1	182	429	8.7
IX.	Arizona, California, Nevada, Hawaii, other territories.....	11.9	170	413	9.0
X.	Idaho, Oregon, Washington, Alaska.....	3.7	174	454	9.8
	United States.....	94.8	143	408	10.8

¹ Preliminary estimate, in billions of dollars.

See "Federal Aid to States," Department of the Treasury, for additional information concerning State distribution of Federal grants.

bilitation, forestry, and public health. In the depression years, Federal aid was extended to meet income security and other social welfare needs.

However, Federal grants did not become a significant factor in

Table H-6. HISTORICAL TREND OF FEDERAL GRANT-IN-AID OUTLAYS

(Fiscal years; dollar amounts in millions)

	Total grants-in- aid	Composition of grants- in-aid		Federal grants as a percent of		
		Grants for payments to individuals ¹	Other	Budget outlays		State and local expendi- tures ³
				Total	Domestic ²	
Five-year intervals:						
1950.....	\$2,253	\$1,257	\$996	5.3%	8.8%	10.4%
1955.....	3,207	1,623	1,584	4.7	12.1	10.1
1960.....	7,020	2,479	4,541	7.6	15.9	14.7
1965.....	10,904	3,931	6,972	9.2	16.5	15.3
1970.....	24,014	9,023	14,991	12.3	21.3	19.2
1975.....	49,834	17,441	32,392	15.4	21.5	23.0
Annually:						
1976.....	59,093	21,023	38,070	16.2	21.9	24.2
1977.....	68,414	23,860	44,555	17.1	22.9	25.9
1978.....	77,889	25,981	51,908	17.4	23.1	26.8
1979.....	82,858	28,765	54,093	16.9	22.5	26.1
1980.....	91,472	34,174	57,298	15.9	21.2	26.3
1981.....	94,762	39,934	54,828	14.4	19.5	25.3
1982 estimate.....	91,220	41,500	49,720	12.6	17.3	NA
1983 estimate.....	81,418	37,563	43,855	10.7	15.5	NA
1984 estimate ⁴	81,853	39,951	41,902	10.2	15.1	NA
1985 estimate ⁴	83,517	42,310	40,207	9.6	14.8	NA

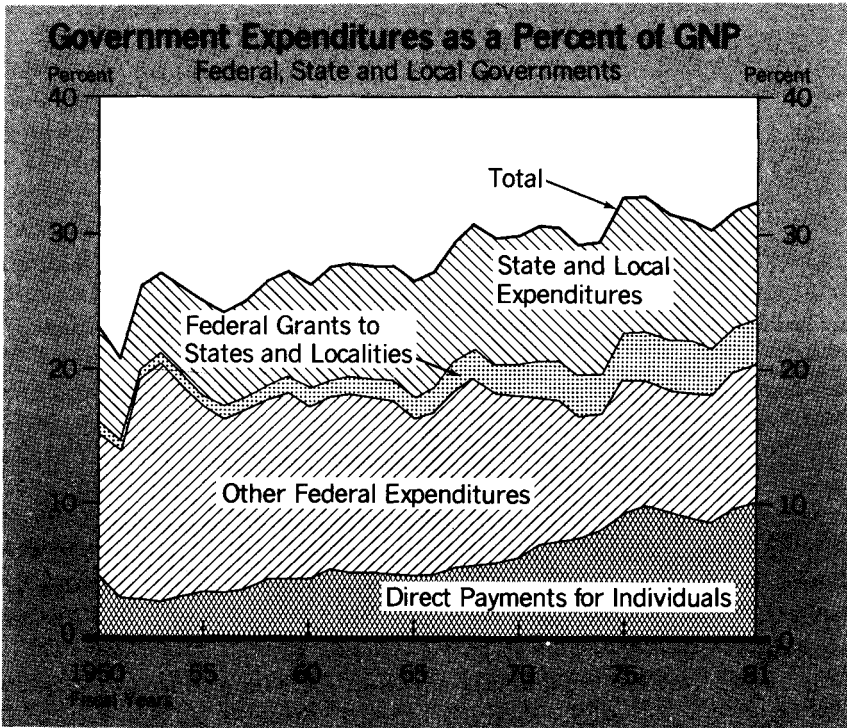
¹ For an identification of accounts in this category, see Table H-11 and footnotes.

² Excludes outlays for the national defense and international affairs functions.

³ As defined in the national income and product accounts.

⁴ Data for 1984 and 1985 are included to be consistent with the multi-year planning system. They have not received as much review as the estimates for 1982 and 1983.

NA=Not available.

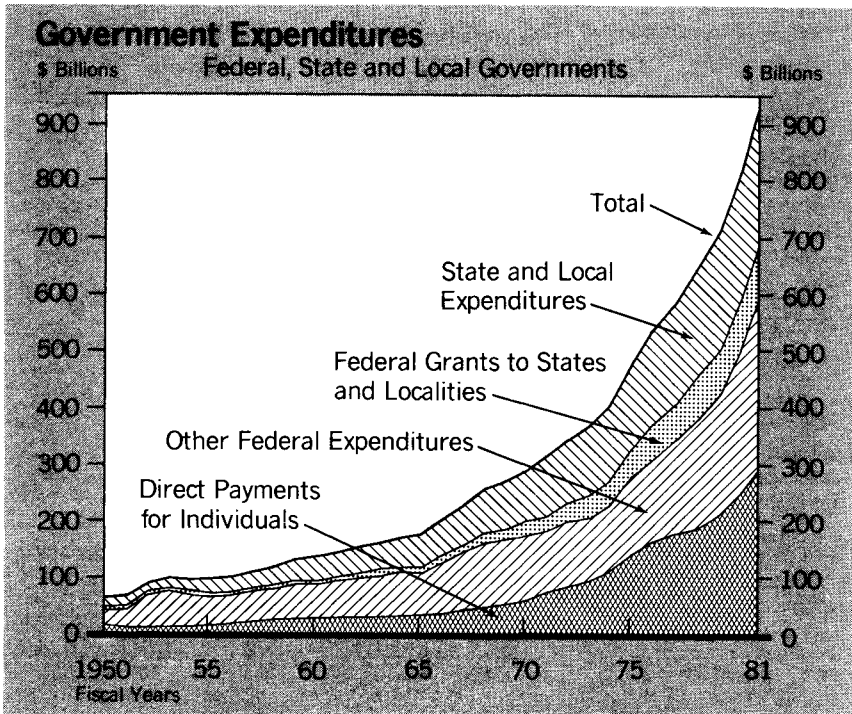


Government expenditures until after World War II. In 1950, Federal grants to State and local governments were \$2 billion, and by 1965 they had risen to \$11 billion. In 1978, partially because of the economic stimulus grants, they were \$77.9 billion, an average annual increase of 16% since 1965. In 1983 Federal grants are expected to be 10.7% of total Federal outlays and 15.5% of domestic Federal outlays. Table H-6 shows historical data for grant outlays since 1950.

Almost half of estimated 1983 grants are to States and localities as payments for individuals.² Most such grants are accompanied by State or local matching payments. Among the larger of these programs are medicaid, assistance payments, housing assistance, and nutrition programs for children. Supplemental security income became a direct Federal program in January 1974, as did the food stamps program in 1971. Almost all of the outlays for these programs were included as grants through the year prior to their assumption by the Federal Government, but not since then.

Table H-6 also shows grants-in-aid as a percent of State and

² Payments for individuals are defined as Federal budget outlays providing benefits in cash or in-kind that constitute income transfers to individuals or families.



local expenditures. This percent increased from 15.3% in 1965 to 26.8% in 1978, and declined to 25.3% in 1981.

The charts show the growth of total governmental expenditures since 1950, and these expenditures as a percent of gross national product. Federal expenditures including grants have increased as a percent of GNP from 16% in 1950 to 24% in 1981, while State and local expenditures including grants have increased from 8% in 1950 to 12% in 1981.

GRANTS ADMINISTRATION

The increase in grant expenditures since World War II was accompanied by an increase in the number of grants designated for specific purposes. This increase took place especially in the 1960's and 1970's. These grants usually contained Federal legislative and regulatory mandates, required matching funds from the recipient governments, and gave little discretion in their use to State and local officials. They came to be known as categorical grants, with complex administrative requirements to ensure that their purposes were met.

To combat this trend and to devolve authority, general-purpose and broad-based grants have been emphasized in recent years.

Table H-7 shows the estimated effect of grants enacted in 1981 and proposed for consolidation in 1983. Outlays for these grants are

Table H-7. BROAD-BASED AID ENACTED IN 1981 OR PROPOSED FOR 1983

(Outlays in millions of dollars)

	Estimates			
	1982	1983	1984	1985
Enacted in 1981:				
State community development block grant for small cities ¹	(10)	(200)	(500)	(650)
State education block grant.....	666	578	441	335
Community services.....	348	100	100	100
Social services.....	2,400	1,974	1,974	1,974
Preventive health and health services.....	72	80	81	81
Alcohol, drug abuse, and mental health.....	376	409	432	432
Subtotal.....	3,862	3,141	3,028	2,922
Block grants enacted in 1981 and proposed for change in 1983:				
Services for women, infants, and children ²	313	900	1,000	1,000
Primary health care.....		313	417	417
Energy and emergency assistance ³	1,574	1,168	1,168	1,168
Subtotal.....	1,887	2,381	2,585	2,585
Proposed consolidations:				
Vocational and adult education.....		162	392	441
Education for the handicapped.....		37	643	836
Training and employment.....		900	2,250	1,800
Rehabilitation services.....		516	603	633
Child welfare grant.....		380	380	380
Rental rehabilitation grants.....			75	150
Combined welfare administration.....		2,181	2,181	2,181
Subtotal.....		4,176	6,524	6,421
Total.....	5,749	9,698	12,137	11,928

¹ Outlays are based on estimated State participation and are included in community development block grants shown in table H-8.² Formerly maternal and child health block grant.³ Formerly low-income energy assistance program.

estimated to be \$9.7 billion in 1983. Table H-8 shows the much greater importance of general-purpose and broad-based grants since 1972. General-purpose grants give State and local governments almost complete discretion in determining their use; broad-based grants give State and local governments considerable discretion within a broadly defined program area, such as health or community development. In 1972 there were virtually no general-purpose or block grants. For 1983, these grants are estimated to be one-fourth of total grants-in-aid. Their share of the total declined somewhat after the economic stimulus program reached its peak in 1978. Despite the elimination of States from general revenue sharing, this percentage remains about one-fourth through 1985.

Most general-purpose and broad-based grants reduce or eliminate the requirement that recipients match Federal funds with their own. Despite the increase in these grants, matching requirements for all grants as a whole have not changed significantly. In 1981, State and local governments were estimated to provide approximately \$1 of matching funds for \$2.39 of Federal aid; this ratio

Table H-8. OUTLAYS FOR GENERAL-PURPOSE, BROAD-BASED, AND OTHER GRANTS

(Dollar amounts in millions)

	Actual				Estimate			
	1972	1976	1980	1981	1982	1983	1984	1985
General-purpose grants:								
General revenue sharing		\$6,243	\$6,829	\$5,137	\$4,570	\$4,567	\$4,567	\$4,567
Other general purpose fiscal assistance and TVA ¹	\$516	907	1,765	1,711	1,913	2,162	2,232	2,537
Subtotal, general-purpose grants	516	7,150	8,594	6,848	6,483	6,729	6,798	7,104
Broad-based:								
Enacted before 1981:								
Community development block grants		983	3,902	4,042	4,005	3,350	3,200	3,456
Comprehensive health grants	90	128	83	23	11	6	4	2
Employment and training ²		1,698	2,144	2,231	1,695	396		
Social services	1,930	2,251	2,763	2,646				
Criminal justice assistance	233	674	372	316	233	95	32	9
School aid in federally affected areas	602	558	622	693	576	354	302	286
Local public works			416	83	60	30	30	5
Enacted in 1981 or proposed for 1983 ³					5,749	9,698	12,137	11,928
Subtotal, broad-based grants	2,855	6,292	10,302	10,034	12,329	13,929	15,705	15,686
Other grants	31,001	45,651	72,576	77,880	72,408	60,760	59,350	60,727
Total	34,372	59,093	91,472	94,762	91,220	81,418	81,853	83,517
ADDENDUM: PERCENT OF TOTAL								
General-purpose grants	1.5%	12.1%	9.4%	7.2%	7.1%	8.3%	8.3%	8.5%
Broad-based grants	8.3%	10.6%	11.3%	10.6%	13.5%	17.1%	19.2%	18.8%
Other grants	90.2%	77.3%	79.3%	82.2%	79.4%	74.6%	72.5%	72.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

¹ For detail, see grants in the general purpose fiscal assistance function, Table, H-11. Amounts in Table H-8 above include shared revenues from the Tennessee Valley Authority, shown in the energy function.

² Comprehensive Employment and Training Act (CETA), Title II A, B, and C. An additional \$1.6 billion of CETA grant-in-aid outlays are estimated for 1982, but they are limited to particular types of clientele (e.g. youth) and therefore are included in other grants, not broad-based grants.

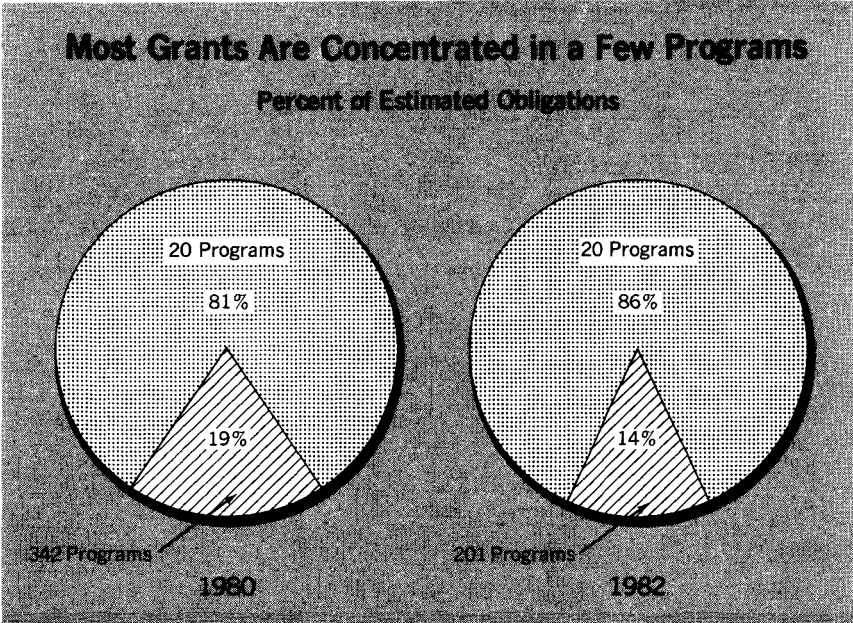
³ For detail, see table H-7.

declines slightly in 1983. The decrease in matching requirements for general-purpose and broad-based aid has been partially offset by the significant growth in programs such as medicaid that require a larger than average matching share.

The chart shows that of all the grants to State and local governments in 1982 almost 90% is concentrated in only 20 programs. Nevertheless, there are hundreds of categorical grants with different matching requirements, timing difficulties, application procedures, duplication of programs, and other administrative problems.

The chart also shows that there were 362 grants in 1980 and 221 in 1982, a reduction of 141, or about 40%. Most of the decline is the direct result of the 9 new block grants enacted in 1981 and the

elimination of many small programs. In view of the rapid growth of the number of grant programs since the mid-1960's, this decline is a major improvement. This simplification of Federal aid is expected to save a significant number of hours for State and local governments.



In addition to the reduction in the number of programs, one aspect of the administration's efforts at regulatory reform has been a demonstration project aimed at identifying, evaluating, and simplifying or eliminating the mandatory administrative or procedural requirements associated with Federal assistance. The project is oriented toward program specific mandates that contribute to the overhead cost of conducting and administering assistance programs. Mandates are those individual requirements contained in an agency regulation or instruction. An average of 500 mandates have been identified for each program. This intensive review was applied on a test basis by four agencies (the Departments of Housing and Urban Development, Transportation, Education, and the Environmental Protection Agency) for six major programs. Results to date are significant:

- The Environmental Protection Agency has reviewed all the mandates required by the construction grant program. As a result, it has published a proposed rule in the *Federal Register* to

eliminate 75% of the individually listed mandates. A review is underway of those remaining agency-wide mandates governing such activities as those to citizen participation, and the National Environmental Policy Act. Further major reductions are anticipated.

- The Department of Transportation, in both proposed and final rules recently published by the Federal Highway Administration, has achieved appreciable reductions in mandates in eight highway program regulations, and in two guidance documents prescribing requirements for the Urban Mass Transit Administration's mass transit capital grant program. For example, the Federal Highway Administration published in December 1981, a proposed rule revising noise abatement procedures for highway traffic and construction. It eliminates 65% of the mandates in the existing regulation.
- Proposed rules governing Federal assistance for educating handicapped children of preschool and school age, to be published soon in the *Federal Register* by the Department of Education, will eliminate or amend 85% of the administrative and procedural requirements on which the mandate review demonstrations project focused. The proposed rule will also significantly alleviate programmatic requirements related to how the assistance is to be provided. A mandate review of the vocational rehabilitation program will be completed by the Department of Education in March 1982; initial indications are that administrative and procedural burdens will be eased significantly.
- The Department of Housing and Urban Development community development block grant entitlement program will soon publish for public comment in the *Federal Register* a proposed rule reflecting a reduction of over 50% of the volume of the current regulations.

The four agencies will complete the mandate reviews in these programs within the next year.

Additional mandate reviews will be conducted in 1982, particularly where major simplification and elimination seems to be warranted, and where reductions in the mandate burden will benefit State and local governments.

Additional efforts undertaken recently or in the last few years to review and improve the system of intergovernmental aid include:

- Executive Order 12291, establishing for the first time a centralized mechanism for executive management of agency regulatory activities. For example, Federal agencies are required to submit a cost-benefit analysis for any regulation having an impact of more than \$100 million.
- Establishment of the Presidential Advisory Committee on Federalism, which includes Cabinet members, state legislators,

governors, mayors, county officials, members of Congress, and private citizens. The Committee is advising the President with respect to the objectives and conduct of the overall federalism policy of the United States.

- Regional briefings sponsored by the White House, OMB, and those Federal agencies with responsibility for administering the block grants.
- Restructuring of 10 Federal Regional Councils to assist in implementing the new block grants, and to improve management and coordination of Federal programs.
- Active Executive Branch participation in the Advisory Commission on Intergovernmental Relations (ACIR).
- Improvements in the Catalog of Federal Domestic Assistance, the reference document used by communities and individuals applying for Federal assistance.
- Improvements in the Federal Assistance Programs Retrieval System (FAPRS). FAPRS uses computer terminals to permit matching the needs of a community with the requirements of Federal programs, and automatically identifies those programs from the *Catalog* for which a community might apply. Changes include more functional categories for program selection, and more information advisory bulletins for users.
- Revised procurement standards. OMB Circular A-102, "Uniform administrative requirements for grants to State and local governments," now includes streamlined procurement standards that place greater reliance on State and local purchasing systems. The new standards permit governments with good systems to have them certified in advance, keeping Federal involvement in procurement under grants to a minimum.
- Establishment of the Federal Assistance Award Data System (FAADS), to provide better information about current grant funding to States. Data on all direct assistance awards are being provided quarterly to the States and to the Congress.

In addition, a number of steps have been taken this year to improve the financial management of Federal aid:

- Deregulation. Block grant programs were stripped of all but essential requirements of law, and categorical programs had regulations cut back significantly.
- Single audit. A single audit system was implemented for aid to State and local governments that relies on their network of audit and investigative resources.
- Cash management. The flow of assistance funds was streamlined by expanded use of electronic funds transfer and delayed drawdown procedures.

- Internal control. New administration guidelines require agencies to tighten up control systems associated with assistance programs.
- Inspectors General. A reinvigorated Inspector General program in the grant-making agencies has come down hard on fraud, abuse, and waste in assisted programs.
- Audit followup. The President has directed that new procedures be put in place to assure that audit findings are resolved within 6 months.

OTHER SOURCES OF FEDERAL AID INFORMATION

The grant-in-aid series in the budget provides a comprehensive picture of Federal grants-in-aid, which are programs financed but not directly administered by the Federal Government. The Census series (published in *Governmental Finances*) and the national income and product accounts (NIA) series (published in Special Analysis B and in the *Survey of Current Business*) are parts of a broader statistical concept encompassing the entire economy, and as a consequence grants-in-aid are defined somewhat differently than in the budget. They both omit the following items that the budget includes:

- Federal aid to the Governments of Puerto Rico and U.S. territories;
- payments in-kind, primarily commodities purchased by the Department of Agriculture and donated to the school lunch and other nutrition programs; and
- payments to private, nonprofit entities (such as nonprofit hospitals) that operate under State auspices or within a State plan.

One major group of payments excluded in the budget definition of grants but included in the Census and NIA series is payments for research conducted by public universities. The budget series excludes these payments because they are considered to be a purchase of services for the Federal Government rather than aid for State or local programs. Since both Census and the NIA series focus on total cash payments to State and local governments, they count these as grants. A major item included only in the Census definition is unemployment compensation for Federal employees, ex-servicemen, and temporary extended benefits. These items were either new or became large in 1976, when they were first included in the Census data. One major kind of outlay included in the budget and Census definitions but excluded from the NIA series is grants to subsidize the operation of public enterprises, mainly housing and transportation facilities. These are counted as subsidies by the Federal Government in the NIA rather than as grants. Table H-9 shows these and other minor differences among the

three series, but the differences are largely offsetting and, thus, these three series exhibit similar patterns.

Table H-9. THREE MEASURES OF FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1975-80

(In billions of dollars)

	1975	1976	1977	1978	1979	1980
Budget (Special Analysis H)	49.7	59.0	68.4	77.9	82.9	91.5
Less principal exclusions:						
Agricultural commodities.....	-0.5	-0.5	-0.6	-0.6	-0.7	-1.1
Geographical exclusions.....	-0.9	-1.0	-1.2	-1.6	-1.8	-2.0
Plus payments for research.....	1.5	1.8	1.8	2.2	2.4	2.9
Federal unemployment benefits and related.....		10.6	5.2	1.2	0.8	1.3
All other (net).....	-0.2	-0.8	-0.6	0.1	1.6	-1.8
Federal payments (Census)	49.6	69.1	73.0	79.2	85.2	90.8
Less:						
Low-rent public housing.....	-1.3	-1.6	-1.8	-2.3	-2.8	-3.3
Federal unemployment benefits and related.....		-10.6	-5.2	-1.2	-0.8	-1.3
All other (net).....		0.6	0.2	-1.0	-2.5	0.5
Grants-in-aid (national income and product accounts)	48.4	57.5	66.3	74.7	79.1	86.7

In addition to these data sources, *Federal Aid to States*, published by the Department of the Treasury, lists grant outlays for the most recently completed year by State for more than 100 programs, using the budget definition of grants. The *Catalog of Federal Domestic Assistance*, prepared by the Office of Management and Budget and available from the Government Printing Office, contains a detailed listing of grant-in-aid and other assistance programs; discussions of eligibility criteria, application procedures, and estimated obligations; and related information. This is a primary reference source for communities wishing to apply for grants-in-aid. The *Federal Register* is published daily by the Government Printing Office and has current information on agencies that are accepting applications for specific programs. This source also provides information on eligibility criteria and application procedures.

THE STATE AND LOCAL GOVERNMENT SECTOR OF THE NATIONAL INCOME AND PRODUCT ACCOUNTS³

The national income and product accounts (NIA) provide a comprehensive statistical description of the U.S. economy that includes State and local government receipts and expenditures. These data measure the relationship between the State and local governments as a sector of the economy and other sectors. The State and local

³ Special Analysis B provides general information on the Federal sector of the national income and product accounts.

data are presented here to provide a context in which to compare the grants-in-aid.

There are three major differences between NIA data and a government's own budgetary accounting for receipts and expenditures. First, financial transactions and the purchase and sale of land and other existing assets are excluded from NIA data but are generally included in budgetary data. Second, a large number of transactions in the NIA accounts are recorded on an accrual basis, while many governments show transactions on a cash basis. Third, NIA data aggregate total State and local transactions, whereas many governments separate their general fund from special funds. As a result of these differences, NIA totals are not the same as an aggregate of these governments' financial budgets. However, the NIA data do provide timely estimates of total State and local fiscal transactions not otherwise available and, with care, can be used as financial indicators.

Table H-10. NATIONAL INCOME AND PRODUCT ACCOUNTS, STATE AND LOCAL SECTOR

(Calendar years; in billions of dollars)

	Receipts	Expenditures	Surplus or deficit (-)		
			Total sector	Social insurance funds	Operating account
Five-year intervals:					
1950	21.3	22.5	-1.2	0.7	-1.9
1955	31.7	32.9	-1.3	1.3	-2.6
1960	49.9	49.8	0.1	2.3	-2.2
1965	75.1	75.1	—*	3.4	-3.4
1970	135.4	133.5	1.9	6.9	-5.1
1975	237.7	232.2	5.5	13.1	-7.6
Annually:					
1976	267.8	251.2	16.6	15.6	0.9
1977	298.0	270.0	28.1	17.9	10.1
1978	327.4	298.4	29.0	20.0	9.0
1979	351.2	324.4	26.7	23.9	2.9
1980	384.0	355.0	29.1	26.9	2.1
1981 ¹	416.8	380.3	36.5	32.1	4.4

SEASONALLY ADJUSTED, ANNUAL RATES

1980:					
I	372.1	345.4	26.6	25.3	1.3
II	373.9	350.0	23.9	25.7	-1.7
III	386.8	358.2	28.6	27.7	0.9
IV	403.4	366.3	37.1	29.0	8.1
1981:					
I	411.7	374.8	36.9	30.4	6.6
II	413.6	377.5	36.1	31.7	4.3
III	419.4	382.1	37.2	32.7	4.6

* \$50 million or less.

¹ Preliminary.

NIA State and local sector.—Table H-10 is a historical tabulation of State and local data with the surplus or deficit divided between

two components, social insurance funds and the operating account.⁴ The social insurance funds, primarily retirement programs, have been in surplus since before 1950. The funds accumulate assets to pay for their future liabilities. Because these social insurance fund surpluses are not generally available to pay for deficits in operating accounts, the operating account is generally thought to be a better measure of State and local fiscal condition than the surplus or deficit for the sector as a whole.

It is reasonable for the operating account to be in deficit since it includes capital expenditures, often financed through borrowing, and the account was in deficit in the 1950's and 1960's.

In the 1970's however, the account was in surplus several years. Surpluses in 1972 and 1973 resulted from the first general revenue sharing distributions and higher tax receipts generated by tax rate increases and the rapidly expanding economy. In 1974, the operating account returned to a deficit. In part, this reflected a return to previous patterns, as State and local expenditure increases absorbed the increased revenues. It also reflected the recession, with State and local governments choosing to draw down balances accumulated during 1972-73 rather than enact new tax increases. Their fiscal position improved substantially in 1976 compared with 1975, and surpluses have continued into 1979. The operating account had a surplus of \$2.9 billion in 1979, and \$2.1 billion in 1980. The surplus is expected to increase in 1981.

DETAILED FEDERAL AID TABLES

The following two tables present detailed Federal aid data for the three budget years. Table H-11, "Federal Grants to State and Local Governments—Outlays and Budget Authority," provides detailed budget authority and outlay data for grants and shared revenues. Table H-12, "Credit Assistance to State and Local Governments," provides information on direct and guaranteed loans to State and local governments.

⁴The operating account contains all transactions except those of social insurance funds, including expenditures for capital investment.

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Func- tional code †	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
			National defense:				
			Department of Defense—Military:				
30	30	34	National Guard centers construction	051			
45	52	72	Federal Emergency Management Agency	054	44	59	81
75	82	106	Total, national defense	050	44	59	81
			Energy:				
			Department of Commerce: Energy conservation grants	272	420	59	4
480	515	229	Tennessee Valley Authority	271			
137	163	180	Total, energy	270	420	59	4
617	679	409					
			Natural resources and environment:				
			Department of Agriculture:				
			Watershed and flood prevention operations	301	50	50	30
71	70	50	Soil and water conservation grants	302			9
		6	Resource conservation and development	302	14	11	
17	13	6	Forest research	302	6	5	3
6	4	2	State and private forestry	302	42	35	26
28	37	27	Department of Commerce:				
			NOAA—Coastal zone management	302	45	—9	2
50	39	13	NOAA—Operations research and facilities	306	50	44	3
47	45	3	Department of the Interior:				
			National recreation and preservation	303			
	4		Urban park and recreation fund	303	1	8	
16	64	38	Land and water conservation fund	303	171		
292	276	179	Land acquisition	303		10	*
	8	2	Fish and Wildlife grants	303	132	145	159
141	128	133					

SPECIAL ANALYSIS H

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Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Func- tional code 1	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
51	44	22	Historic preservation fund.....	303	24	25	
*	*	*	Miscellaneous permanent appropriations.....	303	*	*	*
26	76	96	Office of Surface Mining, Reclamation, and Enforcement.....	302	71	84	115
1	5	5	Bureau of Mines.....	306		9	
11	6		Youth conservation corps.....	302	18		
			Environmental Protection Agency:				
300	229	210	Abatement, control, and compliance.....	304	297	241	184
3,881	4,050	3,350	Construction grants.....	304	1,605	2,400	2,400
	12	25	Hazardous substance response trust fund.....	304		23	33
7			Water Resources Council.....	301	7		
4,944	5,110	4,166	Total, natural resources and environment.....	300	2,534	3,082	2,963
			Agriculture:				
			Department of Agriculture:				
117	127	133	Cooperative State research service.....	352	117	129	136
301	310	308	Extension service.....	352	304	314	312
409	458	418	Commodity Credit Corporation.....	351	409	458	
2	1		Agricultural Marketing Service.....	352	2	1	
829	896	859	Total, agriculture.....	350	831	902	448
			Commerce and housing credit:				
2	2		Department of Agriculture: Rural housing supervisory assistance grants.....	371	1		
2	2	2	Department of Commerce: Minority business development.....	376	2	2	2
4	5	2	Total, commerce and housing credit.....	370	3	2	2
			Transportation:				
			Department of Transportation:				
16	18	14	Highway beautification.....	401	6	*	

	48	176	Interstate transfer grants—highways.....	401		288	150
8,641	7,830	7,822	Federal aid highways (trust fund).....	401	8,869	8,101	7,632
29	17	15	Highway related safety grants.....	401	- 16	*	
		3	Appalachian highway system.....	401			79
222	131	103	Other highway aid.....	401	57	43	
199	175	105	National Highway Traffic Safety Administration.....	401	106	102	102
51	84	105	Federal Railroad Administration.....	401	77	60	20
3,771	3,678	3,099	Urban Mass Transportation Administration.....	401	4,585	3,432	3,089
469	475	374	Airport and airway trust fund.....	402	570	450	450
*	*		State boating safety assistance.....	403			
		5	National recreational boating safety.....	403			5
3	2	2	Research and special programs.....	407	3	2	2
61	75	66	Washington Metropolitan Area Transit Authority.....	401	66	52	52
13,462	12,534	11,889	Total, transportation.....	400	14,323	12,531	11,581
			Community and regional development:				
			Funds appropriated to the President:				
329	287	284	Appalachian regional development programs.....	452	292	144	
*	2	*	Appalachian housing fund.....	452			
268	272	255	Disaster relief.....	453	158	202	218
*	1		Public works acceleration.....	452			
			Department of Agriculture:				
5	3	1	Rural development planning grants.....	452	5		
269	255	204	Rural water and waste disposal grants.....	452	200	125	120
9	8	5	Rural development grants.....	452	5		
4	3	2	Rural community fire protection grants.....	452	4	3	
			Department of Commerce:				
408	296	178	Economic development assistance programs.....	452	365	198	
83	60	30	Local public works program.....	452			
*	*		Drought assistance program.....	453			
31	8	8	Regional development programs.....	452	19		
43	9	3	Regional development commissions.....	452	25		
2	8	8	NOAA: Coastal energy impact fund.....	452		- 7	
15	13	12	Energy conservation grants.....	452	10	- 14	

See footnotes at end of table.

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Func- tional code ¹	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
4,042	4,005	3,350	Department of Housing and Urban Development:				
371	525	550	Community development grants.....	451	3,695	3,456	3,456
			Urban development action grants.....	451	675	440	440
			Rental rehabilitation grants.....	451			150
39	20	5	Planning assistance.....	451	16		
9	5		Neighborhood self-help development program.....	451	1		
156	112	70	Urban renewal programs.....	451			
10	8	8	Other categorical programs replaced by block grants.....	451			
1	1	*	New Community Development Corporation.....	451	-4	*	
18	17	19	Department of the Interior: Bureau of Indian Affairs.....	452	18	17	19
12	14	16	Neighborhood Reinvestment Corporation.....	451	12	14	16
6,124	5,933	5,010	Total, community and regional development.....	450	5,495	4,578	4,419
			Education, training, employment, and social services:				
			Department of Commerce:				
*	6		Job opportunities program.....	504			
20	25	24	Public telecommunications facilities, planning and construction.....	503	20	18	
			Department of Health and Human Services:				
5	5	5	Services to selected groups.....	501	5	5	5
368	255	11	Work incentives.....	504	351	232	
2,646	2,912	1,974	Social services block grant.....	506	2,399	2,400	1,974
2,707	2,168	2,270	Services to selected groups.....	506	2,470	2,447	2,231
54	46	39	Research and demonstration projects.....	506	47	39	26
180	493	383	Child welfare block grants.....	506	174	465	380
	286	136	Community services.....	506		336	91
			Department of the Interior:				
5	5	4	Operation of Indian programs.....	501	5	5	4
52	68	64	Indian education assistance.....	501	77	67	47
9	25	18	Impact aid construction.....	501	22	8	

5,926	3,266	1,531
52	53	1
852	55	
51	-7	14
730	532	444
683	551	336
576	183	33
162	172	137
723	1,111	632
3,345	2,944	2,537
627	583	527
1,023	1,255	871
160	138	127
78	75	55
11	1	
80	87	92
20	19	16
21,146	17,310	12,281
*	*	
30	30	32
968	1,148	1,627
114	151	92
664	684	147
240	233	125
		385
16,833	17,823	17,006
40	48	49
5	5	4
18,895	20,122	19,469

See footnotes at end of table.

Department of Labor:				
Employment and training assistance.....	504	6,070	2,373	1,800
Community service employment for older Americans	504	67	16	
Temporary employment assistance.....	504	431		
Grants to States for unemployment insurance and employment	504	24	19	14
Unemployment trust fund: Training and employment.....	504	751	505	444
Department of Treasury: Impact aid.....	501	635	440	284
Community Services Administration.....	506	480		
Corporation for Public Broadcasting.....	503	162	172	137
Foundation for Education Assistance:				
Vocational and adult education.....	501	775	629	450
Compensatory education for the disadvantaged.....	501	3,098	2,469	1,937
Special programs and populations.....	501	530	452	416
Education for the handicapped.....	501	1,015	778	836
Bilingual education.....	501	147	118	89
Student financial assistance ²	502	77	74	
Higher and continuing education.....	502	5		
Libraries.....	503	84	58	
National Foundation on the Arts and the Humanities.....	503	24	21	13
Total, education, training, employment, and social services	500	19,946	14,147	11,178
Health:				
Special Action Office for Drug Abuse Prevention.....	554			
Department of Agriculture: Food Safety and Inspection Service	554	31	30	32
Department of Health and Human Services:				
Health Services Administration ²	551	968	859	1,422
Centers for Disease Control.....	551	115	138	62
Alcohol, Drug Abuse, and Mental Health Administration ²	551	549	432	
Health Resources Administration.....	551	195	149	39
Office of Assistant Secretary for Health: health block grants ²	551			514
Medicaid ²	551	17,440	17,968	12,925
Department of Labor:				
Occupational Safety and Health Administration.....	554	44	47	51
Mine Safety and Health Administration.....	554	6	3	5
Total, health	550	19,348	19,627	15,051

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Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Func- tional code 1	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
			Income security:				
			Department of Agriculture:				
17	20	21	Rural housing for domestic farm labor 2	604	25	14	12
7	8	5	Mutual and self-help housing 2	604		4	
285	418	365	Agricultural Marketing Service 2	605	377	457	405
489	774	578	Food stamp program 2	605	507	809	546
		780	Nutrition assistance for Puerto Rico 2	605			825
		42	Nutrition assistance for the territories 2	605			44
100	33	2	Special milk program 2	605	114	27	
3,259	2,581	2,561	Child nutrition programs 2	605	3,272	2,693	2,673
928	914	127	Special supplemental food programs (WIC) 2	605	924	931	
104	137	96	Food donations program 2	605	129	141	65
			Department of Health and Human Services:				
45	23	15	Supplemental security income program 2	609	35	22	15
8,462	8,070	5,422	Assistance payments programs 2	609	8,440	6,051	5,422
		387	Child support enforcement	609			387
		1,655	Combined welfare administration	609			1,655
1,608	1,687	1,168	Emergency and energy assistance 2	609	1,714	1,574	1,168
641	736	597	Refugee and entrant assistance 2	609	745	628	509
1	1	*	Payments to States from receipts for child support	609	*	*	*
			Department of Housing and Urban Development:				
3,105	3,493	3,789	Subsidized housing programs 2	604	17,785	568	-3,731
929	1,278	1,110	Operation of housing projects 2	604	1,071	1,293	1,075
1	4	6	Congregate services program 2	604			
1,315	1,541	1,605	Department of Labor: Unemployment trust fund (training and employment) 2	603	1,252	1,408	1,605
46			Community Services Administration 2	609			
21,341	21,718	20,331	Total, income security	600	36,392	16,621	12,675

			Veterans benefits and services:				
			Veterans Administration:				
41	43	44	Medical care ²	703	41	43	44
1	4		Medical administration and miscellaneous operating expenses	703	*	4	
9	9	10	Grants for construction of State extended care facilities ²	703	15	16	18
23	7	6	Assistance for health manpower training institutions	703			
1	3	5	Grants for the construction of State veterans cemeteries	705	5		2
74	66	65	Total, veterans benefits and services	700	61	63	64
			Administration of justice:				
1	8	6	Department of Housing and Urban Development: Fair housing assistance	751	6	5	6
			Department of Justice:				
8	8	11	National Institute of Corrections	754	8	9	9
307	225	84	Law enforcement assistance	754	82	61	
1			Research and statistics	754			
*	*	*	Revolving fund	754			
15	17	17	Equal Employment Opportunity Commission	751	18	18	18
333	257	118	Total, administration of justice	750	113	93	32
			General government:				
			Department of the Interior:				
73	81	62	Administration of territories	806	73	85	52
117	101	101	Trust Territory of the Pacific Islands	806	95	97	76
18	9		Office of Personnel Management (intergovernmental personnel assistance)	806	14		
208	190	163	Total, general government	800	182	182	128
			General purpose fiscal assistance:				
241	242	342	Department of Agriculture: Forest Service permanent appropriations	852	241	242	342
5	5	5	Department of Defense—Civil: Water resources permanent appropriations	852	5	5	6
			Department of the Interior:				
104	96	45	Payments in lieu of taxes	852	103	96	45
436	594	756	Bureau of Land Management permanent appropriations	852	436	594	756
12	9	4	Fish and Wildlife Service	852	14	10	4
113	57	54	Payments to U.S. territories	852	66	54	54
*	*		Internal revenue collections for the Virgin Islands	852			

See footnotes at end of table.

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Func- tional code ¹	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
5,137	4,570	4,567	Department of the Treasury:				
	2		State and local government fiscal assistance trust fund.....	851	4,570	4,567	4,567
58	77	81	Antirecession financial assistance fund.....	852			
240	265	270	U.S. Customs Service.....	852	71	77	81
365	402	425	Internal revenue collections for Puerto Rico.....	852	236	265	270
*	*	*	Federal payment to the District of Columbia.....	852	365	402	425
			Federal Energy Regulatory Commission: Payments to States under Federal Power Act.....	852	*	*	*
6,710	6,319	6,549	Total, general purpose fiscal assistance.....	850	6,109	6,311	6,549
94,762	91,220	81,418	Total, grants-in-aid.....		105,802	78,259	65,176

*\$500 thousand or less.

¹ For a description of these codes, see Table 13 in the *Budget of the United States Government, 1983*.

² Programs included in the "Grants for payments to individuals" category shown in Table H-6.

Table H-12. CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS ¹

(In millions of dollars)

Function, agency and program		Direct loans			Guaranteed loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Natural resources and environment:							
Department of the Interior: Drought emergency loan fund.....	New loans.....						
	<i>Net loans</i>	-5	-2	-2			
	Outstandings	25	22	20			
Agriculture:							
Department of Agriculture:							
Agriculture credit insurance fund.....	New loans.....				3	2	2
	<i>Net loans</i>	*	*	*	*	*	*
	Outstandings	1	*	*	10	9	8
Commerce and housing credit:							
Department of Agriculture:							
Rural housing insurance fund.....	New loans.....	6	1	1	5	1	1
	<i>Net loans</i>	*	-1		*	*	*
	Outstandings	2	1	1	23	22	23
Transportation:							
Department of Commerce:							
Federal ship financing fund (MARAD).....	New loans.....				31	50	25
	<i>Net loans</i>				21	38	12
	Outstandings				192	230	242
Department of Transportation:							
Federal aid highways (trust fund).....	New loans.....	12	19	32			
	<i>Net loans</i>	12	19	32			
	Outstandings	15	34	66			
Right-of-way revolving fund.....	New loans.....	7	45				
	<i>Net loans</i>	7	45				
	Outstandings	195	240	240			
Urban mass transportation fund.....	New loans.....						
	<i>Net loans</i>						
	Outstandings	47	47	47			

See footnotes at end of table.

Table H-12. CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS ¹—Continued

(In millions of dollars)

Function, agency and program		Direct loans			Guaranteed loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Total, transportation	New loans.....	19	64	32	31	50	25
	<i>Net loans</i>	<i>19</i>	<i>64</i>	<i>32</i>	<i>21</i>	<i>38</i>	<i>12</i>
	Outstandings	257	321	353	192	230	242
Community and regional development:							
Department of Agriculture:							
Rural development insurance fund.....	New loans.....	867	866	668			
	<i>Net loans</i>	<i>10</i>	<i>-36</i>	<i>1</i>			
	Outstandings	242	206	207			
Department of Commerce:							
Drought assistance program.....	New loans.....	1					
	<i>Net loans</i>	<i>-6</i>	<i>-8</i>	<i>-8</i>			
	Outstandings	91	83	75			
Coastal energy impact fund.....	New loans.....	34	30	15			
	<i>Net loans</i>	<i>34</i>	<i>29</i>	<i>13</i>			
	Outstandings	67	96	109			
Department of the Interior:							
Emergency fund.....	<i>New loans</i>						
	<i>Net loans</i>	<i>-5</i>	<i>-2</i>	<i>-2</i>			
	Outstandings	25	22	20			
Department of Housing and Urban Development:							
Urban renewal programs.....	New loans.....	61	30		13	5	5
	<i>Net loans</i>	<i>-9</i>	<i>-12</i>		<i>-94</i>	<i>-45</i>	<i>-45</i>
	Outstandings	12			181	136	91
Revolving fund (liquidating programs)	New loans.....		*	38			
	<i>Net loans</i>	<i>-17</i>	<i>-18</i>	<i>661</i>			
	Outstandings	416	399	1,060			

Community development loans	New loans.....				45	120	135
	<i>Net loans</i>				28	106	98
	Outstandings				74	180	278
Total, community and regional development	New loans.....	962	926	720	59	125	140
	<i>Net loans</i>	7	-46	666	-66	61	53
	Outstandings	852	806	1,471	255	316	369
Education, training, employment and social services:							
Foundation for Education Assistance:							
Student loan insurance fund.....	New loans.....	3	3	2			
	<i>Net loans</i>	3	3	2			
	Outstandings	92	95	97			
Student financial assistance.....	New loans.....						
	<i>Net loans</i>						
	Outstandings	20	20	20			
Department of the Treasury:							
Higher education facilities loan fund.....	New loans.....	1	1	1			
	<i>Net loans</i>	-6	-6	-6	-17	-19	-20
	Outstandings	159	153	147	945	926	906
Total education, training, employment, and social services.....	New loans.....	4	4	3			
	<i>Net loans</i>	-3	-3	-4	-17	-19	-20
	Outstandings	271	268	264	945	926	906
Health:							
Department of Health and Human Services:							
Medical facilities guarantee and loan fund.....	New loans.....						
	<i>Net loans</i>	-6	-5	-6			
	Outstandings	180	175	170			
Income security:							
Department of Housing and Urban Development:							
Low-rent public housing.....	New loans.....	4,392	3,000	2,000			
	<i>Net loans</i>	180	-50				
	Outstandings	368	318	318			

See footnotes at end of table.

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Table H-12. CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS ¹—Continued

(In millions of dollars)

Function, agency and program		Direct loans			Guaranteed loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
General Government:							
Department of the Interior:							
Administration of territories.....	New loans.....	1				30	
	Net loans.....	1	-18		*	30	-1
	Outstandings	18			66	96	95
General purpose fiscal assistance:							
Department of the Treasury:							
New York City loan guarantees.....	New loans.....				300	300	
	Net loans.....				211	207	-132
	Outstandings				938	1,144	1,012
Other independent agencies:							
Loans to the District of Columbia.....	New loans.....	214	225	145			
	Net loans.....	107	117	116			
	Outstandings	1,567	1,684	1,799			
Total, general purpose fiscal assistance.....	New loans.....	214	225	145	300	300	
	Net loans.....	107	117	116	211	207	-132
	Outstandings	1,567	1,684	1,799	938	1,144	1,012
Grand total.....							
	New loans.....	5,598	4,220	2,901	398	508	167
	Net loans.....	293	48	795	148	316	-87
	Outstandings	3,699	3,747	4,542	2,428	2,744	2,656

¹ Only direct loans are included in budget outlays. New direct loans less loan repayments, sales, etc., are net loans, which are counted in the budget as outlays. Guaranteed loans are non-Federal loans guaranteed by the Federal government. For a discussion of credit in the budget, see Special Analysis, F, "Federal Credit Programs"

SPECIAL ANALYSIS I

**CIVILIAN EMPLOYMENT IN THE
EXECUTIVE BRANCH**

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

**OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT**

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
- I. Civilian Employment in the Executive Branch
- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

SPECIAL ANALYSIS I

CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

This Administration is committed to reducing Federal civilian employment.

- As the first official act after inauguration, the President instituted a freeze on Federal civilian hiring.
- Subsequently, in the March 1981 revision of the 1982 Budget, significant reductions in nondefense agency employment were proposed.
- In September, the President announced the goal of a further reduction of 75,000 workyears in nondefense agency employment, during the period 1982-1984.

FULL-TIME EQUIVALENT OF TOTAL FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

Control of Federal agency civilian employment was shifted to a full-time equivalent (FTE) or workyear basis for the executive branch beginning with fiscal year 1982. (Section 904 of the 1982 Defense Authorization Act (Public Law 97-86) exempts the Department of Defense from full-time equivalent employment controls. Postal Service employment, which by law is not subject to Presidential control, is also excluded.)

The estimated workyears for the executive branch, excluding employment exempt from ceilings (but including the Department of Defense) are:

	Fiscal year		
	1981	1982	1983
Full-time equivalent employment:			
Full-time permanent.....	1,867,600	1,891,300	1,874,600
Other than full-time permanent	243,100	189,100	179,100
Total.....	2,110,700	2,080,300	2,053,700

Full-time permanent employment is expected to account for 91 percent of the total workforce in 1983. The remainder is made up of part-time employees, intermittent employees (those employed on an irregular basis), and full-time temporary employees (generally, in positions occupied for less than 1 year).

Table I-1 is a tabulation of full-time equivalent employment estimates for the major departments and agencies of the executive branch.

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

(Excluding the Postal Service)

	Fiscal year				
	1981 estimate ²	1982 revised Budget estimate ³	1982 current estimate	1983 estimate	1984 estimate
Agriculture	117,300	121,000	117,000	111,000	108,900
Commerce ^{4 5}	52,600	45,500	45,600	40,500	38,200
Defense—civil functions	34,400	32,300	32,300	30,700	29,100
Health and Human Services ⁶	148,400	154,400	147,600	141,400	137,600
Housing and Urban Development	16,100	15,700	14,900	14,400	14,100
Interior ^{5 6}	85,900	87,400	85,000	81,600	79,300
Justice ^{5 6}	56,900	55,100	56,400	55,800	54,400
Labor	22,600	21,600	19,200	18,600	18,400
State	23,400	22,900	23,000	23,300	23,500
Transportation ⁴	58,800	69,300	60,100	61,900	62,500
Treasury ⁶	123,900	124,400	122,200	123,000	122,200
Environmental Protection Agency	12,700	12,900	12,200	10,500	10,500
National Aeronautics and Space Administration	22,600	22,700	22,500	22,000	22,000
Veterans Administration	214,100	209,600	215,900	216,800	218,900
Other:					
Foundation for Education Assistance ⁶	6,200	5,300	5,400	4,800	4,800
General Services Administration	34,000	32,800	32,300	31,000	29,500
International Communication Agency ⁶	7,900	7,600	7,900	7,900	7,900
International Development Cooperation Agency	5,800	5,800	5,700	5,600	5,400
Nuclear Regulatory Commission	3,400	3,400	3,400	3,400	3,300
Office of Personnel Management	7,200	6,600	6,400	5,900	5,800
Panama Canal Commission	8,900	9,100	9,000	9,000	9,000
Small Business Administration	5,000	4,700	4,500	4,200	4,100
Tennessee Valley Authority	50,100	44,800	42,500	41,400	40,300
Miscellaneous ^{5 6}	45,500	47,200	43,100	40,700	39,900
Undistributed reduction					-2,500
Subtotal	1,163,700	1,162,100	1,134,100	1,105,400	1,087,100
Defense—military functions ^{6 7}	947,000	937,700	945,200	947,300	947,000
Subtotal	2,110,700	2,099,800	2,079,300	2,052,700	2,034,100
Contingencies ⁸		1,000	1,000	1,000	1,000
Total	2,110,700	2,100,800	2,080,300	2,053,700	2,035,100

¹ Excludes developmental positions under the worker-trainee opportunity program (WTOP) as well as certain statutory exemptions.

² Data are estimated because most executive branch agencies were not reporting full-time equivalent (FTE) information prior to October 1981.

³ As contained in the revised 1982 Budget, transmitted to the Congress in March 1981.

⁴ Reflects the transfer, during 1981, of the Maritime Administration from the Department of Commerce to the Department of Transportation.

⁵ The budget proposes dismantlement of the Department of Energy (DOE), effective October 1, 1982. Employment data for activities previously performed by DOE are included in the agencies that are proposed to assume these activities.

⁶ The budget proposes dismantlement of the Department of Education (DEd), effective October 1, 1982. Employment data for activities previously performed by DEd are included in the agencies that are proposed to assume these responsibilities.

⁷ Section 904 of the 1982 Defense Authorization Act (Public Law 97-86) exempts the Department of Defense from full-time equivalent employment controls.

⁸ Subject to later distribution.

Table I-1 allocates to the agencies a 72,500 full-time equivalent (workyear) nondefense reduction from the 1982 revised estimates to the 1984 estimates. This accounts for 97 percent of the 75,000

reduction goal set by the President. An increase of 9,300 full-time equivalents was required for Veterans Administration medical care after the 75,000 reduction was announced. Employment in the remaining nondefense agencies was reduced by 81,800.

SIGNIFICANT CHANGES IN FULL-TIME EQUIVALENT EMPLOYMENT

Realignment of the Education and Energy functions will result in a savings of 4,700 workyears from the revised 1982 Budget to 1984. Actions taken to reduce or eliminate energy programs, together with dismantling the Department of Energy, will save 4,100 workyears from 1982 levels. Overhead activities alone will account for almost 2,300 workyears of these savings. Actions taken to reduce or eliminate education programs, the transfer of certain programs to other agencies, and the replacement of the Department of Education with a smaller, more efficient Foundation for Education Assistance will result in savings of 600 workyears.

Most agencies show decreases, in table I-1, from the 1982 estimates in the revised 1982 Budget to the corresponding estimates for 1984.

- Department of Agriculture (−12,100)—Programmatic reductions and increased efficiencies are planned in: the Forest Service (about one-half of the total reduction), the Animal and Plant Health Inspection Service, the Farmers Home Administration, the Soil Conservation Service, and in science and education programs.
- Department of Commerce (−7,300)—A net decrease will result from completion of the Decennial, Economic and Agricultural Censuses, the termination of the Economic Development Administration, the phasedown or elimination of National Oceanic and Atmospheric Administration weather and marine related services and research activities. Additional reductions are associated with the energy functions being transferred to the department. A planned increase of about 400 workyears is intended to reduce the backlogs in the Patent and Trademark Office and to expand the Foreign Commercial Service overseas for export development.
- Department of Defense—civil functions (−3,200)—Reductions are the result of declining budget and program levels, changing State and private sector capabilities, and administrative streamlining (e.g., consolidation of finance and accounting centers). Reductions due to declining program levels are cutbacks in real estate and construction management personnel and the completion of 20–25 projects per year. Private sector dredging capability is increasing, with correspondingly less need for dredges operated by Federal employees.

- Department of Health and Human Services (−16,800)—The Department will reduce employment by: converting categorical grants to block grants for health, social and community services programs; decreasing regulatory requirements for health and social services programs and eliminating overhead functions, closing (or returning to community control) Public Health Service Hospitals; contracting out services to be performed by the private sector where it is cost effective in accordance with reviews required under OMB Circular No. A-76; and eliminating excessive overhead functions.
- Department of Housing and Urban Development (−1,600)—This decrease is due to reductions in departmental decision-making and oversight in favor of State and local discretion in those programs that directly affect them.
- Department of the Interior (−8,100)—Declining staff levels will be achieved through reductions in overhead (particularly in the Bureau of the Indian Affairs), closing some facilities, streamlining regulatory processes, and use of less labor intensive methods of natural resource management.
- Department of Labor (−3,200)—Some reductions will occur in virtually all activities, reflecting both reductions in less essential programs and increased operating efficiencies. Major reductions will occur in the Employment and Training Administration (−1,000), where reduction and consolidation of training and employment programs will result in greatly simplified new programs, and in the Mine Safety and Health Administration (−1,000), where legislation will be proposed to eliminate thousands of redundant and wasteful visits to mines that have not been found to be hazardous.
- Department of Transportation (−6,800)—Major components of the net decrease include a reduction in workyears for air traffic controllers as a result of a reevaluation of needs after the air controllers strike; a reduction due to the planned transfer of the Alaskan railroad; and overall staffing reductions throughout the department.
- Department of the Treasury (−2,200)—Reductions will occur in selected activities with staffing held relatively constant in direct law enforcement and revenue collection functions. Decreases will be achieved through the streamlining of current operations, increased efficiencies, and a major reorganization and termination of the Bureau of Alcohol, Tobacco and Firearms as a separate entity.
- Environmental Protection Agency (−2,400)—Reductions are due to elimination of duplicative activities, reduction of Federal oversight and control of State activities and major gains

in efficiency from reorienting and streamlining the agency's management structure.

- General Services Administration (−3,300)—Lower staff levels will result primarily from contracting out those functions that can be more economically performed by the private sector under the guidelines of OMB Circular No. A-76.

A few agencies show increases.

- Department of Defense—military functions (+9,300)—This increase is for improved readiness, and for increased workloads in defense industrial activities.
- Veterans Administration (+9,300)—Additional staffing is required to meet the needs of the Veterans Administration Medical Care System.
- State Department (+600)—Additional personnel resources are needed for augmented political and economic reporting and analysis from key countries, additional security and communications capabilities, and enhanced administrative support for U.S. agencies operating in diplomatic missions.

END-OF-YEAR EMPLOYMENT LEVELS

Another way to look at Federal employment is on the basis of the number of employees expected to be on the rolls at the end of a fiscal year.

Full-time permanent employment in the executive branch at the end of 1983 is estimated to be 1,873,600, excluding 542,600 Postal Service employees. (Postal Service employees are not under the President's jurisdiction.) Actual full-time permanent employment as of September 30, 1981, was 1,851,045, a reduction of about 21,800 full-time permanent employees since January 1981, when this administration came into office.

Total Federal civilian employment in the executive branch is estimated to be 2,077,900 by the end of 1983, excluding 635,600 Postal Service employees.

The estimates shown in table I-2 for total executive branch employment reflect the fractional counting of part-time permanent positions (based on the number of hours per regularly scheduled workweek) as required by the Federal Employees Part-Time Career Employment Act of 1978 (Public Law 95-437).

Table I-2 shows Government-wide Federal civilian employment, i.e., the number of persons employed as of the end of each fiscal year displayed. Information on Postal Service employment (including that of the Postal Rate Commission) is also shown, together with data for the legislative and judicial branches and for active duty military personnel.

The Department of Defense, in its military functions, is expected to increase from 44.7% of Executive Branch civilian employment in 1981 to 45.6% in 1983.

Table 1-2. TOTAL FEDERAL EMPLOYMENT END-OF-YEAR

Description	September 30		
	1981 actual	1982 estimate	1983 estimate
Civilian employment in the executive branch:			
Full-time permanent.....	1,851,045	1,888,000	1,873,600
Other than full-time permanent ¹	246,087	214,400	204,300
DOD-military functions.....	(937,819)	(947,000)	(947,000)
Non-DOD.....	(1,159,313)	(1,155,400)	(1,130,900)
Subtotal.....	2,097,132	2,102,400	2,077,900
Postal Service:			
Full-time permanent.....	543,504	543,000	542,600
Other than full-time permanent.....	119,664	98,300	93,000
Subtotal.....	663,168	641,300	635,600
Special categories ².....	26,963	26,500	26,500
Subtotal, executive branch civilian employment.....	2,787,263	2,770,200	2,740,000
Military personnel on active duty: ³			
Department of Defense.....	2,082,183	2,110,300	2,147,600
Department of Transportation (Coast Guard).....	39,819	36,900	37,100
Subtotal, military personnel.....	2,122,002	2,147,200	2,184,700
Total, executive branch employment.....	4,909,265	4,917,400	4,924,700
Legislative and judicial personnel: ⁴			
Full-time permanent.....	32,844		
Other than full-time permanent.....	21,423		
Subtotal, legislative and judicial branches.....	54,267		
Grand total.....	4,963,532		

¹ Reflects fractional counting of part-time permanent positions, pursuant to the provisions of Public Law 95-437.

² 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.

³ Excludes reserve components.

⁴ 1982 and 1983 estimates are not available for the legislative and judicial branches. Also, excludes members and officers of the Congress.

PERSONNEL COMPENSATION AND BENEFITS

Direct compensation of the Federal work force includes base pay, merit pay, cash incentive and performance awards, meritorious and distinguished executive awards, premium pay for overtime, Sunday and holiday pay, differentials for night work and overseas duty, and flight and other hazardous duty pay. Related compensation in the form of personnel benefits consist primarily of the Government's share (as employer) of health insurance, term life insurance, and Federal retirement and old-age survivors' disability insurance. Also included are personnel costs for uniform allowances (when paid in cash), cost-of-living and overseas quarters allowances, and, in the case of uniformed military personnel, reenlistment bonuses.

The Administration plans to withdraw the legislative proposal for a comprehensive reform of Federal pay setting that it made last year in order to consider Congressional objections that were raised and other proposals that have been made since. A new review of Federal civilian compensation will be initiated. This review will have the objective of recommending revised Federal civilian employee pay setting and benefit structures designed to serve the Government's long-term needs. It is anticipated that the review's recommendations will be available in time to permit a new legislative proposal to be submitted to the Congress with the 1984 Budget.

As part of the overall effort to reduce Government spending in support of the President's economic recovery program, the budget assumes an October 1982 pay increase for the white collar workforce of 5.0 percent, and a blue collar pay increase of the same amount. The budget assumes an October 1982 pay increase for military personnel of 8 percent.

Obligations for civilian personnel compensation and benefits in 1983 are projected to reach \$62.5 billion, excluding the Postal Service.

Table I-3. PERSONNEL COMPENSATION AND BENEFITS

[In millions of dollars]

Description	1981 actual	1982 estimate	1983 estimate
Civilian personnel costs:			
Executive branch: ¹			
Direct compensation.....	47,547	48,220	50,134
Personnel benefits ²	8,608	9,205	9,456
DOD-military functions, civilian personnel:			
Direct compensation.....	(19,956)	(20,528)	(21,728)
Personnel benefits.....	(2,064)	(2,205)	(2,329)
Subtotal.....	56,155	57,425	59,590
Legislative and judiciary: ³			
Direct compensation.....	856	936	982
Personnel benefits.....	82	93	99
Subtotal.....	938	1,029	1,081
Allowance for civilian pay raise ⁴		1,274	1,839
Total, civilian personnel costs.....	57,093	59,728	62,510
Military personnel costs: ⁵			
Direct compensation.....	31,414	38,060	42,208
Personnel benefits ⁶	2,738	2,851	3,417
Subtotal.....	34,152	40,911	45,625
Allowance for military pay raise.....		4,516	3,007
Total, military pay costs.....	34,152	45,427	48,632
Grand total, personnel costs.....	91,245	105,155	111,142

¹ Excludes the Postal Service, reflecting conversion to independent status, consistent with the Postal Service Reorganization Act of 1970.

² In addition to the employing agency's contributions for the costs of life and health insurance, and retirement, this amount includes transfers from general revenues to amortize the effects of general pay increases on Federal retirement systems, for employees in the legislative and judicial branches as well as employees (nonpostal) in the executive branch. The transfers amounted to \$3,298 million in 1981 and are estimated to be \$3,298 million in 1982 and \$3,599 million in 1983.

³ Excludes members and officers of Congress.

⁴ This allowance assumes some absorption.

⁵ Excludes reserve components.

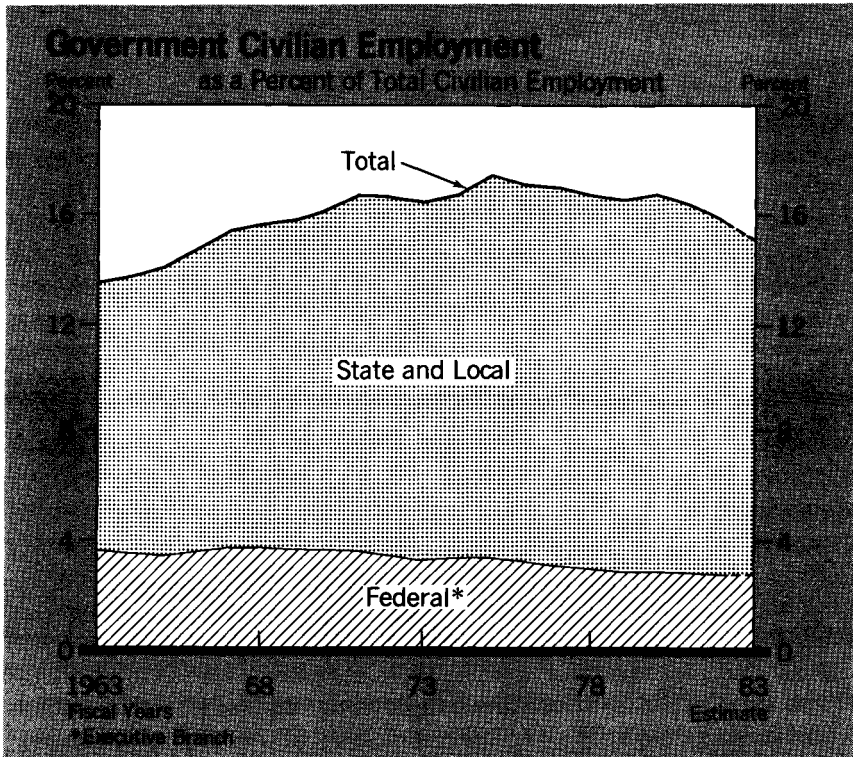
⁶ Excludes payments to current military retirees which amounted to \$13,729 million in 1981 and are estimated to be \$15,000 million in 1982 and \$16,472 million in 1983.

GOVERNMENT EMPLOYMENT AND LABOR FORCE COMPARISONS

As shown on the following chart, Government employment—Federal, State, and local—will comprise about 15% of the total employed civilian labor force in 1983.

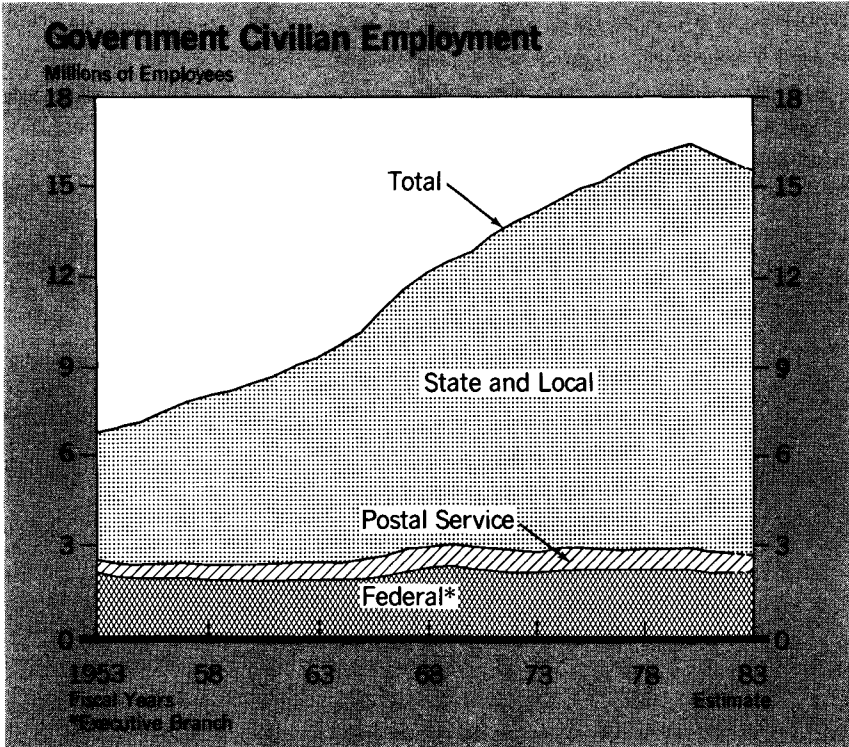
Within this segment, Federal civilian employment in the executive branch accounts for 2.7% of the total employed civilian labor force in 1983, down from a high of 3.8% in 1968.

The percentage of the total employed civilian labor force attributable to State and local government has grown from 9.9% in 1963 to 12.4% in 1983.



GOVERNMENT EMPLOYMENT AND POPULATION COMPARISONS

As illustrated in the following chart and in table I-4, the Federal share of total government employment has declined significantly over the last three decades, from 37.2% in 1953 to an estimated 17.7% in 1983. Employment for all government rose steadily through 1980 due to increases in State and local government employment, but has been declining since then.



The ratio of Federal civilian employment to the total U.S. population is expected to be 11.7 per thousand in 1983, the lowest this ratio has been during the thirty year span shown.

Table I-4. GOVERNMENT EMPLOYMENT AND POPULATION, 1953-83

Fiscal year	Government employment				Population	
	Federal executive branch ¹ (thousands)	State and local governments (thousands)	All governmental units (thousands)	Federal as percent of all governmental units	Total United States (thousands)	Federal employment per 1,000 population
1953.....	2,532	4,282	6,814	37.2	160,184	15.8
1954.....	2,382	4,552	6,934	34.4	163,026	14.6
1955.....	2,371	4,728	7,099	33.4	165,931	14.3
1956.....	2,372	5,064	7,436	31.9	168,903	14.0
1957.....	2,391	5,380	7,771	30.8	171,984	13.9
1958.....	2,355	5,630	7,985	29.5	174,882	13.5
1959.....	2,355	5,806	8,161	28.8	177,830	13.2
1960 ²	2,371	6,073	8,444	28.1	180,671	13.1
1961 ²	2,407	6,295	8,702	27.7	183,691	13.1
1962.....	2,485	6,533	9,018	27.6	186,538	13.3
1963 ³	2,490	6,834	9,324	26.7	189,242	13.2
1964 ³	2,469	7,236	9,705	25.4	191,889	12.9
1965.....	2,496	7,683	10,179	24.5	194,303	12.8
1966.....	2,664	8,259	10,923	24.4	196,560	13.6
1967.....	2,877	8,730	11,607	24.8	198,712	14.5
1968.....	2,951	9,141	12,092	24.4	200,706	14.7
1969 ⁴	2,980	9,496	12,476	23.9	202,677	14.7
1970 ²	2,944	9,869	12,813	23.0	205,052	14.4
1971 ²	2,883	10,372	13,255	21.8	207,661	13.9
1972.....	2,823	10,896	13,719	20.6	209,896	13.4
1973.....	2,775	11,286	14,061	19.7	211,909	13.1
1974.....	2,847	11,713	14,560	19.6	213,854	13.3
1975.....	2,848	12,114	14,962	19.0	215,973	13.2
1976.....	2,832	12,282	15,114	18.7	218,035	13.0
1977 ⁵	2,789	12,704	15,493	18.0	220,904	12.6
1978.....	2,820	13,050	15,870	17.8	223,278	12.6
1979.....	2,823	13,359	16,182	17.4	225,779	12.5
1980 ²	2,821	13,557	16,378	17.2	^a 228,297	12.4
1981 ²	⁷ 2,787	13,281	16,068	⁶ 17.4	^a 230,477	12.1
1982 (est.).....	2,770	.....	.....	⁶ 17.5	^a 232,474	11.9
1983 (est.).....	2,740	.....	.....	17.7	^a 234,645	11.7

¹ Covers total end-of-year employment of full-time permanent, temporary, part-time, and intermittent employees in the executive branch, including the Postal Service, and, beginning in 1970, includes various disadvantaged youth and worker-trainee programs.

² Includes temporary employees for the decennial census.

³ Excludes 7,411 project employees in 1963 and 406 project employees in 1964 for the public works acceleration program.

⁴ On Jan. 1, 1969, 42,000 civilian technicians of the Army and Air Force National Guard converted by law from State to Federal employment status. They are included in the Federal employment figures in this table starting with 1969.

⁵ Data for 1952 through 1976 are as of June 30; for 1977 through 1981, as of Sept. 30.

⁶ The percentages shown for these years are consistent with reasonable estimates based on recent trends in State and local government.

⁷ Reflects fractional counting of part-time permanent positions, pursuant to the provisions of Public Law 95-437.

^a U.S. population data for 1980-1983 are the latest available from the Census Bureau. Revised estimates, based on the 1980 Census, were not available in time for publication in this analysis.

SPECIAL ANALYSIS J

CIVIL RIGHTS ACTIVITIES

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

February 1982

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- B. Federal Transactions in the National Income Accounts
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FOR REFERENCE

Do Not Take From This Room

SPECIAL ANALYSIS J

CIVIL RIGHTS ACTIVITIES

“ . . . Let us talk today about the needs of the future, not the misunderstandings of the past; about new ideas, not old ones . . . and while our communication should always deal with current issues of importance, it must never stray far from our national commitment to battle against discrimination and increase our knowledge of each other. . . .”—RONALD REAGAN, June 29, 1981¹

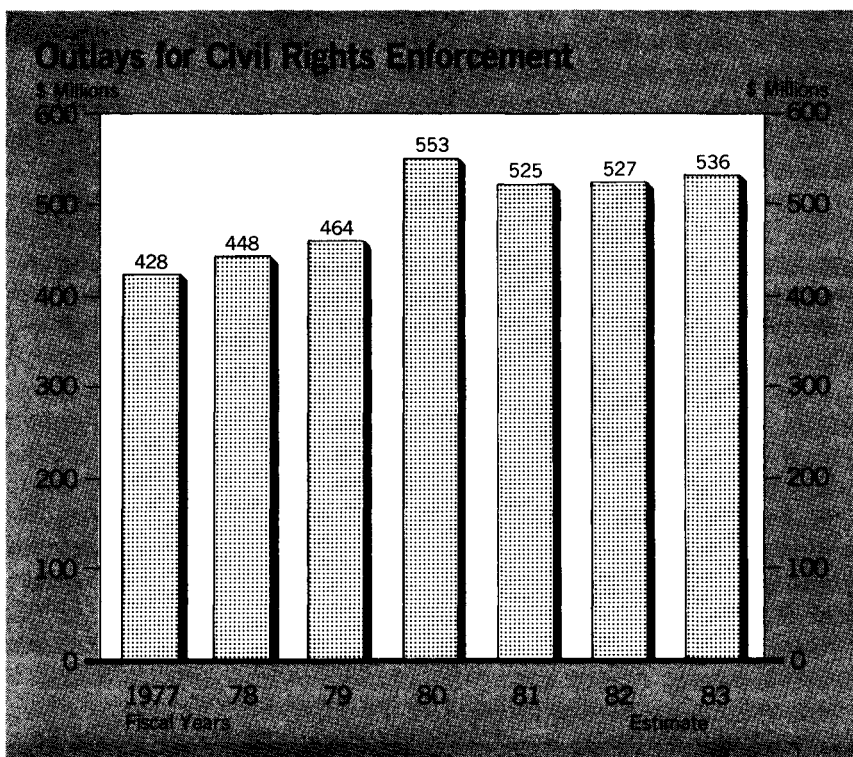
TO ADDRESS THE NEEDS OF THE FUTURE

Coverage and scope.—As the President emphasized, the American ideal of equality of individual rights and opportunity has long since become a national commitment. In addition to the basic guarantees and protections embodied in the Constitution, this commitment is now expressed in more than 100 Federal statutes. These laws prohibit discrimination based on race, color, religion, sex, national origin, age, or handicap in such basic areas as employment, housing, voting, education, public accommodations, access to credit, and jury service. Implementation of these statutes is spread among all Federal agencies. Each of the 107 separate Federal agencies is responsible for assuring nondiscrimination in its own actions. In addition, 37 agencies have some civil rights enforcement responsibilities.

In combination with the voluntary efforts of individuals, private institutions, States and municipalities, much of this Federal involvement has facilitated progress toward realizing our national commitment. However, this proliferation of statutes and authorities has not been without problems endemic to the rapid, frequently uncoordinated and poorly planned, expansion of the Federal presence in recent years. These problems went unaddressed. As a result, the promises of progress implicit in past expenditures for civil rights programs too often proved hollow.

The President's determination to continue America's civil rights progress is, therefore, reflected in more than his proposed expenditures for those activities in 1983. More fundamentally, it is demonstrated by his administration's efforts to improve the effectiveness of those expenditures, and to assure that the national commitment to civil rights and equal opportunity is not only pursued, but realized.

¹This and other quotations throughout the text are excerpted from the President's remarks before the 1981 NAACP National Convention held in St. Louis, Missouri.



This Special Analysis begins with an overview of the obstacles to effective implementation of Federal civil rights guarantees, and the administration's efforts to overcome them. This is followed by more detailed discussions of accomplishments; challenges, and projected 1983 outlays in Federal activities to protect constitutional rights; eliminate discrimination by Government and activities supported by Government funds; implement Federal guarantees of equality of treatment; and help States, localities, and the private sector develop new solutions to civil rights problems.

Overview.—The administration found that the rapid growth of Federal efforts to assure civil rights had frequently interfered with their success:

- Many of the 130 Federal civil rights statutes duplicated each other, creating overlapping agency enforcement. State and local governments, businesses, and other organizations experienced contradictory requirements and duplicate reviews, investigations, and reporting requirements. This did not multiply protections for individuals. Because several agencies investigated some discrimination complaints, other citizens' complaints were never investigated at all.
- The costs and effectiveness of programs were frequently unrelated. Too many agency programs had been funded at ever increasing levels based on their intentions rather than their

results. Indeed, because they were unable to measure effectiveness, some agencies gauged the progress of these programs solely in terms of increased expenditures. Far from furthering civil rights objectives, such inattention to cost effectiveness more often subordinated those objectives to organizational self-interest. The suspicion that some who "came to do good" in these programs had simply "stayed to do well" was, therefore, widespread.

- Just as each dollar spent did not advance civil rights objectives, neither did each rule promulgated. The reasons were myriad. Inflexible and unduly prescriptive regulations precluded alternative approaches more likely to attain regulatory objectives. Reporting requirements exceeded not only agencies' need for data but their capacity to process it, and serious violations went unresolved while agencies processed paper. Failure to differentiate between compliance requirements appropriate to large and small organizations imposed burdens that exceeded benefits. Essential regulatory objectives were lost in disputes over such minutiae as the placement of posters or wording of policy statements. Some regulations simply substituted new problems and inequities for those they were intended to eliminate. Others had provisions so convoluted that they could be, and were, cited to justify lack of progress toward nondiscrimination.
- Not all programs evolved as needs and circumstances changed. Some programs were devoting the resources of the 1980's to the problems of the 1960's (paradoxically failing to acknowledge their own successes). Others, betraying similar regulatory inertia, failed to modify approaches that had proven unsuccessful. Locked into the confrontational style of the 1960's, programs built neither on the willingness of most businesses and institutions in the 1980's to voluntarily comply with civil rights laws nor on State and local capabilities to resolve problems without Federal interference. Because they viewed civil rights problems exclusively as enforcement problems, programs failed to coordinate with related public and private activities (such as job training programs) that could have helped businesses and others meet civil rights objectives. Thus, both opportunities and dollars were wasted.
- In its efforts to do many things, the Federal Government did not always devote sufficient attention and resources to its most important and basic role in civil rights: protecting the fundamental civil rights guaranteed individual citizens by the Constitution. Worse, in its concentration on the problems of other institutions, government at all levels had failed to address its own role in creating or perpetuating civil rights problems:

either directly, through overtly discriminatory laws, or indirectly, through laws unnecessarily restricting access to occupational or other opportunities.

These and other problems led many who dealt with civil rights regulations to conclude that, all too often, a dream bureaucratized is a dream deferred. While few of these problems were peculiar to agency civil rights activities, they were of particular concern in programs intended to protect individuals against discrimination. Moreover, ineffective programs and inflexible regulations compounded civil rights problems by imposing unproductive costs, contributing to economic stagnation. Periods of economic stagnation and decline are historically characterized by increased racial and religious prejudice. And, in addition to limiting opportunities for all persons, a static economy generates a "zero sum" psychology that especially harms such traditional victims of discrimination as minorities, women, older workers, and the handicapped.

The administration therefore initiated a program to correct these problems in all Federal activities. At the most basic level, the President's Program for Economic Recovery is creating a basis for the single most effective guarantee of individual opportunities and civil rights, economic growth, by comprehensively addressing existing fiscal and regulatory constraints. This broader effort mandated more specific initiatives in civil rights and other programs. These included new leadership and improved management, increased technical assistance and incentives for voluntary compliance, greater involvement of State and local governments in assuring civil rights guarantees, and other "fine tuning." More fundamentally, searching examinations were conducted of the programs themselves. These examinations looked beyond program's intentions to whether those intentions are realized or distorted in practice, and to the burdens and benefits of their regulations and the way they are implemented. Also, there was renewed emphasis on protecting civil rights guaranteed individuals by the Constitution, and on avoiding discrimination by Government itself.

This reexamination and renewal of Federal civil rights activities has not been without controversy. Not every program and not every regulation, come to judgment before the bar of efficacy, has been found to justify its costs or the burdens it imposes. Not every policy has been found to promote the broader equities it seeks, or the consensus it requires for success. And not every program or policy found wanting has been without its sincere and forceful advocates. But this ongoing review has not strayed from its intent to pursue and strengthen our national commitment to battle against discrimination. Nor, as the President has promised, will it.

TO GUARANTEE THE CONSTITUTIONAL RIGHTS OF ALL CITIZENS

“Recently, in some places in the Nation there’s been a disturbing reoccurrence of bigotry and violence. . . . To those individuals who persist in such conduct I would say ‘You are the ones who willfully violate the meaning of the dream which is America. And this country, because of what it stands for, will not stand for your conduct.’ My administration will vigorously investigate and prosecute those who, by violence or intimidation, would attempt to deny Americans their constitutional rights.”—RONALD REAGAN, June 29, 1981

To be secure in one’s person and property and to enjoy the freedoms guaranteed each individual by the Constitution are the most basic of civil rights. Any violations of these rights offend the American spirit. However, as the President forcefully remarked, they are particularly repugnant when based on an individual’s religion, race, color, or national origin. Protecting individuals against such violations has always been a fundamental responsibility of Government. The increased activities of individuals and terrorist groups bent on violating civil rights, however, have given that responsibility a renewed importance.

The Department of Justice enforces the Federal statutes guaranteeing these rights. These statutes include the Voting Right Act of 1965, as amended (43 U.S.C. 1973 et seq. and the Overseas Citizens Voting Rights Act (42 U.S.C. 1973 dd) (which guarantee the opportunity to register and vote to all qualified citizens, without discrimination on account of race, color, membership in a language minority group, age, or absence from legal residence), and the following criminal statutes:

- Title 18 of the United States Code, which prohibits deprivations of rights and privileges guaranteed under the Constitution and the laws of the United States, including 18 U.S.C. 241 (conspiracy against the rights of citizens), 18 U.S.C. 242 (deprivation of rights under color of law), 18 U.S.C. 245 (interference with federally protected rights), 18 U.S.C. 1581 (prohibition against peonage), 18 U.S.C. 1584 (prohibition against involuntary servitude).
- 42 U.S.C. 3631, which prohibits interference with housing rights.²

Although not widely known as an agency with substantial civil rights responsibilities, the Department of Justice’s Federal Bureau of Investigation devotes significant resources to investigating alleged violations of Federal civil rights guarantees. During the first 11 months of 1981, the Bureau received 8,757 requests for investigations of alleged violations of these statutes, and completed 8,914 investigations. Given recent increases in criminal violations of indi-

² Thirty other civil rights criminal statutes are enforced by the Civil Rights Division, but are not as frequently used as the above.

viduals' civil rights, the Bureau estimates that such investigations will substantially increase this year and remain at that higher level in 1983 (with requests for 11,000 investigations per year). The President's budget for 1983 provides for outlays of \$7.7 million for the Bureau's investigations of civil rights violations in 1983.

The Criminal Section of the Department of Justice's Civil Rights Division prosecutes criminal civil rights violations. In 1981, the Section initiated 2,542 and closed 2,461 investigations of alleged criminal violations of Federal civil rights laws. It obtained 30 indictments and filed 3 criminal informations against 63 persons alleged to have violated the civil rights of individuals. Twenty-seven trials were completed, resulting in the conviction of 29 defendants. An additional 15 defendants entered guilty pleas.

The cases brought by the Department of Justice demonstrate the range and severity of threats to the civil rights it protects. One case, for example, involved the enslavement of three migratory farm workers under conditions resulting in the death of one of the men. The Department's efforts resulted in the indictment and conviction of the persons responsible for these acts. Another widely reported case emphasized the Department's increased prosecution of matters involving racial violence. Joseph Paul Franklin was convicted and sentenced to two consecutive life terms for the racially motivated slaying of two black men in Salt Lake City, Utah.

This emphasis on cases of racial violence, particularly those involving terrorist groups, will continue in 1983. The President's Budget for 1983 provides for outlays of \$5.9 million by the Civil Rights Division to prosecute criminal civil rights violations.

The Voting Rights Section of the Civil Rights Division is primarily responsible for enforcing statutes guaranteeing the right to vote. In addition, the Office of Personnel Management (OPM) provides observers to monitor elections for compliance with the Act. During 1981, the Voting Rights Section received 1,556 submissions involving 4,887 proposed changes in laws affecting voting for clearance under section 5 of the Voting Rights Act. It interposed objections to 14 of these submissions (including plans for redistricting the Virginia legislature). During the first months of the current fiscal year, the section also interposed an objection to a plan for redistricting the New York City Council. To reduce uncertainty and make it easier for jurisdictions to comply with the Voting Rights Act, the section issued revised guidelines reflecting court interpretations of the Act during the ten years since the original guidelines were issued. The President's budget for 1983 provides for outlays of \$2.6 million by the Department of Justice for general enforcement of the Voting Rights Act, and \$689 thousand by OPM to monitor elections.

Similarly, the Department of Justice's Community Relations Service (CRS) worked in 1981 to help States and communities prevent deprivations of civil rights and defuse tensions which could have given rise to such violations. For example, the CRS worked closely with the Mayor of Atlanta to develop civic unity programs in which white and black citizens worked together to demonstrate that concern over the murders and disappearances of black children in Atlanta was shared by citizens of both races. The CRS was also active in reducing tensions resulting from the resettlement of refugees from Southeast Asia and the Caribbean, the growth in activities by anti-Semitic and racist groups, and the increased incidence of harassment and intimidation of religious and ethnic minorities. For example, CRS mediated disputes between Indochinese residents and other citizens over employment opportunities in Minneapolis and fishing rights in Texas and other gulf coast States, and helped officials and community groups in West Virginia and Maryland develop programs combating racial and religious harassment and intimidation. The President's Budget provides for outlays of \$5.7 million for CRS's activities in 1983.

Thus, the President's budget for 1983 assures continuance and expansion of the Federal Government's renewed emphasis on protecting basic civil rights. To further enhance these protections, the President has requested that Congress renew the Voting Rights Act, with modifications enabling jurisdictions currently covered by the preclearance provisions of the Voting Rights Act, with records of complying with the Act, to petition for removal of the preclearance requirement. This not only would provide an incentive for jurisdictions to comply with the Act, but also would permit the Civil Rights Division to focus more of its resources on substantive violations of the Act (as noted above, the Division was required to review over 1,500 proposed changes to local election laws in fiscal year 1981, only 14 of which were determined to be potentially discriminatory).

TO ROOT OUT DISCRIMINATION BY GOVERNMENT

"My administration will root out any case of government discrimination . . . we will not retreat on the Nation's commitment to equal treatment of all citizens."—RONALD REAGAN, June 29, 1981

Equal in importance to protecting Constitutional rights is the Federal Government's obligation to assure that its own activities and statutes are not discriminatory. During 1981, the administration initiated major improvements in efforts to assure that Federal dollars are spent in a nondiscriminatory manner. It also initiated, in cooperation with the States, an effort to, once and for all, get all

levels of government out of the business of mandating invidious discrimination based on sex.³

Eliminating invidious sex discrimination from Government mandates.—Based on his experience as Governor of California (where he signed 14 pieces of legislation eliminating sexually discriminatory regulations and statutes), the President recognized that the statutes and regulations of Government itself are significant sources of discrimination against women. The President therefore initiated major efforts to eliminate such mandates.

To address this problem at the Federal level, the President issued Executive Order 12336 establishing the Task Force on Legal Equity for Women. Composed of representatives of 21 Federal departments and agencies, the Task Force is conducting a comprehensive review of Federal regulations to indentify provisions that, by purpose or effect, invidiously discriminate based on sex. The Department of Justice is providing staff support for this effort. In addition, the President is supporting elimination of Social Security provisions that discriminate against women who work outside the home.

To assist States in making similar efforts, the President initiated the Fifty States Project. Coordinated by a special assistant in the White House and by representatives appointed by each of the Nation's 50 governors, the Fifty States Project is a cooperative effort to identify, in every State and territory, statutory provisions that discriminate against women. The Women's Bureau is also providing staff support for this project.

These efforts were in addition to passage of the Omnibus Budget Reconciliation Act of 1981, which included provisions significantly expanding protections against sex discrimination in federally assisted programs (see below).

Nondiscrimination in federally assisted programs.—Since the Federal Government is supported by taxes levied on citizens without discrimination, it is fundamental that activities it funds must be conducted without discrimination. This principle is embodied in a substantial body of legislation including in addition to numerous program-specific statutory provisions prohibiting discrimination:

- Title VI of the Civil Rights Act of 1964 prohibits discrimination in federally assisted programs and activities based on race, color, or national origin.
- Title IX of the Education Amendments of 1972 prohibits discrimination based on sex in federally assisted educational programs and activities.

³Federal agency efforts to assure that their employment practices are nondiscriminatory are discussed below with equal employment efforts generally.

—Section 504 of the Rehabilitation Act of 1973, as amended, prohibits discrimination based on handicap in federally assisted programs and activities.

—The Age Discrimination Act of 1975 prohibits discrimination based on age in federally assisted programs and activities.

While discrimination based on race, color, national origin, age, or handicap is prohibited in all federally assisted programs, the only “crosscutting” statute prohibiting sex discrimination is title IX, which applies only to educational programs. During 1981, the President alleviated this problem by securing inclusion of prohibitions against sex discrimination in several titles of the Omnibus Budget Reconciliation Act of 1981. For example, all of the Block Grants administered by the Department of Health and Human Services include such prohibitions. This extended this protection to a wide array of federally assisted activities in which sex discrimination was previously not prohibited.

Because each agency is responsible for enforcing the “crosscutting” nondiscrimination statutes in regard to each of its grants of Federal assistance, enforcement authority is widely distributed:

Table J-1. DISPERSION OF ENFORCEMENT AUTHORITY UNDER STATUTES REQUIRING NONDISCRIMINATION IN FEDERALLY ASSISTED PROGRAMS

<i>Statute</i>	<i>Number of enforcement agencies</i>
Title VI, Civil Rights Act of 1964	37
Section 504, Rehabilitation Act of 1973	All
Title IX, Education Act Amendments of 1972	28
Age Discrimination Act of 1975	37

Thus, assuring nondiscrimination by recipients of Federal assistance is the most widely dispersed Federal civil rights enforcement program. The basic complexity of administering legislative mandates enacted over the years with disparate purposes and applications is further complicated by a large body of judicial and administrative interpretation, much of it quite abstruse. As a result, agencies' efforts to enforce these laws exhibited many of the problems discussed in the overview:

—Because institutions commonly receive assistance from more than one agency, recipients of Federal assistance were subjected to multiple reporting requirements and duplicate agency investigations and reviews.

—Individual agencies determined resource levels for these programs with little central coordination. Therefore, resources devoted to combating discrimination in given programs sometimes bore little relationship to the extent discrimination was actually a problem. This resulted in expenditures by agencies and recipients on procedures of dubious value (e.g., one agency

reported conducting over 6,700 preapproval reviews of prospective recipients, none of which identified any noncompliance). Complaints that compliance reviews and other activities focused on procedural minutiae, not the substance of nondiscrimination, were frequent.

- Some agencies imposed additional regulatory requirements unrelated to statutory mandates. Others shifted their focus from nondiscrimination in services and benefits to nondiscrimination in employment, duplicating the activities of the EEOC and other agencies.
- Agencies with minimal responsibilities under these statutes were required to spend resources on developing regulations and other procedural requirements that could be more economically performed on an inter-agency basis (e.g., one agency's sole expenditure on this program in 1981 was \$35 thousand to develop regulations).
- Legitimate regulatory ends (e.g., nondiscrimination on the basis of handicap) were sometimes obscured in unduly detailed prescriptions of means, imposing unnecessary costs and precluding more effective methods.
- Agencies frequently made little effort to obtain compliance through cooperative approaches. They provoked unnecessary confrontations, and seldom involved State governments in compliance activities in any meaningful way.

A number of efforts to eliminate these problems were initiated in 1981. The administration implemented Executive Order 12250 assigning extensive new responsibilities for coordinating enforcement of these statutes⁴ to the Department of Justice. The staff of the Civil Rights Division's Coordination and Review Section, responsible for implementing Executive Order 12250, was increased by 11 persons. The section implemented an automated system for monitoring agency activities to identify and eliminate duplication.

The section is working with the President's Task Force on Regulatory Relief and the Office of Management and Budget (OMB) to develop regulations implementing Executive Order 12250. These regulations, to be published in 1982, will:

- Assign a "lead agency" for each type of recipient, ending overlapping agency activities once and for all. Other agencies providing assistance will delegate compliance and investigative functions to the lead agencies. Resources will be conformed to program needs, and economical interagency approaches to developing regulations and implementing other statutory requirements will be adopted.

⁴ Except the Age Discrimination Act, which assigns coordination responsibility to the Department of Health and Human Services.

- Permit recipients to adopt the methods that most efficiently and effectively assure nondiscrimination in their programs by requiring that regulations emphasize compliance objectives, not extensive prescriptions of methodology.
- Preclude data requirements and other compliance burdens not clearly necessary to assure nondiscrimination by programs receiving Federal assistance.
- Emphasize technical assistance and other approaches which maximize opportunities and incentives for recipients to comply voluntarily.
- Increase opportunities for States to participate in assuring compliance with nondiscrimination requirements.

After these Coordination Regulations are issued, the Section will begin a major review of existing agency regulations and implementing issuances (such as guidelines, compliance manuals, and training materials) for conformance with these principles. OMB's Office of Information and Regulatory Affairs will cooperate in this review.

A regulation developed jointly by the EEOC and the Department of Justice will also be published in 1982. This regulation will eliminate another serious problem of overlapping jurisdictions by requiring agencies to refer most employment discrimination complaints under these statutes to the EEOC for investigation.

Individual agencies also made significant progress in eliminating the problems discussed above. The Department of Education's Office of Civil Rights (OCR), a prototype of these deficiencies in the past, in 1981 became a prototype for efforts to eliminate them. Under aggressive new leadership, OCR enhanced compliance with nondiscrimination laws by substituting cooperation for coercion, expanding technical assistance, and exploring means of increasing State involvement in resolving civil rights problems.

As a result, OCR resolved longstanding controversies with the State university systems of Florida, North Carolina, South Carolina, Louisiana, Delaware, West Virginia, and Missouri. Improved management enabled OCR to reduce its backlog of pending complaints by 17% during the first 9 months of 1981, and its compliance reviews and investigations helped to assure equal opportunities for over 5.6 million beneficiaries of institutions receiving Federal assistance.

In cooperation with OMB, the Department worked to eliminate data and regulatory requirements superfluous to achieving equal opportunity. Examples include the Department's rescission of a form requiring school districts to spend 46,000 hours to provide data already available to OCR; and its withdrawal of unreasonably prescriptive guidelines on bilingual education. The latter provided school districts greater freedom to adopt approaches that most

effectively assure equal educational opportunities for children in their jurisdictions whose primary language is not English.

Similarly, the Department of Transportation acted to guarantee that handicapped persons benefit equally from Federal assistance to public transportation, while eliminating requirements that made the cost of doing so prohibitive. The Department's interim regulations enable recipients to implement the most efficient and effective methods for providing transportation to handicapped persons in their localities. In 1982 the Department will issue final regulations incorporating improvements suggested by the public.

As noted above, the Age Discrimination Act is not covered by Executive Order 12250. However, the statute largely precludes duplication by requiring that agencies refer all complaints under the Act to the Federal Mediation and Conciliation Service, which attempts to mediate the disputes. The Service is successful in resolving most complaints, expediting service to complainants while minimizing burdens on recipients.

The General Litigation Section of the Department of Justice's Civil Rights Division litigates violations of these statutes. Most of this litigation alleges denials of equal educational opportunities. In 1981 the Division obtained comprehensive desegregation plans for three southern school districts (in Baton Rouge, Shreveport, and Monroe, Louisiana), and negotiated a partial consent decree covering junior colleges in Mississippi. However, most of its cases concerned jurisdictions outside the South. The Division successfully litigated cases involving the public schools in Indianapolis, Indiana, St. Louis, Missouri, Kansas City, Kansas, and Tucson, Arizona; and negotiated consent decrees covering the school districts of Chicago, Illinois, South Bend, Indiana, and Flint, Michigan. The Division also filed three new suits alleging denials of equal educational opportunity based on race or national origin, and pursued suits alleging violations of title IX by a secondary school system and two universities.

The Department of Justice also announced a new policy for litigation and remedies to assure equal elementary and secondary educational opportunities. Henceforth, in addition to cases involving illegal segregation, the Department will litigate against jurisdictions which discriminate in the quality of education they provide based on race or national origin. Remedies will be designed to assure that all children have an equal opportunity to obtain a quality education. Both litigation and remedies will seek not mandatory busing, but the more permanent mobility provided by equal access to a quality education.

The President's Budget for 1983 provides for total agency outlays of \$71.9 million to implement statutes requiring nondiscrimination in federally assisted programs, in addition to \$3.3 million for co-

ordination and legal enforcement of these statutes by the Department of Justice.

TO GUARANTEE EQUALITY OF TREATMENT

“ . . . because guaranteeing equality of treatment is government’s proper function.”—RONALD REAGAN, June 29, 1981

During 1981, the administration also initiated several improvements in Federal efforts to guarantee equality of treatment in employment, housing, and credit.

Equal employment.—The principal statutes and Executive orders prohibiting discrimination in employment are:

- Title VII of the Civil Rights Act, which prohibits employment discrimination based on race, color, religion, national origin, or sex.
- The Equal Pay Act (EPA), as amended, which prohibits discrimination in compensation based on sex.
- The Age Discrimination in Employment Act (ADEA), which prohibits discrimination against persons aged 40 through 70 based on age.
- Executive Order 11246, as amended, section 503 of the Rehabilitation Act of 1973, and section 402 of the Vietnam Veterans Readjustment Act, prohibit employment discrimination by Federal contractors based on race, color, sex, national origin, religion, handicap, service-connected disability, or Vietnam era military service, and require Federal contractors to take affirmative action to assure that such discrimination does not occur.

The EEOC enforces the Equal Pay Act and the Age Discrimination in Employment Act. It also enforces all aspects of title VII (except litigation involving State and local governments). The Department of Labor’s Office of Federal Contract Compliance Programs (OFCCP) enforces Executive Order 11246, section 503 of the Rehabilitation Act, and section 402 of the Vietnam Era Veterans Readjustment Act. The Federal Enforcement Section of the Department of Justice’s Civil Rights Division litigates all employment discrimination cases under Executive Order 11246 and the statutes prohibiting discrimination by federally assisted programs. It also litigates alleged violations of title VII by State and local governments. The Equal Employment Opportunity Act of 1972 and Executive Order 12067 require the EEOC to coordinate enforcement of all Federal statutes and regulations prohibiting employment discrimination. Each of these agencies effected major management and policy improvements during 1981.

At the EEOC, the administration tightened management procedures and increased productivity. One of the first actions of EEOC’s new management was to request a General Accounting Office audit

of the Commission's financial management system. The General Accounting Office found evidence of unreliable accounting records, reports, and fund controls; mismanagement of payments; and inadequate financial controls, including an internal audit office that was severely understaffed: "For example . . . EEOC was still recording obligations against its 1980 appropriation in June 1981 and had charged some of its fiscal 1980 travel costs against the 1981 appropriation." The Commission is currently taking action to eliminate these problems, and will increase the size of its internal audit staff to prevent their recurrence.

While confronting these management problems, the EEOC both improved its productivity and achieved savings in personnel and other resources. Charges filed with EEOC rose to 58,754 during 1981, a 4% increase over charges filed in 1980 (charges under the Age Discrimination in Employment Act increased by the highest percentage, 9%). The Commission processed 71,690 charges during 1981—25% more than in 1980. Especially significant increases occurred in Rapid Charge Processing (34% more charges processed than in 1980) and Continued Investigations and Conciliation (75% more than 1980). The Commission's emphasis on closing cases through negotiated agreements acceptable to all parties is evident in the high percentages of cases closed through settlement during 1981: 43% of all title VII, 23% of all ADEA, and 26% of all EPA cases. Settlements provided remedies for over 38,000 charging parties—15% more than in 1980. Total backpay and other compensation for victims of discrimination also increased dramatically over 1980: from \$57.3 million to \$91.7 million, an increase of 60%. The increases in dollar benefits negotiated in processing complaints under ADEA (+128%) and EPA (60%) reflect improvement in EEOC's enforcement of these statutes (responsibility EEOC acquired in 1979). Monetary benefits resulting from ADEA and EPA litigation similarly increased by 36%. The Commission continued to litigate where voluntary remedies for discrimination could not be negotiated. The Commission filed 368 suits during 1981, an increase of 13%. Suits settled by voluntary agreement increased by 23%, to 237.

The EEOC has led Federal civil rights agencies in involving State and local agencies in resolving discrimination complaints. During 1981, the Commission provided over \$17.5 million in grants to State and local nondiscrimination agencies. These grants enabled those agencies to process 39,471 charges, and the Commission accepted their findings in over 97% of those cases. During 1982, these grants are projected to increase to \$18.5 million, enabling State and local agencies to process 40,300 charges. Moreover, a certification procedure will be implemented for agencies whose complaint processing

has consistently been of high quality, eliminating routine reviews of their findings for sufficiency by EEOC.

The President's budget for 1983 provides for outlays of \$142 million by the EEOC, maintaining the 5% increase over its 1981 level granted by the President for 1982. In a period of budgetary stringency and general reductions, this indicates the administration's commitment to EEOC's mission, and to continuing the management and productivity improvements initiated in 1981.

Of the administration's efforts to improve Federal equal employment enforcement, those involving the OFCCP were perhaps the most widely noticed. Established by Executive Order over 20 years ago, OFCCP's basic premise was a simple one: To expand equal employment opportunities for women and minorities by requiring that Federal contractors act affirmatively to assure that qualified minorities and women were recruited and considered for vacancies, and that their procedures for filling those vacancies were nondiscriminatory in fact as well as precept. During the 1970's, Congress expanded this "affirmative action" mandate to include handicapped persons and Vietnam era veterans. Contractors were required to develop plans detailing the recruitment and other efforts they would undertake to assure equal opportunity. The administration found that this simple premise had evolved into a regulatory morass, criticized both by Federal contractors and the intended beneficiaries of OFCCP's regulations.

The most serious concerns regarded OFCCP's requirements for affirmative action plans:

- There was no clear answer to the basic question of what constituted compliance with the affirmative action requirements: was compliance based on contractors' good faith efforts to recruit women and minorities and assure that employee selection was nondiscriminatory, or did OFCCP disregard these considerations in a single-minded focus on whether employment goals were met? Many believed that such goals, originally intended as yardsticks of progress, had been distorted in practice into quotas.
- Requirements for drafting the plans were, at once, overly prescriptive and insufficiently clear. Contractors were required to produce voluminous affirmative action plans and supporting data, with no assurance that the resulting product would be found acceptable during a compliance review. Compliance reviews frequently degenerated into mindless confrontations over which job titles belonged in which "job group", or how the 8 factors for determining the "availability" of minorities and women for jobs should be considered in arriving at overall "availability" figures.

- Requirements did not consider differences in the size of contractors or their individual establishments. The same level of detail was required in an affirmative action plan for a contractor employing only 50 persons as for a contractor employing thousands; and for a contractor's plan for a small retail sales outlet as for the same contractor's plan for a large manufacturing plant.
- These frustrations with the requirements themselves were compounded by OFCCP's adversarial approach to enforcing them. The potential that contractors attempting in good faith to comply might nevertheless be found in noncompliance was inherent in the ambiguity of OFCCP's regulations. Due to OFCCP's approach, many contractors feared that this potential would be fully realized.

During 1981, the new leadership at the Department of Labor developed and published for public comment a comprehensive proposal for reforming OFCCP's regulations. These proposed amendments were designed to:

- Assure equal employment opportunities for minorities, women, the handicapped, and Vietnam era veterans without imposing inequities on others;
- Change the program's emphasis to generating opportunities, not paperwork, by pruning the lush overgrowth of regulatory minutiae and by emphasizing equal employment objectives instead of extensive prescriptions of methodology;
- Tailor program requirements to the size of contractors and their establishments;
- Clarify the remaining requirements so that they can be understood by all. This will eliminate guesswork by Federal contractors—and OFCCP's compliance officers.

The Department also requested public comment on alternative approaches to several thorny regulatory issues. After incorporating these suggestions and comments, the Department of Labor will publish final amended regulations in 1982.

Significant improvements were also made in OFCCP's management, including:

- A program to eliminate a backlog of some 250 appeals of discrimination complaints under section 503 of the Rehabilitation Act and prevent its recurrence.
- Expedited procedures for resolving individual complaints under section 503. These procedures emphasize detection of meritless or nonjurisdictional charges before they consume resources; and rapid resolution of issues through face-to-face discussions with complainants and contractors. Successfully tested in 1981, these procedures will be implemented throughout the agency in 1982.

- Scheduling of compliance reviews based on contractor's individual records, discontinuing the practice of "targeting" entire industries for reviews.
- Expanded technical assistance and other efforts to develop closer, nonadversarial relations with Government contractors. Contractor advisory committees were formed to institutionalize this partnership.
- Increased emphasis on bringing contractors together with local organizations (government and private) that can provide persons with required skills or facilitate upward mobility by their present employees through training. Previously, many opportunities for substantial and voluntary employment gains by minorities, women, and the handicapped were lost because OFCCP personnel failed to apprise contractors of such programs (including those funded by the Department of Labor itself).

While instituting these reforms, OFCCP completed 2,136 complaint investigations and 3,137 compliance reviews during 1981. Of these, 521 investigations and 1,781 compliance reviews produced relief for identified victims of discrimination, including \$7.9 million in backpay for 4,754 persons. 867 identified victims of discrimination were placed in or restored to the positions they were denied, and 500 contractors agreed to changes in their personnel practices that will preclude future discrimination. Further improvements through fiscal year 1983 will continue these accomplishments while lowering their cost. A number of area offices will be consolidated to reduce overhead and increase management control. The Voluntary Compliance Project will enable small contractors to meet their obligations while substantially reducing compliance burdens. Nonadversarial approaches to assuring nondiscrimination will be substantially expanded, including a 500% increase in contractors receiving technical assistance activities.

The President's budget provides for outlays of \$40.7 million for OFCCP's nondiscrimination efforts in 1983.

The Department of Justice announced equally significant policy improvements. The Civil Rights Division will continue to seek appropriate relief for identified victims of discrimination. However, the remedies sought to preclude future discrimination by employers will be substantially improved. Previously, the Department asked courts to impose arbitrary employment quotas on employers found to have discriminated. While acceptable to some as a short term expedient, employment quotas cannot assure equal access in the long term as it is impossible to, at once, open a door for some while slamming it shut on others. Henceforth, the Department will seek remedies that are more equitable, and more permanent. These remedies will require specific, result-oriented programs that assure

that persons of the race, color, religion, national origin, or sex employers previously discriminated against are among those considered for future employment opportunities. They also will assure that genuinely nondiscriminatory procedures are used in selecting from the resulting pool of eligibles. By institutionalizing nondiscrimination, such remedies are more likely to produce lasting gains in employment for women and minorities than court imposed numbers, forgotten by employers after decrees have expired.

During 1981, there were substantial litigative accomplishments as well. The Civil Rights Division's Federal Employment Section won favorable decisions in cases involving the Virginia State Police; the Jefferson County, Ala. and Garfield Heights, Ohio, Boards of Education; the Philadelphia, St. Louis, New York City, and Jefferson County, Alabama, police departments; and the government of Fairfax County, Va.

The President's Budget provides for outlays of \$2.53 million for equal employment litigation by the Civil Rights Division in 1983.

Through 1983, remaining vestiges of duplication in Federal equal employment enforcement activities will be eliminated. In 1982, a regulation published jointly by the Department of Justice and the EEOC will substantially alleviate this problem by requiring that agencies refer most employment discrimination complaints filed under statutes prohibiting discrimination based on race, color, religion, sex, or national origin in federally assisted programs to the EEOC for investigation. However, miscellaneous, small scale agency equal employment programs based on program-specific statutory provisions will continue to pose potential problems of duplication. In 1981, OMB and the EEOC's Office of Interagency Coordination identified and eliminated several reports required by these small programs that duplicated those of other agencies. One such form required State and local governments to spend 15,000 hours producing data already provided to EEOC. OMB and EEOC will be examining these programs as a whole to determine whether they address needs that would otherwise be unmet or duplicate activities more efficiently performed by OFCCP, EEOC, or the Department of Justice. Improvements in coordinating the activities of the EEOC and OFCCP are also possible. OMB will be working with these agencies to assure, through improved implementation of their Memorandum of Understanding, that past problems of duplication do not recur.

Federal employment.—As the servant of all Americans, and as an institution responsible for enforcing laws requiring equal employment by other institutions, the Federal Government has a particular obligation to assure nondiscrimination in its own employment. Moreover, especially in this period of reduced resources, Federal agencies simply cannot afford to hire or promote employees on any

bases other than their job-related abilities and demonstrated diligence in applying them. Congress has, therefore, mandated that each Federal department and agency make special efforts to assure that their employment decisions are made without regard to race, color, religion, national origin, sex, age, or handicap; and the President has reiterated his determination that agencies implement this mandate.

Under the Equal Employment Opportunity Act of 1972, as amended, the EEOC is responsible for coordinating these efforts. In addition OPM, under the Civil Service Reform Act, coordinates agency efforts under the Federal Equal Opportunity Recruitment Program (FEORP) to assure that qualified minorities and women are among the applicants for positions in which they are under-represented.

Despite reductions in total employment, minorities and women continue to be well represented in the overall Federal workforce. The additional economies achieved in this Budget will decrease the total employment levels of most agencies and result in some near term dislocations that will affect all Federal employees, including minorities and women. However, they also hold the potential for long term gains through upward mobility for Federal employees in clerical positions and lower pay grades generally, many of whom are women or minorities. The necessity that Federal managers maximize the productivity of their employees will require many of them to look anew at traditional divisions between clerical and professional tasks, resulting in new opportunities for job enrichment, skill acquisition, and advancement through newly created paraprofessional and other bridge positions. The fact that the same managers can no longer afford to "carry" unproductive higher graded employees will produce still more advancement opportunities for the deserving. Federal equal employment efforts in 1983 will build on this potential for increased upward mobility.

During its final hours, the previous administration submitted a proposed consent decree requiring replacement of the Professional and Administrative Career Examination ("PACE") now used to examine applicants for most white collar positions within the Federal civil service. During 1981, the Department of Justice's new leadership negotiated substantial modifications to that decree. While the amended decree neither embodied all provisions desirable under different circumstances nor resolved all attendant controversies, the administration succeeded in removing several elements widely criticized as threatening the basic principle of nondiscrimination in filling Federal jobs. The administration will, insofar as possible, seek to implement the resulting agreement in a manner that enhances that principle.

Federal agencies, under the leadership of OPM, will devote considerable effort and expense to developing alternatives to PACE designed to measure applicants for Federal employment in terms of the particular abilities and traits required to successfully perform the jobs they apply for. The PACE examination although not without its critics, was widely considered to be a fair and cost effective instrument for selecting candidates for the Federal service. Replacing it with several alternative examinations is therefore not without its potential pitfalls. While Governor of California, however, the President successfully implemented a voluntary transition to more job-specific selection criteria that improved performance in State government jobs while increasing the number of minorities who held them several fold. The administration will seek to implement the terms of the decree in a manner that similarly realizes the potential, inherent in more job-specific criteria, for improving performance and opportunities in the Federal service.

In addition to the challenge of implementing this consent decree, the administration will be exploring more cost effective alternatives of assuring equal employment opportunity in the Federal Government. As noted in Table J-3, even with economies already achieved, the Federal Government's total expenditures on activities to assure equal employment for Federal employees will exceed the combined outlays of the EEOC and the OFCCP to implement equal employment guarantees in the private sector.

Much of this disparity results from the cumbersome procedures currently used by Federal agencies to process discrimination complaints against them. During 1981, these procedures cost an average of more than \$8,000 per closed complaint—over ten times the average cost for EEOC's processing of charges involving other employers. Despite the high costs of current procedures for processing these complaints, they satisfy neither Federal agencies nor the complainants themselves. Further unnecessary costs are imposed by current data and other requirements for developing agency affirmative action plans (characterized by several of the defects in OFCCP's current requirements). The administration is investigating alternatives for effecting cost saving improvements in both of these areas in 1983.

Fair housing.—Title VIII of the Fair Housing Act of 1968, as amended, prohibits discrimination based on race, color, religion, sex, or national origin in the sale, rental, or financing of housing or provisions of brokerage services. Two Federal agencies are responsible for enforcing title VIII:

—The Department of Housing and Urban Development's Office for Fair Housing and Equal Opportunity investigates complaints alleging violations of title VIII. Where it concludes that

violations of title VIII have occurred, HUD attempts to resolve them through informal conference, conciliation, and persuasion.

- The General Litigation Section of the Department of Justice's Civil Rights Division brings suits to enjoin alleged patterns and practices of discrimination prohibited by title VIII. The Section brings cases based both on referrals by HUD and its own investigations.

During 1981, HUD significantly improved the efficiency of its complaint processing by implementing "Rapid Response" procedures in all of its regional offices. Under this approach, time consuming field investigations are reduced by quickly bringing the parties together to discuss and settle the issues informally. As a result, HUD received 2,410 complaints and closed 2,710 complaints and by the end of the year had only 35 complaints in its inventory over 90 days old. Increased processing efficiency will increase closures to 4,510 in 1982 while enabling HUD to reduce the number of staff years required for complaint processing.

Title VIII provides for deferral of complaints filed with HUD to State and local fair housing agencies with equivalent statutory authority. During 1981 HUD aggressively worked to expand the involvement of State and local agencies in assuring Fair Housing. HUD provided technical assistance to increase their complaint handling capacities through "Rapid Response" and other means, and \$3.7 million in grants to defray processing costs. These efforts increased the number of State and local agencies participating in charge processing by 30% (to 42). Through 1983, further efforts will increase the number of participating State and local agencies to 70—more than doubling the number in the program at the beginning of 1981. As a result, the number of title VIII complaints processed at the State and local rather than the Federal level will more than triple in 1982 (to 2,025), with further increases in 1983. In addition, HUD will increase efforts to preclude violations of title VIII through technical assistance.

During 1981, the Civil Rights Division's General Litigation Section initiated 60 investigations of suspected patterns and practices of housing discrimination, and completed 45. Litigation by the Division resulted in court orders and settlements mandating future nondiscrimination in the sale or rental of over 9,000 housing units. The Division currently has 94 suits in progress to enjoin alleged patterns and practices of housing discrimination.

The President's 1983 Budget provides for total outlays of \$16 million to enforce Fair Housing guarantees, including \$15 million for complaint processing and technical assistance by HUD and \$1 million for litigation by the Department of Justice.

Equal credit opportunity.—The Equal Credit Opportunity Act of 1974 (ECOA) prohibits discrimination in credit transactions based on race, color, national origin, sex, marital status, age or derivation of part or all of one's income from public assistance. The Act assigns administrative enforcement responsibilities to 12 different Federal agencies, and requires the Federal Reserve Board to coordinate their activities. In addition, the General Litigation Section of the Department of Justice's Civil Rights Division is responsible for litigating alleged violations of ECOA.

Since the act's passage, the Department of Justice has worked closely with the other agencies responsible for enforcing ECOA, and has filed significant suits involving alleged violations in non-housing lending by banks, small loan companies, and retail creditors; as well as alleged violations by real estate appraisers and mortgage lenders. Litigation involving non-housing lending has been selective rather than extensive, designed to eliminate violations with widespread impacts (e.g., one defendant processes 4,000,000 loan applications each year). During 1981 the Department resolved three cases through court orders or negotiated settlement and initiated two additional cases. Five equal credit cases are currently in progress.

ECOA's wide dispersal of enforcement authority among agencies, while not consistent with reducing proliferation of agency responsibilities for enforcing civil rights laws, has not produced the problems of duplication present in other areas of dispersed responsibility. Because the structure for enforcing ECOA reflects the division of responsibility for financial regulation generally, it enables agencies to review compliance with ECOA and other financial regulations at the same time.

The budget for 1983 provides for outlays of \$524 thousand for ECOA litigation by the Department of Justice and \$5.9 million for the ECOA enforcement activities of the various Federal entities with responsibilities under the act. As several of those entities are not required to submit their budgets to OMB for review, the latter figure is incomplete.

TO SEEK NEW SOLUTIONS . . .

"Let us issue a call for exciting programs to spring America forward toward the next century, an America full of new solutions to old problems."—RONALD REAGAN, June 29, 1981.

As catalogued above, the administration initiated efforts in each area of major Federal civil rights responsibility during 1981 to substitute new solutions for past approaches that have proven ineffective. These were in addition to advances in related areas. For example, the President signed Executive Order 12320, directing agencies to make special efforts to assist historically black colleges,

and has requested a record \$552 million for minority business development programs in 1983 by the Small Business Administration and the Minority Business Development Administration.

All of these efforts involve increased technical assistance to build on the genuine desire of most Americans to implement our national civil rights commitment. Toward this end, the administration initiated a major reorientation of the two agencies primarily responsible for civil rights research: the Commission on Civil Rights, and the Women's Bureau of the Department of Labor. The President's budget for 1983 provides for outlays of \$11.7 million by the Commission on Civil Rights and \$3.5 million by the Women's Bureau.

Congress established the Commission on Civil Rights in 1957 to study the enforcement of laws guaranteeing civil rights regardless of race, color, religion, or national origin. During the 1970's, the Commission's mandate was expanded to cover civil rights issues related to sex, age, and handicap. Since its inception, the Commission has focused its energies on research demonstrating the existence of civil rights problems.

This emphasis was appropriate to the early years of the Commission's existence. However, the questions of the 1980's involve not whether civil rights problems exist, but how to most effectively resolve them. The President believes that the Commission's contributions to answering those questions can be more substantial and original than they have been. He therefore appointed leadership that will renew the Commission's relevance.

Many employers and institutions have instituted effective programs for resolving civil rights problems. The Commission will devote increased emphasis to identifying these initiatives and sharing them with others who can benefit from them. It will also provide significant "backup" support for the technical assistance efforts of other civil rights agencies. As part of this renewal, the Commission will initiate a study in 1983 of how the role of State and local agencies in civil rights enforcement can be expanded.

The Women's Bureau of the Department of Labor, on the other hand, is already making substantial contributions to answering the questions of the 1980's, both by assisting States, municipalities, and the private sector in developing solutions to civil rights problems affecting women, and by sharing those solutions with others. As previously noted, the Women's Bureau is providing staff support for the President's Fifty States Project, an effort to help States identify sexually discriminatory provisions in their statutes. During 1981, the Bureau completed a preliminary study of the progress already made by the various States in eliminating such provisions, and shared the study's results with the State officials designated to work on the President's project. Closer to home, the

Bureau is playing a leading role in the Secretary of Labor's initiative to eliminate sex bias from the Department's own regulations.

The new leadership of the Women's Bureau is exploring innovative ways of cooperating with businesses and State and local governments to improve employment opportunities for women who work outside the home. In one noteworthy effort already underway, the Women's Bureau is drawing upon the experience of women who have been successful in business. Through a series of regional meetings, the Women's Bureau is obtaining direct input from women who hold top level management jobs, are directors of corporations, or own their own businesses. In 1983, the Women's Bureau will make similar efforts to tap the knowledge and experience of the private sector in developing solutions to job-related problems of women at all levels of employment.

From these and similar efforts to seek new solutions rather than to document the misunderstandings of the past will come the exciting programs demanded by the President to address the needs of the future and to win, once and for all, America's battle against discrimination.

Table J-2. CIVIL RIGHTS OUTLAYS BY DEPARTMENT AND AGENCY

(In millions of dollars)

	1981 actual	1982 estimate	1983 estimate
Department of Agriculture.....	7.9	8.9	9.0
Department of Commerce.....	4.6	3.9	4.0
Department of Defense.....	94.8	85.7	89.6
Department of Education.....	43.8	42.1	*43.2
Department of Energy.....	2.3	2.2	*2.1
Department of Health and Human Services.....	32.9	30.9	32.6
Department of Housing and Urban Development.....	15.2	18.5	16.5
Department of the Interior.....	10.3	9.6	9.9
Department of Justice.....	38.2	41.6	43.9
Department of Labor.....	52.4	46.3	45.7
Department of State.....	.8	.84	.93
Department of Transportation.....	11.1	12.2	12.8
Department of the Treasury.....	8.6	11.2	11.9
Equal Employment Opportunity Commission.....	134.2	143	142
Commission on Civil Rights.....	12.1	11.9	11.7
Office of Personnel Management.....	3.3	3.0	3.0
Small Business Administration.....	2.7	2.7	2.8
Veterans Administration.....	12.1	14.9	15.7
All other Executive agencies ¹	21.8	20.6	20.6
(U.S. Postal Service) ²	14.8	15.76	16.81
(Legislative Branch ² —GAO, GPO).....	.86	.99	1.0
Total.....	524.6	526.8	535.8

*The Departments of Education and Energy are scheduled for termination in 1983. Civil rights and other functions of these departments will be distributed among other agencies.

¹ Includes outlays by 49 agencies.

² U.S. Postal Service and Legislative Branch outlays appear in the Annexed Budget and are included here for memorandum purposes only.

Table J-3. TOTAL ESTIMATED FEDERAL CIVIL RIGHTS EXPENDITURES BY CATEGORY, FISCAL YEAR 1983

(In millions of dollars)

<i>Category</i>	<i>Total estimated expenditures</i>
Federal Civilian and Military Equal Employment Opportunity.....	180.7
Private Sector and non-Federal Public Sector Equal Employment Opportunity	173
Fair Housing.....	13.1
Nondiscrimination, Federally Assisted Programs	75.2
Equal Credit Opportunity.....	5.9
Voting Rights	3.3
Other Civil and Constitutional Rights.....	29.1
Research.....	15.2

Table J-4. TOTAL FULL-TIME PERMANENT CIVIL RIGHTS STAFF BY EXECUTIVE DEPARTMENT AND AGENCY, FISCAL YEAR 1983 (ESTIMATE)

	Total *	Internal EEO	External programs *
Department of Agriculture.....	165	94	71
Department of Commerce.....	55	52	3
Department of Defense			
Department of Education **	1,084	** 14	** 1,070
Department of Energy **	21	** 9	** 12
Department of Health and Human Services.....	806	282	524
Department of Housing and Urban Development	476	25	451
Department of the Interior	230	195	30
Department of Justice.....	867	8	859
Department of Labor	1,091	50	1,041
Department of State	17	17	0
Department of Transportation.....	199	144	55
Department of the Treasury	254	213	41
Equal Employment Opportunity Commission	3,316	18	3,215
Commission on Civil Rights.....	215	2	213
Office of Personnel Management.....	60	60	0
Small Business Administration	57	16	38
Veterans Administration	71	57	14
All other Executive agencies.....			
Total.....	11,369	3,566	7,633

* Agency totals for FTP Internal EEO and FTP External program staff in some cases are less than figures for total civil rights FTP because some personnel have duties in both areas.

**Scheduled for termination in 1983.

Table J-5. DISTRIBUTION AMONG PROGRAM CATEGORIES, FTP CIVIL RIGHTS PERSONNEL OF EXECUTIVE DEPARTMENTS AND AGENCIES, FISCAL YEAR 1983 ESTIMATE

	<i>Total FTE</i>
Federal service and military service equal employment opportunity.....	3,566
Private sector and non-Federal public sector equal employment opportunity	4,409
Fair Housing.....	402
Nondiscrimination, federally assisted programs.....	1,907
Equal Credit Opportunity.....	8
Voting Rights	52
Other Civil and Constitutional Rights.....	673
Research.....	213

SPECIAL ANALYSIS K

RESEARCH AND DEVELOPMENT

The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

OFFICE OF MANAGEMENT AND BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT

February 1982

SPECIAL ANALYSES

- A. Current Services Estimates
- B. Federal Transactions in the National Income Accounts
- C. Funds in the Budget
- D. Investment, Operating, and Other Budget Outlays
- E. Borrowing and Debt
- F. Federal Credit Programs
- G. Tax Expenditures
- H. Federal Aid to State and Local Governments
- I. Civilian Employment in the Executive Branch
- J. Civil Rights Activities
- K. Research and Development

Each Special Analysis listed above can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

FOR REFERENCE

Do Not Take From This Room

SPECIAL ANALYSIS K

RESEARCH AND DEVELOPMENT

This analysis summarizes the funding of research and development across all departments and agencies. It consists of two parts. The first highlights the R. & D. policies and trends in the 1983 budget. The second describes in more detail the R. & D. programs of the 13 agencies whose 1983 obligations account for over 99% of total Federal funding for R. & D.

The Federal Government does not have a separate R. & D. budget. Rather, R. & D. programs are reviewed and funded primarily in the context of the missions of individual agencies and on the basis of their importance in meeting mission objectives.

PART I. HIGHLIGHTS

R. & D. activities are supported by the Federal Government in two broad categories, namely, to meet:

- Federal Government needs—where the sole or primary user of the R. & D. is the Government itself, for example, in national defense and environmental regulation.
- National needs—where the Federal Government helps to assure the strength of the Nation's economy and the welfare of its citizens through the support of R. & D. in specific areas such as agriculture, energy, and health.

The 1983 budget reflects a clearer delineation, than has been the case in the past, between the responsibilities of the Federal Government and those of the private sector with respect to R. & D. to help meet national needs.

The Federal Government has two main responsibilities with respect to R. & D. to meet national needs.

- First, it should provide a climate for technological innovation which encourages private sector R. & D. investment that best reflects the realities of the marketplace where new and improved processes and products are developed, bought, and sold. The administration is fulfilling this responsibility primarily by reducing Government spending, regulation and taxes. Thus, the administration's R. & D. policy is part of its overall economic policy.
- Second, the Government should focus its direct R. & D. support on those areas where there is substantial prospect for significant economic gain to the Nation, but where the pri-

vate sector is unlikely to invest adequately in the national interest because the benefits, in large measure, are not immediately "appropriable" by individual firms. Thus, for example, the Federal Government supports basic research across all scientific disciplines but limits its spending on technology development to technologies requiring a long period of initial development, such as fusion power, where the risk is high but the payoff to the Nation is potentially large. This strategy is reflected in the funding for R. & D. to meet national needs in the 1983 budget.

Total obligations and outlays for the conduct of all Federal R. & D. programs and for related facilities are shown in table K-1 below.

Table K-1. TOTAL FEDERAL FUNDING FOR CONDUCT OF R. & D. AND RELATED FACILITIES

(In billions of dollars)

	Obligations			Outlays		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Conduct of R. & D.....	35.0	38.8	43.0	34.3	37.4	41.1
R. & D. facilities.....	1.5	1.5	1.3	1.6	1.7	1.2
Total.....	36.5	40.4	44.3	35.9	39.1	42.3

CONDUCT OF RESEARCH AND DEVELOPMENT

The 1983 budget includes \$43.0 billion in obligations for the conduct of R. & D., an increase of \$4.2 billion over 1982, largely in the R. & D. programs of the Department of Defense. Smaller but significant increases are also proposed for the R. & D. programs of a number of agencies including the National Aeronautics and Space Administration, the Department of Health and Human Services and the National Science Foundation. A major further decrease is proposed in 1983 in Federal support of energy R. & D. to be funded through the proposed Energy Research and Technology Administration within the Department of Commerce. Included within the total funding for the conduct of R. & D. is support for the conduct of basic research, but not the funding for R. & D. facilities, which is reported separately in this analysis.

Highlights of the programs of major R. & D. agencies that account for 94% of the proposed obligations for the conduct of R. & D. by all agencies are presented below:

- **Department of Defense (DOD).**—Obligations for the conduct of R. & D. by DOD will rise to \$24.5 billion, an increase of \$3.9 billion over 1982; this represents 57% of the total Federal funding for R. & D. In 1983, the Department will provide increased support for basic research and for R. & D. related to

the development of advanced strategic systems, such as bombers, ballistic missiles and ballistic missile defense.

- **National Aeronautics and Space Administration (NASA).**—Obligations for the conduct of R. & D. by NASA are estimated at \$6.5 billion for 1983, \$0.7 billion over 1982. Increased funding for 1983 is proposed to assure timely transition of the Space Shuttle to an operational system and to continue the highest priority research and space exploration projects, including the further development of the Space Telescope, Gamma-Ray Observatory and the Galileo Mission to Jupiter.
- **Department of Commerce (DOC).**—Obligations by this Department for the conduct of R. & D. would be \$4.2 billion in 1983, \$0.6 billion below 1982. Included in the 1983 total amount is \$3.9 billion for programs transferred to the Department as part of the proposed dismantlement of the Department of Energy. This represents a net decrease of \$0.6 billion for these programs but includes increases for nuclear weapons R. & D. and for long-term research in energy sciences and fundamental physics. These increases are more than offset by eliminating subsidies to industry for near-term energy research and

Table K-2 summarizes Federal support for the conduct of R. & D. by agency.

Table K-2. CONDUCT OF RESEARCH AND DEVELOPMENT BY MAJOR DEPARTMENTS AND AGENCIES

(In millions of dollars)

Department or agency	Obligations			Outlays		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Defense-military functions.....	16,494	20,553	24,469	15,720	18,784	22,673
National Aeronautics and Space Administration.....	5,407	5,841	6,513	5,279	5,696	6,460
Commerce.....	5,276	4,793	4,157	5,466	5,240	4,352
(Energy Research and Technology Administration).....	(4,948)	(4,522)	(3,917)	(5,121)	(4,948)	(4,104)
Health and Human Services.....	3,973	3,972	4,122	3,991	3,935	4,039
(National Institutes of Health).....	(3,332)	(3,427)	(3,533)	(3,350)	(3,390)	(3,487)
National Science Foundation.....	964	961	1,033	892	1,018	908
Agriculture.....	773	807	838	742	805	824
Interior.....	424	397	371	438	402	380
Transportation.....	420	329	366	418	321	316
Environmental Protection Agency.....	326	317	230	344	335	274
Nuclear Regulatory Commission.....	227	223	220	211	209	206
Agency for International Development.....	156	160	186	151	157	159
Veterans Administration.....	147	137	145	138	130	140
Education.....	91	74	76	96	94	112
All other ¹	354	279	272	366	298	280
Total conduct of R. & D.....	35,033	38,843	42,997	34,252	37,425	41,122

¹ Includes the Departments of Housing and Urban Development, Justice, Labor, Treasury, and State, the Tennessee Valley Authority, the Smithsonian Institution, the Corps of Engineers, the Federal Emergency Management Agency, the U.S. Office of Personnel Management, the Library of Congress, the Arms Control and Disarmament Agency, the Federal Communications Commission, the Advisory Committee on Intergovernmental Relations, and the Federal Trade Commission.

technology development. The other R. & D. programs of the Department of Commerce, such as metrology and oceanic, marine and atmospheric research, would be reduced by \$31 million below 1982, to a level of \$240 million in 1983.

- **Department of Health and Human Services (HHS).**—Obligations for the conduct of R. & D. in HHS are estimated to total \$4.1 billion in 1983, \$150 million above 1982, of which the National Institutes of Health (NIH) accounts for about \$3.5 billion, \$106 million above 1982. The 1983 budget for NIH continues to support a strong national effort in biomedical research, including research related to potentially hazardous occupational and environmental exposures.
- **National Science Foundation (NSF).**—Obligations for the conduct of R. & D. by NSF are estimated to total \$1,033 million in 1983, an increase of \$72 million over 1982. Included in the total is \$984 million for the support of basic research, an increase of \$72 million over 1982. The 1983 budget for NSF proposes increased support of research in the natural sciences and engineering and selected retrenchment in relatively lower priority programs.

CONDUCT OF BASIC RESEARCH

Support for the conduct of basic research is included within the overall funding for the conduct of R. & D. Obligations for the conduct of basic research are estimated to increase in 1983 by \$0.5 to \$5.8 billion or 9% over 1982.

The 1983 budget recognizes the need to maintain a strong national research effort in all scientific disciplines. Basic research in such fields as chemistry, physics, biology, materials, oceanography, and earth sciences provides the underpinning, for example, for advances in health care, improved nutrition and agricultural production, and new technologies for defense, space and energy.

The allocation of funds in the 1983 budget provides for the further strengthening of basic research in specific areas of Government responsibility such as defense and space. Special emphasis is also being given, in the national interest, to strengthening basic research in the physical sciences and engineering as exemplified in programs of the new Energy Research and Technology Administration in the Department of Commerce and the National Science Foundation. Such areas of research are of particular importance to long-term industrial productivity and economic growth.

The increase in basic research support will particularly encourage scientists at the Nation's colleges and universities in their efforts to advance the frontiers of knowledge and thereby also aid in the training of future scientists and engineers. About one-half of the total Federal obligations for basic research are made to support

researchers in universities and colleges who conduct about one-half of all basic research performed in the Nation.

Table K-3 summarizes Federal support for the conduct of basic research by agency.

Table K-3. CONDUCT OF BASIC RESEARCH BY MAJOR DEPARTMENTS AND AGENCIES

(In millions of dollars) ¹

Department or agency	Obligations			Outlays		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Health and Human Services	1,955	2,000	2,069	1,944	1,978	2,034
(National Institutes of Health)	(1,767)	(1,839)	(1,897)	(1,750)	(1,813)	(1,869)
National Science Foundation	898	912	984	830	972	861
Defense-military functions	603	673	781	554	616	712
Commerce	608	665	762	614	670	759
(Energy Research and Technology Administration)	(591)	(647)	(741)	(597)	(652)	(737)
National Aeronautics and Space Administration	532	580	682	538	575	661
Agriculture	314	332	359	302	337	354
Interior	80	73	68	79	73	69
Smithsonian Institution	44	45	51	41	44	51
Veterans Administration	15	13	14	15	13	14
Education	17	14	14	18	18	22
Environmental Protection Agency	10	15	10	12	12	10
All other ²	32	27	28	29	29	28
Total	5,108	5,348	5,821	4,975	5,337	5,574

¹ Amounts reported in this Table are included in Totals for conduct of R. & D.

² Includes the Departments of Justice, Transportation, Treasury and Labor, the Tennessee Valley Authority, the Corps of Engineers, the Federal Trade Commission, the Library of Congress, and the Agency for International Development.

R. & D. FACILITIES

The successful conduct of R. & D. is dependent on the quality of instrumentation and facilities that are available to the research community. A significant amount of funding for equipment and instrumentation is included, but not separately identified, in the funding for the conduct of R. & D. Funds separately identified for R. & D. facilities by Federal Government agencies are summarized in table K-4.

Obligations for R. & D. facilities in 1983, including the construction or renovation of facilities and the acquisition of major equipment, will amount to \$1.3 billion, \$265 million below 1982.

Significant changes in R. & D. facilities support are being proposed in 1983, primarily for programs that are being transferred to the Department of Commerce, as part of the proposed dismantlement of the Department of Energy. In these programs in 1983, support will be maintained generally for basic research facilities, such as those for high energy physics research. However, significant reductions are proposed for facilities related to the demonstration of energy technologies, largely in keeping with the policy of

relying more on industry investment. The 1982 budget includes funds to bring many energy demonstrations to an orderly close or to assist industry in taking over the support of these facilities.

Table K-4. RESEARCH AND DEVELOPMENT FACILITIES BY MAJOR DEPARTMENTS AND AGENCIES

(In millions of dollars)

Department or agency	Obligations			Outlays		
	1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Commerce	982	964	681	1,112	1,191	644
(Energy Research and Technology Administration)	(981)	(955)	(678)	(1,111)	(1,184)	(640)
Defense-military functions	278	285	366	238	248	320
National Aeronautics and Space Administration	114	143	116	147	135	122
Agriculture	21	35	30	39	39	34
Health and Human Services	25	62	20	43	35	38
(National Institutes of Health)	(23)	(18)	(20)	(42)	(32)	(28)
National Science Foundation	13	10	16	13	10	15
All other ¹	47	28	33	35	43	25
Total	1,480	1,526	1,262	1,627	1,702	1,198

¹ Includes the Departments of the Interior, Transportation, and Treasury, the Veterans Administration, the Tennessee Valley Authority, the Agency for International Development, and the Smithsonian Institution.

PART II. AGENCY R. & D. PROGRAMS

Presented below are summaries of the R. & D. activities of the 13 agencies that support more than 99% of Federally funded R. & D.

DEPARTMENT OF DEFENSE

The primary purpose of the Defense R. & D. program is to develop new strategic and tactical weapons and supporting systems to improve the Nation's defense. In 1983, DOD obligations for the conduct of R. & D. will increase by \$3.9 billion to \$24.5 billion, which represents over one-half of total Federal funding for research and development in 1983. Within the total funding by DOD for the conduct of R. & D., funding of basic research will increase from \$673 million in 1982 to \$781 million in 1983. Funding for R. & D. facilities will increase by \$81 million in 1983 to a total of \$366 million. By mission category, major R. & D. efforts for 1983 include:

Technology Base and Advanced Technology Development.—There will be substantial real growth in DOD support of these areas, above the 1982 level, to investigate promising new technologies and to avoid technological surprise. Current thrusts in very high speed

integrated circuits and guided munitions capable of being operated in adverse weather will continue. Increased emphasis will be given to new technologies that offer significant opportunities to increase the effectiveness of existing military forces, such as improved information processing, better materials, and improved sensors. Other programs include work on electronic devices that will continue to operate when parts malfunction, electronics that are resistant to various types of radiation, advanced computer languages and methods of computing high-power lasers and advanced composite materials.

Strategic Programs.—The budget provides significant increases in this area for the accelerated development of ballistic missile defense, as well as the exploration of future options for MX basing—either deep underground or in continuous patrol aircraft. In addition, development efforts continue on an anti-satellite system and an advanced technology bomber. Development of the communications and control systems needed to support strategic weapons will receive increased emphasis.

Tactical Programs.—Funds will be provided in 1983 to continue the development of systems to increase the capability of U.S. general purpose and theater nuclear forces, as well as to develop the capability to project forces rapidly wherever the vital interests of the U.S. are threatened.

- Army efforts include improvement programs for the M-1 tank, chemical defense equipment and chemical weapons, and various helicopter systems, and continued development of the Patriot anti-aircraft missile system.
- The Air Force is developing deep strike interdiction versions of F-15 and F-16 fighters, LANTIRN night/all weather navigation and targeting pods for tactical aircraft, and the AMRAAM advanced medium range air-to-air combat missile.
- The Navy is developing a lightweight anti-submarine torpedo, a new destroyer and a vertical launch system for missiles. Upgrades to current subsystems to improve detection, tracking and targeting will also increase the capability of major systems now in production.

Intelligence and Communications, Program Management and Support.—R. & D. on intelligence and communication systems will focus on communication satellites, on radios that will work in the electronic noise of the battlefield, and on battlefield surveillance radars. Work will also continue on the use of technology to reduce manufacturing costs and to extend the life and capability of existing defense systems.

NATO Cooperation.—Cooperation in research and development and joint production of new weapon systems will be pursued to exploit, fully, Alliance resources. Funding for these activities is not identified separately in table K-5 but is included in the other categories discussed above.

Table K-5 provides the details of the Department of Defense military R. & D. funding.

Table K-5. DEPARTMENT OF DEFENSE—MILITARY RESEARCH AND DEVELOPMENT

(In millions of dollars)

Type of activity	1981 actual	1982 estimate	1983 estimate
OBLIGATIONS			
Conduct of R. & D.:			
Research, development, test and evaluation:			
Technology base.....	2,570	2,849	3,288
Advanced technology development.....	578	736	928
Strategic programs.....	3,187	4,802	6,520
Tactical programs.....	5,914	7,029	7,524
Intelligence and communications.....	1,565	2,167	2,675
Program management and support.....	2,096	2,289	2,849
Other appropriations.....	585	681	685
Total conduct of R. & D.....	16,494	20,553	24,469
Total conduct of basic research, included above.....	(603)	(673)	(781)
R. & D. facilities.....	278	285	366
Total obligations.....	16,772	20,838	24,835
OUTLAYS			
Conduct of R. & D.....	15,720	18,784	22,673
R. & D. facilities.....	238	248	320
Total outlays.....	15,958	19,032	22,993

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Through the programs of NASA, the Federal Government makes investments in R. & D. that yield new space technologies to improve the national security and the long-term scientific and technological strength of the Nation. They also provide new knowledge about the earth, the solar system, and the universe.

In 1983, the R. & D. request would continue flight missions launched in prior years (e.g., Voyagers to the outer planets) and further development of most major ongoing projects, including the Space Shuttle. Obligations for the conduct of R. & D. would increase by \$672 million in 1983 to a total of \$6.5 billion. Within this amount, basic research would amount to \$682 million, an increase of \$102 million over 1982. Obligations for construction of facilities in 1983 would total \$116 million.

Space Transportation.—Shuttle development, testing and procurement of a fleet of four orbiters will continue in the space transportation systems program. The Space Shuttle is essential to exploit space effectively and will help maintain U.S. leadership in space throughout this century. It will allow retrieval, repair and service of satellites in space and the operation of space laboratories, such as the European-built Spacelab, for scientific and technology applications. Because it is reusable, the Shuttle has the potential to reduce the cost of space missions.

The Shuttle is expected to operate on a routine basis in 1983 to meet the needs of domestic and foreign users, who have already made significant investments in anticipation of its availability in the early 1980s. Also, regular Shuttle operations are important to meet civilian and national security commitments in a timely manner at the lowest total cost to the Nation. While the Shuttle is expected to replace most expendable launch vehicles, the budget continues efforts to assure adequate expendable vehicle capacity until the Shuttle becomes fully operational.

With the second successful launch of the Space Shuttle orbiter, Columbia, the U.S. clearly demonstrated that a manned reusable space vehicle is feasible. The 1983 budget provides the funds needed to make possible a timely and effective operational Shuttle system. Included are funds to:

- Demonstrate the ability to use the Shuttle for repairing a damaged satellite while in orbit;
- Enhance the payload lift performance of the Shuttle, providing users with additional assurance that its full planned capabilities will be available to both civil and national security users.
- Continue procurement of the second Spacelab (with an initial flight of the first Spacelab planned for mid-1983) and continue to develop and procure an upper stage for use with the Shuttle for high-Earth orbit and for interplanetary missions. The Shuttle will be operated from the Kennedy Space Center in Florida and from the Vandenberg Air Force Base in California.

Space Science.—In this area, in-flight projects are conducting deep space astronomy while in orbit and others are exploring the solar system. Most of these spacecraft will continue their flight missions and will gather scientific data well beyond 1983.

- The Solar Maximum Mission, launched in 1980, will continue operations and data analysis activities.
- Two Voyager spacecraft, launched in 1977, have successfully encountered Jupiter and Saturn, and Voyager 2 will continue on its way to Uranus.

- The flight of several other scientific satellites (e.g., International Ultraviolet Explorer) will be extended.

The 1983 budget supports continuation of the flight of these satellites in space and analysis of scientific data sent back to Earth. It also provides for the retrieval and repair in orbit of the partially disabled Solar Maximum Mission Satellite.

The proposed budget continues development of major flight projects to be launched in the future.

- The Space Telescope is planned for launch in 1985 and will serve as a major astronomy facility for a 15- to 20-year period.
- The Gamma Ray Observatory is planned for launch in 1988 and will enhance basic research in high energy astrophysics, providing new knowledge about objects in deep space.
- Spacelab astronomy experiments, designed for repeated use, will be conducted on the Shuttle to improve our understanding of the Sun and the universe from Earth orbit.
- Work is continuing on the Galileo mission to Jupiter; the spacecraft is composed of two segments—an orbiter and a probe to enter the upper atmosphere of Jupiter. The Galileo orbiter and probe will be launched in 1985 and will arrive at Jupiter in 1989 to carry out long-term studies of the giant planet, its satellites, and its magnetosphere.
- Experiments will be conducted using several smaller Explorer satellites, balloons, aircraft, and sounding rockets.

Space and Terrestrial Applications.—The 1983 budget continues to support research that could lead to the broad application of space technology to national needs. The 1983 budget requests continued funding for relatively fundamental and long-term research activities to:

- Improve understanding of Earth resources, climate, weather, and pollution;
- Develop agriculture forecasting techniques based on satellite data;
- Advance knowledge in materials science through low gravity experiments; and
- Extend the capability for satellite communications at higher frequencies than those employed with current satellites.

Development of the fourth and fifth in the series of land remote sensing satellites is continuing with launches scheduled for 1982 and 1985. With the completion of Landsat development activities by NASA in 1983, the National Oceanic and Atmospheric Administration (NOAA) in the Department of Commerce will assume responsibility for an operational satellite data system based on the Landsat-D series of satellites. Space remote-sensing technology, such as that employed by Landsat-D, has the potential to improve our ability to manage critical Earth resources.

The climate-observing satellite program, designed to provide global measurements of the Earth's radiation, is being continued. The mission is an important part of the national effort aimed at providing a better understanding of the Earth's climate.

In addition, NASA is developing ways to use the Spacelab (to be flown in the Shuttle) for materials processing and other applications.

Aeronautical Research and Technology Programs.—In 1983, support will be focused on fundamental research in all basic aeronautical disciplines, the maintenance of specialized facilities for research and testing, and technology development and demonstration activities critical to the Nation's defense needs.

Research emphasis will be placed on:

- Aerodynamics, propulsion and avionics;
- Flight controls and human-vehicle interaction; and
- Materials and structures.

Technology development and demonstration projects with relatively near term commercial applications will be curtailed as an inappropriate Federal subsidy.

Agency-wide Support Activities.—Obligations for agency-wide support activities will increase by \$168 million in 1983 to \$1.9 billion. These programs include, primarily, satellite tracking and data acquisition support, all NASA civil service and administrative costs, construction and maintenance of the agency's R. & D. facilities, and R. & D. addressing fundamental space technology problems and opportunities common to a broad spectrum of space programs. For 1983, the increased obligations are needed primarily to initiate lease payments for the new Tracking and Data Relay Satellite System.

Table K-6 provides the details of NASA's R. & D. funding.

DEPARTMENT OF COMMERCE

In 1983, the scope of the Department of Commerce R. & D. activities will expand significantly as a result of the proposed dismantlement of the Department of Energy and the transfer of its R. & D. programs to the Department of Commerce, where they will be administered by the new Energy Research and Technology Administration (ERTA).

R. & D. support for the ongoing R. & D. programs of the Department is provided primarily through the National Bureau of Standards (NBS), and the National Oceanic and Atmospheric Administration (NOAA).

Total obligations for the conduct of R. & D. will decrease from \$4.8 billion in 1982 to \$4.2 billion in 1983. The Department's activities by area are summarized below.

Table K-6. NATIONAL AERONAUTICS AND SPACE ADMINISTRATION—RESEARCH AND DEVELOPMENT

(In million of dollars)

Type of activity	1981 actual	1982 estimate	1983 estimate
OBLIGATIONS			
Conduct of R. & D.:			
Space transportation systems	2,729	3,090	3,468
Space science	542	568	682
Space and terrestrial applications	340	334	320
Aeronautical research and technology	271	233	232
Space research and technology	111	111	123
Energy technology	2	—	—
Tracking and data acquisition	341	402	509
Research and program management	1,071	1,103	1,179
Total conduct of R. & D.	5,407	5,841	6,513
Total conduct of basic research, included above	(532)	(580)	(682)
R. & D. facilities	114	143	116
Total, obligations	5,520	5,984	6,629
OUTLAYS			
Conduct of R. & D.	5,279	5,696	6,460
R. & D. facilities	147	135	122
Total, outlays	5,426	5,831	6,582

Energy Research and Technology Administration (ERTA).—Support will be provided by ERTA for a substantial R. & D. program related to the development and testing of nuclear weapons; a general science program comprised largely of basic research in high energy physics and nuclear sciences; and a broad energy research program focused on long-term R. & D.

Obligations for the conduct of research and development at ERTA will total \$3.9 billion in 1983, a reduction of \$604 million from 1982. Obligations for R. & D. facilities will total \$678 million in 1983, \$277 million below 1982. These decreases for energy R. & D., particularly the decrease for R. & D. facilities, reflect the proposed curtailment of Federal support for major demonstration projects (e.g., in fossil and solar energy conversion) consistent with the Administration policy that such projects are more appropriately the responsibility of the private sector. ERTA programs by major area are highlighted below.

The national defense program of ERTA supports the continued development and production of new nuclear weapons. This program also supports the development of improved technologies for monitoring nuclear weapons treaties and of improved methods for safeguarding nuclear materials. Efforts will be continued to develop improved technologies and methods for the safe storage and disposal of radioactive wastes produced by the national defense

programs and to develop improved propulsion reactors for naval vessels.

Obligations for these activities are proposed to increase from \$1.5 billion in 1982 to \$1.7 billion in 1983 for the conduct of R. & D. to assure an effective long-term nuclear weapons program. Obligations for R. & D. facilities in this area will be \$336 million in 1983, a decrease of \$60 million below 1982.

The general science and research program of ERTA primarily supports research in high energy and nuclear physics. An increase of \$56 million to \$483 million in 1983 for the conduct of R. & D. will allow continued emphasis on advanced accelerator concepts and efforts to understand the fundamental nature and constituents of matter at about the 1981 level of effort. Life sciences research and research on nuclear medicine applications, also supported as part of the general science program, are continued at a reduced level. In addition, \$117 million will be obligated in 1983 for R. & D. facilities in this area, approximately the same level as 1982.

Because of the exceptional research opportunities in high energy physics and the demonstrated excellence of the U.S. program, the administration is committed to maintaining a strong national effort in this field. The 1983 budget request of \$429 million for the conduct of R. & D. and related facilities in this field represents a \$65 million increase over 1982. This would provide for an increased level of utilization of existing research facilities, expeditious completion of the Energy Saver and TEVATRON I and II projects at Fermilab, research and development work at the Stanford Linear Accelerator Center leading to the planned Stanford Linear Collider project, and accelerator research and development on improved components and novel concepts. A principal thrust in this field will be accelerator R. & D. efforts at the Brookhaven National Laboratory, related to a future high energy physics accelerator project. Any decision to proceed with this project will be based on overall scientific potential and budget considerations.

The energy program of ERTA includes a broad program of support in the basic energy sciences and other long-term research to provide a scientific underpinning for advancements in energy technology by Government and industry. It also includes support for the development of selected energy technologies of a high risk but potentially high pay-off nature, such as magnetic fusion, where significant private investment is unlikely at this time.

Obligations for the conduct of energy R. & D. are proposed to decrease from \$2.6 billion in 1982 to \$1.8 billion in 1983. Obligations for R. & D. facilities in this area will be \$224 million in 1983, a decrease of \$216 million below 1982.

In the basic energy sciences, funding for the conduct of R. & D. and related facilities will be increased by \$40 million to \$284 mil-

lion in 1983 for long-term research in such fields as nuclear science, chemistry, engineering, materials science, mathematics, biology, and geoscience. Such support is intended to strengthen the scientific and technical base for future advances in all energy technologies. In addition, emphasis will be given to providing support for the operation of several unique national user facilities, which the basic energy science program manages (e.g., the National Synchrotron Light Source at the Brookhaven National Laboratory). In 1983, the basic energy science program, for the first time, will assume full responsibility for the Stanford Synchrotron Radiation Laboratory. This facility was previously funded by the National Science Foundation.

The 1983 budget will continue the redirection of the non-nuclear R. & D. programs to emphasize long-term generic research and place greater reliance on the private sector for technology development. Obligations for the conduct of R. & D. in fossil, solar, biomass and other renewable energy sources are expected to be \$315 million in 1983, down from \$814 million in 1982, with an additional reduction of \$95 million for demonstration projects included under support for R. & D. facilities. The budget provides \$107 million for the conduct of fossil related R. & D. and associated facilities which strengthen the scientific base, in such areas as catalysis, kinetics, waste characterization, flame research and coal structure. Funding at the level of \$90 million will be provided for research in support of solar energy and energy conservation.

The 1983 budget provides for a broad nuclear program of fission and fusion R. & D. The breeder reactor program will be funded at \$577 million in 1983, maintaining a priority on the design and construction of the Clinch River Breeder Reactor (CRBR). In addition, long-range research will continue in support of breeder technology. Total funding for breeder R. & D. will decrease by \$108 million from 1982, through curtailment of technology development in support of the follow-on Large Developmental Plant (LDP) and through phase-out of the Light Water Breeder Reactor demonstration.

In other fission R. & D., there will be a focus on safety and waste management research. The Department, in cooperation with the Nuclear Regulatory Commission, will conduct technical investigations associated with the disabled Three Mile Island (TMI) plant. This will permit a better understanding of accidents such as the occurrence at Three Mile Island and will help to prevent them in the future. The disabled TMI plant will serve as a source of useful data to aid this research. The budget includes \$205 million in 1983 for the conduct of other fission R. & D., a reduction of \$47 million below 1982.

The budget request for fusion R. & D. and related facilities in 1983 of \$444 million is a decrease of \$10 million from the 1982 level. This change consists of an increase of \$66 million in the operating budget offset by a decrease of \$76 million in capital equipment and construction. The increase in the operating component of the budget is based on the goal of resolving key outstanding physics and technology issues before continuing the pace of construction of new large facilities.

Finally, the energy R. & D. program of ERTA includes research on the environmental effects of energy production and use which will continue at about the same level of effort as 1982 with emphasis on determining the health effects of radiation and generic research related to synthetic fuels technology. Funding also will continue for research to determine the relationship between the CO₂ content of the atmospheric and the Earth's climate changes.

National Oceanic and Atmospheric Administration (NOAA).—NOAA will continue research programs in the development of systems and components in such areas as mapping and charting; ocean research; conservation, protection and management of endangered and threatened species in the Nation's fisheries resources; forecasting, detection and tracking of weather systems and violent storms; and air pollution. Obligations for the conduct of R. & D. by NOAA in 1983 will decrease slightly from \$159 million to \$152 million.

National Bureau of Standards (NBS).—R. & D. efforts for NBS are organized into four programs: measurement research and standards; engineering measurement and standards; computer sciences and technology; and central technical support.

In 1983, NBS is expected to obligate \$76 million for the conduct of R. & D. This is an \$11 million decrease from 1982. Most of this decrease is related to the transfer of the governmentwide ADP standards program to the General Services Administration. In addition, there will be selected reductions in activities that are more appropriate for private sector funding (e.g., automated manufacturing) and increases for basic research activities needed to improve measurement techniques and standards.

Other Commerce R. & D. Activities.—The Bureau of the Census, the Patent and Trademark Office, and the National Telecommunications and Information Administration also maintain smaller research and development programs. R. & D. funding for these areas in 1983 would be \$12 million.

Table K-7 provides the details of the R. & D. funding by the Department of Commerce.

Table K-7. DEPARTMENT OF COMMERCE—RESEARCH AND DEVELOPMENT

(In millions of dollars)

Type of activity	1981 actual	1982 estimate	1983 estimate
OBLIGATIONS			
Conduct of R. & D.:			
Energy Research and Technology Administration ¹	4,948	4,522	3,917
National defense	(1,347)	(1,504)	(1,684)
General sciences	(395)	(427)	(483)
Energy research	(3,206)	(2,590)	(1,750)
National Oceanic and Atmospheric Administration	201	159	152
National Bureau of Standards	83	88	76
Other department activities	44	24	12
Total conduct of R. & D.	5,276	4,793	4,157
Total conduct of basic research, included above	(608)	(665)	(762)
R. & D. facilities:			
Energy Research and Technology Administration	981	955	678
National defense	(319)	(396)	(336)
General sciences	(126)	(119)	(117)
Energy research	(536)	(440)	(224)
National Oceanic and Atmospheric Administration	1	0	0
National Bureau of Standards	0	9	3
Total R. & D. facilities	982	964	681
Total obligations	6,258	5,757	4,838
OUTLAYS			
Conduct of R. & D.	5,466	5,240	4,352
R. & D. facilities	1,112	1,191	644
Total, outlays	6,578	6,431	4,995

¹ Formerly, programs of the Department of Energy.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department of Health and Human Services (HHS) obligations in 1983 for the conduct of R. & D. would increase by \$150 million over the 1982 level to a total of \$4.1 billion. Within this total, funding for basic research will increase by \$69 million to \$2.1 billion. Obligations for R. & D. facilities will total \$20 million in 1983. This represents a substantial decline from the \$62 million provided in 1982. However, it should be noted that the relatively higher level in 1982 was primarily due to the nonrecurring costs for a single large project—construction of new research headquarters for the Food and Drug Administration—for which \$35 million was provided in 1982.

Health.—Over 85% of the Department's funds for the conduct of R. & D. and over 90% of the department's basic research funds are obligated by the National Institutes of Health (NIH) for biomedical research to advance the Nation's capabilities for the prevention, diagnosis, and treatment of disease. R. & D. programs in health-related research also are supported by several other agencies

within the Department. The 1983 budget will also provide for continuation of these health research efforts in the Alcohol, Drug Abuse, and Mental Health Administration, the Food and Drug Administration, the Centers for Disease Control, the Health Services Administration, the Health Care Financing Administration, and the Office of the Assistant Secretary for Health.

The *National Institutes of Health* would obligate \$3.5 billion in 1983, an increase of \$106 million above the 1982 level; over one-half or \$1.9 billion of NIH's total 1983 R. & D. budget would support basic research. Among the most significant activities to be supported by NIH are:

- Basic research on fundamental life processes in health and disease;
- Clinical research designed to transfer and apply the results of basic science to intervention, including development and refinement of techniques, processes, methods, and practices;
- Cooperative clinical trials of new antiviral drugs against neonatal herpes, herpes encephalitis, herpes genitalis, and rhinoviruses;
- Basic and clinical research into the cause, cure, and prevention of diabetes;
- Targeted research in epidemiology and risk estimation; and
- Test development related to reproductive toxicology, fertility assessment, and neurological toxicology.

The *Alcohol, Drug Abuse and Mental Health Administration* would conduct studies of mental disease and neurological disorders, biomedical factors and health effects of drug abuse, and causes and consequences of alcohol abuse, with emphasis on strengthening prevention activities.

Specific research areas would include:

- the use of computerized imaging techniques for mapping metabolic processes of the human brain;
- the role of endorphins and enkephalins in addiction and substance abuse;
- the role of genetic factors in alcoholism; and the role of alcohol in fetal defects.

The *Food and Drug Administration* would support research relevant to its mission of regulating food, drugs, and biological and radiological products.

The *Centers for Disease Control* would continue studies on the epidemiology and control of communicable diseases and on health promotion and disease prevention.

Other Health Related Agencies within HHS would support research in areas such as treatment and control of Hansen's disease; survey methods and techniques for analysis of health statistics; and the organization, delivery, and financing of health services. This

support will be provided through programs of the Health Services Administration, the Office of the Assistant Secretary for Health and the Health Care Financing Administration.

Human Services.—The Department's obligations for R. & D. in human services programs in 1983 would be \$100 million, \$9 million above 1982. These funds would be devoted to research related to the missions of the Office of Human Development Services and the Social Security Administration and to policy research conducted on behalf of departmental management.

Table K-8 provides the details of the R. & D. funding of the Department of Health and Human Services.

Table K-8. DEPARTMENT OF HEALTH AND HUMAN SERVICES—RESEARCH AND DEVELOPMENT

(In millions of dollars)

Type of activity and organizational units	1981 actual	1982 estimate	1983 estimate
OBLIGATIONS			
Conduct of R. & D.:			
Health:			
National Institutes of Health	3,332	3,427	3,533
Alcohol, Drug Abuse, and Mental Health Administration	286	256	289
Food and Drug Administration.....	71	73	75
Centers for Disease Control.....	74	68	74
Health Resources Administration.....	5	2	.....
Health Care Financing Administration.....	39	30	30
Office of Assistant Secretary for Health.....	35	20	20
Health Services Administration.....	19	3	1
Special Foreign Currency Program	1	2	1
Subtotal, Health.....	3,862	3,881	4,023
Human Services:			
Office of Human Development Services.....	70	56	59
Social Security Administration.....	23	21	25
Departmental Management.....	20	13	15
Subtotal, Human Services.....	112	91	100
Total conduct of R. & D.	3,973	3,972	4,122
Total conduct of basic research, included above.....	(1,955)	(2,000)	(2,069)
R. & D. facilities.....	25	62	20
Total obligations.....	3,999	4,034	4,142
OUTLAYS			
Conduct of R. & D.	3,991	3,935	4,039
R. & D. facilities.....	43	35	38
Total outlays.....	4,034	3,971	4,078

NATIONAL SCIENCE FOUNDATION

The National Science Foundation (NSF) primarily supports basic research in all scientific disciplines through grants, largely to scientists and engineers in academic institutions. The Foundation's support is of particular significance because it complements the

basic research programs of mission agencies, such as the Department of Defense and the National Institutes of Health, and helps to balance Federal support across all fields of science and engineering.

NSF obligations for the conduct of R. & D. would increase from \$961 million in 1982 to \$1,033 million in 1983, an increase of \$72 million above 1982. In addition, \$16 million will be obligated for research facilities and major equipment in 1983, \$6 million above the 1982 level. Funding for basic research programs would increase from \$912 million in 1982 to \$984 million in 1983.

These increases will allow primarily for cost increases due to inflation in research project support, partially offset by reductions in some lower priority activities. Specifically, the 1983 budget would:

- Provide an increase over 1982 in the support by NSF of research in the natural sciences and engineering that would more than offset the estimated cost increases due to inflation.
- Emphasize support of the mathematical and physical sciences (particularly computer sciences), engineering and the earth sciences largely because of the importance of these disciplines to the long-term technological advancement and economic strength of the Nation.
- Continue support of U.S. activities in the Antarctic—managed by the NSF—at approximately the ongoing level of effort. This support is continued because of the importance of the Antarctic as an area where a number of nations conduct valuable scientific research in peaceful coexistence under the terms of the Antarctic Treaty, of which the U.S. is a signatory.
- Continue NSF's research fellowship program, as a complement to the Foundation support of research. However, other lower priority science education activities previously supported by the NSF would be phased out in 1983.
- Provide increases in 1982 and 1983 over the previously reduced level of the administration's 1982 (March) budget for the social, behavioral and economic sciences to allow continued funding for relatively higher priority areas. Examples include maintenance of long-term data bases, methodological improvements and quantitative research which are important to the continued development of these disciplines as fields of scientific inquiry.
- Emphasize, within the funds provided for the conduct of research, support for upgrading research instrumentation.

DEPARTMENT OF AGRICULTURE

The Department of Agriculture supports research and development in several disciplines related to agriculture and forestry.

Obligations of the Department for the conduct of research and development are estimated to total \$838 million in 1983, compared to \$807 million in 1982, an increase of \$31 million.

The Department's 1983 budget is highlighted below by agency:

The Agricultural Research Service would obligate \$454 million for research on protection of plants and animals against diseases and pests, and on the conservation, use and improvement of soil, water and air resources.

The Cooperative State Research Service would obligate \$223 million to maintain support of the cooperative program with the land-grant institutions and to expand the competitive grants for basic plant research.

In addition, \$9 million would be provided to initiate a 5-year, \$50 million, facilities improvement program for the 1890 Colleges and the Tuskegee Institute.

The Forest Service would obligate \$98 million to improve knowledge needed to manage and protect forest and related rangeland resources to meet demands for their use. Research will be conducted on: genetics, silviculture and timber management, watershed management, range and fish habitats, protection for forest resources from fire and forest pests, surface environment and mining, forest engineering and utilization, and economics of forest commodity production, processing and distribution.

In addition, \$62 million would be obligated for other areas, such as economic research, international cooperation and development, agricultural marketing, transportation of commodities, statistical reporting, and agricultural cooperatives.

DEPARTMENT OF THE INTERIOR

The Department of the Interior's R. & D. activities derive from a broad range of responsibilities, ranging from encouraging wise development of the Nation's energy and nonenergy mineral, water, land, and recreation resources to managing those resources on the public lands in the public interest.

Obligations for the conduct of R. & D. for the Department of Interior for 1983 are estimated at \$371 million. This represents a decrease of approximately \$27 million from the 1982 level, primarily in areas of geological hazards, and mining development and demonstrations.

The Department's research objectives for 1983 are highlighted below by major organization.

The Bureau of Land Management and *The Bureau of Reclamation* would continue programs in watershed conservation and devel-

opment, timber and range forage production, wildlife habitat, water resources planning and research, and dam safety.

The Fish and Wildlife Service would emphasize R. & D. activities which:

- Improve the quality of habitats and the availability of fish and wildlife; and
- Contribute to population control methods and preserve endangered species of fish and wildlife.

The National Park Service would emphasize research in archeology and the natural and social sciences.

In energy and minerals R. & D., a small overall reduction in effort is proposed. Decreases are proposed in the Geological Survey and the Bureau of Mines, with a small increase for the Office of Surface Mining.

The Geological Survey research priorities would include:

- Developing accurate appraisal and exploration techniques to determine mineral resources;
- Developing basic data on geological principles and processes;
- Understanding the ways to appraise and evaluate our water resources; and
- Improving uses of satellite acquired data in Earth and marine sciences.

The Bureau of Mines would stress:

- Health and safety in mines and processing plants;
- Helping the Nation become less dependent on foreign minerals; and
- Protection of the environment during mineral extraction.

The Office of Surface Mining research plans involve studies dealing with regulations compliance, monitoring of coal mining operations and ecological investigations.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation's R. & D. program is oriented toward providing the information and new technology needed for its own operational (e.g., air traffic control) and regulatory (e.g., automotive safety standards) programs. Obligations for the conduct of research and development by the Department are estimated at \$366 million for 1983, an increase of \$37 million over 1982. The Department's 1983 budget is highlighted below by agency.

The Federal Aviation Administration (FAA) is expected to obligate \$152 million in 1983. The proposed 1983 R. & D. obligations for FAA represent an increase over 1982 of \$46 million. This increase will allow greater emphasis on engineering work on the national air traffic control system, and on emerging technology to improve collision avoidance systems and enhance enroute and terminal air traffic control systems.

The National Highway Traffic Safety Administration would obligate \$59 million for motor vehicle research, traffic safety research and demonstrations, and other statistical and analytical studies. An increase is proposed in 1983 for continuing the National Accident Sampling system which provides nationally representative accident and injury data, and for focusing analysis on major traffic accidents.

The Urban Mass Transportation Administration plans to obligate \$44 million to assist in the development of improved mass transportation systems, equipment and procedures. Emphasis will be placed on assisting existing proven transit systems.

The Federal Highway Administration would obligate \$43 million to continue research programs in highway planning, design, construction, and maintenance to insure an effective and efficient highway system. Research would also be conducted in identifying, and correcting impediments to highway safety and on improving common carrier safety.

The Federal Railroad Administration would obligate \$20 million to continue its emphasis on safety research. A \$16 million reduction in funding from the 1982 level would eliminate nearly all nonsafety research.

The Maritime Administration would obligate \$18 million to improve the productivity and competitive posture of the U.S. maritime industries. Increased funds are provided to support icebreaking vessels in the Arctic for R. & D. and increased ship research.

The U.S. Coast Guard would obligate \$15 million to support research to maintain and improve search and rescue systems, environmental protection, marine safety, and aids to navigation. The proposed 1983 figure represents a decrease of \$3 million for R. & D. from the 1982 level.

The Research and Special Programs Administration would obligate \$8 million to support emergency preparedness and mobilization efforts and to support the hazardous materials and pipeline safety regulatory programs.

The Office of the Secretary would obligate \$8 million for broad-based policy research on domestic and international transportation issues of importance to the Nation.

ENVIRONMENTAL PROTECTION AGENCY

The Environmental Protection Agency (EPA) conducts research and development in support of the Agency's regulatory and enforcement mission to protect human health and the environment. The R. & D. request for 1983 reflects a focusing on the highest priority research areas. These areas emphasize the following themes:

- Benefit and risk assessment in support of Agency regulatory decisions and impact analysis activities;
- Scientific support and technology transfer activities to help develop and install cost-effective pollution control technologies; and
- Improved scientific quality through peer review, quality assurance guidelines, and specially designed information systems.

Total obligations for the conduct of R. & D. are estimated to decrease from \$317 million in 1982 to \$230 million in 1983. EPA's activities by area are highlighted below.

The air research program would be reduced from 1982 by \$8 million to a level of \$27 million in 1983. The research will evaluate and establish national ambient air quality standards, new source performance standards, and emission standards for hazardous air pollutants and mobile source pollutants. EPA research into health effects of air pollution will continue past efforts to assess actual human exposure. Research on the effects of diesel engine exhaust will be reduced, reflecting attainment of EPA's current information goals for 1982.

The water quality research program expects to obligate \$13 million in 1983, a decrease of \$15 million from the 1982 level. In the municipal wastewater program, activities that are more appropriately conducted by the private engineering community, such as design engineering, are being eliminated. All extramural research in the water quality program will be eliminated, shifting all future activities to in-house R. & D. labs. The engineering-related extramural research of the industrial wastewater program is being reduced, due to near completion of the effluent limitations effort.

The drinking water research program would decrease by \$6 million to a level of \$15 million in 1983. The program will continue to evaluate data on the incidence and health effects of contaminants, evaluate alternate disinfectant techniques, provide a national quality assurance program, and carry out research related to the problems of small systems. Research on the nature and movement of contamination in subsurface waters will be expanded.

The hazardous waste program would obligate \$18 million in 1983, a decrease of \$4 million below the 1982 level. This research will support the development of methods and protocols for the regulatory program involving assessing risks to human health and ensuring quality control. Research will continue on developing a better understanding of the various hazardous waste control technologies.

The pesticide research program would obligate \$3 million, an increase of \$1 million over 1982. The research program supports development of methods for measuring and assessing human exposure to pesticides and the ecological effects of pesticides, risk as-

assessments, and development of improved methods for detecting chemical and biological pesticides.

The radiation research program would decrease by \$.5 million, to a level of \$0.4 million in 1983. These reductions occur in lower priority research areas, such as nonionizing radiation, which are not directly related to statutory mandates.

The toxic substance program would total \$14 million for 1983, a decrease of \$6 million. Research will support the development of more effective techniques, models and data bases to predict health effects of new chemicals. Development of methodologies and models for defining exposure and risk will be continued.

The energy program, which includes activities related to the impact and regulation of fossil fuel combustion and synthetic fuels, is projected at a level of \$36 million in 1983, a decrease of \$19 million below 1982. Emphasis will continue to be placed on assessing the health and environmental impacts of synthetic fuels, evaluating control technology options, and providing the regions and States with indirect technical expertise. The 1983 funding includes \$12 million to support a major government-wide effort to assess the sources and effects of acid rain.

Superfund Research in 1983 shows a reduction of \$6 million, to a level of \$4 million. This reduction is a result of the fast start-up required to implement Superfund and the fact that much of the information needed for developing guidelines and protocols and for developing the required cleanup and safety manuals will be completed in 1982. Funds for this program are derived from the Hazardous Substance Response Trust Fund, as opposed to general revenues.

NUCLEAR REGULATORY COMMISSION

The Nuclear Regulatory Commission (NRC) performs research in civil uses of nuclear materials and facilities consistent with public health and safety, environmental quality, and national security. A major share of NRC's effort is devoted to research on the use of nuclear energy to generate electric power. Its research objective is to provide safety and analytical methods for assuring the quality of NRC's licensing procedures and regulatory work.

In 1983, NRC's obligations for the conduct of R. & D. are expected to decrease from \$223 to \$220 million. In 1983, key areas, such as accident evaluation and mitigation and systems and reliability analysis will be strengthened. Additionally, reactor safety research, principally on the Clinch River Fast Breeder Reactor, will be increased in 1983. The Loss of Fluid Test Facility experimental program is planned to be completed in 1982. Funding for loss-of-coolant accidents and transient research will, therefore, be reduced more than offsetting proposed increases.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Research and development activities of the Agency for International Development (AID) consist mainly of applied research to solve specific problems associated with basic human needs development and social and economic research aimed at improving U.S. and host country understanding of the major obstacles to such development.

Programs in this area reflect the administration's recognition of the importance of R. & D. in addressing the development problems faced by the Third World.

Obligations of AID for the conduct of R. & D. are estimated at \$186 million in 1983, an increase of \$26 million over 1982.

Most of AID's 1983 R. & D. funds will be devoted to three critical problems: Food production, with an emphasis on affecting developing country efforts to overcome the growing food crisis; population growth, emphasizing methods of controlling increasing population growth rates in the developing countries; and energy supply, emphasizing renewable and nonconventional energy sources critical for development to proceed.

VETERANS ADMINISTRATION

The Veterans Administration (VA) conducts and administers medical, rehabilitative, and health services research. In 1983 this agency would obligate \$145 million, an increase of \$8 million over 1982, for the conduct of R. & D.

The VA intramural biomedical research program is designed to benefit patients through increased quality and effectiveness of health care delivery. Priorities for 1983 include special research on alcoholism, geriatrics and hypertension.

In rehabilitative research, the VA works to develop and test prosthetic, orthopedic, and adaptive equipment for improving the care and rehabilitation of disabled veterans, including amputees, paraplegics and the blind.

The health services research program supports projects at VA health care facilities to improve the delivery and accessibility of health services to veterans. The preventive health program begun last year will be continued in 1983.

FOUNDATION FOR EDUCATION ASSISTANCE

The proposed Foundation for Education Assistance will continue to support a variety of R. & D. activities in 1983. Included among those activities will be basic and applied educational research; the conduct of surveys, evaluations and experiments in the field of education; the funding of developmental and demonstration projects; the assessment of the performance of children and adults

in reading, mathematics, communication and citizenship skills; the collection, analyses and reporting of statistics and other data related to education; and the dissemination of information and findings. The Foundation expects, in 1983, to obligate a total of \$76 million for the conduct of R. & D.

In addition to its general research and data gathering activities, the Foundation will carry out R. & D. activities related to the areas of vocational and adult education for the handicapped, education programs for persons with limited English proficiency, and development activities that provide technical support for the dissemination activities of the Foundation.

OTHER AGENCY PROGRAMS

An additional 15 agencies (listed in table K-2, footnote 1) would obligate an estimated \$272 million in 1983, for the conduct of R. & D., a decrease of \$7 million below the 1982 total. Obligations by these agencies amount to less than 1% of all federally funded programs in R. & D. The programs of these agencies, like those of other agencies discussed above, are closely related to the agencies' missions.

Among the agencies in this category that expect to increase their obligations for R. & D. in 1983 are the Smithsonian Institution, the Army Corps of Engineers, the Arms Control and Disarmament Agency, and the Federal Emergency Management Agency.

SUPPLEMENTARY INFORMATION

Table K-9 provides information on the long-term trends in Federal funding for the conduct of R. & D.

Table K-9. TRENDS IN CONDUCT OF R. & D.

(Obligations in billions of dollars)

Year	Defense ¹	All other	Total
1953.....	2.8	.3	3.1
1954.....	2.5	.3	2.9
1955.....	2.2	.4	2.5
1956.....	2.5	.5	3.0
1957.....	3.3	.6	3.9
1958.....	3.8	.8	4.6
1959.....	5.6	1.1	6.7
1960.....	6.1	1.5	7.6
1961.....	7.0	2.1	9.1
1962.....	7.2	3.1	10.3
1963.....	7.8	4.7	12.5
1964.....	7.8	6.4	14.2
1965.....	7.3	7.3	14.6
1966.....	7.5	7.8	15.3
1967.....	8.6	7.9	16.5
1968.....	8.3	7.6	15.9
1969.....	8.4	7.2	15.6
1970.....	8.0	7.3	15.3
1971.....	8.1	7.4	15.5
1972.....	8.9	7.6	16.5
1973.....	9.0	7.8	16.8
1974.....	9.0	8.4	17.4
1975.....	9.7	9.3	19.0
1976.....	10.4	10.4	20.8
1977.....	11.9	12.1	24.0
1978.....	12.6	13.8	26.4
1979.....	13.6	15.4	29.0
1980.....	15.1	16.6	31.7
1981.....	17.8	17.2	35.0
1982 (estimate).....	22.1	16.8	38.8
1983 (estimate).....	26.2	16.8	43.0

¹ Includes military-related R. & D. programs of the Departments of Defense and Commerce.