

**SPECIAL
ANALYSES
BUDGET OF THE
UNITED STATES
GOVERNMENT
FISCAL YEAR 1984**

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

THE BUDGET DOCUMENTS

Budget of the United States Government, 1984 contains the Budget Message of the President and presents an overview of the President's budget proposals. It includes explanations of spending programs in terms of national needs, agency missions, and basic programs, and an analysis of estimated receipts, including a discussion of the President's tax program. This document also contains a description of the budget system and various summary tables on the budget as a whole.

United States Budget in Brief, 1984 is designed for use by the general public. It provides a more concise, less technical overview of the 1984 budget than the above volume. Summary and historical tables on the Federal budget and debt are also provided, together with graphic displays.

Budget of the United States Government, 1984—Appendix contains detailed information on the various appropriations and funds that comprise the budget. The *Appendix* contains more detailed information than any of the other budget documents. It includes for each agency: the proposed text of appropriation language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, proposed general provisions applicable to the appropriations of entire agencies or groups of agencies, and schedules of permanent positions. Supplementals and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget totals.

Special Analyses, Budget of the United States Government, 1984 contains analyses that are designed to highlight specified program areas or provide other significant presentations of Federal budget data. This document includes information about: alternative views of the budget, i.e., current services and national income accounts; economic and financial analyses of the budget covering Government finances and operations as a whole; and Government-wide program and financial information for Federal civil rights and research and development programs.

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

GENERAL NOTES

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

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PART 1

**ALTERNATIVE VIEWS OF
THE BUDGET**

1-1

INTRODUCTION

Part 1 includes two alternative views of the budget—current services estimates and national income accounts. These special analyses are designated A and B.

Special Analysis A (Current Services Estimates) presents the estimates required by the Congressional Budget Act of 1974 (31 U.S.C. 1109(a)). These estimates reflect the anticipated costs of continuing ongoing Federal programs and activities at present levels without policy changes (that is, ignoring all new initiatives, Presidential or congressional, that are not yet law).

Special Analysis B (Federal Transactions in the National Income Accounts) presents the Federal budget estimates in terms of the national income accounts. It also explains the relationships of the unified budget of the Federal Government to the national income and product accounts, which constitute the most widely used measure of aggregate economic activity in the United States.

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

Since interest in the longer term budget outlook and in the long-range effects of the President's budget proposals has increased substantially in recent years, current services estimates are being provided for the 4 years beyond the budget year. These long-range current services estimates are based on the same concepts as the budget year current services estimates.

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, or inflation rates. As a result, if different economic assumptions were used, it would be very difficult to separate the

¹Summary comparisons are in the *Budget of the United States Government, Fiscal Year 1984*, Part 3.

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 result in different economic conditions than would occur under the budget proposals. 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 1984 *Budget*.

Table A-1. SUMMARY OF ECONOMIC ASSUMPTIONS

(Calendar years)

	1982	1983	1984	1985	1986	1987	1988
Gross national product (in billions of current dollars).....	3,058	3,262	3,566	3,890	4,232	4,599	4,995
Change in constant dollar GNP (percent change, year over year).....	-1.8	1.4	3.9	4.0	4.0	4.0	4.0
Inflation measures (percent change, fiscal year over fiscal year):							
GNP deflator.....	7.0	5.0	5.3	4.9	4.7	4.5	4.5
Consumer Price Index.....	7.2	4.9	4.7	4.5	4.7	4.5	4.5
Federal nondefense non-pay purchases deflator.....	7.0	5.0	5.3	4.9	4.7	4.5	4.5
State and local purchases deflator.....	7.5	6.3	6.4	6.1	5.9	5.7	5.7
Unemployment rate (percent, fourth quarter).....	10.5	10.4	9.5	8.5	7.8	7.0	6.2
Interest rate, 91-day Treasury bills (percent).....	10.7	8.0	7.9	7.4	6.8	6.5	6.1
Federal pay raise, October (percent).....	4.0	6.5	6.1	6.0	5.7	5.6	5.5

THE CURRENT SERVICES CONCEPT

The current services estimates are neither recommended amounts nor forecasts as to what the budget results for 1983-1988 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 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 for the next 5 years?"

The 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 generally reflect the ex-

pected costs of continuing ongoing Federal programs at 1983 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. (The major exception to this approach is for the Department of Defense, as described below.) In general, the 1983 level on which the current services estimates are based is that which is authorized or implied by enacted 1983 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 proposals.

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

- For the Department of Defense—military, the estimates for 1983 are based on the enacted levels resulting from last year’s actions by the Congress. For 1984–87, the estimates are those presented by the administration and used by the Congress in last year’s budget deliberations. The 1988 estimates were developed consistent with this baseline. This baseline is believed to be the most useful one for measuring the effects of policy changes in the defense area.
- 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 are assumed to support the same program levels or to be funded at the same real (constant-dollar) amounts as in 1983 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 pay raise assumptions are shown in table A-1.
- Interest on the public debt is estimated on the basis of the current services deficits 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 the projection period, 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)

	1982 actual	1983	1984	1985	1986	1987	1988
Budget authority	779.9	828.4	954.8	1,056.3	1,152.5	1,245.7	1,370.4
Receipts	617.8	597.5	648.8	713.3	780.9	849.1	926.7
Outlays	728.4	806.1	880.3	966.4	1,051.7	1,140.8	1,227.0
Deficit (—)	—110.6	—208.5	—231.5	—253.1	—270.8	—291.7	—300.4
Memorandum:							
Off-budget outlays	17.3	16.9	17.1	14.2	13.6	16.4	15.1
Deficit (—) including off-budget outlays	—127.9	—225.4	—248.5	—267.3	—284.4	—308.1	—315.4

CURRENT SERVICES TOTALS

Current services outlays are estimated to be \$880.3 billion in 1984, 9.2% higher than in 1983, and budget authority is estimated to be \$954.8 billion, an increase of 15.3% over 1983. Outlays are projected to grow at an average annual rate of 8.7% from 1984 to 1988. Receipts for 1984 are estimated to increase 8.6% on a current services basis, from \$597.5 billion in 1983 to \$648.8 billion in 1984. Receipts are projected to grow at an average annual rate of 9.3% from 1984 to 1988. The resulting 1984 current services deficit is \$231.5 billion, \$22.9 billion higher than the \$208.5 billion deficit for 1983. The deficit is projected to increase during the projection period to a peak of \$300.4 billion in 1988.

Receipts.—Table A-3 shows receipts by major source on a current services basis. Current services receipts are projected to increase by \$51.3 billion from 1983 to 1984 and by \$277.9 billion from 1984 to 1988, largely due to assumed increases in incomes resulting from both real economic growth and inflation.

Individual income taxes are estimated to increase by \$10.6 billion from 1983 to 1984 on a current services basis. This growth of 3.7% is the effect of increased collections resulting from rising personal incomes and the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), partially offset by the individual income tax reductions provided in the Economic Recovery Tax Act of 1981 (ERTA). The reductions in individual income taxes provided in ERTA are estimated to increase from \$65.9 billion in 1983 to \$104.5 billion in 1984. Individual income taxes are projected to grow at an average annual rate of 9.9% between 1984 and 1988, to \$430.8 billion.

Corporation income taxes on a current services basis are estimated to grow by \$16.6 billion or 47.1% from 1983 to 1984. This growth is the net effect of higher corporate profits, increased collections due to the tax revisions and improvements in collection and enforcement provided in TEFRA, and the accelerated cost recovery of capital expenditures provided in ERTA. Corporation income taxes are projected to increase at an average annual rate of 14.3% from 1984 to 1988.

Social insurance taxes and contributions are estimated to increase by \$21.4 billion on a current services basis between 1983 and 1984, and by an additional \$108.5 billion between 1984 and 1988. The estimates reflect assumed increases in total wages and salaries paid; scheduled increases in the combined employer-employee social security (OASDHI) tax rate to 14.1% on January 1, 1985 and to 14.3% on January 1, 1986; and annual increases in the social security taxable earnings base to \$47,100 in 1988.

On a current services basis, excise taxes are estimated to increase by \$3.1 billion or 8.3% from 1983 to 1984. This growth is in large part due to the increases in excise taxes on airport and airway users, cigarettes, and telephone service provided in TEFRA; and the 5 cent per gallon increase in the excise tax on gasoline and diesel fuel, and other provisions of the Highway Revenue Act of 1982. This growth is partially offset by a \$1.5 billion decline in windfall profit taxes from \$13.8 billion in 1983 to \$12.2 billion in 1984. Excise taxes are projected to decline by \$3.7 billion between 1984 and 1988 to an estimated \$36.6 billion. This is in large part due to the expiration of the temporary doubling of cigarette excise taxes effective October 1, 1985; the termination of telephone excise taxes effective January 1, 1986; and the continued decline in windfall profit tax receipts to \$9.2 billion in 1988. The 1988 estimate assumes extension of the airport and airway trust fund taxes that are scheduled to expire December 31, 1987.

Other receipts (estate and gift taxes, customs duties, and miscellaneous receipts) are projected to decline on a current services basis by \$0.4 billion from 1983 to 1984 and to increase by \$1.5 billion from 1984 to 1988, largely as a result of increased economic activity.

Table A-3. CURRENT SERVICES RECEIPTS BY SOURCE

(In billions of dollars)

	1982 actual	1983	1984	1985	1986	1987	1988
Individual income taxes.....	297.7	285.2	295.8	321.4	348.0	383.0	430.8
Corporation income taxes.....	49.2	35.3	51.9	60.8	75.7	85.8	88.6
Social insurance taxes and contributions.....	201.5	210.3	231.7	260.7	290.9	314.0	340.2
Excise taxes.....	36.3	37.3	40.4	40.8	36.7	36.3	36.6
Other.....	33.0	29.4	29.0	29.6	29.5	30.0	30.6
Total.....	617.8	597.5	648.8	713.3	780.9	849.1	926.7

Outlays.—The level of outlays necessary to continue ongoing Federal programs and activities at 1983 levels without policy changes is estimated at \$880.3 billion in 1984. The increase in current services outlays from 1983 to 1984 is \$74.2 billion, or 9.2%. Between 1984 and 1988 current services outlays are projected to increase at an average annual rate of 8.7%.

Table A-4 shows current services outlays by function. Estimates by agency are presented in table A-5. The outlay increases from 1983 to 1984 are 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)

	1982 actual	Current services		1984 administra- tion proposals	1984 difference
		1983 estimate	1984 estimate		
National defense.....	187.4	214.6	253.7	245.3	-8.4
International affairs.....	10.0	11.7	12.8	13.2	.4
General science, space, and technology.....	7.1	7.8	8.1	8.2	.2
Energy.....	4.7	4.6	4.1	3.3	-.7
Natural resources and environment.....	12.9	12.0	11.2	9.8	-1.4
Agriculture.....	14.9	21.7	15.3	12.1	-3.2
Commerce and housing credit.....	3.9	2.0	2.1	.4	-1.6
Transportation.....	20.6	21.9	26.1	25.1	-.9
Community and regional development.....	7.2	7.4	7.2	7.0	-.2
Education, training, employment, and social services.....	26.3	26.8	27.1	25.3	-1.8
Health.....	74.0	82.3	92.9	90.6	-2.3
Income security.....	248.3	282.8	289.7	282.4	-7.3
Veterans benefits and services.....	24.0	24.5	26.1	25.7	-.3
Administration of justice.....	4.7	5.3	5.5	5.5	*
General government.....	4.7	5.9	5.9	6.0	.1
General purpose fiscal assistance.....	6.4	6.4	7.2	7.0	-.2
Net interest.....	84.7	89.0	105.2	103.2	-2.0
Allowances:					
Civilian agency pay raises.....			1.9		-1.9
Increased employer share, employee retirement.....				.9	.9
Contingencies for uncontrollable programs.....					
Undistributed offsetting receipts:					
Employer share, employee retirement.....	-7.0	-8.2	-8.9	-9.9	-.9
Rents and royalties on the Outer Continental Shelf.....	-6.2	-11.8	-11.9	-11.9	
Federal surplus property disposition.....		-.4	-.8	-1.0	-.2
Total outlays.....	728.4	806.1	880.3	848.5	-31.8
Memorandum:					
Off-budget outlays.....	17.3	16.9	17.1	14.0	-3.0
Total, including off-budget outlays.....	745.7	823.0	897.3	862.5	-34.8

*\$50 million or less.

Table A-6 shows the major components of the changes in current services outlays between 1983 and 1984. Outlays for income security programs are estimated to rise by \$6.9 billion, from \$282.8 billion in 1983 to \$289.7 billion in 1984 due to automatic cost-of-living increases in many benefit programs, increases in the number of beneficiaries, and higher earnings records for new retirees. Social security outlays are estimated to increase by \$12.1 billion and unemployment compensation outlays are estimated to decrease by \$6.2 billion between 1983 and 1984. Outlays for the remaining income security programs are estimated to grow by \$1.1 billion on net. Table A-7 shows caseload projections for these and other major benefit programs and other selected programmatic assumptions.

Under the administration's February 1982 policy, outlays for the military functions of the Department of Defense in 1984 would have been \$38.2 billion higher than enacted 1983 levels.

Table A-5. CURRENT SERVICES OUTLAYS BY AGENCY

(In billions of dollars)

	1982 actual	Current services		1984 administra- tion proposals	1984 difference
		1983 estimate	1984 estimate		
Legislative branch	1.4	1.5	1.6	1.6	*
The Judiciary	.7	.8	.9	.9	— *
Executive Office of the President	.1	.1	.1	.1	*
Funds Appropriated to the President	6.1	7.1	7.6	7.9	.3
Department of Agriculture	36.2	45.6	39.1	35.0	—4.1
Department of Commerce	2.0	2.0	2.0	1.7	— .4
Department of Defense—Military	182.9	208.8	247.0	238.6	—8.4
Department of Defense—Civil	3.0	2.9	2.7	2.2	— .5
Education	14.1	14.4	14.3	13.5	— .8
Energy	7.6	8.8	9.5	8.8	— .6
Department of Health and Human Services	251.3	276.4	296.6	288.8	—7.8
Department of Housing and Urban Development	14.5	15.0	15.1	13.7	—1.3
Department of the Interior	3.9	4.0	3.9	3.6	— .3
Department of Justice	2.6	3.0	3.0	3.3	.3
Department of Labor	30.7	41.2	34.8	34.3	— .5
Department of State	2.2	2.3	2.6	2.6	*
Department of Transportation	19.9	21.1	25.3	24.4	— .9
Department of the Treasury	110.5	117.6	136.2	135.0	—1.2
Environmental Protection Agency	5.1	4.4	4.1	4.1	— .1
National Aeronautics and Space Administration	6.0	6.7	6.9	7.0	*
Veterans Administration	23.9	24.4	26.0	25.7	— .3
Office of Personnel Management	20.0	21.5	23.6	23.2	— .5
Other independent agencies	13.1	12.5	13.0	11.4	—1.6
Allowances			1.9	.9	— .9
Undistributed offsetting receipts	—29.3	—36.2	—37.6	—39.6	—2.0
Total outlays	728.4	806.1	880.3	848.5	—31.8
Memorandum:					
Off-budget outlays	17.3	16.9	17.1	14.0	—3.0
Total, including off-budget outlays	745.7	823.0	897.3	862.5	—34.8

* \$50 million or less.

Current services outlays for medicare are estimated to increase by \$8.5 billion between 1983 and 1984, largely as a result of increases in medical care prices and utilization. Medicaid outlays are estimated to increase by \$1.7 billion for the same reason.

Other major increases in current services outlays between 1983 and 1984 include an increase in net interest of \$16.2 billion and \$4.2 billion for transportation programs.

The \$6.4 billion decline in current services outlays for Agriculture between 1983 and 1984 results from a sharply lower estimate of outlays required in 1984 for price supports and related Commodity Credit Corporation programs.

Table A-6. CHANGE IN CURRENT SERVICES BUDGET AUTHORITY AND OUTLAYS, 1983 TO 1984

(In billions of dollars)

	Budget authority	Outlays
1983 current services estimate	828.4	806.1
1983-84 changes:		
National defense:		
Department of Defense—Military	46.2	38.2
Other national defense	1.1	.9
Subtotal, National defense	47.3	39.1
Income security:		
Social security	29.5	12.1
Federal employee retirement and disability	1.0	1.7
Unemployment compensation	*	-6.2
Housing assistance	7.6	1.0
Food and nutrition assistance	-.3	-.4
Other income security programs	-.7	-1.2
Subtotal, income security	37.1	6.9
International affairs	.6	1.2
General science, space, and technology	.2	.3
Energy programs	.3	-.5
Natural resources and environment	-.4	-.8
Agriculture	-7.2	-6.4
Commerce and housing credit	.8	*
Transportation programs	1.9	4.2
Community and regional development	.2	-.2
Education	.6	-.1
Training and employment	*	.1
Social and other labor services	.8	.3
Medicare and medicaid	24.4	10.3
Other health programs	.4	.3
Veterans programs	1.2	1.6
Net interest	16.2	16.2
Allowances for civilian agency pay raises	2.0	1.9
Undistributed offsetting receipts	-1.2	-1.2
All other programs, net	1.3	1.0
Subtotal, changes	126.4	74.2
1984 current services estimate	954.8	880.3
Memorandum:		
1983 off-budget current services estimates	29.8	16.9
Changes in off-budget entities	4.6	.2
1984 off-budget current services estimates	34.3	17.1
Total, including off-budget entities	989.2	897.3

*\$50 million or less.

Budget authority.—Current services budget authority is estimated to total \$954.8 billion in 1984, \$126.4 billion more than in 1983. Increases in budget authority between 1983 and 1984 generally reflect the higher funding levels that would be necessary to maintain 1983 services levels in real terms in 1984. In the case of most 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.

Table A-7. CASELOADS AND PROGRAMMATIC ASSUMPTIONS

	Fiscal years					
	1983	1984	1985	1986	1987	1988
Beneficiaries (annual average, in thousands):						
Social security (OASDI)	36,026	36,444	37,051	37,732	38,436	39,120
Railroad retirement ¹	990	976	963	949	934	919
Federal civil service retirees	1,394	1,452	1,505	1,558	1,616	1,674
Military retirees	1,423	1,454	1,484	1,512	1,539	1,565
Veterans compensation	2,616	2,612	2,608	2,605	2,604	2,601
Veterans pensions	1,745	1,660	1,585	1,535	1,495	1,455
GI bill	804	652	565	458	386	322
Disabled coal miners	435	413	394	373	354	334
Supplemental security income	3,452	3,361	3,280	3,207	3,143	3,085
Maintenance assistance (AFDC)	10,967	10,905	10,782	10,703	10,608	10,521
Food stamps	21,950	21,540	20,630	19,820	19,150	18,450
Housing subsidy recipients (HUD)	3,671	3,923	4,081	4,180	4,283	4,377
Medicaid	22,233	22,584	22,584	22,584	22,584	22,584
Medicare:						
Hospital insurance	29,185	29,682	30,225	30,831	31,459	32,068
Supplementary medical insurance	28,742	29,265	29,841	30,464	31,087	31,684
Automatic benefit increases (percent):						
Social security and veterans pensions (July)	5.1	4.8	4.5	4.7	4.5	4.5
Federal employee retirement (March) ² :						
Over 62	³ 4.6	4.9	4.4	4.7	4.5	4.5
Under 62	3.3	3.6	3.3	4.7	4.5	4.5
Food stamps (October)	0.4	4.7	5.6	4.6	4.4	4.6
Interest rate (91-day bills, percent, fiscal years) ⁴	8.0	8.0	7.6	6.9	6.6	6.2
Unemployment rate (percent, annual average, fiscal years):						
Total	10.7	10.1	9.1	8.3	7.5	6.7
Insured ⁵	5.4	4.9	4.3	3.9	3.6	3.2
Strategic petroleum reserves fill (millions of barrels) ⁶	80.3	80.3	61.5	45.2	90.6	44.8

¹ End of year.² Under current law, benefit increases for retired Federal employees will occur in April 1983, May 1984, and June 1985. Thereafter, the increases would occur in March of each year.³ The increase based on the actual December 1982 CPI is 3.9%.⁴ 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.⁵ 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.⁶ Annual petroleum fill.

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 1983 and 1984 are also shown in table A-6.

Increases in budget authority of \$37.1 billion for income security and \$24.8 billion for health are primarily due to higher social security and medicare trust fund receipts and higher medicaid costs.

Table A-8. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

	1982 actual	Current services		1984 administra- tion proposals	1984 difference
		1983 estimate	1984 estimate		
National defense.....	218.7	244.5	291.8	280.5	-11.3
International affairs.....	15.3	16.3	16.8	16.8	—*
General science, space, and technology.....	7.1	7.9	8.1	8.5	.3
Energy.....	3.3	3.7	4.1	2.9	-1.2
Natural resources and environment.....	11.2	11.2	10.8	8.9	-1.9
Agriculture.....	18.8	20.8	13.6	13.5	-.1
Commerce and housing credit.....	6.4	5.1	5.9	7.6	1.7
Transportation.....	21.3	26.7	28.6	27.8	-.8
Community and regional development.....	6.6	6.8	7.0	6.1	-.9
Education, training, employment, and social services.....	25.9	26.4	27.8	25.6	-2.2
Health.....	78.9	67.6	92.3	91.7	-.6
Income security.....	254.2	280.5	317.7	284.2	-33.5
Veterans benefits and services.....	25.0	25.0	26.2	26.1	—*
Administration of justice.....	4.7	5.2	5.5	5.6	.1
General government.....	5.0	5.8	6.0	6.1	.1
General purpose fiscal assistance.....	6.4	6.4	7.2	7.0	-.2
Net interest.....	84.7	89.0	105.2	103.2	-2.0
Allowances:					
Civilian agency pay raises.....			2.0		-2.0
Increased employer share, employee retirement.....				.9	.9
Contingencies for uncontrollable programs.....					
Undistributed offsetting receipts:					
Employer share, employee retirement.....	-7.0	-8.2	-8.9	-9.9	-.9
Rents and royalties on the Outer Continental Shelf.....	-6.2	-11.8	-11.9	-11.9	
Federal surplus property disposition.....		-.4	-.8	-1.0	-.2
Total budget authority.....	779.9	828.4	954.8	900.1	-54.7

* \$50 million or less.

A \$46.2 billion increase in budget authority for the Department of Defense—Military baseline reflects the increase in pay for military and civilian personnel and increases in defense purchases that would have occurred under the administration's February 1982 policy. Budget authority for net interest increases by \$16.2 billion because of higher borrowing requirements.

Other major changes in current services budget authority include a \$2.0 billion increase for allowances for civilian agency pay raises; a \$0.6 billion increase in education programs; a \$1.9 billion increase in transportation programs; and a \$1.2 billion increase for veterans programs.

Table A-9. CURRENT SERVICES BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

	1982 actual	Current services		1984 administra- tion proposals	1984 difference
		1983 estimate	1984 estimate		
Legislative branch	1.4	1.5	1.6	1.6	*
The Judiciary	.7	.8	.9	.9	—*
Executive Office of the President	.1	.1	.1	.1	*
Funds Appropriated to the President	8.5	9.7	10.1	9.8	—3
Department of Agriculture	40.6	44.3	37.3	39.2	1.9
Department of Commerce	1.8	1.7	1.9	1.4	—5
Department of Defense—Military	213.8	238.4	284.7	273.4	—11.3
Department of Defense—Civil	3.0	2.9	2.7	2.1	—6
Education	14.7	14.2	14.8	13.1	—1.7
Energy	7.9	8.4	10.0	8.9	—1.1
Department of Health and Human Services	246.2	252.4	305.2	285.2	—20.0
Department of Housing and Urban Development	20.1	12.3	20.3	4.1	—16.2
Department of the Interior	3.7	3.8	3.9	3.4	—5
Department of Justice	2.6	2.9	3.0	3.4	.4
Department of Labor	27.2	36.4	36.1	36.3	.2
Department of State	2.6	2.7	2.8	2.9	.1
Department of Transportation	20.5	25.9	27.8	27.0	—8
Department of the Treasury	111.3	117.8	136.3	135.1	—1.2
Environmental Protection Agency	3.7	3.7	3.8	3.6	—2
National Aeronautics and Space Administration	6.0	6.8	7.0	7.1	.1
Veterans Administration	24.9	25.0	26.1	26.1	—*
Office of Personnel Management	32.6	36.0	37.3	38.3	1.0
Other independent agencies	15.2	16.7	16.8	15.6	—1.2
Allowances			2.0	.9	—1.0
Undistributed offsetting receipts	—29.3	—36.2	—37.6	—39.6	—2.0
Total budget authority	779.9	828.4	954.8	900.1	—54.7

*\$50 million or less.

DIFFERENCES BETWEEN CURRENT SERVICES ESTIMATES AND BUDGET PROPOSALS

The administration's budget proposals differ from the current services estimates in four broad ways:

- The budget proposals include an immediate freeze on pay, cost-of-living adjustments, aggregate discretionary spending and a variety of reimbursement formulas and payments.
- The budget proposals include a broad program of structural reform of entitlements and transfer payments focused on health care, social security solvency, and means-tested benefits.
- The budget proposals include defense savings due to lower inflation, the 1984 pay freeze, and various program economies.
- The budget proposals include various revenue proposals that would increase revenues above the current services level during 1984–1988. Also included is a standby revenue mechanism designed to trigger in if the deficit remains above 2½% of gross national product in 1986 and beyond.

For 1983, the estimates of budget authority under the administration proposals exceed current services by \$19.0 billion. The administration proposals include the recommendation of the National Commission on Social Security Reform for a lump-sum payment to the social security trust funds of \$20.5 billion in 1983. Outlays under the administration proposals are \$0.9 billion below current services. The 1983 receipts estimate under the administration proposals are below current services by less than \$0.1 billion. The deficit under administration proposals is \$0.8 billion lower than that under current services.

For 1984, the administration estimate of outlays is \$31.8 billion below the current services level, and budget authority is \$54.7 billion below the current services level. The current services receipts level for 1984 is \$10.9 billion below the administration's estimate of \$659.7 billion. The 1984 current services deficit of \$231.5 billion exceeds the administration's estimated deficit by \$42.7 billion.

By 1988, the current services estimates of budget authority and outlays exceed the administration budget request by \$118.7 billion and \$100.1 billion, respectively. The 1988 receipts estimate under the administration proposals exceeds the current services estimate by \$83.6 billion. The deficit for 1988 under the administration proposals is estimated to be \$183.7 billion lower than the current services deficit for that year.

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

(In billions of dollars)

	1982 actual	Estimate					
		1983	1984	1985	1986	1987	1988
Budget authority:							
Current services.....	779.9	828.4	954.8	1,056.3	1,152.5	1,245.7	1,370.4
Effect of proposals.....		19.0	-54.7	-59.0	-72.9	-83.0	-118.7
Administration budget.....	779.9	847.4	900.1	997.4	1,079.6	1,162.7	1,251.7
Receipts:							
Current services.....	617.8	597.5	648.8	713.3	780.9	849.1	926.7
Effect of proposals.....		—*	10.9	11.0	61.0	67.3	83.6
Administration budget.....	617.8	597.5	659.7	724.3	841.9	916.3	1,010.3
Outlays:							
Current services.....	728.4	806.1	880.3	966.4	1,051.7	1,140.8	1,227.0
Effect of proposals.....		—9	-31.8	-47.9	-62.1	-82.4	-100.1
Administration budget.....	728.4	805.2	848.5	918.5	989.6	1,058.4	1,126.9
Deficit (—):							
Current services.....	-110.6	-208.5	-231.5	-253.1	-270.8	-291.7	-300.4
Effect of proposals.....		0.8	42.7	58.9	123.2	149.6	183.7
Administration budget.....	-110.6	-207.7	-188.8	-194.2	-147.7	-142.1	-116.7
Off-budget outlays:							
Current services.....	17.3	16.9	17.1	14.2	13.6	16.4	15.1
Effect of proposals.....		.1	-3.0	-3.7	-4.1	-6.8	-5.8
Administration budget.....	17.3	17.0	14.0	10.5	9.4	9.6	9.2

*\$50 million or less.

Receipts.—As shown in table A-11, the administration's estimate of receipts for 1983 is the same as the current services level of \$597.5 billion.

Current services receipts for 1984 are estimated at \$648.8 billion, \$10.9 billion below the administration's estimate. The proposed bipartisan social security plan, designed to ensure the future solvency of the social security trust funds, accounts for \$8.2 billion of the increase in 1984 receipts above the current services level. Other legislative proposals, which include the taxation of employer-paid health insurance premiums in excess of a specified level, increases in contributions to Civil Service retirement, tax incentives for the redevelopment of economically distressed areas, a tuition tax credit, and a jobs tax credit for the long-term unemployed, increase receipts by an additional \$2.9 billion.¹ These increases are partially offset by the effect of the administration's proposed October 1983 Federal employee pay freeze, which reduces Federal employee retirement contributions by \$0.3 billion below the current services level.

By 1988 the administration's legislative proposals, including a proposed contingency tax plan, are estimated to increase receipts \$83.9 billion above the current services level.

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

(In billions of dollars)

	1983	1984	1985	1986	1987	1988
Current services receipts estimates.....	597.5	648.8	713.3	780.9	849.1	926.7
Administrative action ¹	—	—	—	—	—	—
Receipts under existing legislation	597.5	648.5	713.1	780.6	848.8	926.4
Proposed changes:						
Bi-partisan social security plan		8.2	5.8	8.9	10.7	22.3
Taxation of health insurance premiums.....		2.3	4.4	6.0	8.0	10.7
Contributions to Civil Service Retirement		1.2	2.3	2.1	1.9	1.7
Enterprise zone tax incentives.....		—	—	—	—	—
Tuition tax credit.....		—	—	—	—	—
Jobs tax credit.....		—	—	—	—	—
Higher education tax incentive.....		—	—	—	—	—
Other.....		*	*	*	*	*
Subtotal of above changes	—	11.2	11.3	15.3	18.5	32.5
Contingency tax plan				46.0	49.0	51.4
Total proposed changes	—	11.2	11.3	61.3	67.5	83.9
Receipts under existing and proposed legislation	597.5	659.7	724.3	841.9	916.3	1,010.3

*\$50 million or less.

¹The effect of the proposed October 1983 Federal employee pay freeze on Federal employee retirement contributions.

¹A more detailed discussion of the administration's receipts proposals is presented in the *Budget of the United States Government, Fiscal Year 1984, Part 4, "Budget Receipts."*

Outlays.—Table A-12 shows the major differences between the administration's budget and current services for outlays by function.¹

- The administration proposals for national defense would reduce outlays below the defense baseline by \$8.4 billion in 1984. By 1988 defense outlays would be \$11.0 billion below the defense baseline.
- The administration proposals for the Commodity Credit Corporation's price support programs would reduce outlays below current services by \$3.1 billion in 1984. By 1988 outlays for these programs would be \$5.3 billion below current services.
- The administration proposals for ground transportation would reduce outlays below current services by \$1.0 billion in 1984. By 1988 outlays for these programs would be \$3.5 billion below current services.
- The administration proposals for education programs would reduce outlays below current services by \$0.8 billion in 1984. By 1988 outlays for these programs would be \$4.0 billion below current services.
- The administration proposals for training and employment and social services programs would reduce outlays below current services by \$1.0 billion in 1984. By 1988 outlays for these programs would be \$3.5 billion below current services.
- The administration proposals for medicare would reduce outlays below current services by \$1.7 billion in 1984. By 1988 outlays for medicare would be \$9.0 billion below current services.
- The administration proposals for medicaid and other health programs would reduce outlays below current services by \$0.6 billion in 1984. By 1988 outlays for these programs would be \$3.5 billion below current services.
- The administration proposals for social security embody the proposals recommended by the National Commission on Social Security Reform. The proposals would reduce social security outlays below current services by \$4.1 billion in 1984. By 1988 these proposals would reduce social security outlays by \$5.7 billion.
- The administration proposals for Federal employee retirement and other general retirement and disability would reduce outlays below current services by \$1.2 billion in 1984. By 1988 outlays for these programs would be \$4.4 billion below current services.

¹A more detailed discussion of the administration's budget authority and outlay proposals is presented in the *Budget of the United States Government, Fiscal Year 1984*, Part 5, "Meeting National Needs: The Federal Program by Function."

- The administration proposals for food and nutrition and housing assistance and other income security programs would reduce outlays below current services by \$1.9 billion in 1984. By 1988 outlays for these programs would be \$4.7 billion below current services.
- The administration's proposed 1984 pay freeze for Federal employees reduces allowances for civilian agency pay raises by \$1.9 billion in 1984. By 1988, outlays would be reduced by \$2.4 billion.
- The administration proposals would reduce the budget deficit by \$42.7 billion below current services in 1984. By 1988 the deficit would be \$183.7 billion lower. These reductions and other proposals would reduce net interest outlays below current services by \$2.0 billion in 1984. By 1988 net interest outlays would be \$32.9 billion lower.
- Reductions below current services in other budget functions primarily reflect the effects of the aggregate discretionary program freeze proposed by the administration.

In total, the administration proposals would reduce outlays below current services by \$31.8 billion in 1984. By 1988 budget outlay savings would be \$100.1 billion.

The combined effects of the administration's on- and off-budget outlay and receipts proposals would reduce the total deficit below current services by \$45.7 billion in 1984. By 1988 these proposals reduce the total deficit by \$189.5 billion. The cumulative deficit reduction between 1983 and 1988 including off-budget savings is \$582.2 billion.

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

(Outlays, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Current services estimates	806.1	880.3	966.4	1,051.7	1,140.8	1,227.0
Differences:						
National defense:						
Department of Defense—Military		—8.4	—8.0	—9.1	—10.4	—11.1
Other	—*	—*	—0.1	—0.1	—*	*
Subtotal, national defense	—*	—8.4	—8.1	—9.2	—10.4	—11.0
International affairs:						
Foreign economic and financial assistance	*	0.1	*	—*	—0.1	—0.2
International security assistance:						
Military assistance	*	0.2	0.3	0.4	0.4	0.4
Other	0.1	*	—0.2	—0.4	—0.5	—0.7
Subtotal, international security assistance	0.2	0.2	0.2	*	—0.1	—0.3

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

(Outlays, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Conduct of foreign affairs.....		*	0.2	0.2	0.2	0.2
Foreign information and exchange activities.....	0.1	0.1	0.2	0.3	0.3	0.2
International financial programs.....	—*	—*	*	—0.2	—0.3	—0.5
Subtotal, international affairs.....	0.3	0.4	0.5	0.3	—*	—0.5
General science, space, and technology....	—*	0.2	0.3	0.4	0.3	0.2
Energy.....	—0.1	—0.7	—1.0	—0.9	—0.9	—0.9
Natural resources and environment.....	0.1	—1.4	—1.5	—1.8	—2.0	—2.2
Agriculture:						
Farm income stabilization.....	—0.6	—3.1	—5.9	—6.8	—7.6	—5.3
Agricultural research and services.....	—*	—0.1	—0.2	—0.3	—0.3	—0.4
Subtotal, agriculture.....	—0.6	—3.2	—6.1	—7.0	—7.9	—5.7
Commerce and housing credit:						
Mortgage credit and thrift insurance.....		—0.7	—1.5	—1.3	—1.3	—1.4
Postal service.....		—0.6	—0.6	—0.6	—0.6	—0.5
Other advancement of commerce.....	—0.1	—0.3	—0.3	—0.3	—0.4	—0.5
Subtotal, commerce and housing credit.....	—0.1	—1.6	—2.4	—2.2	—2.4	—2.5
Transportation:						
Ground transportation.....	—*	—1.0	—1.3	—1.8	—2.5	—3.5
Air transportation.....	*	0.2	0.5	0.6	0.7	0.8
Water transportation.....		—0.1	—0.2	—0.2	—0.2	—0.3
Other transportation.....	*	*	0.1	0.1	0.1	0.1
Subtotal, transportation.....	*	—0.9	—1.0	—1.3	—1.9	—3.0
Community and regional development.....	—*	—0.2	—0.5	—0.8	—1.2	—1.6
Education, training, employment, and social services:						
Education.....	—*	—0.8	—1.7	—2.5	—3.3	—4.0
Training and employment.....	—0.1	—0.6	—0.9	—1.2	—1.4	—1.7
Social services and other.....	*	—0.4	—0.8	—1.1	—1.4	—1.7
Subtotal, education, training, employment, and social services.....	—0.1	—1.8	—3.4	—4.8	—6.1	—7.4
Health:						
Medicare.....	*	—1.7	—3.1	—4.7	—6.7	—9.0
Medicaid.....	—*	—0.3	—0.9	—0.7	—0.7	—0.7
Other health care services.....		—0.1	—0.5	—1.0	—1.2	—1.6
Other health.....	*	—0.2	—0.4	—0.7	—0.9	—1.2
Subtotal, health.....	*	—2.3	—4.9	—7.1	—9.6	—12.4
Income security:						
Social security.....	—2.1	—4.1	—4.6	—4.9	—5.4	—5.7
Other general retirement and disability.....		—0.8	—1.8	—1.1	—1.8	—1.4

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

(Outlays, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Federal employee retirement and disability		-0.4	-1.1	-1.6	-2.3	-3.1
Unemployment compensation	1.8	—*	*	*	*	—*
Housing assistance	-0.2	0.1	*	-0.3	-0.8	-1.3
Food and nutrition assistance	—*	-1.1	-1.5	-1.7	-1.8	-1.9
Other income security	0.1	-0.9	-1.2	-1.3	-1.4	-1.4
Subtotal, income security	-0.3	-7.3	-10.3	-11.0	-13.4	-14.8
Veterans benefits and services:						
Income security for veterans	—*	-0.3	-0.4	-0.5	-0.7	-0.8
Hospital and medical care for veterans	*	—*	*	0.1	0.2	0.2
Other		—*	—*	—*	*	*
Subtotal, veterans benefits and services	—*	-0.3	-0.4	-0.5	-0.5	-0.6
Administration of justice:						
Federal law enforcement activities		0.2	0.2	0.1	0.1	0.1
Federal correctional activities		*	0.1	0.1	0.1	0.1
Other		-0.2	-0.2	-0.3	-0.4	-0.4
Subtotal, administration of justice		*	—*	-0.1	-0.2	-0.3
General government:						
Central fiscal operations	-0.1	0.1	0.1	0.2	0.2	0.2
Other	—*	*	*	—*	—*	-0.1
Subtotal, general government	-0.1	0.1	0.1	0.1	0.1	0.1
General purpose fiscal assistance		-0.2	-0.6	-0.8	-1.1	-1.3
Net interest	-0.1	-2.0	-6.1	-12.5	-22.1	-32.9
Allowances:						
Civilian agency pay raises		-1.9	-2.1	-2.2	-2.3	-2.4
Increased employing agency payments for employee retirement		0.9	1.9	1.9	1.9	1.9
Subtotal, allowances		-0.9	-0.2	-0.3	-0.4	-0.5
Undistributed offsetting receipts:						
Employer share, employee retirement		-0.9	-2.2	-2.4	-2.5	-2.6
Federal surplus property disposition		-0.2	-0.2	-0.2	-0.2	-0.2
Subtotal, undistributed offsetting receipts		-1.1	-2.4	-2.6	-2.7	-2.8
Total, differences	-0.9	-31.8	-47.9	-62.1	-82.4	-100.1
Budget request	805.2	848.5	918.5	989.6	1,058.4	1,126.9

*\$50 million or less.

TABLE A-13. OFF-BUDGET FEDERAL ENTITIES, DIFFERENCES BETWEEN CURRENT SERVICES AND ADMINISTRATION BUDGET REQUEST

(Outlays, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Current services estimates	16.9	17.1	14.2	13.6	16.4	15.1
Differences:						
Strategic petroleum reserve	— *	— 0.9	— 1.2	— 0.2	— 2.2	— 0.5
Federal Financing Bank:						
Foreign military sales credit	0.2	0.4	0.4	0.3	0.1	— 0.2
Agricultural credit insurance fund			— 0.2	— 0.4	— 0.7	— 0.9
Rural housing insurance fund ¹		— 2.4	— 2.5	— 3.4	— 3.5	— 3.7
Rural development insurance fund		— *	— 0.1	— 0.1	— 0.2	— 0.2
Community development grants			— 0.2	— 0.2	— 0.2	— 0.2
Railroad rehabilitation and improve- ment		— *	— *	— *	— *	— *
Small business loans			— *	— *	— 0.1	— 0.1
Subtotal, Federal Financing Bank.....	0.2	— 2.1	— 2.6	— 4.0	— 4.6	— 5.3
Total differences	0.1	— 3.0	— 3.7	— 4.1	— 6.8	— 5.8
Budget proposals	17.0	14.0	10.5	9.4	9.6	9.2

* \$50 million or less.

¹ A small part of the difference in rural housing insurance fund off-budget outlays is due to a proposed change in accounting treatment of sales and repurchases of certificates of beneficial ownership (CBO's). Under the budget proposals, these sales (and repurchases) of financial assets would be treated as agency borrowing (and repayment of borrowing) by the Farmers Home Administration from the Federal Financing Bank (FFB) rather than as on-budget offsetting receipts and off-budget FFB outlays.

Off-budget outlays.—The budget proposals for off-budget outlays are \$3.0 billion lower than the current services estimates in 1984 due primarily to a decrease in estimated sales of certificates of beneficial ownership (CBO's) by the rural housing insurance fund (RHIF) to the Federal Financing Bank. Lower sales are estimated because of a proposed decrease in RHIF direct loans under the rural housing block grant to the States proposed in the budget.

The budget estimates for the strategic petroleum reserve outlays are as much as \$2.2 billion lower than the current services estimates during 1983–1988 because of the revised fill strategy proposed by the administration.

The proposed termination of the community development loan guarantee program reduces outlays for this program by \$0.2 billion below the current services estimates for 1985–88.

Increases above the current services estimates for foreign military sales credit activities reflect the administration's overall proposal to increase security assistance in support of U.S. foreign policy.

Tables A-14 and A-15 provide a more detailed comparison (by function, subfunction, and program) of the President's budget request for 1984 with the current services budget authority and outlay estimates.

Table A-14. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
050 NATIONAL DEFENSE				
051 Department of Defense—Military.....	213,751	238,449	284,652	273,400
053 Atomic energy defense activities.....	4,737	5,700	6,778	6,778
054 Defense-related activities:				
Existing law.....	219	371	364	429
Proposed legislation.....				—100
Subtotal, Defense-related activities.....	219	371	364	329
Deductions for offsetting receipts.....	—4			—4
Total budget authority.....	218,704	244,521	291,794	280,503
150 INTERNATIONAL AFFAIRS				
151 Foreign economic and financial assistance:				
Multilateral development banks.....	1,262	1,292	1,361	1,618
International organizations.....	215	249	262	190
Agency for International Development.....	1,847	1,805	1,902	1,871
Public Law 480—Food aid.....	1,000	1,028	1,052	1,052
Peace Corps.....	105	109	113	109
Refugee assistance.....	423	395	344	344
Other.....	61	65	68	148
Offsetting receipts.....	—361	—434	—469	—466
Subtotal, Foreign economic and financial assistance.....	4,552	4,509	4,633	4,868
152 International security assistance:				
Economic support fund.....	2,919	2,661	2,802	2,949
Foreign military sales credit.....	800	1,175	1,237	1,000
Military assistance.....	179	290	305	747
Other.....	221	76	80	108
Offsetting receipts.....	—199	—155	—112	—112
Subtotal, International security assistance.....	3,919	4,047	4,313	4,692
153 Conduct of foreign affairs:				
Administration of foreign affairs.....	1,183	1,226	1,261	1,392
International organizations and conferences.....	466	519	608	602
Other.....	43	45	47	48
Subtotal, Conduct of foreign affairs.....	1,693	1,790	1,916	2,042
154 Foreign information and exchange activities.....	583	652	688	832
155 International financial programs:				
Export-Import Bank.....	3,268	2,748	2,664	2,457
Foreign military sales trust fund (net).....	1,424	2,700	2,800	2,100
Offsetting receipts.....	—80	—82	—84	—84
Subtotal, International financial programs.....	4,612	5,366	5,380	4,473
Deductions for offsetting receipts.....	—92	—92	—92	—94
Total budget authority.....	15,267	16,272	16,838	16,813

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY				
251 General science and basic research:				
National Science Foundation programs.....	1,006	1,099	1,154	1,297
Energy-related general science programs.....	529	535	573	645
Smithsonian scientific information exchange activities.....	*	*	*	*
Subtotal, General science and basic research.....	1,535	1,635	1,727	1,943
253 Space flight.....	3,601	4,109	4,023	4,049
254 Space, science, applications, and technology.....	1,392	1,568	1,581	1,638
255 Supporting space activities.....	544	610	817	830
Deductions for offsetting receipts.....	-10	-9	-9	-9
Total budget authority.....	7,063	7,913	8,139	8,451
270 ENERGY				
271 Energy supply:				
Research and development.....	2,764	2,573	2,410	2,069
Uranium enrichment.....	84			
Petroleum reserves.....	-1,045	-1,447	-1,013	-1,020
Power marketing.....	279	1,265	944	942
Incentives for non-conventional fuel production.....				
Subtotal, Energy supply.....	2,083	2,391	2,340	1,992
272 Energy conservation.....	168	299	407	74
274 Emergency energy preparedness.....	191	242	531	159
276 Energy information, policy, and regulation.....	889	882	877	725
Deductions for offsetting receipts.....	-71	-78	-81	-81
Total budget authority.....	3,261	3,736	4,074	2,869
300 NATURAL RESOURCES AND ENVIRONMENT				
301 Water resources:				
Navigation fees (proposed).....				-438
Existing law.....	3,998	3,987	3,894	3,689
Subtotal, Water resources.....	3,998	3,987	3,894	3,251
302 Conservation and land management:				
Management of national forests, cooperative forestry, and forestry research.....	1,723	1,931	1,887	1,587
Management of public lands.....	506	421	434	431
Mining reclamation and enforcement.....	174	231	244	282
Conservation of agricultural lands.....	570	594	612	413
Other.....	101	301	310	255
Offsetting receipts.....	-510	-735	-914	-914
Proposed legislation.....				-25
Subtotal, Conservation and land management.....	2,565	2,744	2,573	2,028

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
303 Recreational resources:				
Federal land acquisition.....	176	257	269	65
Urban park grants and historic preservation funds.....	33	26	28	
Operation of recreational resources.....	1,052	1,186	1,252	1,150
Proposed legislation.....				-13
Subtotal, Recreational resources.....	1,262	1,468	1,549	1,202
304 Pollution control and abatement:				
Regulatory, enforcement, and research programs.....	1,045	1,019	1,059	929
Proposed legislation.....				13
Hazardous substance response fund.....	188	201	197	287
Oil pollution funds.....	12	3	3	3
Sewage treatment plant construction grants.....	2,400	2,430	2,570	2,400
Subtotal, Pollution control and abatement.....	3,645	3,653	3,829	3,631
306 Other natural resources	1,590	1,489	1,604	1,380
Deductions for offsetting receipts	-1,860	-2,131	-2,635	-2,586
Total budget authority.....	11,199	11,210	10,815	8,906
350 AGRICULTURE				
351 Farm income stabilization:				
Commodity price support and related programs.....	16,063	17,858	10,491	10,491
Proposed legislation.....				-73
Crop insurance.....	425	529	397	474
Agricultural credit.....	639	682	896	896
Other programs and administrative expenses.....	63	63	66	54
Proposed legislation.....				-2
Subtotal, Farm income stabilization.....	17,191	19,132	11,849	11,839
352 Agricultural research and services:				
Research programs.....	657	710	740	706
Extension programs.....	316	329	347	287
Marketing programs.....	118	125	133	128
Proposed legislation.....				-2
Animal and plant health programs.....	289	277	285	234
Proposed legislation.....				-4
Economic intelligence.....	161	168	174	188
Other programs and administrative expenses.....	120	180	187	204
Offsetting receipts.....	-74	-87	-95	-95
Subtotal, Agricultural research and services.....	1,586	1,701	1,770	1,647
Deductions for offsetting receipts	-14	-2	-2	-2
Total budget authority.....	18,763	20,831	13,617	13,484

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
370 COMMERCE AND HOUSING CREDIT				
371 Mortgage credit and thrift insurance:				
Mortgage purchase activity (GNMA)	1,101	2	249	249
Proposed legislation				—248
Mortgage credit (FHA)	203	183	127	127
Housing for the elderly or handicapped	710	564	628	436
Rural housing programs (FmHA)	2,004	1,630	2,107	1,508
Proposed legislation				¹ 3,556
National Credit Union Administration	36	30	30	66
Subtotal, Mortgage credit and thrift insurance	4,055	2,409	3,140	5,694
372 Postal Service:				
Existing law	707	789	1,010	760
Proposed legislation				—360
Subtotal, Postal Service	707	789	1,010	400
376 Other advancement of commerce:				
Small business assistance	570	884	675	498
Technology utilization	275	211	219	193
Proposed legislation				5
Economic and demographic statistics	184	218	191	206
Other	631	544	617	561
Subtotal, Other advancement of commerce	1,660	1,857	1,701	1,464
Deductions for offsetting receipts	—2	—1	—1	—1
Total budget authority	6,419	5,054	5,851	7,556
400 TRANSPORTATION				
401 Ground transportation:				
Highway systems	8,723	13,181	13,801	13,811
Proposed legislation				80
Highway safety	213	236	259	258
Mass transit	3,584	4,397	5,095	3,967
Railroads	1,968	1,013	1,002	889
Regulation	70	67	66	58
Subtotal, Ground transportation	14,559	18,892	20,222	19,062
402 Air transportation:				
Airways and airports (FAA)	3,157	4,136	4,519	5,031
Aeronautical research and technology	516	553	575	589
Air carrier subsidies	86	48	51	51
Regulation	26	24	21	21
Subtotal, Air transportation	3,785	4,761	5,165	5,692
403 Water transportation:				
Coast Guard user fees (proposed)				—58
Marine safety and transportation (Coast Guard)	2,513	2,461	2,605	2,543
Proposed legislation				—7
Ocean shipping	415	526	516	506
Regulation	11	12	12	11
Subtotal, Water transportation	2,939	2,999	3,133	2,995

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
407 Other transportation	88	110	114	116
Deductions for offsetting receipts	—116	—87	—85	—85
Total budget authority.....	21,256	26,676	28,551	27,780
450 COMMUNITY AND REGIONAL DEVELOPMENT				
451 Community development:				
Community development block grants.....	3,456	3,456	3,677	3,500
Urban development action grants.....	474	440	468	196
Rental rehabilitation grants (proposed).....				150
Urban homesteading.....		12	12	12
Other programs.....	361	459	380	368
Proposed legislation.....				—26
Subtotal, Community development.....	4,291	4,367	4,538	4,200
452 Area and regional development:				
Rural development.....	590	777	922	890
Economic development assistance.....	224	192	238	18
Indian programs.....	1,156	1,135	1,152	1,080
Regional commissions.....	159	173	184	
Tennessee Valley Authority.....	129	176	126	75
Offsetting receipts.....	—274	—277	—291	—286
Subtotal, Area and regional development.....	1,984	2,177	2,330	1,777
453 Disaster relief and insurance:				
SBA disaster loans.....				
Disaster relief.....	302	130	*	*
National flood insurance fund.....		71	71	71
Other.....	62	55	57	57
Subtotal, Disaster relief and insurance.....	363	256	128	128
Deductions for offsetting receipts	—34	—34	—34	—34
Total budget authority.....	6,604	6,766	6,962	6,071
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES				
501 Elementary, secondary, and vocational education:				
Education for the disadvantaged.....	3,041	3,168	3,361	3,014
Special programs and populations.....	537	534	566	479
Proposed legislation.....				50
Indian education.....	343	334	345	250
Impact aid.....	466	480	511	465
Education for the handicapped.....	1,069	1,110	1,178	1,110
Vocational and adult education.....	742	824	873	7
Proposed legislation.....				493
Other.....	206	207	218	162
Proposed legislation.....				—1
Subtotal, Elementary, secondary, and vocational educa- tion.....	6,403	6,658	7,052	6,030

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
502 Higher education:				
Guaranteed student loan program	3,074	2,200	2,169	2,169
Proposed legislation				-122
Self-help grants (proposed)				2,714
Student financial assistance (existing law)	3,570	3,569	3,794	854
Institutional aid	757	739	759	587
Subtotal, Higher education	7,401	6,508	6,722	6,202
503 Research and general education aids	999	1,029	1,019	867
504 Training and employment:				
Employment and training assistance	2,984	3,789	4,011	4,368
Proposed legislation				-87
Older Americans employment	277	282		
Work incentive program	281	271	287	
Federal-State employment service	757	824	888	1,074
Other	88	94	92	86
Subtotal, Training and employment	4,386	5,260	5,278	5,441
505 Other labor services	600	643	664	682
506 Social services:				
Social services block grant	2,400	2,450	2,500	2,500
Rehabilitation services	952	1,037	1,103	
Proposed legislation				1,037
Community service programs	378	359	377	3
Family social services	465	560	616	601
Services for children, youth, and families, the elderly and other special groups	1,718	1,767	2,345	2,193
Domestic volunteer programs	132	129	130	110
Other social services	49	48	49	31
Subtotal, Social services	6,094	6,350	7,119	6,475
Deductions for offsetting receipts	-29	-42	-58	-57
Total budget authority	25,854	26,406	27,796	25,640
550 HEALTH				
551 Health care services:				
Medicare	55,237	47,223	65,998	65,998
Proposed legislation				338
Medicare premiums and collections	-3,855	-4,355	-5,010	-5,010
Proposed legislation				160
Medicaid	18,084	14,869	21,101	21,101
Proposed legislation				-300
Health block grants			1,362	1,196
Proposed legislation				165
Other health care services	4,004	4,064	2,899	2,773
Proposed legislation				-495
Subtotal, Health care services	73,469	61,801	86,350	85,927
552 Health research:				
National Institutes of Health research	3,450	3,791	3,967	3,868
Other research programs	394	437	461	479
Subtotal, Health research	3,844	4,228	4,428	4,347

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
553 Education and training of health care work force:				
Research training.....	192	211	220	209
Clinical training.....	239	233	210	138
Other.....	63	37	40	18
Subtotal, Education and training of health care work- force.....	494	481	469	365
554 Consumer and occupational health and safety:				
Consumer safety.....	689	712	736	754
Proposed legislation.....				—2
Occupational safety and health.....	348	362	370	366
Proposed legislation.....				—4
Subtotal, Consumer and occupational health and safety...	1,037	1,074	1,106	1,113
Deductions for offsetting receipts.....	15	—28	—27	—27
Total budget authority.....	78,859	67,556	92,326	91,725
600 INCOME SECURITY				
601 General retirement and disability insurance:				
Social security (OASDI).....	146,207	161,948	191,458	163,047
Proposed legislation.....				10,383
Railroad retirement.....	5,195	5,656	5,983	5,913
Special benefits for disabled coal miners.....	1,878	1,666	1,836	1,775
Proposed legislation.....				—37
Other.....	36	39	46	46
Subtotal, General retirement and disability insurance.....	153,316	169,308	199,323	181,127
602 Federal employee retirement and disability:				
Retirement and disability programs.....	31,921	35,104	36,255	36,255
Proposed legislation.....				1,456
Federal employee workers' compensation.....	345	336	228	228
Proposed legislation.....				—17
Subtotal, Federal employee retirement and disability....	32,266	35,440	36,483	37,922
603 Unemployment compensation.....	21,177	30,034	30,062	29,892
604 Housing assistance:				
Subsidized housing.....	12,245	5,846	13,234	—2,319
Public housing operating subsidies.....	1,491	1,351	1,552	1,636
Rural housing block grants (proposed).....				850
Indian housing (proposed).....				76
Other housing assistance.....	139	112	119	154
Subtotal, housing assistance.....	13,876	7,308	14,906	397
605 Food and nutrition assistance:				
Food stamps and aid to Puerto Rico.....	11,286	12,815	12,492	12,492
Proposed legislation.....				—766
Child nutrition and other programs.....	4,498	4,932	4,908	4,889
Proposed legislation.....				—313
Subtotal, Food and nutrition assistance.....	15,784	17,747	17,400	16,302

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
609 Other income security:				
Supplemental security income.....	7,769	8,459	7,511	7,511
Proposed legislation.....				341
AFDC and related assistance.....	6,007	8,223	8,243	8,243
Proposed legislation.....				-732
Earned income tax credit.....	1,201	1,205	1,123	1,123
Refugee assistance.....	689	578	485	485
Low income home energy assistance.....	1,875	1,986	1,875	1,300
Other.....	228	252	273	268
Subtotal, Other income security.....	17,770	20,704	19,511	18,539
Total budget authority.....	254,188	280,541	317,684	284,178
700 VETERANS BENEFITS AND SERVICES				
701 Income security for veterans:				
Service-connected compensation.....	9,590	9,463	10,331	9,856
Proposed legislation.....				238
Non-service-connected pensions.....	4,048	3,827	3,950	3,950
Proposed legislation.....				-113
Burial and other benefits.....	140	141	149	149
National service life insurance trust fund.....	1,164	1,187	1,209	1,209
U.S. Government life insurance trust fund.....	31	26	23	23
All other insurance programs.....	9	6	7	7
Insurance program receipts.....	-473	-445	-433	-433
Subtotal, Income security for veterans.....	14,510	14,205	15,237	14,887
702 Veterans education, training, and rehabilitation:				
Existing law.....	1,964	1,666	1,392	1,392
Proposed legislation.....				-20
Subtotal, Veterans education, training, and rehabilitation.....	1,964	1,666	1,392	1,371
703 Hospital and medical care for veterans:				
Medical care and hospital services.....	7,101	7,693	8,072	8,079
Construction.....	490	567	572	886
Medical administration, research, and other.....	211	212	225	223
Subtotal, Hospital and medical care for veterans.....	7,802	8,472	8,868	9,188
704 Veterans housing.....		-82	-90	-90
705 Other veterans benefits and services:				
VA administrative expenses and other.....	672	702	728	732
Proposed legislation.....				-1
Non-VA support programs.....	37	40	43	46
Subtotal, Other veterans benefits and services.....	709	742	771	776
Deductions for offsetting receipts.....	-3	-3	-3	-3
Total budget authority.....	24,982	24,999	26,175	26,129

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
750 ADMINISTRATION OF JUSTICE				
751 Federal law enforcement activities:				
Organized crime drug enforcement (OCDE)		128	99	106
General investigation (FBI)	773	853	885	1,056
Narcotics violation investigation (DEA)	243	255	264	276
Alcohol, tobacco, and firearms investigation (ATF)	142	147	157	157
Border enforcement activities (Customs and INS)	974	1,067	1,089	1,118
Protection activities (Secret Service)	204	249	273	282
Other enforcement	323	345	349	354
Subtotal, Federal law enforcement activities	2,658	3,045	3,116	3,348
752 Federal litigative and judicial activities:				
Civil and criminal prosecution and representation	553	604	644	658
Federal judicial activities	735	840	933	934
Representation of indigents in civil cases	241	241	256	
Subtotal, Federal litigative and judicial activities	1,529	1,685	1,833	1,592
753 Federal correctional activities	423	404	423	523
754 Criminal justice assistance:				
Existing law	140	137	145	72
Proposed legislation				92
Subtotal, Criminal justice assistance	140	137	145	165
Deductions for offsetting receipts	-32	-26	-26	-26
Total budget authority	4,718	5,245	5,491	5,602
800 GENERAL GOVERNMENT				
801 Legislative functions	1,172	1,252	1,328	1,328
802 Executive direction and management:				
Existing law	95	104	109	114
Proposed legislation				-2
Subtotal, Executive direction and management	95	104	109	113
803 Central fiscal operations:				
Collection of taxes	2,672	3,043	3,159	3,292
Federal Financing Bank	-148	-152	-175	-179
Other fiscal operations	323	462	430	424
Subtotal, Central fiscal operations	2,847	3,353	3,413	3,537
804 General property and records management:				
Personal property	20	37	60	61
Records management	81	88	90	87
Other	285	329	337	351
Proposed legislation				2
Subtotal, General property and records management	386	454	487	502
805 Central personnel management	141	141	149	151

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
806 Other general government:				
Territories.....	192	170	183	150
Indian affairs.....	22	9	9	18
Treasury claims.....	285	406	406	405
Other.....	8	8	33	34
Subtotal, Other general government.....	507	592	631	607
Deductions for offsetting receipts.....	-177	-143	-167	-184
Total budget authority.....	4,970	5,753	5,951	6,055
850 GENERAL PURPOSE FISCAL ASSISTANCE				
851 General revenue sharing:				
General revenue sharing payments.....	4,567	4,567	4,758	4,567
Administration.....	6	7	7	8
Subtotal, General revenue sharing.....	4,573	4,574	4,765	4,574
852 Other general purpose fiscal assistance:				
Payments and loans to the District of Columbia.....	449	543	544	544
New York City loan guarantee program.....	1			
Payments to States from Forest Service receipts.....	243	145	269	269
Payments to States from receipts under the Mineral Leasing Act.....				995
Other payments to States and counties from Federal land management activities.....	654	616	1,123	73
Payments-in-lieu-of taxes.....	96	96	96	96
Payments to territories and Puerto Rico.....	368	399	411	410
Other.....	7	6	6	6
Subtotal, Other general purpose fiscal assistance.....	1,819	1,805	2,450	2,394
Total budget authority.....	6,392	6,379	7,215	6,969
900 NET INTEREST				
901 Interest on the public debt.....	117,190	127,700	146,000	144,500
902 Interest received by trust funds:				
Existing law.....	-16,067	-15,752	-15,992	-15,992
Proposed legislation.....				-870
Subtotal, interest received by trust funds.....	-16,067	-15,752	-15,992	-16,862
908 Other interest:				
Interest on refunds of tax collections.....	1,789	1,904	1,586	1,586
Interest on loans to the Federal Financing Bank.....	-12,235	-14,155	-15,258	-15,141
Other.....	-5,981	-10,702	-11,142	-11,031
Proposed legislation.....				128
Subtotal, Other interest.....	-16,427	-22,953	-24,814	-24,458
Total budget authority.....	84,697	88,995	105,193	103,180

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

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
920 ALLOWANCES				
921 Civilian agency pay raises.....			1,967	
926 Increased employer share, employee retirement.....				949
927 Contingencies for relatively uncontrollable pro- grams.....				
928 Contingencies for other requirements.....				
Total budget authority.....			1,967	949
950 UNDISTRIBUTED OFFSETTING RECEIPTS				
951 Employer share, employee retirement:				
Existing law.....	-7,020	-8,214	-8,924	-8,648
Proposed legislation.....				-1,205
Subtotal, Employer share, employee retirement.....	-7,020	-8,214	-8,924	-9,853
953 Rents and royalties on the Outer Continental Shelf.....	-6,250	-11,793	-11,895	-11,895
954 Federal surplus property disposition:				
Existing Law.....		-408	-803	
Proposed legislation.....				-1,003
Subtotal, Federal surplus property disposition.....		-408	-803	-1,003
Total budget authority.....	-13,270	-20,414	-21,621	-22,750
Total budget authority.....	779,926	828,438	954,818	900,110

*\$500 thousand or less.

¹A large part of the difference between current services and the administration request for rural housing insurance fund budget authority is due to a proposed change in accounting treatment of sales and repurchases of certificates of beneficial ownership (CBO's). Under the budget proposals, these sales (and repurchases) of financial assets would be treated as agency borrowing (and repayment of borrowing) by the Farmers Home Administration from the Federal Financing Bank (FFB) rather than as on-budget offsetting receipts and off-budget FFB outlays.

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
050 NATIONAL DEFENSE				
051 Department of Defense—Military.....	182,850	208,800	246,985	238,600
053 Atomic energy defense activities.....	4,309	5,471	6,422	6,422
054 Defense-related activities:				
Existing law.....	263	370	324	387
Proposed legislation.....				—100
Subtotal, Defense-related activities.....	263	370	324	287
Deductions for offsetting receipts.....	—4			—4
Total outlays.....	187,418	214,641	253,730	245,305
150 INTERNATIONAL AFFAIRS				
151 Foreign economic and financial assistance:				
Multilateral development banks.....	1,063	1,266	1,361	1,407
International organizations.....	238	205	237	205
Agency for International Development.....	1,524	1,715	1,746	1,773
Public Law 480—Food aid.....	929	1,028	1,052	1,052
Peace Corps.....	103	109	113	108
Refugee assistance.....	382	401	366	366
Other.....	—22	26	27	41
Offsetting receipts.....	—361	—434	—469	—466
Subtotal, Foreign economic and financial assistance.....	3,856	4,316	4,433	4,487
152 International security assistance:				
Economic support fund.....	2,299	2,684	2,792	2,944
Foreign military sales credit.....	501	880	1,165	1,006
Military assistance.....	176	206	292	490
Other.....	330	221	244	270
Offsetting receipts.....	—199	—155	—112	—112
Subtotal, International security assistance.....	3,107	3,835	4,381	4,598
153 Conduct of foreign affairs:				
Administration of foreign affairs.....	1,045	1,145	1,346	1,352
International organizations and conferences.....	544	512	606	602
Other.....	41	46	47	48
Subtotal, Conduct of foreign affairs.....	1,630	1,704	1,999	2,001
154 Foreign information and exchange activities.....	571	640	688	828
155 International financial programs:				
Export-Import Bank.....	1,173	1,192	1,460	1,433
Special defense acquisition fund.....	—204	—196	—166	—147
Foreign military sales trust fund (net).....	188	500	400	400
Other.....	—166	—141	—173	—173
Offsetting receipts.....	—80	—82	—84	—84
Subtotal, International financial programs.....	911	1,272	1,438	1,430
Deductions for offsetting receipts.....	—92	—92	—92	—94
Total outlays.....	9,982	11,675	12,847	13,250

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY				
251 General science and basic research:				
National Science Foundation programs.....	1,099	1,066	1,160	1,231
Energy-related general science programs.....	507	547	573	634
Smithsonian scientific information exchange activities.....	*	*	*	*
Subtotal, General science and basic research.....	1,607	1,613	1,732	1,865
253 Space flight.....	3,543	4,034	4,018	4,028
254 Space, science, applications, and technology.....	1,457	1,517	1,572	1,601
255 Supporting space activities.....	473	605	770	766
Deductions for offsetting receipts.....	-10	-9	-9	-9
Total outlays.....	7,070	7,760	8,084	8,250
270 ENERGY				
271 Energy supply:				
Research and development.....	3,295	2,953	2,600	2,409
Uranium enrichment.....	-473	32	40	40
Petroleum reserves.....	-951	-1,383	-1,011	-1,017
Power marketing.....	1,227	1,101	591	590
Incentives for non-conventional fuel production.....	52	50	69	69
Subtotal, Energy supply.....	3,150	2,752	2,289	2,090
272 Energy conservation.....	518	673	520	343
274 Emergency energy preparedness.....	191	334	470	228
276 Energy information, policy, and regulation.....	886	878	855	726
Deductions for offsetting receipts.....	-71	-78	-81	-81
Total outlays.....	4,674	4,560	4,052	3,306
300 NATURAL RESOURCES AND ENVIRONMENT				
301 Water resources:				
Navigation fees (proposed).....				-438
Existing law.....	4,032	3,989	3,885	3,743
Subtotal, Water resources.....	4,032	3,989	3,885	3,305
302 Conservation and land management:				
Management of national forests, cooperative forestry, and forestry research.....	1,932	1,883	1,900	1,653
Management of public lands.....	467	404	412	411
Mining reclamation and enforcement.....	119	141	160	180
Conservation of agricultural lands.....	576	592	642	564
Other.....	163	289	321	284
Offsetting receipts.....	-510	-735	-914	-914
Proposed legislation.....				-25
Subtotal, Conservation and land management.....	2,746	2,574	2,521	2,153

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
303 Recreational resources:				
Federal land acquisition.....	349	384	399	287
Urban park grants and historic preservation funds.....	69	61	55	44
Operation of recreational resources.....	1,059	1,247	1,250	1,141
Proposed legislation.....				—13
Subtotal, Recreational resources.....	1,477	1,693	1,705	1,459
304 Pollution control and abatement:				
Regulatory, enforcement, and research programs.....	1,172	1,059	1,061	1,003
Proposed legislation.....				6
Hazardous substance response fund.....	77	168	235	246
Oil pollution funds.....	7	3	3	3
Sewage treatment plant construction grants.....	3,756	3,100	2,810	2,800
Subtotal, Pollution control and abatement.....	5,012	4,330	4,109	4,058
306 Other natural resources.....	1,526	1,554	1,620	1,442
Deductions for offsetting receipts.....	—1,860	—2,131	—2,635	—2,586
Total outlays.....	12,934	12,008	11,206	9,832
350 AGRICULTURE				
351 Farm income stabilization:				
Commodity price support and related programs.....	11,652	18,859	12,394	12,394
Proposed legislation.....				—3,139
Crop insurance.....	219	310	327	400
Agricultural credit.....	1,370	732	781	781
Other programs and administrative expenses.....	48	64	65	56
Proposed legislation.....				—2
Subtotal, Farm income stabilization.....	13,289	19,965	13,567	10,490
352 Agricultural research and services:				
Research programs.....	667	707	725	705
Extension programs.....	307	328	347	295
Marketing programs.....	123	128	133	128
Proposed legislation.....				—2
Animal and plant health programs.....	317	281	285	246
Proposed legislation.....				—4
Economic intelligence.....	153	170	173	184
Other programs and administrative expenses.....	107	191	189	204
Offsetting receipts.....	—74	—87	—95	—95
Subtotal, Agricultural research and services.....	1,599	1,717	1,757	1,662
Deductions for offsetting receipts.....	—14	—2	—2	—2
Total outlays.....	14,875	21,680	15,322	12,150

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
370 COMMERCE AND HOUSING CREDIT				
371 Mortgage credit and thrift insurance:				
Mortgage purchase activities (GNMA).....	1,504	1,019	1,417	1,433
Proposed legislation.....				—842
Mortgage credit (FHA).....	—237	—329	—1,528	—1,546
Housing for the elderly or handicapped.....	742	255	51	51
Rural housing programs (FmHA).....	1,247	1,611	2,079	1,913
Proposed legislation.....				1,325
Federal Deposit Insurance Corporation.....	—1,440	—2,300	—2,020	—2,020
Federal Savings and Loan Insurance Corporation and other..	—588	—898	—716	—716
National Credit Union Administration.....	—12	20	16	16
Subtotal, Mortgage credit and thrift insurance.....	1,216	—622	—700	—1,387
372 Postal Service.....				
Existing law.....	707	789	1,010	760
Proposed legislation.....				—360
Subtotal, Postal Service.....	707	789	1,010	400
376 Other advancement and regulation of commerce:				
Small business assistance.....	933	839	700	455
Technology utilization.....	249	209	237	193
Proposed legislation.....				
Economic and demographic statistics.....	185	215	200	210
Other.....	577	575	605	542
Subtotal, Other advancement of commerce.....	1,943	1,837	1,742	1,400
Deductions for offsetting receipts.....	—2	—1	—1	—1
Total outlays.....	3,865	2,003	2,051	413
400 TRANSPORTATION				
401 Ground transportation:				
Highway systems.....	7,934	8,806	12,324	12,263
Proposed legislation.....				—275
Highway safety.....	269	237	248	243
Mass transit.....	3,930	3,940	4,301	3,797
Railroads.....	2,126	1,551	1,270	1,162
Regulation.....	68	65	65	59
Subtotal, Ground transportation.....	14,326	14,597	18,208	17,249
402 Air transportation:				
Airways and airports (FAA).....	2,891	3,531	4,029	4,185
Aeronautical research and technology.....	563	566	577	587
Air carrier subsidies.....	84	55	51	51
Regulation.....	26	24	21	21
Subtotal, Air transportation.....	3,564	4,176	4,678	4,844
403 Water transportation:				
Coast Guard user fees (proposed).....				—58
Marine safety and transportation.....	2,070	2,453	2,603	2,570
Proposed legislation.....				—7
Ocean shipping.....	614	594	523	503
Regulation.....	11	12	12	11
Subtotal, Water transportation.....	2,696	3,059	3,138	3,019

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
407 Other transportation	90	120	117	118
Deductions for offsetting receipts	-116	-87	-85	-85
Total outlays.....	20,560	21,865	26,057	25,145
450 COMMUNITY AND REGIONAL DEVELOPMENT				
451 Community development:				
Community development block grants.....	3,792	3,525	3,529	3,526
Urban development action grants.....	388	488	516	512
Urban homesteading.....	12	20	12	12
Other programs.....	392	456	440	412
Proposed legislation.....				-38
Subtotal, Community development.....	4,583	4,490	4,497	4,425
452 Area and regional development:				
Rural development.....	917	1,163	1,033	1,043
Economic development assistance.....	412	319	239	151
Local public works.....	40	30	30	30
Coastal energy impact assistance.....	29	18	11	11
Indian programs.....	1,078	1,076	1,154	1,125
Regional commissions.....	341	274	232	212
Tennessee Valley Authority.....	192	200	130	130
Other programs.....	1	-1	-2	-2
Offsetting receipts.....	-274	-277	-291	-286
Subtotal, Area and regional development.....	2,735	2,803	2,535	2,415
453 Disaster relief and insurance:				
SBA Disaster loans.....	-302	-194	-179	-193
Disaster relief.....	115	222	220	220
National flood insurance fund.....	-18	44	63	63
Other programs.....	85	67	55	56
Subtotal, Disaster relief and insurance.....	-119	138	158	146
Deductions for offsetting receipts	-34	-34	-34	-34
Total outlays.....	7,165	7,397	7,156	6,951
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES				
501 Elementary, secondary, and vocational education:				
Education for the disadvantaged.....	2,954	3,031	3,143	3,016
Special programs and populations.....	751	514	547	498
Proposed legislation.....				6
Indian education.....	339	337	333	270
Impact aid.....	546	576	520	499
Education for the handicapped.....	1,141	1,128	1,167	1,160
Vocational and adult education.....	818	773	815	781
Proposed legislation.....				20
Other.....	230	217	228	188
Proposed legislation.....				-1
Subtotal, Elementary, secondary, and vocational edu- cation.....	6,780	6,577	6,752	6,437

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
502 Higher education:				
Guaranteed student loan program	3,023	2,284	2,134	2,134
Proposed legislation				— 102
Self-help grants (proposed)				407
Student financial assistance (existing law)	2,733	3,637	3,741	3,038
Institutional aid	751	820	647	608
Subtotal, Higher education	6,507	6,741	6,522	6,084
503 Research and general education aids	1,040	1,121	1,056	999
504 Training and employment:				
Employment and training assistance	4,110	3,724	3,870	3,595
Proposed legislation				— 87
Older Americans employment	269	278	211	211
Work incentive program	235	315	286	26
Federal-State employment service	731	812	888	886
Other	119	97	92	87
Subtotal, Training and employment	5,464	5,227	5,347	4,719
505 Other labor services	589	633	660	680
506 Social services:				
Rehabilitation services and reseach for the handicapped	2,567	2,571	2,500	2,500
Social services block grant	780	1,038	1,063	213
Proposed legislation				798
Community service programs	387	421	382	100
Family social services	389	565	600	590
Services for children, youth, and families, the elderly, and other special groups	1,637	1,753	2,082	2,032
Domestic volunteer programs	136	132	130	113
Other social services	55	52	52	47
Subtotal, Social services	5,950	6,530	6,808	6,394
Deductions for offsetting receipts	— 29	— 42	— 58	— 57
Total outlays	26,300	26,787	27,088	25,256
550 HEALTH				
551 Health care services:				
Medicare	50,423	57,360	66,542	66,535
Proposed legislation				— 1,856
Medicare premiums and collections	— 3,855	— 4,355	— 5,010	— 5,010
Proposed legislation				160
Medicaid	17,446	19,408	21,155	21,155
Proposed legislation				— 293
Health block grants			1,304	850
Proposed legislation				107
Other health care services	4,338	4,083	2,916	3,349
Proposed legislation				— 137
Subtotal, Health care services	68,350	76,496	86,908	84,860
552 Health research:				
National Institutes of Health research	3,470	3,757	3,967	3,828
Other research programs	478	447	462	452
Subtotal, Health research	3,948	4,204	4,429	4,281

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
553 Education and training of health care work force:				
Research training	195	202	220	204
Clinical training	374	319	208	176
Other	101	59	40	35
Subtotal, Education and training of health care work- force	670	580	467	414
554 Consumer and occupational health and safety:				
Consumer safety	698	728	762	762
Proposed legislation				-2
Occupational safety and health	336	361	367	363
Proposed legislation				-3
Subtotal, Consumer and occupational health and safety	1,034	1,089	1,128	1,119
Deductions for offsetting receipts	15	-28	-27	-27
Total outlays	74,017	82,342	92,905	90,647
600 INCOME SECURITY				
601 General retirement and disability insurance:				
Social security (OASDI)	154,144	170,324	182,388	182,388
Proposed legislation				-4,140
Railroad retirement	5,717	6,127	6,388	5,786
Special benefits for disabled coal miners	1,980	1,816	1,841	1,780
Proposed legislation				-37
Pension Benefit Guarantee Corporation	-67	-32	-26	-26
Proposed legislation				-132
Other	31	37	42	42
Subtotal, General retirement and disability insurance	161,805	178,272	190,633	185,661
602 Federal employee retirement and disability:				
Retirement and disability programs	19,616	21,250	22,941	22,941
Proposed legislation				-362
Federal employee worker's compensation	264	218	228	228
Proposed legislation				-17
Federal employees life insurance fund	-492	-612	-636	-636
Subtotal, Federal employee retirement and disability	19,388	20,856	22,532	22,153
603 Unemployment compensation	23,756	35,020	28,778	28,774
604 Housing assistance:				
Subsidized housing	6,880	7,937	8,981	8,532
Public housing operating subsidies	1,008	1,582	1,516	1,520
Rural housing block grants (proposed)				280
Indian housing (proposed)				40
Other housing assistance	155	257	275	450
Subtotal, housing assistance	8,043	9,776	10,772	10,823
605 Food and nutrition assistance:				
Food stamps and aid to Puerto Rico	11,014	12,825	12,496	12,496
Proposed legislation				-757
Child nutrition and other programs	4,565	5,008	4,930	4,878
Proposed legislation				-295
Subtotal, Food and nutrition assistance	15,579	17,833	17,426	16,322

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
609 Other income security:				
Supplemental security income.....	7,677	8,760	7,509	7,509
Proposed legislation.....				341
AFDC and related assistance.....	7,990	8,224	8,263	8,263
Proposed legislation.....				-732
Earned income tax credit.....	1,201	1,205	1,123	1,123
Refugee assistance.....	1,011	632	521	521
Low income home energy assistance.....	1,687	1,963	1,898	1,398
Other.....	206	249	268	265
Subtotal, Other income security.....	19,773	21,032	19,581	18,688
Total outlays.....	248,343	287,789	289,723	282,422
700 VETERANS BENEFITS AND SERVICES				
701 Income security for veterans:				
Service-connected compensation.....	9,276	9,687	10,290	9,855
Proposed legislation.....				198
Non-service-connected pensions.....	3,879	3,954	3,940	3,940
Proposed legislation.....				-68
Burial and other benefits.....	140	141	148	148
National service life insurance trust fund.....	925	954	986	986
U.S. Government life insurance trust fund.....	64	61	54	54
All other insurance programs.....	-102	-87	-88	-88
Insurance program receipts.....	-473	-445	-433	-433
Subtotal, Income security for veterans.....	13,710	14,264	14,898	14,593
702 Veterans education, training, and rehabilitation:				
Existing law.....	1,947	1,624	1,350	1,350
Proposed legislation.....				-20
Subtotal, Veterans education, training, and rehabilita- tion.....	1,947	1,624	1,350	1,329
703 Hospital and medical care for veterans:				
Medical care and hospital services.....	6,851	7,561	7,974	7,981
Construction.....	444	494	702	688
Medical administration, research, and other.....	221	235	232	231
Subtotal, Hospital and medical care for veterans.....	7,517	8,290	8,908	8,900
704 Veterans housing:				
Loan guaranty revolving fund.....	183	-192	261	261
Direct loan revolving fund.....	-62	-174	-25	-25
Other (HUD Participation Trust Fund).....	-19	-16	-16	-16
Housing program receipts.....		-82	-90	-90
Subtotal, Veterans housing.....	102	-464	130	130
705 Other veterans benefits and services:				
VA administrative expenses and other.....	646	703	729	733
Proposed legislation.....				-1
Non-VA support programs.....	36	40	42	44
Subtotal, Other veterans benefits and services.....	682	744	771	776
Deductions for offsetting receipts.....	-3	-3	-3	-3
Total outlays.....	23,955	24,455	26,053	25,724

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
750 ADMINISTRATION OF JUSTICE				
751 Federal law enforcement activities:				
Organized crime drug enforcement (OCDE)		104	99	103
General investigation (FBI)	737	856	853	1,021
Narcotics violation investigation (DEA)	225	250	258	269
Alcohol, tobacco, and firearms investigation (ATF)	137	145	155	155
Border enforcement activities (Customs and INS)	933	1,064	1,073	1,096
Protection activities (Secret Service)	198	244	268	276
Other enforcement	299	353	347	354
Subtotal, Federal law enforcement activities	2,529	3,017	3,053	3,276
752 Federal litigative and judicial activities:				
Civil and criminal prosecution and representation	541	592	631	646
Federal judicial activities	716	835	925	924
Representation of indigents in civil cases	259	242	256	21
Subtotal, Federal litigative and judicial activities	1,516	1,669	1,813	1,592
753 Federal correctional activities	364	424	457	466
754 Criminal justice assistance:				
Existing law	294	189	154	148
Proposed legislation				36
Subtotal, Criminal justice assistance	294	189	154	184
Deductions for offsetting receipts	-32	-26	-26	-26
Total outlays	4,671	5,273	5,451	5,491
800 GENERAL GOVERNMENT				
801 Legislative functions	1,177	1,253	1,316	1,324
802 Executive direction and management:				
Existing law	96	104	106	113
Proposed legislation				-2
Subtotal, Executive direction and management	96	104	106	112
803 Central fiscal operations:				
Collection of taxes	2,513	3,031	3,146	3,278
Federal Financing Bank	-148	-152	-175	-179
Other fiscal operations	291	456	419	408
Subtotal, Central fiscal operations	2,656	3,334	3,389	3,507
804 General property and records management:				
Real property	-92	86	-137	-137
Personal property	70	37	60	61
Records management	73	90	88	85
Other	283	335	340	354
Proposed legislation				2
Subtotal, General property and records management	334	549	350	365
805 Central personnel management	136	139	150	152

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
806 Other general government:				
Territories.....	250	233	195	178
Indian affairs.....	18	13	8	18
Treasury claims.....	285	406	406	405
Other.....	-49	-23	115	116
Subtotal, Other general government.....	504	628	723	717
Deductions for offsetting receipts.....	-177	-143	-167	-184
Total outlays.....	4,726	5,863	5,868	5,993
850 GENERAL PURPOSE FISCAL ASSISTANCE				
851 General revenue sharing:				
General revenue sharing payments.....	4,569	4,567	4,758	4,567
Administration.....	6	7	7	7
Subtotal, General revenue sharing.....	4,575	4,573	4,765	4,574
852 Other general purpose fiscal assistance:				
Payments and loans to the District of Columbia.....	439	543	544	544
New York City loan guarantee program.....	*	*		
Payments to States from Forest Service receipts.....	243	145	269	269
Payments to States from receipts under the Mineral Leasing Act.....				995
Other payments to States and counties from Federal land management activities.....	653	615	1,123	73
Payments-in-lieu-of taxes.....	96	96	96	96
Payments to territories and Puerto Rico.....	381	402	411	410
Other.....	6	7	6	6
Subtotal, Other general purpose fiscal assistance.....	1,818	1,809	2,449	2,394
Total outlays.....	6,393	6,382	7,215	6,968
900 NET INTEREST				
901 Interest on the public debt.....	117,190	127,700	146,000	144,500
902 Interest received by trust funds:				
Existing law.....	-16,067	-15,752	-15,992	-15,992
Proposed legislation.....				-870
Subtotal, Interest received by trust funds.....	-16,067	-15,752	-15,992	-16,862
908 Other interest:				
Interest on refunds of tax collections.....	1,789	1,904	1,586	1,586
Interest on loans to the Federal Financing Bank.....	-12,235	-14,155	-15,258	-15,141
Other.....	-5,981	-10,701	-11,142	-11,031
Proposed legislation.....				128
Subtotal, Other interest.....	-16,427	-22,952	-24,814	-24,458
Total outlays.....	84,697	88,995	105,193	103,180

Table A-15. CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued

(In millions of dollars)

	1982 actual	Current services		1984 administra- tion proposals
		1983 estimate	1984 estimate	
920 ALLOWANCES				
921 Civilian agency pay raises.....			1,888	
926 Increased employer share, employee retirement.....				949
927 Contingencies for relatively uncontrollable pro- grams				
928 Contingencies for other requirements				
Total outlays.....			1,888	949
950 UNDISTRIBUTED OFFSETTING RECEIPTS				
951 Employer share, employee retirement:				
Existing law	-7,020	-8,214	-8,924	-8,648
Proposed legislation				-1,205
Subtotal, employer share, employee retirement.....	-7,020	-8,214	-8,924	-9,853
953 Rents and royalties on the Outer Continental Shelf	-6,250	-11,793	-11,895	-11,895
954 Federal surplus property disposition:				
Existing law		-408	-803	
Proposed legislation				-1,003
Subtotal, Federal surplus property disposition.....		-408	-803	-1,003
Total outlays.....	-13,270	-20,414	-21,621	-22,750
Total outlays	728,375	806,060	880,270	848,483

* \$500 thousand or less.

¹A large part of the difference between current services and the administration request in rural housing insurance fund outlays is due to a proposed change in accounting treatment of sales and repurchases of certificates of beneficial ownership (CBO's). Under the budget proposals, these sales (and repurchases) of financial assets would be treated as agency borrowing (and repayment of borrowing) by the Farmers Home Administration from the Federal Financing Bank (FFB) rather than as on-budget offsetting receipts and off-budget FFB outlays.

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 February 1983 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 1982-84.

B-1

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

(In billions of dollars)

Description	1982 actual	1983 estimate	1984 estimate
RECEIPTS			
Personal tax and nontax receipts	303.0	293.1	304.1
Corporate profits tax accruals	50.1	50.5	59.4
Indirect business tax and nontax accruals	50.7	55.2	59.3
Contributions for social insurance	214.4	229.1	262.8
Total receipts	618.2	627.9	685.6
EXPENDITURES			
Purchases of goods and services	250.1	279.0	302.5
Defense	(173.0)	(199.4)	(229.0)
Nondefense	(77.1)	(79.6)	(73.5)
Transfer payments	310.8	348.6	357.4
Domestic ("to persons")	(304.8)	(342.2)	(350.9)
Foreign	(6.0)	(6.4)	(6.5)
Grants-in-aid to State and local governments	83.4	86.9	90.1
Net interest paid	82.5	92.4	106.6
Subsidies less current surplus of Government enterprises	12.8	22.1	20.7
Wage disbursements less accruals	.1		
Total expenditures	739.7	829.0	877.3
Deficit (—)	—121.5	—201.1	—191.7

Note: The estimates for 1983 and 1984 are preliminary; any revisions will be published in the February 1983 issue of the *Survey of Current Business*.

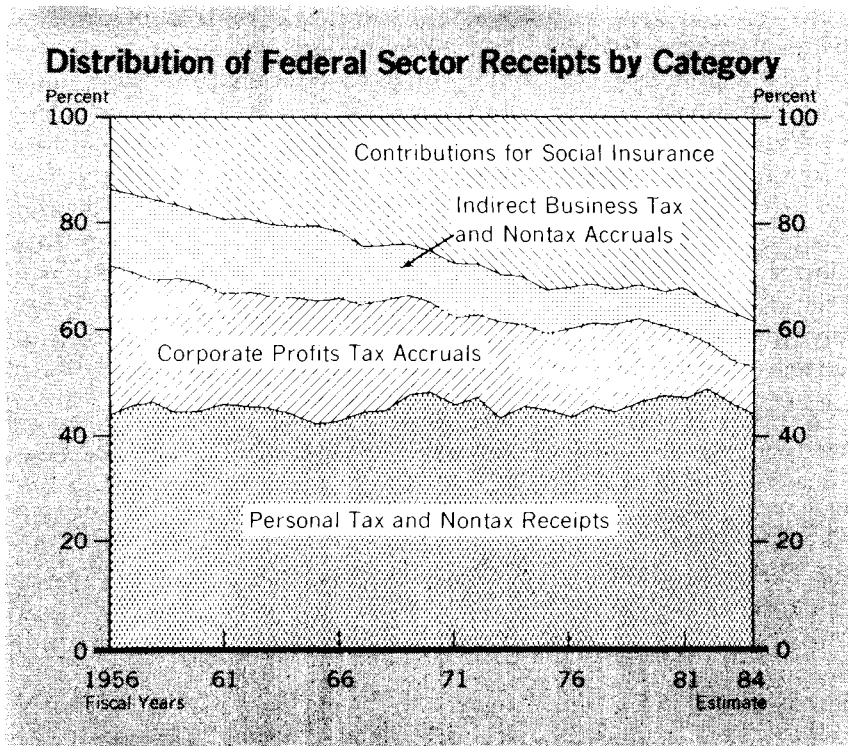
Trends in Federal sector receipts.—Table B-1 divides receipts into four major categories, which are also illustrated in the chart on the distribution of Federal sector receipts by category. Table B-2 shows, at 10-year intervals, 3-year averages of Federal sector receipts by category as a percent of the gross national product (GNP) for the early years of four decades to provide a perspective relative to the 1984 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.

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

Description	1951-53 average actual	1961-63 average actual	1971-73 average actual	1981-83 average estimate	1984 estimate
Personal tax and nontax receipts	8.2	8.6	8.7	9.9	8.7
Corporate profits tax accruals	6.0	4.1	3.1	1.8	1.7
Indirect business tax and nontax accruals	3.0	2.6	1.8	1.8	1.7
Contributions for social insurance	2.1	3.7	5.3	7.7	7.5
Total receipts	19.3	18.9	18.9	21.2	19.7

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 pre-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. Provisions of the Economic Recovery Tax Act of 1981 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—including the coverage of 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.—In 1981 the Congress enacted one of the most sweeping sets of changes in tax law ever enacted: the Eco-

conomic Recovery Tax Act of 1981. This budget proposes some major changes in social insurance taxes and some relatively small additional tax changes—most of which will affect years beyond 1984—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, the Tax Equity and Fiscal Responsibility Act of 1982, 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% on October 1, 1981 and 10% on July 1, 1982. They will be reduced 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 estate and gift tax liabilities.
- 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. These tax reductions were partially offset by increases in the proportion of taxes that corporations must deposit on a current basis.

The Tax Equity and Fiscal Responsibility Act of 1982:

- This included a 10% income tax withholding on interest and dividend income.
- Modified many provisions affecting corporate profit taxes.
- Provided for temporary increases in selected excise taxes.
- Increased Federal employment taxes effective January 1983.
- Extended coverage of medical (hospital insurance) taxes to Federal civilian employees.

Other tax changes:

- Last month the Congress, at the urging of the President, enacted a 5 cent per gallon increase in motor vehicle fuel taxes to provide user charge financed increases in money available for highway and mass transportation grants-in-aid.
- Under previously enacted legislation, the Federal social security taxable earnings base increased from \$32,400 in calendar year 1982 to \$35,700 in 1983 and is estimated to increase to \$37,800 in 1984. The social security tax rate also rose in 1982 to 13.4%. The next scheduled increase is to 14.1% in 1985, but under the recommendations of the bi-partisan social security

plan this increase is recommended to be accelerated to January 1, 1984.

- Under the administration's proposals, the employee contribution to the civil service retirement fund will rise from the present 7% to 9% in 1984 and 11% in 1985. Similar increases are proposed for matching payments by employing agencies. Such employer and employee contributions are counted as NIA social insurance contributions.

Additional details about enacted and proposed tax changes can be found in Part 4 of the 1984 *Budget* on a unified budget basis; additional detail on an NIA basis will be published in the February 1983 *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 in spending since 1956. As can be seen, major shifts in the composition of Federal sector expenditures occur over time. Until recently, for example, for most years since the Korean war, defense purchases of goods and services were 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 continuing efforts to reverse the relative decline in our Nation's defense capability that accompanied these reductions. Defense purchases are expected to total 24.1% of Federal sector expenditures in 1983 and 26.1% in 1984; they were 22.0% in 1981, and 23.3% in 1982.

As with Table B-2, table B-3 shows four decades of historical data on 3-year averages compared to the 1984 recommended distribution.

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-

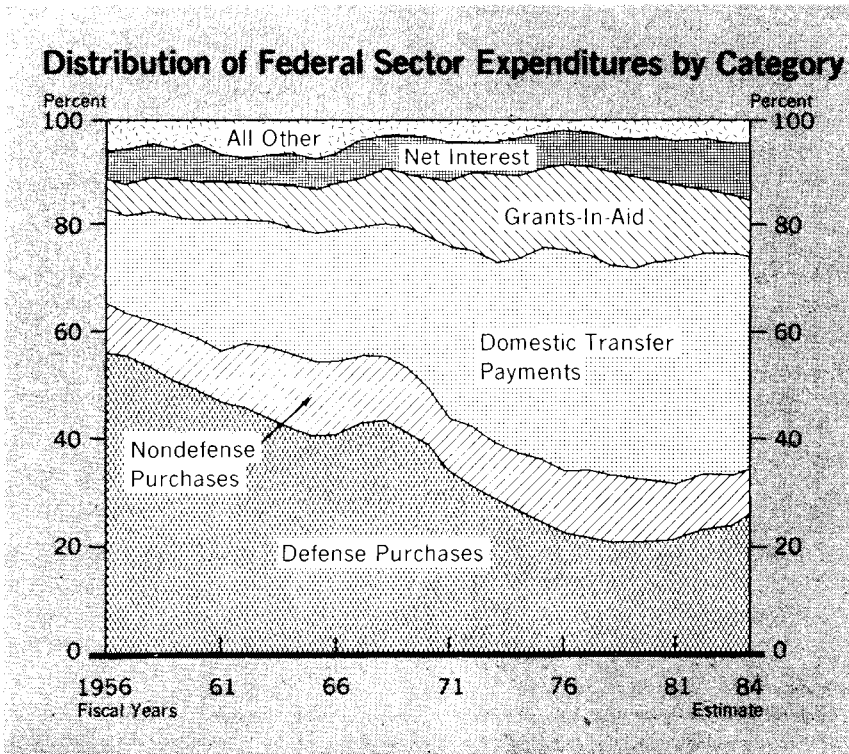


Table B-3. FEDERAL SECTOR EXPENDITURES AS A PERCENT OF GNP

Description	1951-53 average actual	1961-63 average actual	1971-73 average actual	1981-83 average estimate	1984 estimate
Defense purchases	10.9	8.9	6.4	5.7	6.6
Nondefense purchases	1.7	2.1	2.3	2.5	2.1
Domestic transfer payments	2.6	4.6	6.8	10.1	10.1
Foreign transfer payments	.8	.4	.2	.2	.2
Grants-in-aid to State and local governments	.8	1.4	2.9	2.9	2.6
Net interest paid	1.3	1.2	1.3	2.6	3.1
Subsidies less current surplus of Government enterprises	.3	.7	.7	.5	.6
Total expenditures	18.2	19.3	20.6	24.5	25.1

63, a post-Korean war peacetime period, reflected a significantly 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 9.3% 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 the 1981-83 period, defense purchases plus foreign transfer payments are estimated to be equal to 5.9% of the

GNP—well below the 1971-73 average—but in 1984 they are expected to total 6.8% 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 1981-83 such spending is estimated to equal 18.6% of GNP. The current effort to strengthen our national defense capability and to simultaneously reduce the size of the Government relative to the economy will have a noticeable effect by 1984. In that year, defense purchases and foreign transfers are estimated at 6.8% of GNP while all other spending is estimated to be equal to 18.3% of GNP.

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)

	1979 actual	1980 actual	1981 actual	1982 actual	1983 estimate	1984 estimate
Defense purchases:						
Compensation of employees	47.9	51.5	58.8	66.3	70.1	72.5
Other	60.3	75.1	87.8	106.7	129.3	156.5
Total defense purchases	108.2	126.5	146.6	173.0	199.4	229.0
Nondefense purchases:						
Compensation of employees	26.7	28.9	31.2	32.3	33.6	34.3
Other	29.2	34.4	40.3	44.8	46.0	39.2
Total nondefense	55.9	63.3	71.5	77.1	79.6	73.5

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 \$29.6 billion in 1984 over 1983. 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 such purchases remained relatively stable, and starting in 1979 began the rise that is continuing in this budget.

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 Government enterprises; Federal law enforcement; and operation of veterans hospitals. Table B-5 shows these purchases by agency for the years 1975 to 1984, reflecting the agency structure in the 1984 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 1984—such sales may exceed new purchases. The decline of these purchases in 1983 and 1984 is partially due to disposition of commodities through the payments-in-kind program. The value of these commodities are reflected in the current deficit estimates in table B-8.

Table B-5.—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	1984
Legislative and judicial branches.....	1.0	1.1	1.4	1.5	1.6	1.8	1.8	2.1	2.4	2.5
Department of Agriculture.....	2.6	2.6	5.4	4.4	2.7	5.5	5.8	13.2	10.7	4.0
Commodity Credit Corporation.....	(0.2)	(0.2)	(2.7)	(0.8)	(-1.0)	(1.0)	(1.2)	(8.0)	(5.4)	(-0.7)
Forest Service.....	(0.8)	(0.9)	(1.1)	(1.2)	(1.5)	(1.8)	(1.9)	(1.9)	(2.0)	(1.7)
All other.....	(1.5)	(1.5)	(1.7)	(2.3)	(2.2)	(2.7)	(2.8)	(3.3)	(3.3)	(3.0)
Department of Commerce.....	0.8	0.9	1.0	1.1	1.2	1.9	1.5	1.5	1.6	1.5
Corps of Engineers, Civil.....	2.1	2.2	2.3	2.6	3.0	3.3	3.2	3.0	3.0	2.5
Education activities.....	0.4	0.3	0.3	0.3	0.4	0.4	0.6	0.7	0.8	0.7
Energy activities.....	1.8	2.2	3.0	4.5	4.8	3.5	8.2	5.4	4.9	4.2
Department of Health and Human Services.....	5.0	5.4	5.9	6.5	6.8	7.9	8.6	8.8	9.4	9.1
Health.....	(3.3)	(3.7)	(3.8)	(4.4)	(4.6)	(5.4)	(6.0)	(5.9)	(6.2)	(6.1)
Income security and other.....	(1.7)	(1.8)	(2.1)	(2.0)	(2.3)	(2.5)	(2.6)	(2.9)	(3.2)	(3.0)
Department of Housing and Urban Development.....	0.7	0.5	0.5	0.6	0.7	0.5	0.4	0.2	0.3	0.2
Department of the Interior.....	1.9	2.4	2.5	2.7	3.2	3.7	3.7	3.6	3.9	3.8
Department of Justice.....	1.3	1.4	1.6	1.7	1.9	2.1	2.3	2.4	2.8	3.1
Department of Labor.....	0.7	0.9	1.1	1.2	1.7	1.9	1.8	2.1	1.9	1.8
Department of State.....	0.7	0.9	1.0	1.2	1.4	1.5	1.5	1.8	1.9	2.2
Department of Transportation.....	3.0	3.2	3.6	4.0	4.3	4.8	5.1	5.3	6.1	6.5
Coast Guard.....	(0.8)	(0.9)	(1.0)	(1.1)	(1.3)	(1.4)	(1.6)	(1.8)	(2.1)	(2.2)
Federal Aviation Administration.....	(1.7)	(1.8)	(2.0)	(2.2)	(2.3)	(2.5)	(2.7)	(2.5)	(3.0)	(3.4)
Other.....	(0.5)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)	(0.8)	(1.0)	(1.0)	(0.9)
Department of the Treasury.....	2.6	2.7	2.9	3.2	3.5	4.1	4.3	4.2	5.0	5.4
Internal Revenue Service.....	(1.6)	(1.7)	(1.8)	(1.9)	(2.1)	(2.3)	(2.4)	(2.5)	(3.0)	(3.3)
Other.....	(1.0)	(1.0)	(1.1)	(1.2)	(1.4)	(1.7)	(1.9)	(1.7)	(2.0)	(2.1)
Environmental Protection Agency.....	0.5	0.5	0.6	0.6	0.8	0.9	1.0	1.0	0.9	0.9
National Aeronautics and Space Administration.....	3.2	3.6	3.9	3.9	4.1	4.7	5.3	5.9	6.6	6.8
Veterans Administration.....	4.1	4.7	5.2	5.8	6.2	7.1	7.6	8.1	8.9	9.5
Hospital and medical care.....	(3.6)	(3.9)	(4.6)	(5.1)	(5.4)	(6.3)	(6.8)	(7.4)	(8.2)	(8.6)
Administration and other.....	(0.5)	(0.7)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)	(0.7)	(0.7)	(0.9)

All other	5.3	5.5	6.0	6.7	7.7	7.9	8.8	7.9	8.5	8.8
National Science Foundation	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Nuclear Regulatory Commission	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
OPM: Employee health benefits and imputed employee retirement contributions	(0.7)	(0.9)	(1.0)	(1.3)	(1.4)	(1.7)	(2.0)	(2.1)	(2.3)	(2.3)
Postal Service	(0.7)	(0.7)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.4)	(0.7)	(1.0)
Tennessee Valley Authority	(1.0)	(1.1)	(1.2)	(1.5)	(2.0)	(1.7)	(1.5)	(1.0)	(0.6)	(0.4)
United States Information Agency	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)	(0.7)
Imputed bank service charges	(0.5)	(0.3)	(0.5)	(0.6)	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Other	(1.9)	(1.7)	(2.0)	(2.1)	(2.4)	(2.6)	(3.2)	(2.6)	(3.0)	(3.0)
Total	37.7	40.7	48.4	52.6	55.9	63.3	71.5	77.1	79.6	73.5

The Department of Health and Human Services and the Veterans Administration are normally the two largest agencies in terms of nondefense purchases. Their combined spending is projected to be 25% of the total in 1984. In 1984 the combined nondefense purchases for health care and research by the two agencies is estimated at \$14.7 billion, nearly 80% of the total purchases for the two agencies. Most of their remaining purchases are for administering income security transfer programs. Both the National Aeronautics and Space Administration with \$6.8 billion in 1984 nondefense purchases and the Energy activities with \$4.2 billion in 1984 nondefense purchases conduct major research and development programs. The Transportation Department's \$6.5 billion of 1984 nondefense purchases are mainly for the operation of the Federal Aviation Agency and the Coast Guard. The Corps of Engineers has an estimated \$2.5 billion in 1984 nondefense purchases which, along with the Tennessee Valley Authority's \$0.4 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-6 shows, spending on human resources programs—especially income security programs—dominates domestic transfer payments. This spending is expected to continue to rise in 1984, largely due to demographic and economic conditions—increases in the covered population and cost-of-living adjustments. Social security accounts for 48.8% of total domestic transfer payments in 1984, while medicare accounts for another 18.0%, unemployment assistance for 7.6%, Federal civilian and military employee's retirement and disability for 11.4%, and veterans benefits for 4.7% 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, the budget proposes some reductions from levels otherwise determined by automatic eligibility, and 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 non-human resources functions—the budget proposes significant restraint in the spending levels.

Table B-6. FUNCTIONAL COMPOSITION OF DOMESTIC TRANSFER PAYMENTS

(In billions of dollars)

Description	Actual										Estimate	
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
HUMAN RESOURCES PROGRAMS												
Income security:												
Social security (OASDI)	46.6	53.2	61.5	70.3	81.1	89.3	99.4	113.7	134.1	149.6	161.9	171.2
Railroad retirement	2.4	2.6	3.0	3.4	3.7	3.9	4.2	4.7	5.2	5.6	6.0	5.7
Civil service retirement	4.5	5.6	6.9	8.2	9.4	10.8	12.2	14.5	17.4	19.2	20.8	22.1
Unemployment benefits	4.9	5.6	12.5	18.3	14.2	10.9	9.9	16.4	17.6	22.0	34.7	26.8
Benefits for coal miners	.9	1.0	.9	1.0	.9	1.0	1.6	1.8	1.7	1.7	1.6	1.5
Supplemental security income		1.9	4.2	4.6	4.7	4.9	5.2	5.7	6.4	6.9	7.3	7.5
Food and nutrition	2.1	2.7	4.2	4.7	4.4	4.5	5.7	7.9	9.8	9.6	11.2	10.1
Special payments, Treasury ¹			1.7	.9	.9	.9	.8	1.3	1.3	1.2	1.2	1.1
Workmen's compensation	.2	.3	.4	.5	.6	.6	.7	.8	.9	.9	1.0	1.0
Other	.2	.1	.1	.2	.2	.2	.1	.6	.2	.4	.4	.3
Subtotal, Income security	61.8	72.9	95.5	111.9	120.2	127.0	139.8	167.2	194.7	216.9	246.1	247.5
Health:												
Medicare	9.0	10.9	14.1	16.9	20.7	24.2	28.1	33.8	41.1	49.0	55.7	63.0
Other	.4	.4	.5	.6	.6	.6	.7	.7	.8	.7	.7	.6
Subtotal, Health	9.4	11.4	14.6	17.4	21.3	24.8	28.7	34.5	41.9	49.7	56.3	63.6
Education, training, employment, and social services:												
Education	.8	.8	1.3	1.9	2.5	2.9	3.5	4.6	5.5	5.2	5.4	4.9
Training, employment, and social services	.7	.7	.6	.4	.6	.8	.9	1.1	1.1	.9	1.0	.8
Subtotal, education, training, employment, and social services	1.5	1.5	1.9	2.4	3.0	3.6	4.4	5.7	6.6	6.2	6.4	5.8

Table B-6. FUNCTIONAL COMPOSITION OF DOMESTIC TRANSFER PAYMENTS—Continued

(In billions of dollars)

Description	Actual										Estimate	
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Veterans benefits and services	9.7	10.4	12.8	14.3	13.3	13.5	14.0	14.4	15.5	16.2	16.3	16.4
Total, human resources programs	82.5	96.3	124.8	146.0	157.9	168.9	186.9	221.8	258.8	288.9	325.2	333.4
ALL OTHER FUNCTIONS												
National defense (military retired pay)	4.3	5.0	6.2	7.2	8.1	9.0	10.1	11.8	13.6	14.8	16.0	16.3
All other functions	.4	.5	.4	.6	.6	.7	.8	1.1	1.1	1.1	1.0	1.1
Total functions not included in human resources grouping	4.7	5.6	6.6	7.8	8.7	9.8	10.9	12.8	14.7	15.9	17.0	17.4
Total domestic transfer payments	87.2	101.8	131.4	153.8	166.6	178.7	197.8	234.6	273.4	304.8	342.2	350.9

¹Includes 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-7 shows detail on grants-in-aid by budget function and major activity. Grant expenditures are discussed in greater detail in Special Analysis H of this document. 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. Despite this general effort to reduce the growth rates in grants-in-aid, there is one major administration initiative for expanding Federal grants-in-aid. This initiative—a major increase in highway construction and mass transportation grants—was enacted by the Congress last month and will have a major effect starting next year.

Table B-7. FUNCTIONAL COMPOSITION OF FEDERAL GRANTS-IN-AID

(In billions of dollars)

Description	Actual										Estimate	
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
HUMAN RESOURCES PROGRAMS												
Income security:												
Public assistance cash ¹	5.9	5.4	5.1	5.8	6.3	6.6	6.5	7.2	8.4	7.9	8.1	7.4
Child nutrition and other food programs..	1.1	1.2	1.7	2.1	2.7	2.8	3.3	3.6	4.4	4.2	4.8	4.4
Other	.5	.5	.9	1.2	1.3	1.3	1.5	3.0	4.3	4.6	4.5	4.0
Subtotal, income security	7.5	7.1	7.7	9.2	10.4	10.8	11.3	13.8	17.1	16.7	17.4	15.8
Health:												
Medicaid	4.6	5.8	6.8	8.6	9.8	10.6	12.4	13.9	16.8	17.3	19.3	20.7
Other (includes research, construction, services, and medical training)	1.7	2.0	2.4	2.9	2.9	2.8	2.8	2.8	3.1	3.2	2.9	3.0
Subtotal, health	6.3	7.8	9.2	11.4	12.7	13.4	15.1	16.7	19.9	20.5	22.2	23.7
Education, training, employment, and social services:												
Education	3.6	3.5	4.6	4.5	4.9	5.5	6.6	7.3	7.4	6.9	6.9	6.6
Training and employment	2.2	1.9	3.4	5.6	6.0	9.5	9.2	8.5	7.1	3.8	3.5	3.5
Social services	3.0	2.9	3.6	3.8	4.4	5.0	5.8	5.0	5.4	5.3	6.0	5.9
Subtotal, education, training, employment, and social services	8.7	8.4	11.7	13.9	15.4	20.0	21.6	20.7	19.9	16.1	16.4	16.0
Veterans benefits and services	*	*	*	.1	.1	.1	.1	.1	.1	.1	.2	.2
Total, human resources programs	22.5	23.3	28.7	34.5	38.5	44.2	48.1	51.3	57.0	53.5	56.2	55.7
Natural resources and environment	1.1	2.0	2.3	2.9	4.1	3.9	4.7	5.3	4.9	4.8	4.0	3.6

Community and regional development:												
Local public works.....					6	2.9	1.6	.4	.1			
Block grants.....				1.0	2.0	2.4	3.1	4.0	4.3	4.1	3.9	3.9
Other.....	2.6	2.7	2.8	2.4	1.8	1.5	1.7	1.9	1.6	1.1	1.0	.7
Subtotal, community and regional development.....	2.6	2.7	2.8	3.4	4.4	6.8	6.4	6.3	5.9	5.2	4.9	4.7
Transportation.....	5.3	5.3	5.8	7.5	7.7	8.1	9.5	11.8	12.2	10.8	12.1	15.7
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	4.6
Anti-recession fiscal assistance.....					1.7	1.3						
Other.....	.4	.4	.5	.4	.5	.8	.9	1.1	1.1	1.3	1.2	1.2
Subtotal, general purpose fiscal assistance.....	7.0	6.5	6.6	6.7	9.0	8.9	7.8	7.9	6.2	5.8	5.7	5.8
All other functions.....	1.9	1.9	2.2	2.6	2.6	2.8	2.6	4.1	3.9	3.3	4.0	4.6
Total other functions.....	17.9	18.4	19.7	23.0	27.7	30.4	31.0	35.4	33.1	29.9	30.7	34.4
Total grants-in-aid.....	40.4	41.6	48.4	57.5	66.3	74.7	79.1	86.7	90.1	83.4	86.9	90.1

*50 million or less.

Note.—Excludes the transition quarter.

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 9.9% in 1981 and an estimated 12.2% in 1984.

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 \$17.6 billion in 1982, over 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 1982 they totaled \$3.7 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-8 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. The large swing in the Postal Service deficit in 1982 is largely due to postal rate increases.

Table B-8 shows the composition of this aggregation by major category.

Table B-8. SUBSIDIES LESS CURRENT SURPLUS OF GOVERNMENT ENTERPRISES

(In billions of dollars)

Description	Actual										Estimate	
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Subsidies:												
Commodity Credit Corporation.....	3.6	2.4	0.6	0.3	0.6	2.3	2.0	0.5	1.4	1.6	6.9	6.4
Rural housing insurance fund.....	.1	.1	.2	.3	.4	.4	.6	.6	.8	1.4	1.3	1.2
Other Department of Agriculture.....	.4	.3	.4	.3	.3	.4	.3	.3	.3	.2	.3	.4
Maritime.....	.4	.4	.5	.5	.5	.5	.5	.6	.5	.5	.5	.4
Housing (HUD).....	1.7	1.9	2.1	2.3	2.9	3.5	4.3	5.1	6.7	7.7	9.1	9.8
Railroad and mass transit.....	.1	.1	.5	.9	1.3	1.4	1.5	2.0	2.2	2.0	1.9	1.3
Other ¹	1.1	.1	.1	.4	.3	.3	.6	.5	.1	.1	.1	.1
Subtotal.....	7.4	5.4	4.4	5.0	6.4	8.9	9.9	9.5	12.0	13.5	20.0	19.6
Enterprise surpluses (—) or deficits:												
Commodity Credit Corporation.....	1.3	1.0	.3	.2	.2	.8	1.3	1.6	1.9	2.2	4.4	2.9
Postal Service.....	1.7	2.2	2.5	2.6	2.0	1.9	1.0	2.1	1.7	*	1.5	2.1
Tennessee Valley Authority.....	—2	—3	—3	—4	—6	—6	—8	—1.1	—1.0	—9	—1.0	—1.3
Federal Housing Administration.....	—3	—1	—2	—2	—2	—2	—2	—4	—4	—5	—3	—5
Federal Deposit Insurance Corporation.....	—1	—1	—2	—2	—2	—3	—3	—3	—4	—6	—9	—5
Federal Savings and Loan Insurance Corporation.....	—1	—2	—2	—2	—2	—3	—3	—3	*	—2	—5	—4
All other ²	—2	—4	—5	—6	—4	—6	—8	—7	—7	—8	—1.1	—1.3
Subtotal.....	1.8	2.2	1.5	1.2	.5	.8	—*	1.0	1.0	—8	2.1	1.1
Total subsidies less current surplus.....	9.2	7.6	6.0	6.2	6.9	9.7	9.9	10.5	13.1	12.8	22.1	20.7

* \$50 million or less.

¹ Includes subsidies by the disaster loan fund of \$0.7 billion in 1973.² 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-9 presents quarterly NIA receipts and expenditures (at seasonally adjusted annual rates) for 1982 to 1984. 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-9 are the best available estimates of the quarterly NIA receipts and expenditures consistent with the 1984 budget, but should be used with clear recognition of their limitations.

Table B-9. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIA, QUARTERLY, 1982-84

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

Description	Actual					Estimated						
	Oct.-Dec. 1981	Jan.-Mar. 1982	Apr.-June 1982	July-Sept. 1982	Oct.-Dec. 1982	Jan.-Mar. 1983	Apr.-June 1983	July-Sept. 1983	Oct.-Dec. 1983	Jan.-Mar. 1984	Apr.-June 1984	July-Sept. 1984
RECEIPTS												
Personal tax and nontax receipts.....	300.9	299.9	305.8	295.6	299.3	293.1	300.2	295.9	296.9	299.4	305.2	319.2
Corporate profits tax accruals.....	59.1	46.5	45.2	49.8	50.8	50.7	50.5	49.8	51.5	56.0	61.7	68.3
Indirect business tax and nontax accruals....	57.2	48.7	49.8	50.8	50.7	53.0	59.7	58.8	58.7	59.2	59.5	59.8
Contributions for social insurance.....	208.4	214.9	216.2	217.5	217.4	230.2	234.8	237.8	241.9	268.2	271.2	273.9
Total, receipts.....	625.7	609.9	617.0	613.7	618.2	627.0	645.2	642.3	649.0	682.8	697.6	721.2
EXPENDITURES												
Purchases of goods and services.....	250.5	249.7	244.3	259.0	276.1	278.9	272.8	288.0	300.9	302.4	297.8	308.9
Defense.....	(166.9)	(166.2)	(176.2)	(182.7)	(188.9)	(196.2)	(202.1)	(210.3)	(219.7)	(226.2)	(232.3)	(237.8)
Nondefense.....	(83.6)	(83.5)	(68.2)	(76.3)	(87.2)	(82.7)	(70.7)	(77.7)	(81.2)	(76.2)	(65.5)	(71.1)
Transfer payments.....	300.7	303.2	312.8	327.4	344.0	346.5	350.6	352.2	348.3	359.8	360.9	361.5
Domestic (to "persons").....	(294.0)	(297.2)	(307.0)	(321.8)	(337.0)	(340.5)	(344.4)	(345.8)	(341.8)	(353.3)	(354.4)	(355.0)
Foreign.....	(6.6)	(6.0)	(5.8)	(5.6)	(7.0)	(6.0)	(6.2)	(6.4)	(6.5)	(6.5)	(6.5)	(6.5)
Grants-in-aid to State and local govern- ments.....	83.6	83.0	85.0	82.0	84.2	86.5	88.1	89.2	89.5	90.0	90.1	90.4
Net interest paid.....	79.0	79.6	82.8	88.7	88.2	90.8	93.6	97.0	100.7	104.6	108.5	112.6
Subsidies less current surplus of Govern- ment enterprises.....	13.6	12.7	11.6	12.6	23.4	20.1	20.3	24.5	21.4	20.3	19.7	21.4
Wage disbursements less accruals.....	.1	.2										
Total expenditures.....	727.4	728.3	736.6	769.7	815.9	822.8	825.4	850.9	860.8	877.1	877.0	894.8
Deficit (-).....	-101.7	-118.4	-119.6	-156.0	-197.8	-195.8	-180.2	-208.6	-211.8	-194.3	-179.4	-173.6

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-10 shows the major differences between the budget and the Federal sector of the NIA. These differences are explained below.

Table B-10. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIA

(In billions of dollars)

Description	1980 actual	1981 actual	1982 actual	1983 estimate	1984 estimate
RECEIPTS					
Total budget receipts	517.1	599.3	617.8	597.5	659.7
Government contributions for employee retirement (grossing) ..	8.6	9.7	10.7	12.2	14.0
Other netting and grossing	7.0	8.0	9.3	11.7	13.9
Adjustment to accruals	-6.6	-1.1	-18.2	8.2	-3
Geographic exclusions	-1.2	-1.3	-1.6	-1.7	-1.9
Other	.2	.1	.2	*	.2
Federal sector, NIA receipts	525.1	614.7	618.2	627.9	685.6
EXPENDITURES					
Total budget outlays	576.7	657.2	728.4	805.2	848.5
Lending and financial transactions	-10.3	-7.4	-5.3	-3.8	-3.8
Government contribution for employee retirement (grossing) ...	8.6	9.7	10.7	12.2	14.0
Other netting and grossing	7.0	8.0	9.3	11.7	13.9
Defense timing adjustment	-2	-1.8	-1.2	-1.7	-2.5
Bonuses on Outer Continental Shelf land leases	2.8	7.8	2.7	8.3	7.9
Geographic exclusions	-4.4	-4.5	-4.6	-4.8	-4.9
Other	-3.2	-2.5	-.3	1.9	4.2
Federal sector, NIA expenditures	577.0	666.5	739.7	829.0	877.3

* \$50 million or less.

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-10 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.

Similarly, noncompulsory insurance premiums under the supplementary medical insurance program (totaling \$4.4 billion in 1984) and similar but much smaller noncompulsory hospital insurance premiums are classified as offsetting collections (negative outlays) in the budget but they are classified as social insurance contributions in the NIA.

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-11. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME ACCOUNTS, 1973-84

(In billions of dollars)

Description	Actual										Estimate	
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
RECEIPTS, NATIONAL INCOME BASIS												
Personal taxes and nontax receipts.....	107.4	122.7	127.5	137.2	166.4	186.5	222.6	250.1	291.7	303.0	293.1	304.1
Corporate profits tax accruals.....	41.2	43.4	41.8	52.5	58.9	67.3	76.1	70.0	70.9	50.1	50.5	59.4
Indirect business tax and nontax ac- cruals.....	20.7	21.4	22.2	24.3	24.5	27.2	29.1	34.7	55.7	50.7	55.2	59.3
Contributions of social insurance.....	71.5	84.2	91.9	101.0	116.2	133.3	153.1	170.3	196.3	214.4	229.1	262.8
Total receipts, national income basis.....	240.7	271.6	283.4	314.9	365.9	414.3	480.8	525.1	614.7	618.2	627.9	685.6
EXPENDITURES, NATIONAL INCOME BASIS												
Purchases of goods and services.....	101.1	104.5	117.9	125.1	139.8	150.4	164.1	189.8	218.1	250.1	279.0	302.5
Defense.....	(72.8)	(73.6)	(80.2)	(84.4)	(91.4)	(97.8)	(108.2)	(126.5)	(146.6)	(173.0)	(199.4)	(229.0)
Nondefense.....	(28.4)	(30.9)	(37.7)	(40.7)	(48.4)	(52.6)	(55.9)	(63.3)	(71.5)	(77.1)	(79.6)	(73.5)
Transfer payments.....	89.8	104.8	134.5	156.8	169.8	182.2	201.8	239.4	279.2	310.8	348.6	357.4
Domestic ("to persons").....	(87.2)	(101.8)	(131.4)	(153.8)	(166.6)	(178.7)	(197.8)	(234.6)	(273.4)	(304.8)	(342.2)	(350.9)
Foreign.....	(2.7)	(3.0)	(3.1)	(3.0)	(3.2)	(3.5)	(4.1)	(4.8)	(5.7)	(6.0)	(6.4)	(6.5)
Grants-in-aid to State and local govern- ments.....	40.4	41.6	48.4	57.5	66.3	74.7	79.1	86.7	90.1	83.4	86.9	90.1
Net interest paid.....	15.7	19.6	21.7	25.2	28.4	33.5	40.6	50.6	66.2	82.5	92.4	106.6
Subsidies less current surplus of Govern- ment enterprises.....	9.2	7.6	6.0	6.2	6.9	9.7	9.9	10.5	13.1	12.8	22.1	20.7
Wage disbursements less accruals.....	— .5	.2	.4			— *	*		— .1	.1		
Total expenditures, national income basis.....	255.7	278.2	328.8	370.7	411.2	450.4	495.6	577.0	666.5	739.7	829.0	877.3
Excess of receipts (+) or expendi- tures (—), national income basis.....	— 14.9	— 6.6	— 45.4	— 55.8	— 45.3	— 36.1	— 14.8	— 51.9	— 51.9	— 121.5	— 201.1	— 191.7

* \$50 million or less.

Note.—Excludes the transition quarter.

SPECIAL ANALYSIS B

B-27

PART 2

ANALYSES OF
THE BUDGET TOTALS

2-1

INTRODUCTION

Part 2 provides analyses and tabulations of the budget totals that cover Government finances and operations as a whole, and reflect the ways in which Government finances affect the economy. These special analyses are designated C through I.

Special Analysis C (Funds in the Budget) classifies budget information by the groups of funds (Federal and trust) that comprise the budget.

Special Analysis D (Investment, Operating, and Other Budget Outlays) classifies budget outlays in terms of the duration and nature of the benefits provided, distinguishing those of an investment or developmental type from those that primarily yield current benefits. Apart from this analysis, the U.S. budget includes outlays that are for "capital" or investment-type activities in the same accounts in which "current" activities and costs are shown.

Special Analyses E (Borrowing and Debt) describes current developments and past trends in Federal borrowing and debt. It also considers interest on the Federal debt, investment by Government accounts in Federal securities, the statutory debt limit, and the total of Federal and federally assisted borrowing from the public.

Special Analysis F (Federal Credit Programs) explains the operation of the credit budget, which applies budgetary controls on Federal lending activities. The Special Analysis Provides information on direct loans, guarantees of private loans, and loans of Government-sponsored enterprises. It also includes aggregate measures of total credit supplied to the public and credit raised from the public under Federal auspices.

Special Analysis G (Tax Expenditures) provides a discussion of revenues losses due to provisions of the Federal income tax laws that allow a special exclusion, exemption, or deduction from gross income or that provide a special credit, preferential rate of tax, or deferral of tax liability.

Special Analysis H (Federal Aid to State and Local Governments) contains information on Federal grants to State and local governments and assistance provided through loans and tax expenditures. It shows Federal aid for past years and relates it to the finances of both the Federal Government and State and local governments. This analysis provides a profile of Federal grants by region, a description of the State and local government sector of the national income accounts, and an identification of other grant information sources.

Special Analysis I (Civilian Employment in the Executive Branch) deals with the levels of civilian employment in the executive branch and the systems used to control civilian employment. It also contains figures on total Federal personnel costs (including military personnel).

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	1982 actual	1983 estimate	1984 estimate
RECEIPTS			
Federal funds:			
Total in fund accounts.....	442,116	422,301	450,243
Intrafund transactions.....	— 3,132	— 7,097	— 5,752
Proprietary receipts from the public.....	— 17,287	— 23,903	— 24,340
Receipts from off-budget Federal entities.....	— 12,444	— 14,357	— 15,406
Receipts, Federal funds.....	409,253	376,945	404,745
Trust funds:			
Total in fund accounts.....	289,030	338,155	357,081
Intrafund transactions.....	— 1,858	— 3,267	— 4,481
Proprietary receipts from the public.....	— 17,033	— 17,982	— 19,941
Receipts from off-budget Federal entities.....	— 1,732	— 2,152	— 2,450
Receipts, trust funds.....	268,407	314,755	330,210
Interfund transactions.....	— 59,894	— 94,206	— 75,253
Total budget receipts.....	617,766	597,494	659,702
OUTLAYS			
Federal funds:			
Total in fund accounts.....	558,976	648,403	655,965
Intrafund transactions.....	— 3,132	— 7,097	— 5,752
Proprietary receipts from the public.....	— 17,287	— 23,903	— 24,340
Receipts from off-budget Federal entities.....	— 12,444	— 14,357	— 15,406
Outlays, Federal funds.....	526,113	603,047	610,467
Trust funds:			
Total in fund accounts.....	282,778	319,761	340,140
Intrafund transactions.....	— 1,858	— 3,267	— 4,481
Proprietary receipts from the public.....	— 17,033	— 17,982	— 19,941
Receipts from off-budget Federal entities.....	— 1,732	— 2,152	— 2,450
Outlays, trust funds.....	262,155	296,361	313,269
Interfund transactions.....	— 59,894	— 94,206	— 75,253
Total budget outlays.....	728,375	805,202	848,483
Budget deficit.....	— 110,609	— 207,708	— 188,781

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.

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 1984, the Federal fund budget receipts are estimated at \$404.7 billion and outlays are estimated at \$610.5 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.

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.

¹ Additional information on budget receipts and offsetting collections is provided in Part 7 of the Budget of the United States Government, Fiscal Year 1984.

Table C-2. **FEDERAL FUND RECEIPTS AND OUTLAYS**

(In millions of dollars)

Description	1982 actual	1983 estimate	1984 estimate
RECEIPTS BY SOURCE			
Individual income taxes.....	297,744	285,194	295,589
Corporation income taxes.....	49,207	35,286	51,770
Excise taxes.....	28,670	25,630	25,336
Estate and gift taxes.....	7,991	6,114	5,902
Customs duties.....	8,824	8,789	9,107
Miscellaneous receipts.....	16,817	15,932	17,042
Total receipts, Federal funds.....	409,253	376,945	404,745
OUTLAYS BY AGENCY			
Legislative branch.....	1,361	1,524	1,581
The Judiciary.....	700	816	903
Executive Office of the President.....	95	102	109
Funds appropriated to the President.....	5,886	6,787	7,476
Agriculture.....	36,213	44,920	34,933
Commerce.....	2,046	1,966	1,667
Defense—Military.....	182,849	208,920	238,595
Defense—Civil.....	2,948	2,906	2,359
Education.....	14,080	14,396	13,496
Energy.....	7,578	8,711	8,822
Health and Human Services.....	65,779	90,302	70,450
Housing and Urban Development.....	14,491	14,853	13,737
Interior.....	3,955	4,079	3,589
Justice.....	2,585	2,955	3,262
Labor.....	8,762	18,539	10,721
State.....	2,318	2,437	2,669
Transportation.....	10,371	10,345	9,884
Treasury.....	111,055	119,542	137,526
Environmental Protection Agency.....	5,029	4,242	3,873
National Aeronautics and Space Administration.....	6,026	6,713	6,973
Veterans Administration.....	23,517	23,923	25,192
Other independent agencies.....	24,719	26,269	24,598
Allowances ¹			949
Undistributed offsetting receipts: Rents and royalties on the Outer Continental Shelf.....	— 6,250	— 11,793	— 11,895
Federal surplus property disposition.....		— 408	— 1,003
Total outlays, Federal funds.....	526,113	603,047	610,467
Excess of outlays (—).....	— 116,860	— 226,102	— 205,721

¹Includes allowance for increased employing agency payments for employee retirement.

Obligations.—The obligations (net) for Federal funds are estimated at \$646.2 billion for 1984, as set forth in table C-3. These transactions flow largely from budget authority for Federal funds of \$640.3 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	1982 actual	1983 estimate	1984 estimate
Legislative branch	1,397	1,609	1,596
The Judiciary	716	823	913
Executive Office of the President	93	101	111
Funds appropriated to the President	5,301	7,928	7,911
Agriculture	39,984	40,596	32,457
Commerce	1,915	1,749	1,411
Defense—Military	205,751	235,063	266,444
Defense—Civil	2,898	3,059	2,602
Education	14,423	14,604	12,731
Energy	10,115	8,790	8,665
Health and Human Services	63,697	85,288	70,139
Housing and Urban Development	39,964	29,647	25,256
Interior	3,738	4,126	3,422
Justice	2,534	2,980	3,288
Labor	8,292	18,618	11,318
State	2,355	2,615	2,701
Transportation	10,527	10,458	8,658
Treasury	111,203	119,582	137,551
Environmental Protection Agency	3,281	4,096	3,392
National Aeronautics and Space Administration	5,898	7,380	7,140
Veterans Administration	23,798	24,417	25,540
Other independent agencies:			
Export-Import Bank	1,946	2,064	1,708
Federal Home Loan Bank Board	306	256	— 703
General Services Administration	1	884	219
Office of Personnel Management	15,623	16,920	16,211
U.S. Postal Service	707	789	400
Railroad Retirement Board	389	430	350
All other independent agencies	6,157	7,231	6,746
Allowances:			
Increased employing agency payments for employ- ee retirement			949
Undistributed offsetting receipts:			
Rents and royalties on the Outer Continental Shelf	— 6,250	— 11,793	— 11,895
Federal surplus property disposition		— 408	— 1,003
Total	576,759	639,903	646,226

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, 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 \$53.3 billion in 1984, and gross outlays are planned to total \$67.0 billion, resulting in net outlays of \$13.7 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 \$330.2 billion in 1984, with outlays planned at \$313.3 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 1982–84, trust funds have excesses of receipts of the following amounts (in millions of dollars):

	1982 actual	1983 estimate	1984 estimate
Total receipts, trust funds	268,407	314,755	330,210
Total outlays, trust funds	262,155	296,361	313,269
Excess of receipts or outlays (—), trust funds	6,252	18,393	16,941

Table C-4. **FEDERAL FUND BALANCES OF BUDGET AUTHORITY**

(In millions of dollars)

Department or other unit	Start 1982		End 1982		End 1983		End 1984	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
Legislative branch	208	244	217	245	302	146	316	138
The Judiciary	56	8	63	6	70	2	80	1
Executive Office of the President	20		15		14		15	
Funds appropriated to the President	24,320	19,728	22,729	21,577	23,859	20,883	24,281	20,665
Agriculture	12,651	1,272	16,291	1,339	11,945	1,829	9,469	2,141
Commerce	1,683	362	1,409	362	1,190	187	939	186
Defense—Military	86,147	26,430	107,512	34,548	133,672	38,467	161,521	45,421
Defense—Civil	734	336	684	412	837	317	1,080	39
Education	10,924	1,761	11,246	1,944	11,453	1,067	10,688	1,361
Energy	8,151	6,099	7,178	1,121	7,244	360	7,087	191

Table C-4. FEDERAL FUND BALANCES OF BUDGET AUTHORITY—Continued

(In millions of dollars)

Department or other unit	Start 1982		End 1982		End 1983		End 1984	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
Health and Human Services	12,827	655	10,625	684	5,610	230	5,300	126
Housing and Urban Development	260,454	12,655	205,721	71,346	216,393	55,308	224,933	34,946
Interior	2,520	624	2,152	644	2,150	282	1,970	232
Justice	460	119	394	171	419	112	445	188
Labor	2,413	1,142	1,707	1,737	1,434	385	1,750	817
State	567	100	561	136	738	50	770	49
Transportation	10,548	1,818	10,613	2,059	10,727	1,223	9,501	875
Treasury	339	25,521	2,085	29,419	2,126	29,532	2,132	29,580
Environmental Protection Agency	12,414	1,107	9,967	2,009	9,821	1,422	9,340	1,419
National Aeronautics and Space Administration	1,457	550	1,322	661	1,989	113	2,156	71
Veterans Administration	2,507	2,123	2,737	2,498	3,230	2,236	3,578	1,944
Other independent agencies:								
Export-Import Bank	8,877		8,978		8,963		8,331	
Federal Home Loan Bank Board	149	9,240	1,043	8,934	2,196	8,678	2,209	9,381
General Services Administration	636	766	346	1,045	716	464	820	496
Office of Personnel Management	24	5	87	67	105	135	94	36
Railroad Retirement Board	*	8	11	8		8		8
All other independent agencies	5,202	2,975	3,218	2,908	3,097	2,508	3,049	2,634
Total	466,284	115,650	428,909	185,880	460,301	165,945	491,856	152,944

*500 thousand or less.

Table C-5. PUBLIC ENTERPRISE FUND TRANSACTIONS

(In millions of dollars)

Description	Applicable collections			Gross outlays		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Funds appropriated to the President:						
Foreign assistance	75	122	142	217	253	306
Agriculture:						
Commodity Credit Corporation	7,422	9,471	10,308	19,004	27,733	19,564
Farmers Home Administration:						
Rural housing insurance fund	7,292	7,803	2,684	8,538	9,411	4,922
Agricultural credit insurance fund	10,822	10,600	12,099	12,193	11,332	12,880
Rural development insurance fund	2,032	1,757	2,278	2,444	2,398	2,826
Federal Crop Insurance Corporation	351	254	273	454	328	394
Commerce	100	101	169	177	147	151
Education	179	186	200	215	208	126
Energy	1,490	2,329	2,925	1,543	2,375	2,859
Health and Human Services	70	74	46	91	122	76
Housing and Urban Development:						
Government National Mortgage Association	2,470	2,524	2,101	3,936	3,501	2,640

Table C-5. PUBLIC ENTERPRISE FUND TRANSACTIONS—Continued

(In millions of dollars)

Description	Applicable collections			Gross outlays		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Urban renewal programs	33	17	8	122	87	58
Low-rent public housing	984	1,007	1,007	963	1,109	1,143
Federal Housing Administration Fund	1,840	2,199	2,732	1,603	1,870	1,185
Other	425	987	1,232	1,132	1,258	1,268
Interior:						
Bureau of Reclamation	382	386	439	374	386	439
Other	24	26	27	18	36	35
Labor	157	177	291	90	146	133
Transportation	174	198	113	209	288	115
Treasury	742	162	174	214	2	2
Veterans Administration	1,132	1,600	1,047	1,185	1,183	1,236
Other independent agencies:						
Export-Import Bank	3,108	3,452	3,951	4,281	4,644	5,385
Federal Emergency Management Agency	293	447	503	305	517	584
Federal Home Loan Bank Board: Federal Savings and Loan Insur- ance Corporation	1,168	1,521	1,377	577	624	661
Revolving fund	63	71	71	66	71	71
National Credit Union Administra- tion	213	231	245	201	251	261
Small Business Administration	1,435	1,437	1,465	1,850	1,766	1,462
Tennessee Valley Authority	4,112	4,662	4,805	5,590	6,012	5,815
All other not included above	430	465	577	205	222	378
Total	49,018	54,266	53,289	67,797	78,280	66,975
Offsetting collections from the public	(32,725)	(39,008)	(41,641)			
Offsetting collections from other ac- counts	(16,293)	(15,259)	(11,648)			

Table C-6. OUTLAYS AND RECEIPTS OF TRUST FUNDS

(In millions of dollars)

Description	Outlays			Receipts		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Federal old-age, survivors, and disabili- ty insurance trust funds	155,964	170,491	180,761	148,027	172,233	175,943
Railroad retirement account	5,389	6,846	7,605	4,855	6,385	7,732
Black lung disability trust fund	884	724	707	774	722	707
Veterans life insurance trust funds	990	1,015	1,040	1,195	1,213	1,232
Federal employees retirement funds	19,673	21,325	22,653	31,979	35,180	37,786
Unemployment trust fund	24,282	35,700	30,800	20,491	32,000	31,800
Health insurance trust funds	50,423	57,262	64,681	55,238	59,533	66,338
Highway trust funds	8,035	8,642	11,953	7,822	9,552	12,465
Airport and airway trust fund	1,512	2,172	2,533	674	2,776	3,096
State and local government fiscal as- sistance trust fund	4,569	4,567	4,567	4,567	4,567	4,567
Foreign military sales trust fund	12,028	12,800	13,800	11,839	12,300	13,400
Other trust funds (nonrevolving)	1,070	1,421	1,574	1,569	1,693	2,015
Trust revolving funds	-2,040	-3,204	-2,534			
Subtotal	282,778	319,761	340,140	289,030	338,155	357,081
Intrafund transactions	-1,858	-3,267	-4,481	-1,858	-3,267	-4,481

Table C-6. OUTLAYS AND RECEIPTS OF TRUST FUNDS—Continued

(In millions of dollars)

Description	Outlays			Receipts		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Proprietary receipts from the public.....	-17,033	-17,982	-19,941	-17,033	-17,982	-19,941
Receipts from off-budget Federal entities.....	-1,732	-2,152	-2,450	-1,732	-2,152	-2,450
Total.....	262,155	296,361	313,269	268,407	314,755	330,210

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):

	1981 actual	1982 actual	1983 estimate	1984 estimate
Open book balances.....	9,348	9,959	8,899	8,013
Investments in U.S. securities:				
Public debt.....	188,737	194,697	214,153	231,970
Agency debt.....	1,015	765	765	765
Total.....	199,100	205,421	223,817	240,748

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 balances 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 1984, 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	1982 actual	1983 estimate	1984 estimate
Federal old-age, survivors, and disability insurance trust funds:			
Social insurance taxes and contributions	143,467	147,760	160,901
Interest on Federal securities	2,071	1,057	1,363
Federal payment as employer for employee retirement	1,646	1,778	1,911
Other (mainly receipts of special Federal payments)	843	1,138	1,385
Proposed legislation		20,500	10,383
Subtotal, Federal old-age, survivors, and disability insurance trust funds	148,027	172,233	175,943
Railroad retirement account:			
Social insurance taxes and contributions	2,917	2,685	2,704
Interest on Federal securities	83	18	-66
Receipts from other trust funds	1,820	2,223	2,513
Other (mainly receipts of repayable advances)	35	1,459	2,581
Subtotal, railroad retirement account	4,855	6,385	7,732
Black lung disability trust fund:			
Excise taxes	491	567	608
Advances from general fund	283	155	136
Other receipts	*	*	*
Legislative action required			-37
Subtotal, black lung disability trust fund	774	722	707
Veterans life insurance trust funds:			
Interest on Federal securities	722	768	799
Other receipts	473	445	433
Subtotal, veterans life insurance trust funds	1,195	1,213	1,232
Federal employees retirement funds:			
Social insurance taxes and contributions	4,205	4,362	4,370
Interest on Federal securities	7,939	9,468	10,232
Federal payment as employer for employee retirement (including payment on prior year liabilities):			
Entities included in budget	18,094	18,967	19,682
Entities excluded from budget	1,732	2,028	2,039
Other receipts	10	8	7
Proposed legislation			1,456
Supplemental now requested		348	
Subtotal, Federal employees retirement funds	31,979	35,180	37,786
Unemployment trust fund:			
Social insurance taxes and contributions	16,600	19,523	24,072
Interest on Federal securities	1,181	628	425
Advances from the general fund	2,710	6,816	7,303
Supplemental now requested		5,033	
Subtotal, unemployment trust fund	20,491	32,000	31,800
Health insurance trust funds:			
Social insurance taxes and contributions	34,301	35,976	39,338
Premiums and other charges	3,855	4,355	5,010

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

(Amounts under proposed legislation are shown separately)

Description	1982 actual	1983 estimate	1984 estimate
Interest on Federal securities.....	2,303	2,155	1,623
Federal payment as employer for employee retirement:			
Entities included in budget.....	397	934	1,168
Entities excluded from budget.....		124	169
Other (mainly receipts of special Federal payments).....	14,381	16,118	18,692
Proposed legislation.....		— 129	338
Subtotal, health insurance trust funds.....	55,238	59,533	66,338
Highway trust funds:			
Excise taxes.....	6,744	8,469	11,420
Interest on Federal securities.....	1,079	1,083	1,045
Subtotal, highway trust funds.....	7,822	9,552	12,465
Airport and airway trust fund:			
Excise taxes.....	133	2,299	2,637
Interest on Federal securities.....	542	477	459
Subtotal, airport and airway trust fund.....	674	2,776	3,096
State and local government fiscal assistance trust fund: Deposits for general revenue sharing.....	4,567	4,567	4,567
Foreign military sales trust fund.....	11,839	12,300	13,400
Other trust funds (nonrevolving).....	1,569	1,693	2,015
Subtotal.....	289,030	338,155	357,081
Intrafund transactions.....	— 1,858	— 3,267	— 4,481
Proprietary receipts from the public.....	— 17,033	— 17,982	— 19,941
Receipts from off-budget Federal entities.....	— 1,732	— 2,152	— 2,450
Total receipts.....	268,407	314,755	330,210

*\$500 thousand or less.

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

(Amounts under proposed legislation are shown separately)

Description	1982 actual	1983 estimate	1984 estimate
Federal old-age, survivors, and disability insurance trust funds:			
Benefit payments.....	152,054	166,625	154,328
Payments to other trust funds.....	1,820	3,200	4,396
Administrative expenses and other.....	2,090	2,722	2,412
Proposed legislation.....		— 2,056	— 4,140
Proposed for later transmittal under existing legislation.....			23,765
Subtotal, Federal old-age, survivors, and disability insurance trust funds.....	155,964	170,491	180,761
Railroad retirement account:			
Benefit payments and claims.....	5,296	5,640	5,381

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

[Amounts under proposed legislation are shown separately]

Description	1982 actual	1983 estimate	1984 estimate
Repayment of benefit advances	50	1,159	2,169
Administrative expenses and other	42	47	55
Subtotal, railroad retirement account	5,389	6,846	7,605
Black lung disability trust fund:			
Benefit payments	578	447	501
Federal administrative expenses	36	35	37
Interest on advances	270	188	206
Supplemental now requested		54	
Legislative action required			— 37
Subtotal, black lung disability trust fund	884	724	707
Veterans life insurance trust funds	990	1,015	1,040
Federal employees retirement:			
Benefit payments and claims	19,003	20,729	22,363
Refunds to former employees	637	558	613
Administrative expenses and other	33	38	39
Proposed legislation			— 362
Subtotal, Federal employees retirement	19,673	21,325	22,653
Unemployment trust fund:			
Withdrawals for benefit payments	21,837	27,782	26,995
Repayment of advances from general fund	228		870
Administrative expenses and other	2,217	2,609	2,935
Supplemental now requested		5,309	
Subtotal, unemployment trust fund	24,282	35,700	30,800
Health insurance trust funds:			
Benefit payments	49,150	55,959	65,061
Administrative expenses and other	1,273	1,403	1,476
Proposed legislation		— 100	— 1,856
Subtotal, health insurance trust funds	50,423	57,262	64,681
Highway trust funds (mainly grants to States):			
Current	8,035	8,619	12,232
Supplemental now requested		58	
Legislative action required		— 35	— 279
Subtotal, highway trust funds	8,035	8,642	11,953
Airport and airway trust fund	1,512	2,172	2,533
State and local government fiscal assistance trust fund: Payments for general revenue sharing	4,569	4,567	4,567
Foreign military sales trust fund	12,028	12,800	13,800
Other trust funds (nonrevolving)	1,070	1,421	1,574
Trust revolving funds	— 2,040	— 3,204	— 2,534
Subtotal	282,778	319,761	340,140

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

(Amounts under proposed legislation are shown separately)

Description	1982 actual	1983 estimate	1984 estimate
Intrafund transactions.....	—1,858	—3,267	—4,481
Proprietary receipts from the public.....	—17,033	—17,982	—19,941
Receipts from off-budget Federal entities.....	—1,732	—2,152	—2,450
Total outlays.....	262,155	296,361	313,269

Table C-9. TRUST FUND BALANCES

(In millions of dollars)

Description	As of Sept. 30			
	1981 actual	1982 actual	1983 estimate	1984 estimate
Federal old-age, survivors, and disability insurance trust funds.....	27,238	19,302	33,482	28,664
Railroad retirement account.....	1,986	1,280	516	412
Black lung disability trust fund.....	112	2		
Veterans life insurance funds.....	8,612	8,817	9,015	9,207
Federal employees retirement funds.....	85,025	97,333	111,187	126,320
Unemployment trust fund.....	14,365	10,745	7,349	8,579
Health insurance trust funds.....	21,842	26,657	16,491	18,148
Highway trust funds.....	9,259	9,046	9,956	10,468
Airport and airway trust fund.....	4,719	3,881	4,486	5,050
State and local government fiscal assistance trust fund.....	1,255	1,253	1,253	1,253
Foreign military sales trust fund.....	4,746	4,558	4,058	3,658
Other trust funds (nonrevolving).....	2,232	2,798	3,072	3,504
Trust revolving funds.....	17,708	19,748	22,952	25,486
Total.....	199,100	205,421	223,817	240,748

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

	1981	1982	1983	1984
Balance available on an authorization basis.....	220,914	229,983	255,049	276,816
Unfinanced contract authority:				
Airport and airway trust fund.....	—760	—756	—1,322	—1,571
Highway trust funds.....	—18,487	—18,697	—23,570	—26,809
Foreign military sales trust fund.....	—15,653	—17,077	—19,777	—21,877
Other.....	—1	—1		
Unappropriated receipts:				
Available as needed, on an indefinite basis.....	5	6	4	4
Available for appropriation by Congress:				
Soldiers' Home permanent fund.....	98	119	139	155
Airport and airway trust fund.....	3,774	2,844	3,376	3,342
Highway trust funds.....	9,034	8,600	9,438	9,813
Hazardous substance response trust fund.....	78	229	371	457
Inland waterways trust fund.....	22	55	100	375
Other.....	70	108	1	35
Retained as permanent endowment.....	6	6	6	6
Balance available on a cash basis.....	199,100	205,421	223,817	240,748

Table C-10. TRUST REVOLVING FUND TRANSACTIONS

(In millions of dollars)

Description	Offsetting collections			Gross outlays		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Office of Personnel Management (employees' life insurance and health benefits) ..	6,331	7,922	8,901	5,800	7,066	8,449
Federal Deposit Insurance Corporation.....	3,380	3,071	2,735	1,940	771	715
All other trust revolving funds	573	592	620	505	545	559
Total trust revolving funds ¹	10,284	11,585	12,256	8,245	8,382	9,723
Receipts from the public	(5,136)	(5,354)	(5,283)	.....	.....	.....
Receipts from other accounts.....	(5,149)	(6,231)	(6,973)	.....	.....	.....

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

SPECIAL ANALYSIS D

INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS

This analysis divides Federal spending into two categories: that which is of an investment nature and that which is for operating and other purposes. There has been a growing interest in public capital investment and, in response, this analysis has been redesigned from earlier years and additional data have been provided. The major focus of the presentation continues to be spending for investment purposes, which is defined as outlays designed to yield benefits in future years. Such spending includes the acquisition of physical or financial assets, which yield a stream of services or financial returns over a number of years, as well as expenditures for research and development or education and training, which provide less tangible long-term benefits. Table D-1 summarizes Federal outlays—both on- and off-budget—that are classified as being of an investment nature.

Federal investment-type outlays are made for a wide range of purposes, from foreign assistance loans to purchases of agricultural commodities under the price support program to grants State and local governments for physical investments (such as highway construction) to investment in major weapons systems. This analysis has been redesigned this year to present these diverse investments in historical perspective. While the basic tables are similar to those in previous years, a section has been added showing long-run trends in Federal outlays for public physical capital investment.

The data in this analysis are shown in considerable detail. However, data classification problems are sufficiently great that often these data are approximate. One problem, for example, arises in the case of programs where the recipients are free to utilize the Federal outlay for either investment-type or current purposes (e.g., general revenue sharing). In such cases, this analysis classifies all of the outlays in the category where most of the outlays are expected to occur. Another classification problem arises because some programs could logically be put into more than one subcategory. For example, grants for construction of education facilities not only finance the acquisition of physical assets but also are an element in providing 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 tables. This order begins with loans

Table D-1. SUMMARY OF TOTAL ¹ FEDERAL INVESTMENT-TYPE OUTLAYS, 1981-84

(In billions of dollars)

	1981	1982	1983 estimate	1984 estimate
Loans and financial investments:				
On-budget.....	5.7	11.9	8.0	2.1
Off-budget.....	21.0	14.3	14.3	5.9
Subtotal.....	26.7	26.3	22.3	8.1
Construction and rehabilitation:				
National defense.....	2.8	3.6	4.7	5.6
Nondefense:				
Grants to State and local governments.....	22.1	20.1	20.2	23.6
Other.....	7.7	7.2	7.1	7.0
Subtotal.....	32.7	30.8	32.1	36.2
Acquisition of major equipment:				
National defense.....	36.3	44.7	56.5	70.2
Nondefense.....	1.0	1.5	1.7	0.9
Subtotal.....	37.3	46.2	58.2	71.1
Conduct of research and development:				
National defense.....	16.9	19.8	24.7	29.3
Nondefense.....	17.2	14.9	14.0	13.9
Subtotal.....	34.2	34.7	38.7	43.2
Conduct of education and training:				
Grants to State and local governments.....	14.4	10.5	9.9	9.6
Other.....	11.7	11.1	10.9	9.7
Subtotal.....	26.1	21.6	20.8	19.2
Other (including commodity inventories):				
National defense.....	0.6	0.7	0.7	1.1
Nondefense.....	10.2	10.8	9.3	7.4
Subtotal.....	10.8	11.4	10.1	8.5
Total.....	167.8	170.9	182.1	186.2

¹ Includes off-budget outlays.

and moves to construction and rehabilitation, acquisition of major equipment, conduct of research and development, etc. Consequently, for example, the conduct of research and development does not include the cost of research facilities, because such facilities are included in the construction and rehabilitation of physical assets.

COMPOSITION OF FEDERAL INVESTMENT

Lending and financial investments.—The Federal Government conducts a wide variety of credit activities ranging from loan insurance to foreign assistance and export promotion loans. Federal direct loans are a form of investment, even though many of them are not intended to be profitable. Indeed, as is discussed in Special Analysis F ("Federal Credit Programs") there are major subsidy

elements connected with most Federal credit programs. Federal credit is discussed in detail in the Budget and in Special Analysis F.

Construction and rehabilitation of physical assets is one of the largest components of Federal investment spending. As Table D-1 shows, the great bulk of Federal outlays in this category are in the form of grants to State and local governments to finance construction or rehabilitation of physical assets, rather than being for assets acquired by the Federal Government itself. Table D-2 shows the broad programmatic composition of these grants, while Special Analysis H ("Federal Aid to State and Local Governments") discusses all Federal grants in detail.

Acquisition of major equipment is composed almost entirely of investment in national defense weapons systems. National defense spending is discussed in greater detail in the national defense section of Part 5 of the budget document.

Federal outlays for the *conduct of research and development* are devoted to increasing our basic scientific knowledge and to meeting other related Federal needs. In recent years these outlays have been almost evenly split between defense and nondefense spending. However, by 1984 the national defense component is estimated to increase to 68% of the total. Over the past two decades space research and technology has been the largest component of nondefense outlays for the conduct of research and development, but by 1982 it was overtaken by health research. The decline in outlays for space research is due to the conclusion of the major research and development phase for the space shuttle. Major research and development programs are discussed in the appropriate functions in Part 5 of the Budget, while Special Analysis K discusses Federal research and development.

Federal outlays for the *conduct of education and training* are intended to increase the knowledge and skills of our people. Most of these outlays are grants to State and local governments to assist in the operation of educational institutions, or income transfers to students under the student assistance and veterans readjustment benefits programs. Federal outlays for education and training are discussed in Part 5 of the Budget.

The *other* investment category is composed of an assortment of activities, primarily the acquisition of major commodity inventories (for the farm price support program and the strategic petroleum reserve) and programs such as Census Bureau activities designed to add to our information base.

FEDERAL INVESTMENT IN PUBLIC WORKS AND RELATED ASSETS

Traditionally the budget documents have contained a significant amount of historical information that could be used to analyze

major trends affecting specialized segments of Federal investment-type spending. For example, historical data for education and training outlays are available as part of the functional tabulations, historical data on credit are shown in Special Analysis F, historical data on grants appear in Special Analysis H, and historical data on research and development are shown in Special Analysis K. However, Special Analysis D has not included historical data showing investment-type spending over time.

In order to remedy this shortcoming, the Office of Management and Budget has developed a new set of historical tables entitled "Federal Outlays for Major Physical Capital Investment," which provide historical data related to Special Analysis D. This historical data base does not cover all Special Analysis D investment-type spending. It concentrates on investment in publicly-owned physical assets (including grants to State and local governments for physical investments) but also supplies some historical data on outlays for the conduct of research and development. The new data series include almost all Federal outlays for construction and rehabilitation and for acquisition of major equipment. However, since these data focus on public physical capital acquisition, they exclude a few items (such as ship construction subsidies) that are used for private investment. Table D-2 provides information from this data base showing Federal outlays for public physical investment at 5-year intervals from 1945 to 1980 and annually from 1980 to 1984; Table D-3 summarizes the same data in constant prices and as a percent of the gross national product (GNP). Additional data are available upon request.

Table D-2. FEDERAL OUTLAYS FOR MAJOR PUBLIC PHYSICAL CAPITAL INVESTMENT ¹

(In billions of dollars)

	1945	1950	1955	1960	1965	1970	1975	1980	1981	1982	1983 estimate	1984 estimate
Assets acquired by the Federal Government:												
National defense:												
Military procurement	53.8	1.5	12.8	13.3	11.8	21.6	16.0	29.0	35.2	43.3	55.2	68.2
Military construction and family housing	2.5	0.2	1.7	2.1	1.3	1.3	1.8	2.5	2.6	3.0	4.1	4.5
Atomic energy defense		0.4	1.5	1.7	1.1	0.7	0.9	1.4	1.8	2.6	2.6	4.1
Subtotal, national defense	56.3	2.1	16.1	17.2	14.2	23.6	18.7	33.0	39.6	48.8	61.9	76.8
Nondefense:												
Construction and rehabilitation:												
Water and power projects	0.2	0.9	0.8	1.0	1.4	1.5	3.0	4.3	4.6	3.5	4.5	4.1
Other	0.1	0.4	0.3	0.8	1.4	0.8	1.4	2.7	2.8	3.6	2.6	2.9
Acquisition of major equipment		(*)	(*)	0.1	0.2	0.2	0.4	0.7	1.0	1.3	1.6	0.8
Subtotal, nondefense	0.2	1.3	1.1	1.9	3.0	2.5	4.8	7.7	8.5	8.5	8.7	7.8
Total Federal assets	56.5	3.4	17.2	19.1	17.3	26.1	23.5	40.7	47.9	57.3	70.6	84.6
Grants to State and local governments for physical capital investment:												
Transportation:												
Highways	*	0.4	0.6	2.9	4.0	4.3	4.6	9.0	8.8	7.7	8.5	11.8
Urban mass transportation and airports		*	*	0.1	0.1	0.2	1.0	2.6	3.1	2.9	3.3	3.8
Community and regional development	0.1	*	*	0.1	0.6	1.6	2.5	5.8	5.6	5.2	4.8	4.6
Natural resources and environment:												
Pollution control facilities		*		*	0.1	0.2	1.9	4.3	3.9	3.8	3.1	2.8
Other	*	*	*	*	0.1	0.2	1.9	0.6	0.6	0.3	0.3	0.1
All other ²		*	0.2	0.1	0.2	0.6	0.5	0.2	0.2	0.3	0.3	0.5
Total grants for physical capital investment ²	0.2	0.5	0.8	3.3	5.0	7.1	10.9	22.5	22.1	20.2	20.3	23.7
Total public assets financed by the Federal Government	56.7	3.9	18.0	22.4	22.3	33.2	34.4	63.2	70.2	77.4	90.9	108.3

Table D-2. FEDERAL OUTLAYS FOR MAJOR PUBLIC PHYSICAL CAPITAL INVESTMENT ¹—Continued

(In billions of dollars)

	1945	1950	1955	1960	1965	1970	1975	1980	1981	1982	1983 estimate	1984 estimate
Memorandum												
National defense.....	56.3	2.1	16.1	17.2	14.2	23.6	18.7	33.1	39.6	48.8	62.0	76.8
Nondefense.....	0.4	1.8	1.9	5.2	8.0	9.6	15.7	30.2	30.6	28.6	28.9	31.4

¹ Excludes outlays for private asset acquisition (such as ship construction subsidies) and major commodity inventories (agricultural commodities and the strategic petroleum reserve).² Includes National Guard shelters and civil defense grants classified in the national defense function.

* \$50 million or less.

Table D-3. SUMMARY COMPARISONS OF FEDERAL OUTLAYS FOR MAJOR PUBLIC PHYSICAL CAPITAL INVESTMENTS

	1945	1950	1955	1960	1965	1970	1975	1980	1981	1982	1983 estimate	1984 estimate
In billions of constant (fiscal year 1972 = 100) dollars												
Assets acquired by the Federal Government:												
National defense.....	138.9	3.7	26.7	23.4	18.4	25.9	16.5	18.1	19.7	21.8	26.2	31.3
Nondefense.....	0.5	2.4	1.8	2.6	3.9	2.8	3.7	4.1	4.0	3.7	3.7	3.2
Subtotal.....	139.5	6.1	28.5	26.0	22.3	28.7	20.2	22.2	23.7	25.5	29.9	34.5
Grants to State and local governments for physical capital investment:												
Transportation.....	0.1	0.9	1.0	4.6	6.0	5.2	4.0	5.5	5.3	4.6	4.8	5.9
Community development and housing.....	0.3	*	0.1	0.2	0.9	1.9	1.8	2.7	2.5	2.2	1.9	1.8
Natural resources and environment.....	*	*	*	0.1	0.2	0.4	1.7	2.3	2.0	1.8	1.4	1.1
All other.....	*	*	0.3	0.2	0.2	0.6	0.4	0.1	0.1	0.1	0.1	0.2
Subtotal grants.....	0.4	1.0	1.4	5.2	7.3	8.1	7.9	10.6	9.8	8.7	8.2	9.0
Total.....	139.9	7.0	30.0	31.2	29.6	36.9	28.1	32.8	33.5	34.2	38.1	43.5

As a percent of Gross National Product

Assets acquired by the Federal Government:												
National defense.....	25.94	0.77	4.23	3.45	2.16	2.43	1.26	1.28	1.38	1.61	1.94	2.20
Nondefense.....	0.10	0.50	0.29	0.39	0.46	0.26	0.33	0.30	0.30	0.28	0.27	0.22
Subtotal.....	26.05	1.28	4.51	3.83	2.62	2.70	1.59	1.58	1.67	1.89	2.21	2.42
Grants to State and local governments for physical capital investment:												
Transportation.....	0.02	0.18	0.16	0.60	0.62	0.47	0.37	0.45	0.41	0.35	0.37	0.45
Community and regional development.....	0.05	¹	0.01	0.02	0.09	0.17	0.17	0.22	0.19	0.17	0.15	0.13
Natural resources and environment.....	¹	¹	0.01	0.02	0.02	0.04	0.15	0.19	0.16	0.13	0.11	0.08
All other.....	¹	¹	0.04	0.03	0.02	0.06	0.04	0.01	0.01	0.01	0.01	0.01
Subtotal.....	0.07	0.18	0.22	0.67	0.76	0.73	0.73	0.87	0.77	0.66	0.64	0.68
Total.....	26.11	1.46	4.73	4.50	3.38	3.43	2.32	2.47	2.45	2.55	2.85	3.10

* \$50 million or less.

¹ 0.005 percent or less.

These tables reveal a number of significant facts:

- National defense physical capital investment is currently increasing not only in current dollars but in real (constant price) terms and as a percent of GNP. The constant dollar totals are now well above the lowest levels immediately before and after the Vietnam war and will soon surpass the levels in the post-Korean war period.
- Direct Federal investment in nondefense physical assets is clearly affected by trends in defense investment. At times of defense buildup—such as the Korean war, the Vietnam war, and the current period—these investments tend to be relatively constrained. In turn, in periods of defense reduction these investments have grown.
- Grants for physical capital investment grew rapidly in real (constant dollar) terms and as a percent of GNP between 1945 and 1965. Between 1965 and 1980 grants grew overall in real terms but the composition shifted significantly; transportation grants declined in real terms and as a percent of GNP while non-transportation grants grew rapidly. The budget program calls for a significant real expansion for transportation related grants in 1984 (financed out of new user charges) but accompanied by significant real reductions of grants for other forms of physical investment.

CAPITAL BUDGETING

The Federal Government has never had a capital budget, which would finance capital or investment-type programs separately from current expenditures. From time to time, proposals have been made that the Federal Government adopt a capital budget. A discussion of the applicability of capital budgeting to the Federal budget is included in Part 6 of the Budget. In analyzing this issue it is important to recognize the fundamental difference between capital *planning* and capital *budgeting*.

Under a capital budget the basic system of accounting for capital investments would be changed. Outlays for new capital would be recorded in the capital budget while all other spending would be reflected in an operating budget.

Capital planning, on the other hand, involves systematic analysis of the optimum use of capital resources in combination with other resources to meet perceived needs in the most cost-effective manner. This is a standard practice within the Federal Government under the present budget system. For example, the Veterans Administration projects medical caseload needs and assesses the adequacy of present and possible future physical facilities and other resources to meet them. The Department of Defense has a systematic procedure for analyzing weapons systems needs and

costs. Because resources are finite, the Department must make tradeoffs between research and development, systems acquisition, and operating expenses in deciding how best to meet these needs. Even for areas where the Federal Government finances major investments but generally does not own the resulting facilities—such as highways and pollution control facilities—the Federal Government normally has planning processes designed to match the available resources and needs. Hence, the Government's capital planning processes are integrated into agency budget planning processes, where they can be evaluated in the context of program goals and alternative means of achieving those goals. The estimates reflected in this analyses are the product of agency capital planning but not of an overall capital budget.

DETAILED DATA PRESENTATION

The succeeding tables in this analysis are like those that have traditionally been presented. They distribute total Federal Government outlays (budget and off-budget) into a number of different classifications, primarily focused on the size and composition of investment-type spending, but also showing the composition of non-investment outlays.

The following tables provide two basic displays of investment and non-investment spending. Table D-4 is a summary table showing the data split between national defense spending and civil (i.e., nondefense) spending, with Table D-6 providing detailed data for the same categories. Table D-5, on the other hand, is a summary table identifying separately grants and loans to State and local governments separately from all other Federal outlays, with Table D-7 providing additional details on the same data base.

The classification structure used in compiling information is designed primarily to distinguish investment-type outlays from current outlays. Consequently, it does not provide a ready source of information on the total outlays or other forms of assistance affecting particular sectors of the economy. For example, the category "aids to agriculture, commerce, and transportation" includes current benefits, such as subsidies for operating expenses of air, water, and rail transportation, but 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. Although 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. Federally guaranteed loans, for ex-

ample, are substitutes for direct loans and can result in the creation of certain assets in place of others.¹

CURRENT PROGRAM TRENDS

Investment-type programs.—Total investment-type outlays are estimated to increase from \$182.1 billion in 1983 to \$186.2 billion in 1984. A total of \$8.1 billion in 1984 outlays are for loans and financial investments, \$107.3 billion are for the acquisition, construction, or rehabilitation of physical assets, and \$70.9 billion are for the conduct of education, training, research and development, and other investment-type programs. Defense investment-type outlays, which account for 57% of total investment-type outlays, are primarily for the acquisition of major equipment and other physical assets and for the conduct of research and development. Civil programs are primarily for construction and rehabilitation of physical assets, the conduct of education and the training, and the conduct of research and development.

Table D-4. SUMMARY OF INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
National defense:			
Investment-type programs:			
Construction and rehabilitation.....	3,558	4,728	5,560
Acquisition of major equipment and other physical assets.....	44,664	56,544	70,199
Conduct of research and development.....	19,809	24,673	29,277
Other investment-type programs.....	666	745	1,077
Subtotal, investment-type programs.....	68,697	86,690	106,113
Current programs:			
Provision of benefits.....	15,022	16,222	16,857
Repair, maintenance, and operation of physical assets.....	61,533	66,989	74,045
Other current programs.....	42,165	44,868	48,290
Subtotal, current programs.....	118,720	128,079	139,192
Total, national defense.....	187,418	214,769	245,305
Civil:			
Investment-type programs:			
Loans and financial investments.....	11,932	8,021	2,125
Construction and rehabilitation.....	27,066	27,333	30,567
Acquisition of major equipment.....	1,398	1,640	803
Conduct of research and development.....	14,850	14,032	13,909
Conduct of education and training.....	21,570	20,748	19,203
Commodity inventories and other physical assets.....	3,787	4,052	2,193
Other investment-type programs.....	3,279	3,509	3,369
Subtotal, investment-type programs.....	83,881	79,335	72,170
Current programs:			
Provision of benefits.....	343,328	384,096	400,581
Social services and related programs.....	8,215	8,965	8,099

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

Table D-4. SUMMARY OF INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Aids to agriculture, commerce, and transportation.....	14,997	23,604	20,887
Repair, maintenance, and operation of physical assets.....	513	1,675	1,301
General purpose fiscal assistance.....	6,646	6,594	7,199
Regulation, control, and law enforcement.....	7,378	7,035	7,897
Net interest.....	84,697	88,936	103,180
Other current programs.....	7,995	10,301	10,529
Subtotal, current programs.....	473,770	531,206	559,675
Unclassified.....	—16,694	—20,107	—28,667
Total, civil.....	540,957	590,433	603,177
Budget total.....	728,375	805,202	848,483
Addendum:			
Off-budget Federal entities (civil):			
Loans.....	14,333	14,262	5,947
Other investment-type programs.....	3,989	1,809	1,961
Aids to agriculture, commerce, and transportation.....	—990	767	1,681
Total, off-budget Federal entities.....	17,331	16,839	9,589
Total, including off-budget.....	745,706	822,041	858,071

Table D-5. SUMMARY OF FEDERAL OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Grants-in-aid:			
Investment-type programs:			
Construction, rehabilitation, and acquisition of physical assets	20,504	20,629	24,028
Conduct of education and training	10,521	9,874	9,551
Other investment-type programs	340	316	254
Subtotal, investment-type programs	31,365	30,819	33,834
Current programs:			
Provision of benefits	40,136	45,439	45,885
Social services and related programs	7,325	7,977	7,209
Aids to agriculture, commerce, and transportation	1,461	1,421	758
General purpose fiscal assistance	6,682	6,635	7,257
Regulation, control, and law enforcement	601	517	525
Other current programs	623	729	458
Subtotal, current programs	56,829	62,718	62,092
Total, grants-in-aid	88,194	93,537	95,926
Loans	10,420	6,678	608
Direct Federal programs:			
Investment-type programs:			
Construction and rehabilitation	10,472	11,778	12,444
Acquisition of major equipment	46,062	58,184	71,002
Acquisition of commodity inventories and other physical assets	3,972	4,248	2,648
Conduct of research and development	34,370	38,411	42,948
Conduct of education and training	11,054	10,882	9,665
Other investment-type programs	4,864	5,026	5,134
Subtotal, investment-type programs	110,793	128,529	143,841
Current programs:			
Provision of benefits	318,215	354,878	371,554
Social services and related programs	889	988	891
Aids to agriculture, commerce, and transportation	13,537	22,183	20,129
Repair, maintenance, and operation of physical assets	61,607	68,123	74,974
Regulation, control, and law enforcement	6,777	6,517	7,372
Net interest	84,697	88,936	103,180
Other current programs	49,940	54,941	58,675
Subtotal, current programs	535,662	596,567	636,775
Total, direct Federal programs	646,455	725,095	780,616
Unclassified	-16,694	-20,107	-28,667
Budget total	728,375	805,202	848,483
Addendum (Direct Federal programs):			
Off-budget Federal entities:			
Loans	14,333	14,262	5,947
Other investment-type programs	3,989	1,809	1,961
Aids to agriculture, commerce, and transportation	-990	767	1,681
Total, off-budget Federal entities	17,331	16,839	9,589
Total, including off-budget	745,706	822,041	858,071

Loans and financial investments.—A loan creates a financial asset. If made at competitive market rates, the value of the asset is equal 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 assets or human capital. Loans to foreign borrowers are an increase in financial assets held by the United States. Most foreign loans are for economic development programs or for the promotion of U.S. exports, including military equipment and farm commodities.

Physical assets.—The benefits provided by the construction and rehabilitation of physical assets and by the acquisition or major equipment are of a long-term nature, while commodity inventories are for reserves rather than for use. 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 (because of the different focus of Tables D-2 and D-3, to the extent feasible, outlays for investments in private physical assets were excluded from these tables). Total outlays for physical assets—including acquisition of major commodity inventories—are estimated at \$110.2 billion in 1984; of the amount \$76.6 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. Commodity inventories include crops acquired as part of the farm price support program and also oil purchases for the strategic petroleum reserve. These are not included in Tables D-2 and D-3 investments.

Conduct of research and development.—Research and development increases the Nation's base of knowledge. Total outlays for the conduct of research and development are estimated at \$43.2 billion in 1984. All of the increase in 1984 over 1983 is for national defense, reflecting the Administration's commitment to strengthening the Nation's defense. Nondefense outlays for the conduct of research and development decline slightly. Outlays for the conduct of health, energy, and space technology research and development

account for approximately one-half of nondefense research and development outlays in 1984. Within the total of spending for research and development there is a significant increase in 1984 for basic research, with emphasis on the support of research in the physical sciences. See Special Analysis K (Research and Development) for additional details.

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 for grants to institutions and to State and local governments. Outlays are estimated at \$19.2 billion in 1984, of which \$9.6 billion are grants to State and local governments.

Collection of information.—This category includes outlays for collection of information, censuses, and topographic or other natural resource surveys. Outlays are estimated at \$1.5 billion and \$1.3 billion in 1983 and 1984, respectively.

International development.—Non-loan 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 1984.

Current programs.—Programs that provide benefits in the current year are divided into several subcategories as briefly discussed below. Some 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 the means for future benefits. Total outlays for current programs are more than three-quarters of 1984 estimated outlays. \$139.2 billion of current outlays in 1984 are for defense programs and \$559.7 billion for civil programs.

Outlays for “provision of benefits” is the largest category of current outlays in the budget. The total of these outlays is estimated to increase from \$384.1 billion in 1983 to \$400.6 billion in 1984. Social security and other disability and retirement benefits constitute the largest element in these category; they are estimated to total \$204.7 billion in 1984. Other major outlays in this category include for medicaid, medicare, unemployment, and food and nutrition programs.

Current outlays for “social services and related programs” are those for human development and child welfare services and employment programs. Outlays in 1984 are estimated to be \$8.1 billion, for which \$7.2 billion are of grants to State and local governments.

"Aids to agriculture, commerce, and transportation" include price support subsidies and small business and transportation programs. Outlays for these programs are estimated to increase from \$15.0 billion in 1982 to \$23.6 billion in 1983 and then decrease to \$20.9 billion in 1984.

Other current outlays are largely for operation of the Federal Government, including the repair, maintenance, and operation of physical assets (primarily defense related); regulation and law enforcement; net interest; and other administrative or operating expenses. Because proprietary receipts from the public—such as receipts from the sale of electric power, 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, in some cases net outlays are negative.

Unclassified.—The unclassified category includes the undistributed offsetting receipts and most payments from the Government to itself and the associated offsetting collections. Outlays for this category are estimated to be \$-20.1 billion in 1983 and \$-28.7 billion in 1984.

Table D-6. INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
National defense investment-type programs			
Construction and rehabilitation of physical assets:			
Military construction.....	2,811	3,944	4,153
Family housing.....	174	157	339
Atomic energy defense activities.....	573	627	1,068
Subtotal, construction and rehabilitation of physical assets.....	3,558	4,728	5,560
Acquisition of major equipment:			
Procurement.....	43,234	55,104	68,174
Atomic energy defense activities and other.....	1,431	1,440	2,026
Subtotal, acquisition of major equipment.....	44,664	56,544	70,199
Other physical assets.....	538	541	799
Conduct of research and development:			
Defense military.....	18,363	22,126	27,258
Atomic energy and other.....	1,447	2,547	2,019
Subtotal, research and development.....	19,809	24,673	29,277
Other investment-type programs.....	128	204	277
Subtotal, investment-type programs.....	68,697	86,690	106,113
National defense current programs			
Provision of benefits:			
Retired military personnel.....	14,938	16,130	16,770
Other.....	85	91	86

Table D-6. INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Subtotal, provision of benefits	15,022	16,222	16,857
Repair, maintenance, and operation of physical assets:			
Department of Defense, Military	61,309	66,705	73,728
Other	223	284	318
Subtotal, repair, maintenance, and operation of physical assets	61,533	66,989	74,045
Other current programs:			
Military personnel	41,707	44,612	46,750
Other national defense	458	256	1,541
Subtotal, other current programs	42,165	44,868	48,290
Subtotal, current programs	118,720	128,079	139,192
Total, national defense	187,418	214,769	245,305
Civil investment-type programs			
Loans:			
International affairs	1,913	1,753	2,145
Agriculture	6,084	3,962	-2,157
Mortgage credit and thrift insurance	1,453	320	148
Aids to commerce	689	492	109
Transportation	-12	97	42
Disaster relief	-304	-271	-215
Other community and regional development	-98	59	-191
Education	424	447	295
Other	282	-171	434
Subtotal, loans	10,430	6,688	610
Other financial investments:			
International development	1,409	1,309	1,448
Other	93	25	67
Subtotal, other financial investments	1,502	1,333	1,515
Construction and rehabilitation of physical assets:			
Highways	7,731	8,552	11,754
Mass transportation	2,588	2,751	3,101
Air transportation	666	835	1,236
Water transportation	109	169	169
Community development block grants	3,792	3,525	3,526
Other community and regional development	1,620	1,507	1,226
Pollution control and abatement	3,759	3,103	2,805
Water resources	2,363	2,153	1,938
Other natural resources and environment	1,222	1,129	1,001
Energy	2,148	2,349	2,173
Veterans hospitals and other health facilities	577	688	801
Other	490	573	837
Subtotal, construction and rehabilitation of physical assets	27,066	27,333	30,567
Acquisition of major equipment:			
Transportation	420	456	408
Other	997	1,184	394
Subtotal, acquisition of major equipment	1,398	1,640	803

Table D-6. INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Conduct of research and development:			
General science, space and technology:			
NASA	2,697	1,854	1,867
NSF	1,020	986	1,119
Other general science	401	434	510
Subtotal, general science, space, technology	4,118	3,274	3,496
Energy activities	3,330	2,950	2,517
Transportation:			
Department of Transportation	341	350	445
NASA	523	531	554
Subtotal, transportation	864	882	999
Health:			
NIH	3,435	3,737	3,808
All other health	906	934	952
Subtotal, health	4,340	4,671	4,760
Agriculture	696	734	747
Natural resources and environment	838	859	753
All other research and development	664	663	636
Subtotal, conduct of research and development	14,850	14,032	13,909
Conduct of education and training:			
Education activities:			
Higher education	6,030	6,198	5,695
Elementary, secondary, and vocational education	6,444	6,194	6,130
Other	120	179	88
Subtotal, Education activities	12,594	12,571	11,913
Veterans readjustment benefits	1,975	1,664	1,360
Training and employment programs	4,195	3,708	3,561
Health training	1,052	928	817
Other education and training	1,753	1,878	1,551
Subtotal, conduct of education and training	21,570	20,748	19,203
Commodity inventories and other physical assets:			
Commodity inventories:			
Agriculture	1,376	1,509	222
Other	40	20	
Subtotal, commodity inventories	1,417	1,529	222
Other physical assets	2,370	2,523	1,972
Subtotal, commodity inventories and other physical assets	3,787	4,052	2,193
Other investment-type programs:			
Collection of information	1,372	1,426	1,308
International development	1,907	2,083	2,061
Subtotal, other investment-type programs	3,279	3,509	3,369

Table D-6. INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Subtotal, investment-type programs	83,881	79,335	72,170
Civil current programs			
Provision of benefits:			
Retirement, survivor, and disability benefits:			
Social Security:			
Retirement and survivor benefits	134,655	148,444	158,616
Disability benefits	17,399	17,102	17,220
Subtotal, Social Security	152,054	165,546	175,836
Civil Service:			
Retirement and survivor benefits	15,356	16,738	17,712
Disability benefits	3,381	3,689	3,981
Subtotal, Civil Service	18,737	20,427	21,693
Railroad retirement and disability benefits	5,389	6,846	7,605
Veterans disability benefits	9,456	9,864	10,240
Other retirement and disability benefits	2,069	2,017	1,934
Subtotal, retirement, survivor, and disability benefits	187,705	204,700	217,308
Other provisions of benefits:			
Veterans pension benefits	3,879	3,909	3,873
Medicare	49,150	55,859	63,205
Medicaid	17,391	19,326	20,799
Other health benefits	538	447	1,115
Unemployment compensation	22,310	29,997	27,402
Housing programs	7,883	9,323	10,222
Food and nutrition programs	15,178	17,478	15,904
Supplemental security income	6,884	7,862	6,943
Assistance payments program	6,646	6,847	5,932
Other	8,024	8,165	7,621
Subtotal, other provisions of benefits	137,881	159,212	163,016
Direct provision of services:			
Hospital and medical care for veterans	6,439	7,116	7,518
Other health services	1,666	1,544	1,269
Other	135	221	223
Subtotal, direct provision of services	8,240	8,880	9,010
Administrative expenses:			
Social Security retirement and disability	2,037	2,560	2,390
Medicare	1,273	1,403	1,476
Unemployment compensation, assistance payments, and other	6,192	7,340	7,382
Subtotal, administrative expenses	9,502	11,303	11,248
Subtotal, provision of benefits	343,328	384,096	400,581
Social services and related programs:			
Human development services	1,562	1,693	1,997
Employment programs	1,254	1,433	1,149
Social services block grant	2,567	2,571	2,500
Other	2,831	3,268	2,453

Table D-6. INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Subtotal, social services and related programs.....	8,215	8,965	8,099
Aids to agriculture, commerce, and transportation:			
Agriculture.....	5,373	13,218	12,019
Postal Service.....	707	789	400
Small business assistance.....	288	396	397
Mortgage credit and thrift insurance.....	533	802	617
Ground transportation.....	3,400	2,622	1,825
Air transportation.....	2,060	2,474	2,549
Water transportation and waterways.....	1,773	1,973	1,770
Other.....	864	1,330	1,311
Subtotal, aids to agriculture, commerce, and transportation.....	14,997	23,604	20,887
Repair, maintenance, and operation of physical assets:			
Natural resources:			
Water resources.....	665	772	518
Conservation and land management.....	211	—70	—300
Recreation resources and other.....	—319	—458	—720
Subtotal, natural resources.....	556	245	—502
Energy (net of offsetting receipts).....	—2,777	—3,067	—2,712
Other (net).....	2,734	4,497	4,515
Subtotal, repair, maintenance, and operation of physical assets.....	513	1,675	1,301
General purpose fiscal assistance:			
General revenue sharing.....	4,569	4,567	4,567
Other general purpose grants-in-aid.....	645	685	701
Shared revenues.....	1,433	1,343	1,931
Subtotal, general purpose fiscal assistance.....	6,646	6,594	7,199
Regulation, control, and law enforcement:			
Regulatory and inspection activities:			
Natural resources and environment.....	1,007	939	881
Transportation.....	938	1,008	1,036
Health.....	693	723	728
Energy.....	602	609	533
Agriculture.....	345	301	262
Savings institutions.....	—1,997	—3,171	—2,582
Tax collections.....	651	805	1,023
Other.....	609	694	699
Subtotal, regulatory and inspection activities.....	2,848	1,908	2,582
Law enforcement activities:			
Federal law enforcement.....	2,512	2,996	3,239
Federal litigative and judicial activities.....	1,502	1,651	1,573
Federal correctional activities.....	348	393	420
Other law enforcement assistance.....	168	86	84
Subtotal, law enforcement activities.....	4,530	5,127	5,315
Subtotal, regulation, control, and law enforcement.....	7,378	7,035	7,897
Net interest:			
Interest on the public debt.....	117,190	128,063	144,500

Table D-6. INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Interest received by trust funds	-16,427	-16,349	-16,862
Other interest	-16,067	-22,778	-24,458
Subtotal, net interest	84,697	88,936	103,180
General Administration:			
International affairs	1,713	2,595	2,926
Legislative branch	1,196	1,310	1,401
Other general government	2,808	3,462	3,632
Other	897	707	1,090
Subtotal, general administration	6,615	8,074	9,049
Other current programs:			
International security assistance	2,540	3,616	4,110
Other	-1,159	-1,389	-2,630
Subtotal, other current programs	1,381	2,227	1,480
Subtotal, current programs	473,770	531,206	559,675
Unclassified:			
Employer share, employee retirement	-7,020	-8,214	-9,853
Offshore oil receipts	-6,250	-11,793	-11,895
Medicare premiums	-3,855	-4,229	-4,850
Other unclassified	431	4,128	-2,069
Subtotal, unclassified	-16,694	-20,107	-28,667
Total, civil	540,957	590,433	603,177
Budget total	728,375	805,202	848,483
Addendum:			
Off-budget Federal entities (civil):			
Investment-type programs:			
Loans (see Table D-7)	14,333	14,262	5,947
Construction and rehabilitation (Postal Service)	208	15	37
Acquisition of major equipment (Postal Service)	93	22	54
Major commodity inventories (Strategic Petroleum Reserve)	3,687	1,771	1,866
Other investment	1	2	4
Subtotal, investment-type programs	18,322	16,072	7,908
Current:			
Aids to agriculture, commerce, and transportation:			
Postal Service	-855	897	1,766
Railways	18	-14	2
Other	-154	-116	-87
Subtotal, current programs	-990	767	1,681
Total, off-budget Federal entities	17,331	16,839	9,589
Total, including off-budget	745,706	822,041	858,071

* \$500 thousand or less.

Table D-7. TOTAL OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Grants-in-aid			
Investment-type programs:			
Construction and rehabilitation of physical assets:			
Highways	7,730	8,549	11,754
Mass transportation	2,588	2,696	2,859
Other transportation	339	582	987
Pollution control and abatement	3,756	3,100	2,800
Other natural resources and environment	314	255	146
Community development block grants	3,792	3,525	3,526
Other community and regional development	1,379	1,266	1,095
Other construction	253	310	517
Subtotal, construction and rehabilitation of physical assets	20,151	20,284	23,683
Acquisition of equipment and other physical assets	353	345	345
Conduct of research and development	290	294	238
Conduct of education and training:			
Employment and training assistance	3,332	2,912	2,843
Other	7,189	6,962	6,708
Subtotal, conduct of education and training	10,521	9,874	9,551
Collection of information	50	23	16
Subtotal, investment-type programs	31,365	30,819	33,834
Current programs:			
Provision of benefits:			
Medicaid	17,391	19,326	20,799
Nutrition and food programs	4,460	5,769	5,220
Assistance payments	6,646	6,847	5,932
Housing payments and subsidies	4,873	5,923	6,320
Other	3,285	3,260	3,225
Administrative expenses:			
Unemployment compensation and other	3,482	4,314	4,387
Subtotal, provision of benefits	40,136	45,439	45,885
Social services and related programs:			
Employment programs	987	1,149	930
Human development services	1,494	1,629	1,933
Social services and child welfare services	2,567	2,571	2,500
Other	2,276	2,628	1,846
Subtotal, social services and related programs	7,325	7,977	7,209
Aids to agriculture, commerce, and transportation:			
Transportation	1,457	1,418	756
Other	3	3	2
Subtotal, aids to agriculture, commerce, and transportation	1,461	1,421	758

Table D-7. TOTAL OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Repair, maintenance, and operation of physical assets	439	541	372
General purpose fiscal assistance:			
General revenue sharing	4,569	4,567	4,567
Shared revenues	1,433	1,343	1,931
Other	681	725	759
Subtotal, general purpose fiscal assistance	6,682	6,635	7,257
Regulation, control, and law enforcement	601	517	525
Other current programs	184	188	86
Subtotal, current programs	56,829	62,718	62,092
Total, grants-in-aid	88,194	93,537	95,926
Loans			
International affairs	1,913	1,753	2,145
Energy supply	73	96	93
Agriculture	6,084	3,962	-2,157
Commerce and housing credit	687	491	108
Mortgage credit and thrift insurance	1,453	320	148
Transportation	-12	97	42
SBA disaster loan fund	-304	-271	-215
Education	424	447	295
Veterans	228	-404	244
Other	-125	187	-95
Total, loans	10,420	6,678	608
Direct Federal Programs			
Investment-type programs:			
Financial investments	1,502	1,333	1,515
Construction and rehabilitation of physical assets:			
National defense	3,527	4,693	5,515
Water resource projects	2,220	2,062	1,922
Other natural resources and environment	1,055	967	875
Energy	2,148	2,349	2,173
Transportation	436	480	660
Veterans hospitals and other health facilities	551	601	775
Other construction	536	626	522
Subtotal, construction and rehabilitation of physical assets	10,472	11,778	12,444
Acquisition of major equipment:			
National defense	44,664	56,544	70,199
Other	1,398	1,640	803
Subtotal, acquisition of major equipment	46,062	58,184	71,002
Commodity inventories	1,955	2,070	1,021
Other physical assets	2,017	2,178	1,627
Conduct of research and development	34,370	38,411	42,948

Table D-7. TOTAL OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Conduct of education and training:			
Assistance to veterans	2,384	2,092	1,797
Higher education	5,969	6,123	5,665
Elementary and secondary education	490	423	375
Employment and training assistance	803	729	658
Health training	634	494	378
Other	772	1,022	792
Subtotal, conduct of education and training	11,054	10,882	9,665
Collection of information	1,343	1,430	1,318
International development	2,019	2,263	2,301
Subtotal, investment-type programs	110,793	128,529	143,841
Current programs:			
Provision of benefits:			
Social Security retirement and disability	152,054	165,546	175,836
Other retirement and disability benefits	54,553	59,284	62,202
Medicare	49,150	55,859	63,205
Medical care for veterans	6,439	7,116	7,518
Other health	1,708	1,564	1,289
Unemployment compensation	22,310	29,997	27,402
Nutrition programs and food	10,339	11,293	10,318
Housing payments and subsidies	4,604	5,205	5,845
Supplemental security income	6,864	7,851	6,938
Earned income tax credit	1,201	1,205	1,123
Other	2,973	2,970	3,018
Administrative expenses:			
Social Security retirement and disability	2,037	2,560	2,390
Medicare	1,273	1,403	1,476
Nutrition and food programs and other	2,709	3,025	2,995
Subtotal, administrative expenses	6,020	6,989	6,860
Subtotal, provision of benefits	318,215	354,878	371,554
Social services and related programs	889	988	891
Aids to agriculture, commerce, and transportation:			
Agriculture	5,373	13,218	12,019
Postal Service	707	789	400
Small business assistance	288	396	397
Mortgage credit and thrift insurance	532	802	617
Ground transportation	1,944	1,208	1,072
Air transportation	2,060	2,474	2,549
Water transportation and waterways	1,191	1,337	1,316
Other	1,442	1,960	1,760
Subtotal, aids to agriculture, commerce, and transportation	13,537	22,183	20,129
Repair, maintenance, and operation of physical assets:			
National defense	61,533	66,989	74,045
Other (includes offsetting collections)	74	1,134	929

Table D-7. TOTAL OUTLAYS FOR GRANTS-IN-AID, LOANS, AND DIRECT FEDERAL PROGRAMS—
Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Subtotal, repair, maintenance, and operation of physical assets	61,607	68,123	74,974
Regulation, control, and law enforcement	6,777	6,517	7,372
Net interest	84,697	88,936	103,180
Other current programs:			
Military personnel	41,707	44,612	46,750
Other national defense	422	216	1,482
Other	7,811	10,113	10,443
Subtotal, other current programs	49,940	54,941	58,675
Subtotal, current programs	535,662	596,567	636,775
Total, direct Federal programs	646,455	725,095	780,616
Unclassified:			
Employer share, employee retirement	-7,020	-8,214	-9,853
Offshore oil receipts	-6,250	-11,793	-11,895
Non-compulsory medicare premiums	-18,193	-19,576	-22,223
Other unclassified	14,769	19,475	15,304
Subtotal, unclassified	-16,694	-20,107	-28,667
Budget total	728,375	805,202	848,483
Addendum (Direct Federal):			
Off-budget Federal entities:			
Investment-type:			
Loans:			
Energy	130	88	59
Transportation	-42	-43	-21
Community and regional development	102	173	171
Other	14,142	14,045	5,739
Subtotal, loans	14,333	14,262	5,947
Other investment-type programs	3,989	1,809	1,961
Subtotal, other investment-type	18,322	16,072	7,908
Subtotal, investment	32,655	30,334	13,855
Current:			
Aids to agriculture, commerce, and trans- portation:			
Postal Service	-855	897	1,766
Railways	18	-14	2
Other	-154	-116	-87
Subtotal, current	-990	767	1,681
Total, off-budget Federal entities	17,331	16,839	9,589
Total, including off-budget	745,706	822,041	858,071

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," 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 and the economy of the programs contained in the 1984 Federal budget.

BORROWING AND REPAYING DEBT

The Federal Government issues debt for two principal reasons. First, it issues debt to the public, largely in order to finance the Federal deficit. Second, it issues debt to the Government agencies that accumulate surpluses in separate funds, primarily trust funds, that are required by law to be invested in Federal securities. Most

¹Information 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.

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."²

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 Banks as well as borrowing from commercial banks, foreign central banks, other financial institutions and businesses, and individuals. The term "borrowing from the Federal Reserve Banks" 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 Banks 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 Banks 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 Banks 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 Banks 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 1982 through 1986. In 1982 the total Federal borrowing (net of the refunding of securities)—i.e., the rise in gross Federal debt—was \$143.0 billion. The issue of debt to Government agencies was \$8.1 billion, and the issue of debt to the public was \$135.0 billion. Of the increase in debt held by the public, \$10.0 billion was purchased by the Federal Reserve System and \$125.0 billion by the rest of the public. As a

²The 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.

result of this borrowing, Federal debt held by the public increased to \$929.4 billion at the end of 1982. Gross Federal debt was \$1,147.0 billion.

Table E-1. **FEDERAL BORROWING**

(In millions of dollars)

Description	Borrowing or repayment (—) of debt					Debt outstanding, end of year	
	1982 actual	1983 estimate	1984 estimate	1985 estimate	1986 estimate	1984 estimate	1986 estimate
Gross Federal debt:							
Treasury debt	144,181	237,020	222,784	NA	NA	1,601,839	NA
Agency debt	-1,134	-263	-189	NA	NA	4,500	NA
Gross Federal debt	143,046	236,757	222,595	239,142	201,913	1,606,339	2,047,394
Less debt held by Gov. agencies:							
Treasury debt	8,348	21,766	19,605	NA	NA	257,775	NA
Agency debt	-295	-9	-11	NA	NA	1,136	NA
Debt held by Gov. agencies ¹	8,054	21,757	19,594	35,295	45,662	258,912	339,869
Total, debt held by public	134,993	215,000	203,000	203,847	156,251	1,347,427	1,707,525
Composed of:							
Debt held by the Federal Reserve System	10,031	NA	NA	NA	NA	NA	NA
Debt held by others	124,961	NA	NA	NA	NA	NA	NA

¹Agency investment in 1985 and 1986 is estimated as equal to the total trust fund surplus.

NA = Not available.

Borrowing from the public has fluctuated widely in the past decade, 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 then fell to \$33.6 billion in 1979 as the economy recovered. Borrowing rose again in 1980 and 1981 as the economy experienced further recession and economic slowdown.

The borrowing from the public rose still again in 1982, to \$135.0 billion, and is estimated to increase greatly in 1983 to \$215.0 billion before declining by a small amount to \$203.0 billion in 1984. These massive amounts of borrowing reflect in part the temporary but nonetheless substantial effects of recession and disinflation. The decline in real GNP and the sharp decrease in inflation reduce money incomes, which reduces tax receipts; the decline in real GNP and the rise in unemployment increase outlays for unemployment benefits and certain other programs; and the lag between the decline in inflation and the fall in nominal interest rates sustained very large and rapidly rising outlays for interest on the Federal debt. The effects of disinflation are all the more striking as a reason for the growth of borrowing compared to earlier years, because the acceleration of inflation during the previous period raised receipts more than outlays and thus temporarily kept down the level of borrowing. Besides these economic effects, the massive

amounts of borrowing reflect a structural imbalance between receipts and outlays, which is discussed in detail in Part 3 of the *Budget*.

The economic assumptions behind these estimates are presented in Part 2 of the *Budget*. The assumptions for 1983 are a forecast of the economy. The assumptions for 1984 and later years, however, are not intended as precise forecasts of future economic conditions. Instead, they are trend projections, consistent with the economic policy objectives of this Administration, that assume steady progress in reducing unemployment, inflation, and interest rates, and in sustaining strong real economic 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 at the levels currently planned. Under these assumptions, the total Government deficit does not decline substantially until 1986, at which time the borrowing from the public declines correspondingly.

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 Treasury's operating cash balances or in other kinds of cash or 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 E-19 to E-20, 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 1982 the Government borrowed \$135.0 billion from the public. Almost all of this amount, \$127.9 billion,

was used to finance the Government deficit. The remaining \$7.1 billion was used to finance the other means of financing, which had a negative total amount.

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

(In millions of dollars)

Description	1982 actual	1983 estimate	1984 estimate	1985 estimate	1986 estimate
Budget surplus or deficit (—)	—110,609	—207,708	—188,781	—194,197	—147,692
Deficit (—) of off-budget Federal entities ²	—17,331	—17,045	—14,042	—10,462	—9,447
Total, surplus or deficit (—)	—127,940	—224,754	—202,822	—204,660	—157,139
Means of financing other than borrowing from the public:					
Decrease or increase (—) in cash and monetary assets	—11,911	7,200			
Increase or decrease (—) in liabilities for:					
Checks outstanding, etc. ³	4,130	1,475	376		
Deposit fund balances ⁴	338	572	—1,201		
Seigniorage on coins	390	507	647	813	888
Total, means of financing other than borrowing from the public	—7,053	9,754	—178	813	888
Total, requirements for borrowing from the public	—134,993	—215,000	—203,000	—203,847	—156,251
Change in debt held by the public	134,993	215,000	203,000	203,847	156,251

¹ Several amounts have been assumed to be zero during 1984-86 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, SPR petroleum account, Federal Financing Bank, Postal Service fund, one program of the U.S. Railway Association, and Synthetic Fuels Corporation.

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.

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 single 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.

Nevertheless, these other accounts did require a significant amount of borrowing from the public in 1982 in order to be financed. This was due to the large increase in Treasury's operating cash balance at the end of the year, which, as explained in a later section, was needed to anticipate a possible delay in the extension and increase of the statutory debt limit. As a result, Treasury's cash balance on September 30, 1982, was larger than needed for normal operations. The counterpart to the increase in cash balances during 1982 is the plan for a large decrease during 1983. Since this is a means of financing for the Government, it will allow borrowing in 1983 to be less than the size of the deficit.

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 outlays of the budget and the off-budget entities combined must be in balance with receipts in order for the Government not to have to borrow from the public (aside from the relatively small 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 1981-84 are compared in the table below (in billions of dollars):

	1981 <i>actual</i>	1982 <i>actual</i>	1983 <i>estimate</i>	1984 <i>estimate</i>
Agency investment in Federal debt.....	10.3	8.1	21.8	19.6
Total trust fund surplus.....	6.8	6.3	18.4	16.9

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.³

SIZE AND GROWTH OF FEDERAL DEBT

Gross Federal debt has risen substantially over the past half century, from \$16.9 billion in 1929 to \$1,147.0 billion at the end of 1982. 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 Banks), and the Federal Reserve Banks. During this period the gross Federal debt increased over four times, with 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 1957 to the end of 1982, gross Federal debt and debt held by the public both increased at an average annual rate of 5.9%. Federal debt held by the public apart from the Federal Reserve Banks rose a little more slowly, at an average annual rate of 5.7%, with the Federal Reserve Banks buying a large quantity of Federal debt in the market and thereby expanding the reserves of the banking system and increasing the Nation's money stock.

³These "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	50.6
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	1,729.0	28.8
1977.....	709.1	157.3	551.8	105.0	446.8	1,862.8	29.6
1978.....	780.4	169.5	610.9	115.5	495.5	2,091.3	29.2
1979.....	833.8	189.2	644.6	115.6	529.0	2,357.7	27.3
1980.....	914.3	199.2	715.1	120.8	594.3	2,573.9	27.8
1981.....	1,003.9	209.5	794.4	124.5	670.0	2,871.8	27.7
1982.....	1,147.0	217.6	929.4	134.5	794.9	3,033.0	30.6
1983 estimate.....	1,383.7	239.3	1,144.4	NA	NA	3,193.7	35.8
1984 estimate.....	1,606.3	258.9	1,347.4	NA	NA	3,488.7	38.6
1985 estimate.....	1,845.5	294.2	1,551.3	NA	NA	3,806.7	40.8
1986 estimate.....	2,047.4	339.9	1,707.5	NA	NA	4,144.6	41.2

NA = Not available.

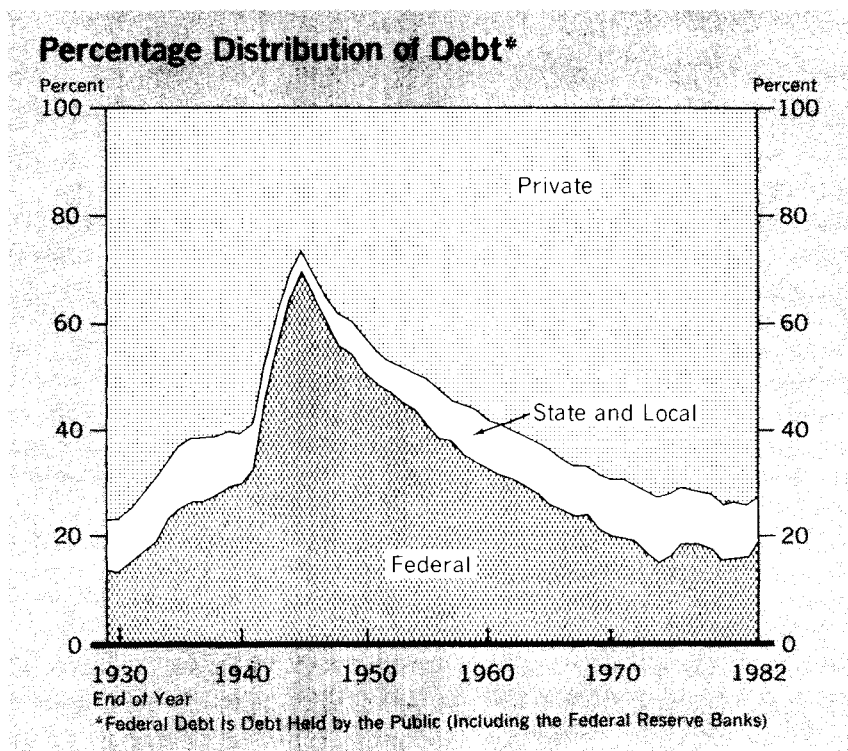
¹During 1969, 3 Government-sponsored enterprises became completely privately owned, and their debt was removed from the totals for the Federal Government. At the dates of their conversion, gross Federal debt was reduced \$10.7 billion, debt held by Government accounts was reduced \$0.6 billion, and debt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

²Gross 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.

³A 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.

⁴Gross 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.

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 below, as a proportion of the total credit market debt owed by nonfinancial sectors of the economy: Federal, State and local, and private.⁴ 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, especially 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.



From 1945 to 1974, however, private debt increased as a proportion of total credit market debt in every single year, and likewise, in every single year but one, the Federal debt held by the public (including the Federal Reserve Banks) decreased as a proportion of the total. During this period the average annual rate of growth was 1.1% for Federal debt held by the public, 10.0% for State and local debt, and 9.7% for private credit market debt. By 1974, Federal debt held by the public had declined to 17% of total credit market

⁴The 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.

debt, and private debt had risen to 74% of the total. As a result of these trends, Federal debt, though still important, became a relatively much smaller influence on the financial markets than it had been at the end of World War II.

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 recessions and other factors during 1980-83 led to further increases in the percentage. As a result of these events, Federal debt held by the public has fluctuated within the range of 17-20% since 1970. Federal debt as a percentage of total credit market debt was 19% at the end of 1982, which is the same as in 1972.

During the same period following World War II, Federal debt decreased relative to gross national product (GNP). As shown in table E-3, debt held by the public equalled 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, 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 as a percentage of GNP has fluctuated within the range of 25-31% since 1969. The percentage was 30.7% at the end of 1982, which is higher than in any other year since 1969. Because of the reasons outlined in a preceding section, Federal borrowing is estimated to be very large in 1983 and the following years. As a result, debt held by the public is estimated to rise to 38.6% in 1984 and 41.2% in 1986.

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 12.1% in calendar years 1980-82 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 four times between 1954 and 1982, table E-4 shows that the interest paid on this debt increased by 19 times.

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 paid to the public was equal to 1.4% of GNP, whereas by 1970 it had risen to 1.6% and by 1982 it had reached a record high of 3.2%. This percentage is estimated to rise further in 1983 and 1984 despite decreases in market interest rates, because of the large borrowing necessary to finance the Federal deficit.

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	Total outlays ³
		Federal Government ac- counts	The public				
			Total	Federal Reserve Banks 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	7.53
1974.....	30.0	7.7	22.4	5.5	16.9	1.62	8.30
1975.....	33.5	8.8	24.7	6.1	18.6	1.67	7.42
1976.....	37.7	9.0	28.7	6.3	22.5	1.75	7.73
TQ.....	8.3	.6	7.6	NA	NA	1.77	7.96
1977.....	42.6	9.6	33.0	6.8	26.2	1.77	8.07
1978.....	49.3	10.2	39.2	8.0	31.2	1.87	8.54
1979.....	60.3	12.1	48.3	9.6	38.6	2.05	9.59
1980.....	75.2	14.8	60.4	12.5	47.9	2.35	10.22
1981.....	96.0	17.1	78.9	13.4	65.5	2.75	11.63
1982.....	117.5	19.9	97.7	15.7	82.0	3.22	13.10
1983 estimate.....	128.4	20.6	107.8	NA	NA	3.38	13.11
1984 estimate.....	144.8	21.5	123.3	NA	NA	3.53	14.29

¹ Total interest significantly exceeds the outlays for the net interest function in the budget, because the net interest function includes collections of interest and interest paid to trust funds as offsets to outlays.

² These figures are approximate. For most years they are estimated as the average of calendar year amounts. The 1982 estimate is tentative.

³ Includes both budget outlays and off-budget outlays. A historical series of outlays is published in the *Budget*, Part 9, table 24.

NA = Not available.

Interest paid to the public as a percentage of total Federal outlays does not show the same sustained trend over the period as a whole. In recent years, however, this percentage has also been rising steadily and substantially. In 1982 interest paid to the public was 13.1% of total outlays, which was much higher than the 7.2% just 10 years before or the 8.1% just 5 years before. This percentage is estimated to remain at 13.1% in 1983 but to rise to 14.3% in 1984. Thus, the

importance of interest on the debt relative to either GNP or Federal outlays is now both 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, 1982, the amount of notes outstanding with an original maturity over 5 years was \$185.0 billion, of which \$105.4 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 Banks were exempted from the interest rate limit, and since 1976 the amount of the exemption for other bonds has been raised in eight steps to \$110 billion. The last increase to the exemption was from \$70 billion to \$110 billion, enacted in September 1982. The \$70 billion limit had been exhausted in February 1982, so from then until September the Treasury was unable to issue any bonds. As of December 31, 1982, \$97.5 billion of the bonds outstanding had been sold since the change of law in 1971, of which \$75.4 billion were held by the public exclusive of the Federal Reserve Banks. The effective interest rates 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 1.0% 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	9.2	78.9	16.0
1982.....	929.4	146.4	135.0	10.8	97.7	17.6

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 was the massive current account surpluses of some countries, par-

ticularly the OPEC nations, since 1974. The counterpart to these surpluses was the acquisition of financial assets, and the financial assets acquired in the United States largely took the form of U.S. Government securities.

Both of these factors became less important in 1982. Many foreign countries drew down their dollar reserves to finance intervention in the foreign exchange market, and the aggregate OPEC current account surplus was eliminated. At the same time, the financial strains in the world economy apparently led foreign holders of dollars to increase their preference for the maximum safety of U.S. assets such as Government securities, relative to U.S. dollar-denominated bank deposits in the Eurocurrency market. As a result, increased foreign holdings of U.S. Government securities in 1982 primarily reflected a shift in the composition, rather than the size, of aggregate foreign dollar asset holdings.

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 1982 foreign holdings of Treasury debt had reached \$146.4 billion, which was 16% 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 4 years. For the period since 1970 as a whole, borrowing from foreign residents was 21% 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 the last issue will mature in July 1983.

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, and the disbursement of the proceeds from net borrowing is an outlay. Borrowing by the off-budget Federal entities is treated in the same manner as any other agency borrowing, although the outlays from disbursing the borrowed money are not included in the budget totals.

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 decreases by \$1.6 billion or by one-quarter. The agency debt outstanding at the end of 1984 is less than 1.0% 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).⁵ 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.⁶ 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 \$2.9 billion from the FFB in 1982 and are estimated to borrow \$2.4 billion in 1983 and \$3.7 billion in 1984. Under proposed legislation, this group of agencies includes the Rural Housing Insurance Fund (which is part of the Farmers Home Administration) as of the beginning of 1984. The

⁵ FFB purchases of guaranteed obligations are shown in table E-11. The operations of the FFB are discussed in some detail in Special Analysis F and in the *Budget*, Part 6.

⁶ 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.

Table E-6. AGENCY BORROWING ¹

(In millions of dollars)

Description	Borrowing or repayment (—) of debt			Debt end 1984 estimate
	1982 actual	1983 estimate	1984 estimate	
Borrowing from the public:				
Agriculture: Farmers Home Administration ²	—31			141
Defense	—110	—131	—107	129
Education activities:				
College housing loans ²	—7			242
Higher education facilities ²	—30			61
Health and Human Services ²				5
Housing and Urban Development:				
Federal Housing Administration	—82	—54	—59	66
Housing for elderly or handicapped ²				52
Government National Mortgage Assoc. ²	—115			240
Revolving fund (liquidating programs) ²	—24			44
Transportation: Coast Guard	—*	—*	—*	*
Veterans Administration ²				309
Export-Import Bank	—358	—69	—12	6
Postal Service				250
Small Business Administration ²	—81			93
Tennessee Valley Authority				1,725
Total, borrowing from the public	—840	—254	—178	3,363
Borrowing from other funds:				
Agriculture: Farmers Home Administration ²	—28			118
Defense	—19	7	—5	24
Education activities:				
College housing loans ²	—6			209
Higher education facilities ²	—27			47
Health and Human Services ²				5
Housing and Urban Development:				
Federal Housing Administration	—15	—16	—6	134
Housing for elderly or handicapped ²				45
Government National Mortgage Assoc. ²	—104			188
Revolving fund (liquidating programs) ²	—22			34
Veterans Administration ²				269
Small Business Administration ²	—74			63
Total, borrowing from other funds	—295	—9	—11	1,136
Total, agency borrowing included in gross Federal debt	—1,134	—263	—189	4,500
ADDENDUM				
Borrowing from Federal Financing Bank:				
Agriculture: Farmers Home Administration: Rural Housing Insurance Fund ³			333	26,904
Export-Import Bank	1,545	1,164	1,458	16,576
National Credit Union Central Liquidity Facility	29	40	40	210
Postal Service	—67	—67	933	2,087
Tennessee Valley Authority	1,375	1,300	1,000	14,585
United States Railway Association	—23	—46	—18	127
Total, agency borrowing from Federal Financing Bank	2,858	2,390	3,746	60,489

^{*} \$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.³ Under proposed legislation, the certificates of beneficial ownership sold by the Rural Housing Insurance Fund to the FFB will be reclassified as agency debt at the beginning of 1984. This reclassification increases the amount of agency debt held by the FFB by \$26,571 million as of the beginning of 1984 but does not constitute borrowing from the FFB.

certificates of beneficial ownership previously sold by this fund to the FFB are to be reclassified as agency debt at that time, as explained on page E-29. This reclassification increases the amount of agency debt held by the FFB by \$26.6 billion but does not constitute agency borrowing from the FFB. Upon enactment of this legislation, the historical series of agency debt held by the FFB and agency borrowing from the FFB will be revised retroactively to be consistent with this treatment and with budget concepts.

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 8 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. The Treasury component would be correspondingly less.

By the end of 1984, \$2.0 billion of agency debt, or over 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 nearly one-half of 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 \$153 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—\$200 million, or 4% of the total—will have been issued by the Federal Housing Administration, which 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 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 reached a high of \$19.7 billion in 1979. In 1980 and 1981, however, due to recessions and certain structural factors, agency investment declined to about \$10 billion, and in 1982, as shown in table E-7, it was \$8.1 billion. Agency investment is estimated to rise to around \$20 billion in 1983 and 1984.

Total agency holdings of Federal securities will reach an estimated \$258.9 billion by the end of 1984. 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 about four-fifths of total agency investment during 1982–84. All the trust funds together will account for 90% of the holdings at the end of 1984. 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 (DI), and health insurance (HI)—disinvested \$5.2 billion in 1982. This was the seventh consecutive year of disinvestment by these three funds as a whole. The financial conditions differ markedly among these funds, with OASI having the most severe short-term problems. Without a change to current law, OASI would be unable to pay full benefits on a timely basis starting in July 1983.

The Administration supports the bipartisan solution recommended by the National Commission on Social Security Reform for OASI and DI. This solution would restore the financial solvency of social security. The Commission recommended a number of changes in taxes, benefits, and the timing of the Federal payment for noncontributory military service credits. These recommendations (together with several minor proposals), which are discussed in Parts 3, 4, and 5 of the *Budget*, are reflected in table E-7 and throughout the rest of the budget estimates. The Commission's recommendations would increase the cash resources of OASI by \$19.6 billion in 1983 and \$10.2 billion in 1984 and would increase the cash resources of DI by \$2.2 billion and \$2.7 billion. As a result, investment by these three funds combined rises by \$8.2 billion from 1982 to 1983 instead of dropping sharply. These individual fund figures do not include interfund borrowing. OASI has borrowed \$12.4 billion from HI and \$5.1 billion from DI in 1983

Table E-7. AGENCY INVESTMENT IN FEDERAL SECURITIES

(In millions of dollars)

Description	Investment or disinvestment (-)			Holdings end of 1984 estimate
	1982 actual	1983 estimate	1984 estimate	
Investment in Treasury debt:				
Health and Human Services:				
Federal old-age and survivors insurance trust fund.....	-11,223	13,629	-12,246	12,859
Federal disability insurance trust fund.....	3,360	568	8,028	15,349
Federal hospital insurance trust fund.....	2,658	-11,233	152	9,719
Federal supplementary medical insurance trust fund.....	2,053	1,048	1,506	8,427
Housing and Urban Development:				
Federal Housing Administration.....	366	302	1,460	4,321
Government National Mortgage Association.....	-252	203	260	1,606
Other.....	137	157	182	740
Interior: Outer Continental Shelf deposit funds.....	726	1,367	-428	5,747
Labor: Unemployment trust fund.....	-3,882	-3,048	1,124	7,720
Transportation:				
Highway trust fund.....	-436	1,207	512	10,468
Airport and airway trust fund.....	-843	608	564	5,040
Treasury: Exchange stabilization fund ¹	-118	160	172	3,343
Veterans Administration:				
National service life insurance trust fund.....	240	233	223	8,768
Other trust funds.....	20	18	28	1,167
Other Federal funds.....	56	43	36	603
Federal Deposit Insurance Corp.: Trust fund.....	1,441	2,324	2,025	17,683
Federal Home Loan Bank Board: FSLIC.....	602	898	716	6,772
Office of Personnel Management:				
Civil Service retirement and disability trust fund.....	12,126	13,501	14,806	124,164
Other trust funds.....	549	856	452	6,652
Postal Service fund ²	591	-1,032	-952	588
Railroad Retirement account: Trust fund.....	-723	-709	-99	412
Other Federal funds.....	276	212	342	2,070
Other trust funds.....	623	456	741	3,542
Other off-budget Federal entities.....	-*		-2	1
Other deposit funds ³	4			12
Total, investment in Treasury debt.....	8,348	21,766	19,605	257,775
Investment in agency debt:				
Agriculture: Commodity Credit Corp.....	-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.....	-7	-18	-4	141
Government National Mortgage Association.....	-22	9	-7	163
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.....	-295	-9	-11	1,136
Total, investment in Federal debt.....	8,054	21,757	19,594	258,912
MEMORANDUM				
Investment by Federal funds.....	1,022	1,967	3,158	19,828
Investment by trust funds.....	5,710	19,456	17,817	232,735
Investment by off-budget Federal entities.....	591	-1,032	-953	589
Investment by deposit funds ³	731	1,367	-428	5,759

^{*} \$500 thousand or less.¹ Investment in 1983 and 1984 is estimated as equal to interest collections.² Off-budget Federal entity.³ Only those deposit funds treated as Government accounts.

and is estimated to borrow additional amounts from DI in 1984. Because of this borrowing between funds, the amounts of investment or disinvestment displayed in table E-7 for the individual funds do not reflect the underlying financial conditions of the respective funds.

The Commission's recommendations add large cash resources to the funds in 1984, though not as much as in 1983. At the same time, the shortfall under current law is higher in 1984 than in 1983. Consequently, while the combined level of investment of these funds in 1984 is much higher than would be possible under current law, it is not as high as in 1983. Partly as a result of this, no single factor dominates the change in total agency investment from 1983 to 1984 in the way that the change from 1982 to 1983 is dominated by the effects of the Commission's recommendations on the combined investment of OASI, DI, and HI. Much of the decline in investment by these three funds in 1984 is offset by a \$4.2 billion rise in investment by the unemployment insurance trust fund. This higher investment is primarily due to improved economic conditions, which increase unemployment insurance payroll tax receipts and reduce unemployment compensation benefits.

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.

Most deposit funds consist of uninvested balances, but a few 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. They acquired \$2.0 billion in 1981, and, as shown in table E-7, they acquired \$0.7 billion more in 1982 and are estimated to hold \$5.7 billion at the end of 1984. 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.

Increases in deposit funds, when they are not invested in Federal debt, increase Treasury cash balances without affecting the Government deficit or debt. Therefore, they provide a means of financing the deficit without borrowing from the public. Such increases appear as one of the "means of financing other than borrowing" in tables E-2 and E-9. Decreases in uninvested deposit fund balances have the opposite effect.

Deposit fund investment in Federal debt is defined to be borrowing from the public under the normal rule, according to which the deposit funds are treated as part of the public. Consequently, under the normal rule a deposit fund investment decreases the deposit fund balances available to finance the deficit by means other than borrowing from the public. This is shown as a decrease in liabilities for deposit fund balances in table E-2 and E-9.

However, when deposit fund holdings are treated as holdings by a Government account, the investment of deposit fund balances in Federal debt is an agency investment. Debt held by the public is therefore unchanged. Consequently, this transaction does not reduce the amount of balances available to finance the deficit by means other than borrowing from the public. 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 of debt for each separate 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 fiscal year 1968 under the Participation Sales Act of 1966; and
- other debt issued by Federal agencies that, according to explicit statute, is guaranteed as to principal and interest by the United States.

The debt subject to statutory limit ⁷ includes virtually all Treasury debt. The small amount of Treasury debt not subject to limit is

⁷The 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.

shown in table E-8. It consists almost entirely of currencies no 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 nearly one-third 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 1984 and would require that any borrowing for operating expenses during 1984 be limited to half this amount and repaid within 12 months.

Table E-8. DEBT SUBJECT TO STATUTORY LIMIT

(In millions of dollars)

Descriptions	End of year		
	1982 actual	1983 estimate	1984 estimate
Federal debt held by the public.....	929,427	1,144,427	1,347,427
Federal debt held by Government agencies.....	217,560	239,317	258,912
Total, gross Federal debt.....	1,146,987	1,383,744	1,606,339
Deduct:			
Treasury debt not subject to limit.....	606	606	606
Agency debt not subject to the general limit:			
Department of Defense.....	388	264	153
Export-Import Bank.....	88	18	6
Postal Service.....	250	250	250
Tennessee Valley Authority.....	1,725	1,725	1,725
Participation certificates ¹	1,030	1,030	1,030
Coast Guard.....	1	*	*
Total, Federal debt not subject to limit.....	4,087	3,894	3,770
Gross Federal debt subject to statutory limit.....	1,142,900	1,379,850	1,602,569
Other debt subject to limit, and adjustments.....	14	14	14
Total, debt subject to limit.....	1,142,913	1,379,864	1,602,583

* \$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).

The only other debt subject to the general statutory limit is a very small amount 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 amount of 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 \$1,142.9 billion at the end of 1982 and is estimated to rise to \$1,602.6 billion by the end of 1984. These amounts are three to four times 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.

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 two more such acts in 1982. 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, an alternative method of enacting statutory debt limits was established by statute. 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 usually 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 transmitted 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. The debt limit may still be changed by ordinary legislation, and both methods have been used since the new procedure went into effect.

The statutory debt limit was raised by ordinary legislation to \$985 billion on February 7, 1981, for the period ending September 30, 1981. On May 20, 1981, the Congress adopted the first budget resolution for fiscal year 1982. 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. The increase for September 30, even though just for a single day, was necessary to permit all the transactions that would ordinarily take place on that day.

The debt limit of \$1,079.8 billion was not enough for the entire fiscal year 1982. The date when the debt limit would be reached was difficult to predict with exactness, and the Congress did not take final action until the amount of debt came very close to the limit. Because of uncertainty over when the debt would reach the limit and when Congress would act, the Government securities market felt disruptions and the Treasury was forced to alter its plans for debt management. One issue of notes was postponed, and offerings of bills and other notes were reduced in order to ensure that the Government would stay under the limit. On June 22, 1982, Congress passed the first budget resolution for fiscal year 1983, which declared that the appropriate debt limit for the rest of fiscal

year 1982 was \$1,143.1 billion. A joint resolution establishing this as the debt limit was deemed to have passed the House, was passed by the Senate the next day, and was signed into law on June 28.

The same budget resolution also declared that the appropriate debt limit for fiscal year 1983 was \$1,290.2 billion. It was uncertain whether Congress would act on this resolution before October 1, when the limit was scheduled to fall to \$400 billion. Consequently, Treasury borrowed virtually up to the debt limit at the end of September, most importantly by issuing \$7.0 billion of notes and bonds that under normal circumstances would have been issued in early October. This enabled Treasury to accumulate as much cash as possible in late September so that it could pay the Government's bills for as long as possible in October in the event that the debt limit was not extended on time; and this also ensured that Treasury would not auction notes and bonds in late September that it could not legally issue on the date due in early October. However, the Senate passed the debt limit bill on September 23, and it was signed into law on September 30. The new limit of \$1,290.2 billion, though, is substantially under the \$1,379.9 billion of debt subject to statutory limit that is estimated to be outstanding at the end of 1983. Therefore, a further increase will be necessary before September 30, 1983, in order for the Federal Government to meet its obligations.

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.⁸ 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 funds groups. If the off-budget entities were included in the budget, they would be classified as Federal funds.

⁸Data for Federal funds and trust funds are presented in Special Analysis C. "Funds in the Budget."

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, and these securities are defined as Federal debt. If the trust funds have \$1 billion more of tax receipts, the Treasury has to sell \$1 billion less of debt to the public but it has to issue \$1 billion more of debt to the trust funds. 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 that are subject to the statutory limit. As a result, the Federal funds deficit must generally be financed by an increase in debt subject to 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 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.)⁹ A small portion may be financed by the Federal funds or off-budget entities (or certain deposit funds¹⁰) 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 1982, for example, the total Federal funds and off-budget deficit to be financed was \$134.2 billion. The means of financing other than borrowing required an additional \$6.5 billion of financing by debt subject to limit, primarily because of the increase in cash discussed previously. The Federal funds, the off-budget entities, and certain deposit funds increased their holdings of Federal debt by \$2.3 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

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

(In millions of dollars)

Description	1982 actual	1983 estimate	1984 estimate	1985 estimate	1986 estimate
Federal funds surplus or deficit (—).....	—116,860	—226,102	—205,721	—229,493	—193,354
Deficit (—) of off-budget Federal entities.....	—17,331	—17,045	—14,042	—10,462	—9,447
Total, amount to be financed.....	—134,191	—243,147	—219,763	—239,955	—202,801
Means of financing other than borrowing:					
Decrease or increase (—) in cash and monetary assets.....	—11,911	7,200			
Increase or decrease (—) in liabilities for:					
Checks outstanding, etc.....	4,672	412	—500		
Deposit fund balances ²	338	572	—1,201		
Seigniorage on coins.....	390	507	647	813	888
Total, means of financing other than borrowing.....	—6,511	8,691	—1,054	813	888
Decrease or increase (—) in investments in Federal debt by Federal funds, off-budget entities, and deposit funds ³	—2,343	—2,302	—1,777		
Increase or decrease (—) in Federal funds and off-budget entity debt not subject to limit.....	—1,037	—193	—124		
Total, requirements for borrowing subject to debt limit.....	—144,083	—236,951	—222,719	—239,142	—201,913
Change in debt subject to limit but not part of Federal debt, and adjustments.....	11				
Change in debt subject to limit.....	144,095	236,951	222,719	239,142	201,913

^{*} \$500,000 or less.¹ Several amounts have been assumed to be zero during 1984-86 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.

by \$1.0 billion, which had to be replaced by an equal amount of debt that was subject to limit. Therefore, a total of \$144.1 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

²The 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.

¹⁰Only those deposit funds treated as Government accounts.

limit. The uninvested cash assets of the trust funds do not usually change a great deal from year to year. By law the trust fund surpluses must generally be invested in Federal debt, and during 1973-82 the increase in trust fund holdings of Federal debt equalled 96% 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 1983 and 1984 the debt subject to limit is estimated to increase by \$459.7 billion, whereas the debt held by the public is estimated to increase by \$418.0 billion.

The present analysis helps to demonstrate the difficulty in preventing a continual rise in the Federal debt. 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. 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 off-budget outlays were together just in balance with receipts). In order to keep constant the debt subject to limit, the following condition must be met as an approximation: the Federal funds portion of the budget must have a surplus, and this surplus must be as large as the off-budget deficit. If this condition is met, the "amount to be financed" in table E-9 would be zero, and (as an approximation) the requirements for borrowing subject to the debt limit would be zero. Because the trust funds almost always have a surplus, a balance in the budget (plus the off-budget entities) would imply that there would still be a deficit in the Federal funds (plus the off-budget entities). Therefore, it is more difficult to have a balance in the Federal funds plus the off-budget entities than it is to have a balance in the budget plus the off-budget entities; and, in consequence, it is more difficult to prevent a rise in the debt subject to statutory limit than in the debt held by the public.

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 1983 to 1986, borrowing from the public decreases by \$58.7 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 \$35.0 billion. This difference is primarily because a large part of the reduction in the total Government deficit is accounted for by a \$27.3 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.

This analysis also applies to the difficulty in preventing a continual rise in the gross Federal debt. Gross Federal debt is nearly the same as debt subject to statutory limit, as explained in the previous section. Therefore, the same approximate condition is necessary in order to prevent a continual rise in gross Federal debt: the Federal funds portion of the budget must have a surplus, and this surplus must be large enough so that the Federal funds and the off-budget entities are together in balance.

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 assets are loans that an agency has made to the public and for which repayments are still owed. 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 amount of the sales of 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.¹¹ The Commission concluded that, as a means of financing outlays, there is no difference between an agency selling securities labeled "certificates of beneficial ownership," the same agency selling securities labeled "debt," and the Treasury selling securities labeled "debt." 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 the Farmers Home Administration before FFB was established are still outstanding and continue to mature. The net amount of sales to the FFB less repayments (i.e., the increase in certificates outstanding held by the FFB) is shown below for 1981-84 (in millions of dollars):

	1981 actual	1982 actual	1983 estimate	1984 estimate
Farmers Home Administration.....	10,860	4,915	4,171	560
Rural Electrification and Telephone revolving fund	683	528	565	465

Under proposed legislation, the certificates of beneficial ownership sold by one of the funds comprising the Farmers Home Administration—the Rural Housing Insurance Fund—will be treated as agency debt as of the beginning of 1984. This reclassification increases the amount of agency debt outstanding held by the FFB by \$26.6 billion at the beginning of 1984; and it reduces the amount of guaranteed loans outstanding held by the FFB by an equal amount. This reclassification does not, however, constitute agency borrowing from the FFB, nor does it constitute the repayment of guaranteed loans. Borrowing by the Rural Housing Insurance Fund from the FFB during 1984 is shown in the addendum to table E-6 as \$333 million. Upon enactment of this legislation, the historical series for budget outlays, agency debt held by the FFB, and agency borrowing from the FFB will be revised retroactively to be consistent with this treatment and with budget concepts.

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, primary guaranteed borrowing (which excludes guarantees of loans previously guaranteed and also direct loans made by one Federal agency and guaranteed by

¹¹ *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), pp. 8, 47-48, and 54-55.

another) was \$20.9 billion in 1982 and is estimated to be \$55.8 billion in 1983 and \$48.9 billion in 1984. 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. These enterprises 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.¹² 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, the Federal Home Loan Banks, and the Student Loan Marketing Association 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 from the time of FFB's establishment until May 1981.¹³ Since that time SLMA has also sold notes to the public, without a guarantee, and beginning in 1982 has borrowed from the public to finance all of its increase in debt outstanding above \$5.0 billion. The three enterprises regulated by the Farm Credit Administration—the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks—now borrow by issuing consolidated Farm Credit bonds and notes rather than securities under their separate names.

Government sponsorship of these enterprises has given them various direct benefits. These benefits differ from one enterprise to another and from one type of debt security to another, but they generally include such advantages as the following: the debt securities can be held by federally regulated financial institutions in a number of cases where other private securities or State and local securities are not eligible; the enterprises are exempt from Federal

¹² *Ibid.*, pp. 29-30.

¹³ SLMA 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.

income taxation; the interest on their debt securities is exempt from State and local income taxation; and the enterprises are perceived to have a special relationship with the Federal Government. Because of these benefits, the Government-sponsored enterprises can borrow at interest rates only slightly higher than the interest rates paid by Treasury on Federal debt. 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 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 1983-84 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 much higher levels than before. Until 1978 the largest amount of borrowing by this sector as a whole 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 and \$38.6 billion in 1981. Borrowing in 1982 expanded to \$47.8 billion, and the Government-sponsored enterprises estimate that it will increase to \$53.8 billion in 1983 and \$54.7 billion in 1984.

This large growth in borrowing is due primarily to the three Government-sponsored enterprises that borrow to support housing through the mortgage market: the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal Home Loan Banks (FHLB). During 1982-84 they borrow 82% of the total funds raised by sponsored enterprises, whereas in previous years they borrowed on the average only 64%.

In 1981, as shown in table E-10, the FHLB alone predominated in Government-sponsored borrowing. It borrowed more than half of the total funds raised by sponsored enterprises in that year, and its increase in borrowing over 1980 (\$14.6 billion) was more than the increase in borrowing by the sector as a whole. This borrowing was used to meet the demand for advances by the FHLB's member savings institutions, primarily savings and loan associations, which borrowed much more from the FHLB than they repaid.

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

(In millions of dollars)

Description	Borrowing or repayment (—)				Debt outstanding end 1984 estimate
	1981 actual	1982 actual	1983 estimate	1984 estimate	
Education activities: Student Loan Marketing Association.....	2,223	2,325	1,404	1,175	9,472
Housing and Urban Development: Federal National Mortgage Association.....	4,342	19,251	27,813	24,870	128,622
Farm Credit Administration: ¹					
Banks for cooperatives.....	737	—423	1,252	1,104	11,055
Federal intermediate credit banks.....	1,921	—258	1,991	2,535	25,549
Federal land banks.....	6,819	5,427	5,181	5,968	57,652
Federal Home Loan Bank Board:					
Federal home loan banks.....	21,029	3,216	—2,197	—270	58,377
Federal Home Loan Mortgage Corporation.....	1,847	17,430	17,836	18,647	77,256
Total.....	38,917	46,968	53,280	54,029	367,984
Less increase in holdings of debt issued by Government-sponsored enterprises.....	280	—881	—500	—700	2,481
Total, borrowing by Government-sponsored enterprises.....	38,637	47,849	53,780	54,729	365,503

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

The pattern of sponsored borrowing has shifted, however, away from the FHLB and toward FNMA and FHLMC. This is summarized in the table below, which shows the change in the level of borrowing from one year to the next (in billions of dollars):

	1982 actual	1983 estimate	1984 estimate
Federal Home Loan Banks.....	—17.8	—5.4	1.9
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation...	30.5	9.0	—2.1
Other.....	—4.6	2.8	1.0
Total.....	8.1	6.3	0.7

The FHLB's borrowing fell by \$17.8 billion in 1982, from \$21.0 billion to \$3.2 billion. This was due to a decrease in its net loans to savings institutions of \$18.1 billion. Its advances were large, but the repayment of its advances rose greatly and was even larger. The decrease in FHLB borrowing was more than offset by a \$30.5 billion increase in FNMA and FHLMC borrowing combined. As explained in Special Analysis F, "Federal Credit Programs," this was due in large part to the FHLMC greatly expanding its program of mortgage-backed participation certificates and FNMA introducing its own program of mortgage-backed securities. Both of these programs purchase conventional mortgages, package them into pools, and sell participation certificates in these pools. FHLMC and FNMA estimate that they will expand their programs further in

1983, by enough to raise their borrowing \$9.0 billion, and will maintain nearly the same level of borrowing in 1984. Thus, support for the mortgage market by Government-sponsored enterprises has shifted away from direct loans to savings institutions (FHLB) and toward mortgage purchases (FNMA and FHLMC) from mortgage banking companies and financial institutions.

Borrowing by the other Government-sponsored enterprises is not estimated to change so greatly. FHLB borrowing is estimated to decrease further in 1983, but to a much smaller extent than in 1982, and then to rise a little in 1984. The Farm Credit Banks and Student Loan Marketing Association, in total, estimate that they will increase their borrowing by small amounts in both years.

The Federal Government provides a different kind of assistance to State and local government borrowing than it does to other borrowers 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 thereby 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 nearly half of all new long-term, tax-exempt issues. In 1982 the total tax-exempt borrowing estimated in the Federal Reserve flow-of-funds accounts was \$46.2 billion, of which \$3.3 billion was also guaranteed by the Federal 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 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 net amounts 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.

About three-fifths of Federal and federally assisted borrowing each year during 1982-84 is made up of Federal borrowing to finance the budget deficit. Another portion is made up of Federal borrowing to finance the off-budget deficit, most of which is ac-

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 1984 estimate
	1982 actual	1983 estimate	1984 estimate	
Federal borrowing from the public ¹	135.0	215.0	203.0	1,347.4
Guaranteed borrowing ²	34.8	69.4	59.0	533.6
Less increase in guaranteed loans held by Federal agencies:				
Federal Financing Bank	14.2	14.2	10.2	94.4
Government National Mortgage Association	— .2	— .6	— .1	3.4
Primary guaranteed borrowing ³	20.9	55.8	48.9	435.8
Borrowing by Government-sponsored enterprises ⁴	47.8	53.8	54.7	365.5
Less increase in holdings of Federal debt	2.6	— .4	— .3	3.8
Less increase in Government-sponsored debt held by Federal agencies:				
Federal Financing Bank	.7			5.0
Tennessee Valley Authority	.1			.1
Less increase in holdings of guaranteed loans:				
Federal National Mortgage Association	— 1.0	— .7	— 1.2	36.9
Federal Home Loan Banks	— *	— *	— *	.1
Federal Home Loan Mortgage Corporation	— *	— *	— *	1.0
Farm Credit Banks	*			.1
Student Loan Marketing Association ⁵	1.6	1.4	1.2	4.5
Net Government-sponsored borrowing	43.8	53.5	55.0	314.0
Total, Federal and federally assisted borrowing	199.7	324.3	306.8	2,097.2

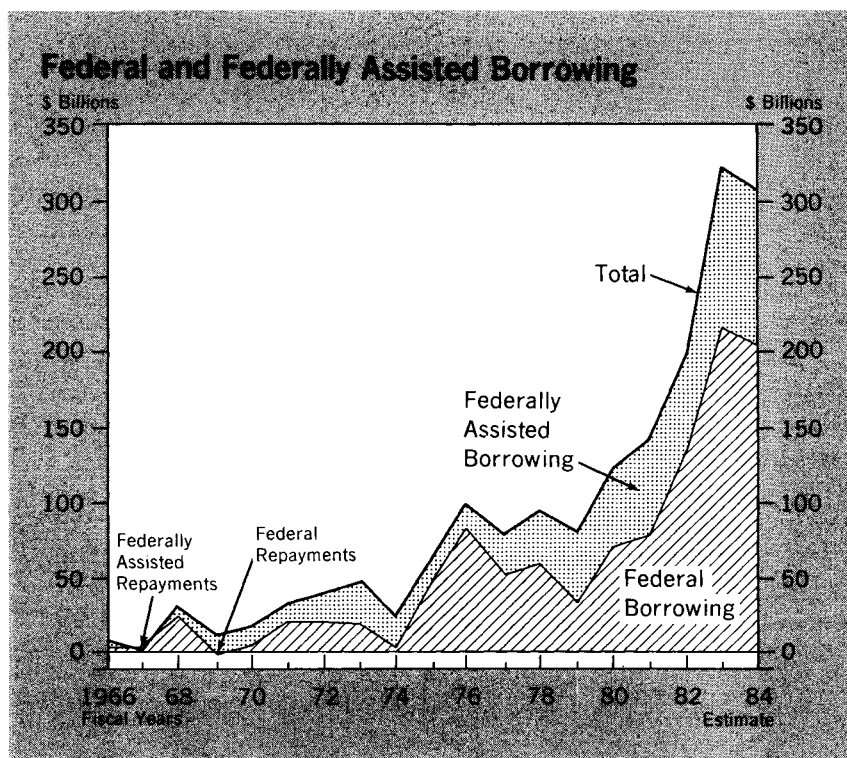
* \$50 million or less.

¹ See table E-1.² This line is the same as "guaranteed loans (net)" in table F-9 of Special Analysis F. To avoid double counting, it is calculated net of guarantees of loans previously guaranteed and guarantees of Federal agency debt.³ "Primary guaranteed borrowing" in this table is the same as "primary guaranteed loans" in table F-9.⁴ From table E-10.⁵ The increase in holdings of guaranteed loans by the Student Loan Marketing Association is subtracted out on this line only to the extent that SLMA borrows from the public. To the extent that SLMA borrows from the FFB, the increase in holdings of guaranteed loans is ultimately financed by Federal borrowing and the loans are therefore classified as direct loans rather than guaranteed loans. This amount is subtracted out above as an increase in Government-sponsored debt held by Federal agencies.

counted for by the Federal Financing Bank's purchases of guaranteed obligations. As shown in table E-11, the FFB is estimated to buy 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 1982-84 comprises 67% of total Federal and federally assisted borrowing; Federal debt held by the public at the end of 1984 is 64% of the total Federal and federally assisted debt outstanding.

The following chart depicts the trends in Federal and federally assisted borrowing from 1966 to 1984. The series are volatile, and the fluctuations are dominated by Federal borrowing, which is driven primarily by the Federal deficit. The fluctuations in the Federal deficit, in turn, are strongly related to the pattern of

recession and recovery. Total Federal and federally assisted borrowing increased steadily and substantially from \$80.8 billion in 1979 to \$199.7 billion in 1982. Federal and federally assisted borrowing is estimated to increase still further to \$324.3 billion in 1983, largely due to a rise in Federal borrowing. In 1984 all three types of Federal and federally assisted borrowing are estimated to level off, and the total is estimated to decline by a small amount.



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 in the credit market. 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 27% during the second half. In 1980 and 1981 the proportion was higher still, reaching 34% and 33% in those 2 years, respectively; and in 1982 the proportion rose sharply to 49%. Thus Government programs have recently influenced the allocation of funds raised in financial markets more than they did in the preceding years.

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. Upon assuming office, the Administration took immediate steps to revise the excessive growth trends of Federal credit activity. An interagency Cabinet-level group was formed and undertook a comprehensive review of the Government's direct and guaranteed loan programs in order to shape a consistent credit policy. Although legislative success has been limited, Administration proposals for credit budget discipline have served to increase awareness of the serious effects Federal credit activity have had on the Nation's economy and financial markets. In the 1984 Budget, the Administration continues its strong commitment to control the growth of Federal credit and to strengthen the credit budget framework by proposing a 9% decrease below the 1983 levels.

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 these programs preempt private sector investment resources, and this absorption has an inhibiting effect on productivity and economic growth. Moreover, Federal credit distorts the market's assessment of true risk and return.

This special analysis presents 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 1982 through 1988.

Reporting on Federal credit activities in the budget has expanded considerably in recent years. This year will be the first publication of long range credit budget estimates. Part 5 of the *Budget* presents information about major credit programs in the context of the budget functions for 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. Special Analysis E, "Borrowing and Debt" analyzes Federal borrowing and debt in some detail.

FORMS OF FEDERAL CREDIT

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 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 exemption from Federal income tax 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.

An element of subsidy is involved in all forms of Federal credit since assistance is given on terms or conditions more favorable than would have been available 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 with either cash payments, credit assistance, or tax preferences. 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 a lower interest rate from a private lender, longer maturities, higher loan-to-value ratios, or greater liquidity than would have been available in private capital markets.

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.

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).

Net funds advanced in a given year are the difference between the amount of loans outstanding at the beginning and at the end of that year. The total amount of funds advanced under Federal auspices has risen over four fold in the last decade, reaching \$87.6 billion in 1982 and is estimated to reach \$115.2 billion in 1984. The Federal participation rate for total funds advanced in U.S. credit markets reached a high for this decade of 21.8% in 1980. However, estimates for 1983 suggest that net funds advanced will increase substantially over 1982 primarily due to the expected surge in demand for guaranteed loans in housing programs and lending by Government-sponsored enterprises, both of which are discussed in later sections of this Special Analysis.

The other measure of Federal participation is funds raised (borrowed) under Federal auspices, which includes funds raised for Federal loan guarantee 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% to 49% of total borrowing over the past decade. The volatility is due primarily to swings in the budget deficit. This participation rate peaks in 1982 due to increases in Federal borrowing from the public, borrowing for guaranteed loans and Government-sponsored enterprise borrowing. Table F-12 summarizes the components of Federal credit advanced and raised under Federal auspices.

³The Government-sponsored enterprises are financial intermediaries, whereas the data in table F-1 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.

Table F-1. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS

(Dollar amounts in billions)

	Actual											Estimates	
	1973	1974	1975	1976	TQ	1977	1978	1979	1980	1981	1982	1983	1984
Total funds advanced in U.S. credit markets ¹	198.2	187.5	177.9	243.1	64.8	308.3	383.4	426.4	366.4	427.2	408.7	(²)	(²)
Advanced under Federal auspices	26.1	25.5	27.0	26.9	6.7	36.7	58.4	72.9	79.9	86.5	87.6	130.9	115.2
Direct loans:													
On-budget.....	0.9	3.3	5.8	4.2	1.1	2.6	8.6	6.0	9.5	5.2	9.1	5.2	-0.3
Off-budget.....	0.1	0.8	7.0	6.7	2.6	9.0	11.2	13.6	14.7	20.9	14.3	14.4	10.4
Guaranteed loans.....	16.6	10.3	8.6	11.1	-0.1	13.5	13.4	25.2	31.6	28.0	20.9	55.8	48.9
Government-sponsored enterprise loans.....	8.5	11.2	5.6	4.9	3.1	11.7	25.2	28.1	24.1	32.4	43.4	55.5	56.2
Federal participation rate (percent)	13.2	13.6	15.2	11.1	10.3	11.9	15.2	17.1	21.8	20.2	21.4	(²)	(²)
Total funds raised in U.S. credit markets ¹	198.2	187.5	177.9	243.1	64.8	308.3	383.4	426.4	366.4	427.2	408.7	(²)	(²)
Raised under Federal auspices	46.5	24.2	64.8	98.1	19.3	79.0	93.9	80.7	123.5	142.1	199.7	324.3	306.8
Federal borrowing from public.....	19.3	3.0	50.9	82.9	18.0	53.5	59.1	33.6	70.5	79.3	135.0	215.0	203.0
Borrowing for guaranteed loans.....	16.6	10.3	8.6	11.1	-0.1	13.5	13.4	25.2	31.6	28.0	20.9	55.8	48.9
Government-sponsored enterprise borrowing.....	10.6	10.9	5.3	4.1	1.4	12.0	21.4	21.9	21.4	34.8	43.8	53.5	55.0
Federal participation rate (percent)	23.5	12.9	36.4	40.4	29.8	25.6	24.5	18.9	33.7	33.3	48.9	(²)	(²)
MEMORANDUM													
Tax exempt credit.....	12.2	16.5	11.4	20.9	3.8	20.5	24.4	27.3	30.0	32.5	42.9	(²)	(²)
Funds advanced under Federal auspices, plus tax exempt credit..	38.3	42.0	38.4	47.8	10.5	57.2	82.8	100.2	109.9	119.0	130.5	(²)	(²)
Federal participation rate, including tax exempt credit (percent).....	19.3	22.4	21.6	19.7	16.2	18.6	21.6	23.5	30.0	27.9	31.9	(²)	(²)
Funds raised under Federal auspices, plus tax exempt credit.....	58.7	40.7	76.2	119.0	23.1	99.5	118.3	108.0	153.5	174.6	243.6	(²)	(²)
Federal participation rate, including tax exempt credit (percent).....	29.6	21.7	42.8	49.0	35.6	32.3	30.9	25.3	41.9	40.9	59.4	(²)	(²)

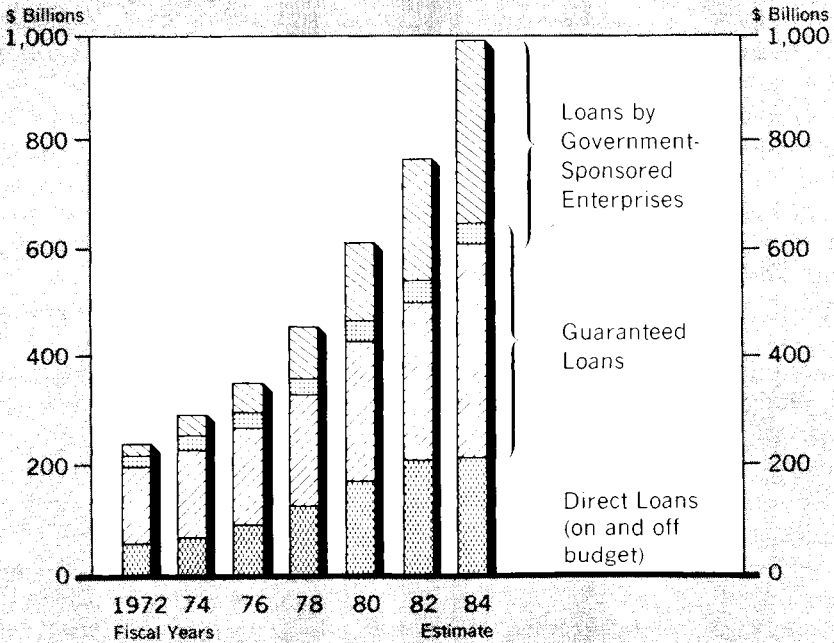
¹ Nonfinancial sectors, excluding equities. Source: Federal Reserve Board Flow of Funds Accounts.² Not estimated.

A further 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 pretax yields than they demand for taxable securities. In this way, State and local governments receive an interest subsidy, and the Federal Government forgoes 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. The memorandum to F-1 shows the growth of tax exempt credit, and how the Federal participation rates would change if tax exempt credit were included.

The following sections of this special analysis discuss changes in on-budget and off-budget direct lending, guaranteed lending, and lending and borrowing by Government-sponsored enterprises in detail.

The following chart shows the growth of Federal and federally assisted credit outstanding in the last decade. Since 1972, the total amount of loans outstanding has risen by \$524 billion, from \$241 billion, to \$765 billion in 1982, an increase of 217%.

Federal and Federally Assisted Credit Outstanding



THE CREDIT BUDGET

Four 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 is designed to control 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 totals.—The credit budget total for 1982 is \$101.3 billion, which is substantially below both the 1981 and 1983 totals. The sharp decline in 1982 is largely due to the effect of the recession and high interest rates on demand-based housing programs in the Department of Housing and Urban Development and the Veterans' Administration. These mortgage programs decreased by 30% between 1981 and 1982.

Table F-2. THE CREDIT BUDGET TOTALS

(In billions of dollars)

	1981 actual	1982 actual	1983 estimate	1984 estimate	1985 estimate	1986 estimate
Direct loan obligations: ¹						
Federal Financing Bank	15.1	13.6	15.1	14.4	14.9	15.3
Commodity Credit Corporation	5.9	11.5	11.9	8.0	5.6	5.6
All other	32.5	22.5	22.1	16.4	16.9	16.5
Total obligations	53.5	47.6	49.1	38.8	37.4	37.4
Guaranteed loan commitments: ²						
Mortgage guarantees	35.3	24.6	64.5	59.7	60.2	60.8
Low rent public housing	18.5	13.3	14.6	14.7	16.5	18.1
Export-Import Bank	7.4	5.8	8.0	10.0	10.0	10.0
Commodity Credit Corporation	2.0	1.6	4.8	3.0	3.0	3.0
All other	13.3	8.4	10.8	11.3	11.6	11.2
Total commitments	76.5	53.7	102.7	98.7	101.0	103.1
Total credit budget	130.0	101.3	151.8	137.6	138.4	140.5
MEMORANDUM						
Secondary loan guarantee commitments	44.1	36.4	68.2	58.6	58.6	58.6
Guaranteed loans held as direct loans	30.3	28.2	27.0	21.8	20.4	17.1

¹ Excludes purchases of loan assets by the Federal Financing Bank and repurchases of direct loans by agencies from the FFB.

² Excludes commitments for guarantees of loans previously guaranteed (secondary guarantees) and for guarantees by one Government account of direct loans made by another Government account. These totals shown in the memorandum.

For 1984, the administration is proposing that the credit budget decrease by \$14.2 billion below the 1983 totals. This represents a 9% decrease. Small changes in 1985 and 1986 over 1984 are due to proposed increases in guaranteed student loans, low rent public housing, and Veterans' Administration mortgage guarantees.

Major changes in the credit budget totals between 1983 and 1984 are shown in the table below.

Table F-3. MAJOR CHANGES IN THE CREDIT BUDGET TOTALS

(In billions of dollars)

	Direct loan obligations	Guaranteed loan commitments
Credit budget totals, 1983	49.1	102.7
Changes:		
International security assistance.....		0.3
CCC price supports and related programs.....	-3.8	-1.8
Farmers Home Administration.....	-3.6	
Education programs.....		0.6
Federal Housing Administration.....		-6.1
Government National Mortgage Association.....	-0.5	
Veterans' housing programs.....		1.2
Export-Import Bank.....		2.0
Small Business Administration.....	-0.2	
Rural Electrification Administration.....	-0.5	-1.5
Other.....	-1.7	1.3
Total change.....	-10.2	-4.0
Credit budget totals, 1984	38.8	98.7
MEMORANDUM		
GNMA mortgage-backed securities (secondary guarantees).....		-9.6

More detail on the proposed changes in the credit budget are in the later sections of this special analysis.

Nature of the credit budget.—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 intended to present the total amount of credit activity clearly and to facilitate legislative and administrative control.

First, the credit budget makes no distinction between budget agencies 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, which is where 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.

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. Initially, the guaranteed loan totals only included the contingent liabilities. This was changed last year so that the credit budget would 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 in loan guarantees outstanding between the contingent liability and full principal.

Table F-4. DIFFERENCE BETWEEN CONTINGENT LIABILITY AND FULL PRINCIPAL FOR OUTSTANDING GUARANTEED LOANS

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Veterans Administration mortgage guarantees:			
Contingent liability.....	48,798	56,492	64,707
Full principal.....	108,779	125,844	144,158
Federal Housing Administration mortgage insurance:			
Contingent liability.....	138,866	167,459	193,110
Full principal.....	142,252	171,422	197,747
All other loan guarantees programs:			
Contingent liability.....	293,763	344,843	363,668
Full principal.....	296,412	347,571	366,219
Total outstanding:			
Contingent liability.....	481,427	568,794	621,485
Full principal.....	547,443	644,837	708,124

Some 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. Fourth, a deduction for repurchases of loan assets by agencies from the FFB is introduced this year to eliminate one further form of double-counting. This occurs primarily in direct loan totals of the Farmers Home Administration (FmHA), which sells loans as loan assets to the FFB and then after a period of time, repurchases these loan assets. More detail on the operation of the FFB is in Table F-8.

Appropriation 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 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 limitation. Without the appropriation limitations the annual activity of many credit programs would neither be limited by annual congressional action nor be limited in the context of total credit activity.

Appropriation limitations are proposed for programs amounting to about two-thirds 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 bill 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. This exemption prevents control where none can exist without changing the basic nature of the programs. The programs in this category are similar to those budgetary activities considered relatively uncontrollable, many of which also are not acted on in annual appropriations.

Several programs are exempted by policy decisions because of unique circumstances. For example, no additional constraint is placed on temporary advances that are authorized for some guaranteed loan and insurance programs, because the advances often avoid more costly claims by guaranteed lenders or insured institutions.

Table F-5.—CREDIT BUDGET PROGRAMS EXEMPT FROM APPROPRIATION ACT LIMITATIONS

(In millions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Programs under appropriations control.....	23,973	24,459	20,422	73,218	134,940	120,278
Programs exempt from appropriations control:						
Entitlement and mandatory programs:						
CCC price support and related programs...	11,454	11,152	5,685			
Agricultural disaster lending.....	2,217	2,000	1,540			
Public housing.....	905	1,000	1,000	13,284	14,637	14,709
Veterans mortgage insurance.....				5,983	18,637	19,875
Other veterans program.....	154	159	166			
Guaranteed student loans.....				6,895	6,778	7,391
Policy exemptions:						
National Credit Union Administration.....	105	119	115	34	30	28
Pension Benefit Guaranty Corporation.....	*	3	*			
Diplomatic emergencies.....	1	1	1			
Public Law 480 export sales.....	777	750	768			
CCC export credit.....				1,551	4,800	3,000
Federal Highway Administration.....	69	50	7			
Federal Railroad Administration.....	45	99		26	17	
Tennessee Valley Authority.....	77	89	99	4,513	5,412	6,258
NASA satellite leases.....				146	205	37
Small Business Administration ¹	683					
Financing transactions:						
Guarantees and repurchases of CBO's (FmHA and REA).....	7,388	6,909	6,682	12,630	11,408	7,406
Federal Financing Bank.....	17,985	17,384	13,694			
Defaulting guaranteed loans:						
International assistance.....	217	253	306			
FHA mortgage insurance.....	284	298	231			
Guaranteed student loans.....	464	570	424			
VA mortgage insurance.....	719	689	719			
Other.....	57	1,400	1,056	45	1,019	173
Subtotal, exempt programs.....	43,601	42,925	32,493	45,107	62,943	58,877
Less: Deductions to eliminate double counting...	-20,018	-18,317	-14,088	-64,599	-95,216	-80,421
Total, credit budget.....	47,556	49,067	-38,827	53,726	102,667	98,734

*\$500,000 or less.

¹ Congress did not enact an appropriation limitation on SBA programs. The Administration is re-proposing limitations for 1983 and 1984.

The third type of exemption is for intragovernmental financing transactions, such as guarantees of certificates of beneficial ownership issued by the Farmers Home Administration and the Rural Electrification Administration, as well as all activity of the Federal Financing Bank. Since the loans in these cases are controlled through annual appropriation bill limitations, they need not be limited at the financing stage.

Fourth, direct loans that arise from payment of claims on defaulted guaranteed loans are exempted for all credit programs. Payment of these default claims is mandatory.

Table F-5 provides a complete listing of programs proposed to be exempt from appropriation limitations in the 1984 credit budget.

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-6 shows loan activity by the headings "obligations" and "loan disbursements," "net outlays" and "outstandings". 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 borrowers to whom obligations are made do not convert the obligations into borrowing.

Loan disbursements, in turn, are the loans actually made in the specified year. They are primarily the sum of disbursements to make new loans but also include disbursements to pay guarantee claims.⁵ Net outlays are equal to the sum of all transactions that alter total loans outstanding, i.e. new loans less repayments of loans,⁶ liquidation of collateral, loan write-offs, 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 total direct loans are expected to decrease by \$3.9 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 are expected to decrease by \$3.9 billion from 1982 to \$19.6 billion in 1983, and are expected to fall still further, to \$10.1 billion by 1984. 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 are proposed for termination in 1984. Another contribution to low net loan outlays in 1984 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.

Reductions in direct loan obligations of \$10.2 billion between 1983 and 1984 are primarily in the Commodity Credit Corporation,

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

⁵Upon default of a loan guarantee, the Government generally 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.

⁶Loan 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.

⁷The 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.

the Farmers Home Administration's rural housing insurance fund, the Rural Electrification Administration (REA), and the Small Business Administration (SBA).

The Commodity Credit Corporation request for direct loan obligations of \$8 billion for 1984 reflects a reduction of \$3.8 billion from the estimated 1983 level. This reduction in lending is primarily due to the administration's new payment-in-kind program, in which farmers are offered, at no cost to them, surplus commodities held in CCC reserves or owned by CCC, in exchange for reducing their production of wheat, feed grains, rice or cotton.

A decrease in the direct loan obligations of the rural housing insurance fund of \$3.1 billion is proposed as part of the rural housing block grant to the States.

The 1984 request for REA insured loans for the rural electric and telephone program reflects a reduction of \$526 million from the estimated 1983 obligation level. The reduction is due to an anticipated increase in supplemental financing from the National Rural Utility Cooperative Finance Corporation and other sources to satisfy a part of the capital requirements of the rural electric systems. REA guaranteed loan originations financed by the Federal Financing Bank (FFB) are reduced by \$1.4 billion to \$3.3 billion in 1984.

The Administration is proposing to eliminate subsidized direct loans in SBA's Business Loan and Investment Fund with the exception of \$41 million in direct financing for minority enterprise small business investment companies. The remaining request for direct loans, \$472 million, is for anticipated defaulting guarantees.

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

Agency or program		1982	Estimate					
			1983	1984	1985	1986	1987	1988
ON-BUDGET AGENCIES								
Funds Appropriated to the President:								
International Security Assistance:								
Economic Support Fund.....	Obligations	366	481	468	718	718	718	718
	Loan disbursements.....	632	465	478	718	718	718	718
	Net outlays.....	652	416	420	724	718	718	718
	Outstandings.....	5,204	5,620	6,040	6,764	7,482	8,200	8,918
Foreign Military Sales Credit								
	Obligations	800	1,175	1,000	1,000	1,000	1,000	1,000
	Loan disbursements.....	501	880	1,006	998	1,000	1,000	1,000
	Net outlays.....	-116	-96	-74	-62	-30	-20	-10
	Outstandings.....	310	214	141	78	48	28	18
Guarantee Reserve Fund.....								
	Obligations	217	253	306	344	381	436	479
	Loan disbursements.....	217	253	306	344	381	436	479
	Net outlays.....	141	131	164	188	206	230	250
	Outstandings.....	408	539	703	891	1,097	1,327	1,577
International development assistance.....								
	Obligations	416	435	412	406	406	406	406
	Loan disbursements.....	377	415	437	406	406	406	406
	Net outlays.....	100	66	64	-116	-108	-159	-210
	Outstandings.....	12,010	12,076	12,140	12,024	11,916	11,756	11,546
Agriculture:								
Farmers Home Administration:								
Agricultural Credit:								
Program level	Obligations	4,199	4,264	3,979	4,065	4,012	3,992	4,071
	Loan disbursements.....	4,172	4,352	4,018	4,000	4,000	4,000	4,000
Repurchases of loan assets.....								
	Obligations	4,325	3,465	5,395	4,157	1,250	385	4,475
	Loan disbursements.....	4,325	3,465	5,395	4,157	1,250	385	4,475
	Net outlays.....	-241	-420	-132				

	Outstandings	795	375	243	243	243	243	243
Rural Housing								
Program level	Obligations	3,454	3,377	316	688	515	494	537
	Loan disbursements	3,378	3,492	1,445	620	380	320	300
Repurchases of loan assets.....	Obligations	2,370	2,685					
	Loan disbursements	2,370	2,685					
	<i>Net outlays</i>	<i>- 378</i>	<i>- 177</i>	<i>326</i>	<i>- 495</i>	<i>- 83</i>	<i>- 160</i>	<i>- 159</i>
	Outstandings ¹	447	270	596	100	18	- 143	- 302
Rural Development:								
Program level	Obligations	568	518	360	406	362	355	599
	Loan disbursements	1,022	822	686	503	384	353	348
Repurchases of loan assets.....	Obligations	475	505	980	595	30		
	Loan disbursements	475	505	980	595	30		
	<i>Net outlays</i>	<i>- 132</i>	<i>21</i>	<i>- 108</i>				
	Outstandings	153	173	65	65	65	65	65
Commodity Credit Corporation price support and related loans.....	Obligations	11,500	11,877	8,040	5,600	5,600	5,100	4,800
	Loan disbursements	11,629	11,877	8,040	5,600	5,600	5,100	4,800
	<i>Net outlays</i>	<i>6,325</i>	<i>4,382</i>	<i>- 2,025</i>	<i>358</i>	<i>1,300</i>	<i>1,200</i>	<i>100</i>
	Outstandings	12,484	16,867	14,842	15,200	16,500	17,700	17,800
Public Law 480 long-term export credits	Obligations	777	750	768	768	768	768	768
	Loan disbursements	712	750	768	768	768	768	768
	<i>Net outlays</i>	<i>590</i>	<i>531</i>	<i>548</i>	<i>768</i>	<i>768</i>	<i>768</i>	<i>768</i>
	Outstandings	8,307	8,839	9,387	10,155	10,923	11,691	12,459
Commerce:								
Economic Development Administration	Obligations	14						
	Loan disbursements	101	92	79				
	<i>Net outlays</i>	<i>- 104</i>	<i>- 40</i>	<i>- 203</i>	<i>- 110</i>	<i>- 120</i>	<i>- 110</i>	<i>- 110</i>
	Outstandings	891	851	648	538	418	308	197
Education	Obligations	504	570	424	524	574	649	749

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

Agency or program		1982	Estimate					
			1983	1984	1985	1986	1987	1988
	Loan disbursements.....	622	691	654	498	574	649	749
	<i>Net outlays</i>	<i>641</i>	<i>470</i>	<i>294</i>	<i>62</i>	<i>207</i>	<i>273</i>	<i>376</i>
	Outstandings	9,859	10,329	10,623	10,685	10,892	11,165	11,541
Energy.....	Obligations.....	4	40	40	44	46	47	49
	Loan disbursements.....	4	40	40	44	46	47	49
	<i>Net outlays</i>	<i>4</i>	<i>39</i>	<i>38</i>	<i>42</i>	<i>43</i>	<i>45</i>	<i>47</i>
	Outstandings	13	53	90	132	175	220	267
Health programs.....	Obligations.....	27	47	16	13	9	3	3
	Loan disbursements.....	41	34	16	13	9	4	4
	<i>Net outlays</i>	<i>-9</i>	<i>23</i>	<i>2</i>	<i>3</i>	<i>-1</i>	<i>-10</i>	<i>-12</i>
	Outstandings	921	945	947	950	948	938	926
Housing and Urban Development:								
Low-rent public housing.....	Obligations.....	905	1,000	1,000	750	500	250	100
	Loan disbursements.....	905	1,000	1,000	750	500	250	100
	<i>Net outlays</i>	<i>-21</i>			<i>-42</i>	<i>-45</i>	<i>-25</i>	<i>-25</i>
	Outstandings	162	162	162	120	75	50	25
Government National Mortgage Association.....	Obligations.....	1,985	504	3	3	3	3	3
	Loan disbursements.....	2,732	2,154	2,038	3	3	3	3
	<i>Net outlays</i>	<i>-259</i>	<i>-640</i>	<i>-68</i>	<i>-1,167</i>	<i>-943</i>	<i>-43</i>	<i>-42</i>
	Outstandings	4,074	3,433	3,366	2,199	1,264	1,222	1,180
Other Housing programs.....	Obligations.....	1,153	1,061	766	822	840	880	934
	Loan disbursements.....	1,178	1,229	1,215	1,087	915	890	857
	<i>Net outlays</i>	<i>631</i>	<i>-107</i>	<i>-582</i>	<i>-665</i>	<i>-776</i>	<i>-622</i>	<i>-384</i>
	Outstandings	8,980	8,873	8,291	7,627	6,851	6,230	5,846
Interior.....	Obligations.....	31	57	56	51	48	27	22

	Loan disbursements.....	34	52	57	54	49	27	23
	<i>Net outlays</i>	<i>1</i>	<i>31</i>	<i>36</i>	<i>35</i>	<i>30</i>	<i>9</i>	<i>2</i>
	Outstandings	441	472	508	543	573	582	584
Transportation:								
Railroad programs.....	Obligations.....	44	102					
	Loan disbursements.....	63	101	38	21			
	<i>Net outlays</i>	<i>55</i>	<i>56</i>	<i>38</i>	<i>21</i>			
	Outstandings	569	625	663	684	684	684	684
Other.....	Obligations.....	94	81	62	57	55	55	55
	Loan disbursements.....	72	69	71	78	55	55	55
	<i>Net outlays</i>	<i>31</i>	<i>25</i>	<i>36</i>	<i>43</i>	<i>20</i>	<i>20</i>	<i>14</i>
	Outstandings	434	459	495	538	558	579	593
Veterans Administration:								
Housing loans and default claims.....	Obligations.....	720	691	721	735	753	737	755
	Loan disbursements.....	720	691	721	735	753	737	755
	<i>Net outlays</i>	<i>251</i>	<i>-390</i>	<i>259</i>	<i>234</i>	<i>163</i>	<i>67</i>	<i>135</i>
	Outstandings	1,906	1,516	1,774	2,008	2,171	2,238	2,373
Insurance policy and other loans.....	Obligations.....	154	158	164	167	169	167	164
	Loan disbursements.....	154	158	164	167	169	167	164
	<i>Net outlays</i>	<i>-23</i>	<i>-14</i>	<i>-14</i>	<i>-15</i>	<i>-15</i>	<i>-17</i>	<i>-10</i>
	Outstandings	1,462	1,448	1,434	1,419	1,404	1,387	1,377
Loans to the District of Columbia.....	Obligations.....	285	295	115				
	Loan disbursements.....	285	295	115				
	<i>Net outlays</i>	<i>117</i>	<i>116</i>	<i>84</i>	<i>-34</i>	<i>-36</i>	<i>-39</i>	<i>-42</i>
	Outstandings	1,684	1,799	1,883	1,849	1,813	1,774	1,732
Export-Import Bank.....	Obligations.....	3,516	3,830	3,830	3,830	3,830	3,830	3,830
	Loan disbursements.....	2,583	2,911	3,505	3,256	3,242	2,940	2,959
	<i>Net outlays</i>	<i>763</i>	<i>915</i>	<i>1,216</i>	<i>757</i>	<i>574</i>	<i>296</i>	<i>320</i>
	Outstandings	16,565	17,480	18,696	19,453	20,027	20,323	20,643

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

Agency or program		1982	Estimate					
			1983	1984	1985	1986	1987	1988
Federal Deposit Insurance Corporation.....	Obligations							
	Loan disbursements.....	296						
	<i>Net outlays</i>	274	-51	-31	-333	-11	-64	*
	Outstandings	705	654	624	291	280	217	216
Federal Home Loan Bank Board.....	Obligations	37						
	Loan disbursements.....	37						
	<i>Net outlays</i>	-86	-48	-173	-75	-101	-62	-49
	Outstandings	758	709	537	461	360	299	250
National Credit Union Administration.....	Obligations	104	119	115	118	116	114	112
	Loan disbursements.....	104	119	115	118	116	114	112
	<i>Net outlays</i>	34	42	34	36	38	38	38
	Outstandings	149	191	225	261	299	337	375
Small Business Administration: Business and investment loans.....	Obligations	683	750	513	483	444	379	313
	Loan disbursements.....	903	786	470	443	407	348	288
	<i>Net outlays</i>	393	151	-251	-248	-249	-276	-293
	Outstandings	3,096	3,247	2,996	2,627	2,378	2,102	1,809
Disaster loans.....	Obligations	237	440	440	440	440	440	440
	Loan disbursements.....	299	362	396	396	396	396	396
	<i>Net outlays</i>	-371	-332	-274	-252	-234	-217	-201
	Outstandings	6,073	5,741	5,467	5,215	4,981	4,764	4,563
Tennessee Valley Authority.....	Obligations	77	89	99	134	123	121	122
	Loan disbursements.....	76	88	98	134	123	121	122
	<i>Net outlays</i>	69	57	55	62	34	18	5
	Outstandings	267	324	379	441	475	493	497

Other agencies and programs.....	Obligations	15	14	1	1	1	1	1
	Loan disbursements.....	45	38	16	*	*	*	*
	<i>Net outlays</i>	<i>-224</i>	<i>7</i>	<i>-9</i>	<i>-3</i>	<i>-3</i>	<i>-8</i>	<i>-8</i>
	Outstandings	1,091	1,098	1,089	1,086	1,083	1,075	1,067
Subtotal, on-budget agencies.....	Obligations	40,057	39,633	30,383	26,900	22,972	21,348	25,597
	Loan disbursements.....	33,896	34,220	27,991	21,754	20,995	19,851	19,456
	<i>Net outlays</i>	<i>9,107</i>	<i>5,162</i>	<i>-329</i>	<i>-285</i>	<i>1,356</i>	<i>1,850</i>	<i>1,217</i>
	Outstandings	100,220	105,382	105,054	104,648	106,004	107,854	109,071
OFF-BUDGET FEDERAL ENTITIES								
Rural electrification and telephone revolving fund.....	Obligations	1,099	1,101	575	575	575	575	575
	Loan disbursements.....	1,048	1,060	940	792	718	698	855
	<i>Net outlays</i>	<i>130</i>	<i>88</i>	<i>59</i>	<i>-106</i>	<i>-204</i>	<i>-268</i>	<i>-119</i>
	Outstandings	9,774	9,861	9,920	9,814	9,611	9,343	9,224
Rural Telephone Bank.....	Obligations	185	185	185	185	185	185	185
	Loan disbursements.....	112	185	185	185	185	185	185
	<i>Net outlays</i>	<i>102</i>	<i>173</i>	<i>171</i>	<i>170</i>	<i>166</i>	<i>163</i>	<i>159</i>
	Outstandings	1,173	1,345	1,516	1,686	1,852	2,015	2,174
Federal Financing Bank ²	Obligations	26,232	26,465	21,771	20,350	17,090	16,607	21,226
	Loan disbursements.....	13,602	15,056	14,365	14,861	15,288	15,763	15,975
	<i>Net outlays</i>	<i>14,155</i>	<i>14,239</i>	<i>10,192</i>	<i>9,145</i>	<i>7,990</i>	<i>7,752</i>	<i>7,759</i>
	Outstandings	96,519	110,758	94,378	103,524	111,514	119,266	127,025
United States Railway Association.....	Obligations	*						
	Loan disbursements.....	*						
	<i>Net outlays</i>	<i>-42</i>	<i>-64</i>	<i>-21</i>				
	Outstandings	123	58	37	37	37	37	37

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

Agency or program		1982	Estimate					
			1983	1984	1985	1986	1987	1988
Subtotal, off-budget Federal entities	Obligations	27,516	27,751	22,531	21,110	17,850	17,367	21,986
	Loan disbursements	14,762	16,302	15,490	15,838	16,191	16,646	17,015
	Net outlays	14,345	14,435	10,400	9,209	7,953	7,648	7,800
	Outstandings	107,588	122,023	105,852	115,061	123,014	130,661	138,460
Less loan asset sales to the Federal Financing Bank ³	Obligations	— 12,630	— 11,408	— 7,406	— 5,489	— 1,801	— 843	— 5,252
	Loan disbursements	— 12,630	— 11,408	— 7,406	— 5,489	— 1,801	— 843	— 5,252
	Net outlays							
	Outstandings							
Less repurchases of loan assets from the Federal Financing Bank	Obligations	— 7,387	— 6,908	— 6,681	— 5,096	— 1,661	— 821	— 5,054
	Loan disbursements	— 7,387	— 6,908	— 6,681	— 5,096	— 1,661	— 821	— 5,054
	Net outlays							
	Outstandings							
Grand total, net direct loans	Obligations	47,556	49,067	38,827	37,425	37,359	37,051	37,278
	Loan disbursements	28,640	32,205	29,395	27,007	33,724	34,833	26,165
	Net outlays	23,452	19,597	10,071	8,924	9,309	9,498	9,016
	Outstandings	207,808	227,406	210,906	219,709	229,018	238,515	247,531

*\$500,000 or less.

¹ Negative outstandings occur in this account because the inventory of loans at FmHA is insufficient to cover the outstanding balance of CBO's held by FFB.² Net outlays for the FFB in 1984 have been adjusted to reflect the reclassification as Federal agency debt of the sales of CBO's to the FFB by the Rural Housing Insurance Fund. Due to this reclassification, net outlays of FFB in 1984 do not reflect the net change in the outlays of RHIF and the end-of-year balance of \$26,572 million also is not reflected in the grand totals of outstandings for 1984 through 1988.³ 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 obligations and loan disbursements 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 budget, 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, while 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 on-budget direct loans to off-budget loans.

The largest volume of loan assets are certificates of beneficial ownership (CBO's) sold by the Farmers Home Administration (FmHA) and Rural Electrification Administration (REA) 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 these two cases, however, legislation requires that CBO's be treated instead as loan assets.

A third form of loan asset sale occurs when direct loans have been acquired through payments of guarantee claims upon default, or through sale of collateral. They may be sold subsequently 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. In order to find willing purchasers, they have to be sold at prices sufficiently low to afford a normal return to investors. This program is proposed for termination in 1984.

Table F-7 shows all loan offsets—asset sales, repayments, other capital recoveries, non-cash adjustments, and other offsets. These amounts are counted against the volume of new loans extended to derive net loan outlays. Table F-6, as shown previously, displays new direct loan disbursements and net direct loan outlays; table F-7

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 reduce the 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-7. LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS

(In millions of dollars)

Agency or program		Actual 1982	Estimates	
			1983	1984
Agriculture: Public Law 480	Loan asset sales to:			
	the public			
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	187	219	220
	non-cash adjustments			
Commodity Credit Corporation	Loan asset sales to:			
	the public			
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	5,334	5,976	6,302
	non-cash adjustments	10	1,519	3,763
Agriculture credit insurance fund	Loan asset sales to:			
	the public			
	the FFB	5,380	4,300	5,291
	Repayments and adjustments:			
	repayments and prepayments	3,497	4,056	4,358
	non-cash adjustments	-138	-116	-104

Table F-7. **LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS—Continued**

(In millions of dollars)

Agency or program		Actual 1982	Estimates	
			1983	1984
Rural housing insurance fund ¹	Loan asset sales to:			
	the public	17	16	13
	the FFB	5,170	5,335	.....
	Repayments and adjustments:			
	repayments and prepayments	1,196	1,357	1,446
	non-cash adjustments	-257	-354	-339
Rural development insurance fund	Loan asset sales to:			
	the public			
	the FFB	1,535	1,191	1,644
	Repayments and adjustments:			
	repayments and prepayments	97	117	132
	non-cash adjustments	-3	-3	-2
Education:				
Guarantees of SLMA obligations	Loan asset sales to:			
	the public			
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	198	247	360
	non-cash adjustments	-217	-27	.....
Health and Human Services:				
Health maintenance organization loans	Loan asset sales to:			
	the public		8	6
	the FFB	17	16	6
	Repayments and adjustments:			
	repayments and prepayments			
	non-cash adjustments	-2	2	.....
Housing and Urban Development:				
Federal Housing Administration fund	Loan asset sales to:			
	the public	129	245	264
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	64	67	71
	non-cash adjustments	233	166	359
Other housing programs	Loan asset sales to:			
	the public		546	792
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	1,047	1,107	1,100
	non-cash adjustments	130	205	210
Veterans' Administration:				
Direct loan revolving fund	Loan asset sales to:			
	the public		10	.....
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	41	34	20
	non-cash adjustments	2	2	2
Loan guarantee revolving fund	Loan asset sales to:			
	the public	338	744	377
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	*	-5	-5
	non-cash adjustments	89	295	69
Export-Import Bank	Loan asset sales to:			
	the public			
	the FFB			

Table F-7. LOAN ASSETS SALES, LOAN REPAYMENTS, AND OTHER LOAN OFFSETS—Continued

(In millions of dollars)

Agency or program		Actual 1982	Estimates	
			1983	1984
Small Business Administration.....	Repayments and adjustments:			
	repayments and prepayments	1,732	1,996	2,289
	non-cash adjustments	89		
	Loan asset sales to:			
	the public			
Housing and Urban Development (GNMA): Tandem Plan Sales—FHA/VA mortgages	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	829	938	972
	non-cash adjustments	351	391	419
	Loan asset sales to:			
Subtotal, on-budget agencies exclud- ing tandem plans. ²	the public	485	1,570	1,453
	the FFB	12,102	10,843	6,941
	Repayments and adjustments:			
	repayments and prepayments	14,222	16,109	17,264
	non-cash adjustments	285	2,081	4,377
Subtotal, on-budget agencies with tandem plan.	Loan asset sales to:			
	the public	1,649	1,806	1,397
	the FFB			
	Repayments and adjustments:			
	repayments and prepayments	112	116	102
OFF-BUDGET FEDERAL ENTITIES	non-cash adjustments	1,229	870	603
	Loan asset sales to:			
	the public	2,133	3,376	2,849
	the FFB	12,102	10,843	6,941
	Repayments and adjustments:			
Rural electrification and telephone revolving fund.	repayments and prepayments	14,334	16,226	17,367
	non-cash adjustments	1,514	2,951	4,981
	Loan asset sales to:			
	the public			
	the FFB	528	565	465
Subtotal, off-budget Federal entities	Repayments and adjustments:			
	repayments and prepayments	441	462	452
	non-cash adjustments		21	
	Loan asset sales to:			
	the public			
Grand total	the FFB	528	565	465
	Repayments and adjustments:			
	repayments and prepayments	441	462	452
	non-cash adjustments		21	
	Loan asset sales to:			
	the public ³	2,133	3,376	2,849
	the FFB ⁴	12,630	11,408	7,406
	Repayments and adjustments:			
	repayments and prepayments	14,775	16,688	17,819
	non-cash adjustments	1,514	2,972	4,981

¹ See explanation of accounting change for the rural housing insurance fund in the following section on the Federal Financing Bank.² All loans sold, except conventional tandem plan sales, are guaranteed upon sale and reflected in the guaranteed loan totals in Table F-9.³ The "public" includes Government-sponsored enterprises such as FNMA and FHLNC, which are among the principal purchasers of HUD and VA mortgages.⁴ See Table F-8 for detail of FFB purchases.

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. By law, its transactions are excluded from the budget totals. Hence, its lending transactions are not counted as budget outlays, although it is part of the Federal Government and 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 originating 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 off-budget direct loans. The FFB assures the efficient financing of these guaranteed loans and reduces borrowing costs.

Third, agencies authorized to borrow from the public generally 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-8 lists the activities of the FFB for 1982 through 1988 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 addendum 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 remain at the 1982 level of \$14.2 billion in 1983 and decrease to \$10.2 billion in 1984. A major part of the \$4.0 billion decrease is due to a proposed \$3.1 billion reduction in direct loans of the rural housing insurance fund (RHIF) of the Farmers Home Administration, as part of the rural housing block grant to the States. This reduction in program level reduces the amount of estimated sales of certificates of beneficial ownership by RHIF to the FFB to fund the program. In addition, outlays from asset sales by the agricultural credit insurance fund (ACIF) of the Farmers Home Administration

are reduced by \$0.9 billion due to a proposed decrease in lending levels of the ACIF.

FFB outlays in 1984 are also reduced by \$0.3 billion by proposed legislation that requires the certificates of beneficial ownership sold by RHIF to be treated as Federal agency debt beginning in 1984.

Net outlays are projected to further decline from \$9.1 billion in 1985 to \$7.8 billion in 1988 due to decreases in asset sales by the rural development insurance fund (RDIF) of the Farmers Home Administration. Other decreases are in FFB loan guarantee originations by the foreign military sales credit program and programs of the Rural Electrification Administration.

Table F-8. FFB ACQUISITIONS (in millions of dollars)

Agency or program	Actual 1982	Estimate					
		1983	1984	1985	1986	1987	1988
Purchase of loan assets from:							
Overseas Private Investment Corporation:							
New acquisitions.....							
Net outlays.....	-5	-5	-6	-5	-5	-1	-1
Outstandings.....	23	18	12	7	2	1	0
Farmers Home Administration (USDA):							
Agricultural credit insurance fund:							
New acquisitions.....	5,380	4,300	5,291	3,994	1,034	149	4,318
Net outlays.....	1,055	835	-104	-163	-216	-236	-157
Outstandings.....	23,412	24,247	24,143	23,979	23,764	23,527	23,371
Rural housing insurance fund:							
New acquisitions.....	5,170	5,335					
Net outlays.....	2,800	2,650					
Outstandings ¹	23,921	26,571					
Rural development insurance fund:							
New acquisitions.....	1,535	1,191	1,644	1,010	278	199	428
Net outlays.....	1,060	686	664	415	248	199	428
Outstandings.....	6,403	7,089	7,753	8,169	8,416	8,615	9,043
Rural Electrification Administration (USDA):							
New acquisitions.....	528	565	465	480	488	496	506
Net outlays.....	528	565	465	480	488	496	506
Outstandings.....	3,124	3,689	4,154	4,634	5,122	5,618	6,124
Medical facilities guarantees (HHS):							
New acquisitions.....							
Net outlays.....	-5	-5	-5	-5	-5	-5	-5
Outstandings.....	154	149	144	139	134	129	124
Health Maintenance Organizations (HHS):							
New acquisitions.....	17	16	6	5	1		
Net outlays.....	15	-19	5	5	1		
Outstandings.....	133	114	119	123	124	124	124

Table F-8. FFB ACQUISITIONS (in millions of dollars)—Continued

Agency or program	Actual 1982	Estimate					
		1983	1984	1985	1986	1987	1988
Small business development loans (SBA):							
New acquisitions.....							
<i>Net outlays</i>	-9	-10	-10	-10	-10	-10	-10
Outstandings.....	66	56	46	36	26	16	6
Subtotal, purchase of loan assets:							
New acquisitions.....	12,630	11,408	7,406	5,489	1,801	843	5,252
<i>Net outlays</i>	5,439	4,697	1,009	717	501	443	761
Outstandings.....	57,236	61,933	36,371	37,088	37,588	38,031	38,792
Direct loans (purchases of loans guaranteed by agencies):							
Foreign military sales credit (FAP): ²							
New acquisitions.....	3,084	4,163	4,436	4,436	4,436	4,436	4,436
<i>Net outlays</i>	2,288	2,848	4,187	3,495	3,436	3,265	3,124
Outstandings.....	11,436	14,284	18,471	21,965	25,401	28,667	31,791
Rural Electrification Administration (USDA): ²							
New acquisitions.....	4,712	4,645	3,260	3,260	3,260	3,260	3,260
<i>Net outlays</i>	3,939	5,345	4,591	4,707	3,958	3,926	3,925
Outstandings.....	16,282	21,627	26,217	30,924	34,882	38,808	42,732
Guarantees of SLMA obligations (Education):							
New acquisitions.....	700						
<i>Net outlays</i>	700						
Outstandings.....	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Alternative fuels and other energy (Energy):							
New acquisitions.....							
<i>Net outlays</i>	340						
Outstandings.....	340	340	340	340	340	340	340
Low-rent public housing (HUD): ²							
New acquisitions.....							
<i>Net outlays</i>	696	591	-37	-27	-29	-31	-33
Outstandings.....	1,624	2,216	2,179	2,152	2,122	2,091	2,058
Community development grants (HUD): ²							
New acquisitions.....	179	225					
<i>Net outlays</i>	43	119	134	-18	-105	-120	-115
Outstandings.....	117	236	370	352	247	127	12
Loans to territories (Interior):							
New acquisitions.....							
<i>Net outlays</i>	*	*	*	*	-1	-1	-1
Outstandings.....	66	65	65	64	63	63	63
Railroad programs (DOT): ²							
New acquisitions.....	16	31					

Table F-8. **FFB ACQUISITIONS** (in millions of dollars)—Continued

Agency or program	Actual 1982	Estimate					
		1983	1984	1985	1986	1987	1988
<i>Net outlays</i>	78	22	-13	-13	-13	-16	-16
Outstandings	1,052	1,074	1,061	1,047	1,035	1,019	1,003
Federal Buildings Fund CBI's ³ (GSA):							
New acquisitions	12						
<i>Net outlays</i>	8	-9	-10	-10	-11	-13	-14
Outstandings	522	513	503	493	482	469	456
Satellite leases (NASA):							
New acquisitions	146	205	37				
<i>Net outlays</i>	120	175	-140	-90	-91	-102	-113
Outstandings	758	933	793	703	612	510	397
Small business investment companies and other SBA: ²							
New acquisitions	215	375	375	375	375	375	375
<i>Net outlays</i>	151	258	290	280	270	260	250
Outstandings	759	1,017	1,306	1,586	1,856	2,116	2,366
Seven States Energy Corporation (TVA):							
New acquisitions	4,513	5,412	6,258	6,790	7,217	7,692	7,904
<i>Net outlays</i>	336	193	181	116	86	151	*
Outstandings	1,258	1,451	1,632	1,749	1,835	1,986	1,986
All other:							
New acquisitions	25						
<i>Net outlays</i>	18			-10	-11	-11	-10
Outstandings	71	71	71	61	50	39	29
Subtotal, direct loans (pur- chase of loans guaranteed by agencies):							
New acquisitions	13,602	15,056	14,365	14,861	15,288	15,763	15,975
<i>Net outlays</i>	8,716	9,542	9,183	8,428	7,489	7,310	6,998
Outstandings	39,283	48,825	58,008	66,436	73,925	81,235	88,233
Subtotal, all direct loans and pur- chases of agency loan assets:							
New acquisitions	26,232	26,465	21,771	20,350	17,090	16,607	21,226
<i>Net outlays</i>	14,155	14,239	10,192	9,145	7,990	7,752	7,759
Outstandings	96,519	110,758	94,378	103,524	111,514	119,266	127,025
ADDENDUM							
AGENCY BORROWING							
By on-budget agencies:							
Export-Import Bank:							
<i>Net change</i>	1,545	1,164	1,458	853	566	190	116
Outstandings	13,954	15,118	16,576	17,429	17,995	18,185	18,301
Tennessee Valley Authority:							
<i>Net change</i>	1,375	1,300	1,000	605	571	475	626
Outstandings	12,285	13,585	14,585	15,190	15,761	16,236	16,862

Table F-8. FFB ACQUISITIONS (in millions of dollars)—Continued

Agency or program	Actual 1982	Estimate					
		1983	1984	1985	1986	1987	1988
National Credit Union Administration:							
<i>Net change</i>	29	40	40	40	40	40	40
<i>Outstandings</i>	130	170	210	250	290	330	370
Rural housing insurance fund:							
<i>Net change</i>			333	-476	-61	-150	-150
<i>Outstandings</i>			26,904	26,428	26,368	26,218	26,068
By off-budget Federal entities:							
U.S. Railway Association:							
<i>Net change</i>	-23	-46	-18	-13	11	13	14
<i>Outstandings</i>	192	145	127	114	125	138	152
Postal Service:							
<i>Net change</i>	-67	-67	933	-107	-107	-107	-107
<i>Outstandings</i>	1,221	1,154	2,087	1,980	1,873	1,766	1,659
Total, agency borrowing:							
<i>Net change</i>	2,858	2,391	3,746	902	1,020	461	539
<i>Outstandings</i>	27,782	30,172	60,489	61,392	62,412	62,873	63,412

* \$500,000 or less.

¹ Net outlays for the FFB in 1984 have been adjusted to reflect the reclassification of the sales of CBO's to the FFB by the Rural Housing Insurance Fund as Federal agency debt. Due to this reclassification, net outlays of FFB in 1984 do not reflect the net change in the outlays of RHIF. The end-of-year balance of \$26,572 million also is not reflected in the grand totals of outstandings for 1984 through 1988.

² FFB activity for this account is not identical to the entries in Part 8 of the Budget, "Budget Accounts Listing", due to timing differences between recognition of FFB budget authority and commitments to guarantee loans that are financed through the FFB (shown here as FFB new acquisitions.).

³ Certificates of beneficial interest.

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 in a few programs 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, and increases the interest rate to these borrowers. 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; although there is a marginal interest rate at which the house would not be bought and the loan not made. In such a case, the guarantee does not alter the allocation of credit resources. It does, however, provide a subsidy to the borrower.

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 commitment 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. Contractual agreements, including guarantees of private leases, contracts to make subsidy payments over extended periods, and debt service grants may be used by the recipients as collateral for borrowing, but such indirect activity is not accounted for as loan guarantees. Most loan assets sold by Federal agencies have a Federal guarantee.

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 were traditionally small, partly because most of the loans were protected with liens on marketable property. Some of the newer loan guarantee programs, however, such as certain programs in SBA, have had greater losses.

Data for guaranteed loans for 1982 through 1988, organized by agency or program, are presented in table F-9. Even though in some cases the Government guarantees less than the total amount of the loan, the table includes the full amount of the principal. This is done in order to accurately reflect Federal intervention in the credit market, since the Government guarantee influences whether the loan is made at all.

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. Net loans guaranteed are equal to the amount of new guaranteed loans less repayments and other adjustments. The net amount is also equal to the difference in guaranteed loans outstanding at the end and at the beginning of the year.

Table F-9. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT** (in millions of dollars)

Agency or program		Actual 1982	Estimate					
			1983	1984	1985	1986	1987	1988
Funds Appropriated to the President:								
International security assistance	Commitments	3,084	4,163	4,436	4,436	4,436	4,436	4,436
	New guaranteed loans	2,923	3,538	4,869	4,286	4,425	4,447	4,449
	<i>Net loans guaranteed</i>	<i>2,268</i>	<i>2,828</i>	<i>4,167</i>	<i>3,495</i>	<i>3,435</i>	<i>3,265</i>	<i>3,049</i>
	Outstandings	11,693	14,521	18,688	22,182	25,618	28,883	31,932
International development assistance	Commitments	221	270	300	314	321	327	334
	New guaranteed loans	198	295	350	300	300	314	320
	<i>Net loans guaranteed</i>	<i>163</i>	<i>252</i>	<i>293</i>	<i>381</i>	<i>307</i>	<i>307</i>	<i>312</i>
	Outstandings	1,128	1,380	1,673	2,054	2,361	2,668	2,980
Agriculture:								
Farmers Home Administration								
Agricultural Credit:								
Program level	Commitments	57	131	106	106	106	106	106
	New guaranteed loans	77	117	121	106	106	106	106
	<i>Net loans guaranteed</i>	<i>-187</i>	<i>-32</i>	<i>-48</i>	<i>861</i>	<i>-1,075</i>	<i>-33</i>	<i>-127</i>
	Outstandings	1,132	1,100	1,052	1,913	838	805	678
Guarantees of loan assets sold to FFB	Commitments	5,380	4,300	5,290	3,994	1,034	149	4,318
	New guaranteed loans	5,380	4,300	5,290	3,994	1,034	149	4,318
	<i>Net loans guaranteed</i>	<i>1,055</i>	<i>835</i>	<i>-105</i>	<i>-163</i>	<i>-215</i>	<i>-237</i>	<i>-156</i>
	Outstandings	23,412	24,247	24,142	23,979	23,764	23,527	23,371
Rural Housing:								
Program level	Commitments	17	16	13	4	4	4	4
	New guaranteed loans	4	*	0	0	0	0	0
	<i>Net loans guaranteed</i>	<i>-272</i>	<i>-70</i>	<i>100</i>	<i>396</i>	<i>-241</i>	<i>-231</i>	<i>-149</i>
	Outstandings	1,068	998	1,098	1,494	1,253	1,022	873
Guarantees of loan assets sold to FFB	Commitments	5,170	5,335	0	0	0	0	0
	New guaranteed loans	5,187	5,351	13	0	0	0	0
	<i>Net loans guaranteed</i>	<i>2,800</i>	<i>2,650</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

	Outstandings	23,921	26,571	0	0	0	0	0
Rural Development:								
Program level	Commitments	139	300	0	0	0	0	0
	New guaranteed loans	424	537	240	0	0	0	0
	<i>Net loans guaranteed</i>	<i>- 11</i>	<i>- 61</i>	<i>- 275</i>	<i>- 456</i>	<i>- 609</i>	<i>- 799</i>	<i>- 1,122</i>
	Outstandings	3,387	3,326	3,051	2,595	1,986	1,187	65
Guarantees of loan assets sold to FFB	Commitments	1,535	1,191	1,644	1,010	278	199	428
	New guaranteed loans	1,535	1,191	1,644	1,010	278	199	428
	<i>Net loans guaranteed</i>	<i>1,060</i>	<i>686</i>	<i>664</i>	<i>415</i>	<i>248</i>	<i>199</i>	<i>428</i>
	Outstandings	6,403	7,089	7,753	8,168	8,416	8,615	9,043
Commodity Credit Corporation export credit	Commitments	1,551	4,800	3,000	3,000	3,000	3,000	3,000
	New guaranteed loans	1,625	4,815	3,000	3,000	3,000	3,000	3,000
	<i>Net loans guaranteed</i>	<i>645</i>	<i>3,389</i>	<i>- 412</i>	<i>- 126</i>	<i>- 500</i>		
	Outstandings	2,650	6,038	5,626	5,500	5,000	5,000	5,000
Rural Electrification Administration								
Program level	Commitments	5,112	4,745	3,360	3,360	3,360	3,360	3,360
	New guaranteed loans	4,195	5,453	4,710	4,836	4,106	4,088	4,612
	<i>Net loans guaranteed</i>	<i>4,053</i>	<i>5,444</i>	<i>4,690</i>	<i>4,341</i>	<i>3,959</i>	<i>3,925</i>	<i>3,925</i>
	Outstandings	17,001	22,445	27,135	31,476	35,435	39,360	43,285
Guarantees of loan assets sold to FFB	Commitments	528	565	465	480	488	496	506
	New guaranteed loans	528	565	465	480	488	496	506
	<i>Net loans guaranteed</i>	<i>528</i>	<i>565</i>	<i>465</i>	<i>480</i>	<i>488</i>	<i>496</i>	<i>506</i>
	Outstandings	3,124	3,689	4,154	4,634	5,122	5,618	6,124
Commerce:								
Economic development assistance	Commitments	14						
	New guaranteed loans	14						
	<i>Net loans guaranteed</i>	<i>- 70</i>	<i>- 82</i>	<i>- 80</i>	<i>- 80</i>	<i>- 80</i>	<i>- 60</i>	<i>- 80</i>
	Outstandings	632	550	470	390	310	250	170

Table F-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

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THE BUDGET FOR FISCAL YEAR 1984

Agency or program		Actual 1982	Estimate					
			1983	1984	1985	1986	1987	1988
National Oceanic and Atmospheric Administration	Commitments	27	25					
	New guaranteed loans	27	25					
	Net loans guaranteed	-18	15	-11	-12	-11	-11	-11
	Outstandings	174	189	177	165	154	143	132
Education activities	Commitments	6,895	6,778	7,391	7,858	8,354	8,692	9,079
	New guaranteed loans	6,580	6,593	7,198	7,656	8,143	8,477	8,860
	Net loans guaranteed	5,685	2,900	2,300	1,700	1,600	1,500	1,400
	Outstandings	27,700	30,600	32,900	34,600	36,200	37,700	39,100
Energy	Commitments		153	172				
	New guaranteed loans	2,040	54	272	20	20	20	20
	Net loans guaranteed	782	54	272	17	15	15	15
	Outstandings	2,156	2,210	2,482	2,499	2,514	2,529	2,544
Defense: military	Commitments	25						
	New guaranteed loans		2	4	6	5	3	3
	Net loans guaranteed	*	2	4	6	5	3	3
	Outstandings	*	2	6	12	17	20	20
Health and Human Services: Health programs	Commitments	217	254	187	185	181	175	175
	New guaranteed loans	217	246	181	185	181	175	175
	Net loans guaranteed	178	134	126	151	145	137	135
	Outstandings	1,542	1,676	1,802	1,953	2,098	2,235	2,370
Housing and Urban Development: Subsidized low-rent public housing	Commitments	13,284	14,637	14,709	16,493	18,146	18,474	18,502
	New guaranteed loans	26,862	28,503	29,500	31,661	31,432	30,102	30,000
	Net loans guaranteed	3,247	2,219	1,878	1,661	1,432	103	-226
	Outstandings	20,770	22,989	24,867	26,528	27,959	28,062	27,836

Federal Housing Administration.....	Commitments	18,576	45,900	39,800	39,800	39,800	39,800	39,800
	New guaranteed loans.....	12,733	39,673	36,489	36,378	36,398	36,412	36,425
	<i>Net loans guaranteed</i>	<i>6,807</i>	<i>29,169</i>	<i>26,325</i>	<i>25,266</i>	<i>24,440</i>	<i>23,448</i>	<i>22,599</i>
	Outstandings.....	142,252	171,422	197,747	223,013	247,453	270,901	293,500
GNMA: Mortgage-backed securities.....	Commitments	36,382	68,250	58,650	58,650	58,650	58,650	58,650
	New guaranteed loans.....	13,515	35,240	39,100	39,100	39,100	39,100	39,100
	<i>Net loans guaranteed</i>	<i>10,901</i>	<i>28,063</i>	<i>30,900</i>	<i>22,833</i>	<i>29,603</i>	<i>26,885</i>	<i>25,568</i>
	Outstandings.....	115,537	143,600	174,500	197,333	226,936	253,821	279,389
Interior	Commitments	28	16	19	30	31	33	34
	New guaranteed loans.....	64	16	19	30	31	33	34
	<i>Net loans guaranteed</i>	<i>24</i>	<i>2</i>	<i>13</i>	<i>6</i>	<i>6</i>	<i>6</i>	<i>6</i>
	Outstandings.....	143	145	158	164	170	176	182
Transportation:								
Federal ship financing fund.....	Commitments	637	600	600	600	600	600	600
	New guaranteed loans.....	1,050	400	400	400	400	400	400
	<i>Net loans guaranteed</i>	<i>609</i>	<i>125</i>	<i>125</i>	<i>125</i>	<i>125</i>	<i>125</i>	<i>125</i>
	Outstandings.....	7,176	7,301	7,426	7,551	7,676	7,801	7,926
Other transportation programs.....	Commitment.....	62	128	15	15	0	0	0
	New guaranteed loans.....	243	131	15	15	0	0	0
	<i>Net change.....</i>	<i>169</i>	<i>-81</i>	<i>-94</i>	<i>-122</i>	<i>-213</i>	<i>-87</i>	<i>-87</i>
	Outstandings.....	2,996	2,915	2,821	2,699	2,486	2,399	2,312
Treasury:								
Guarantees of New York City notes.....	Commitments	600						
	New guaranteed loans.....	600						
	<i>Net loans guaranteed</i>	<i>507</i>	<i>-156</i>	<i>-154</i>	<i>-140</i>	<i>-133</i>	<i>-137</i>	<i>-122</i>
	Outstandings.....	1,444	1,288	1,134	994	861	724	602

SPECIAL ANALYSIS F

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Table F-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Actual 1982	Estimate					
			1983	1984	1985	1986	1987	1988
Chrysler Corporation loan guarantee program	Commitments							
	New guaranteed loans							
	<i>Net loans guaranteed</i>							
	Outstandings	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Biomass energy development	Commitments							
	New guaranteed loans		686					
	<i>Net loans guaranteed</i>		686					
	Outstandings		686	686	686	686	686	686
NASA: Long term satellite leases	Commitments	146	205	37				
	New guaranteed loans	146	205	37				
	<i>Net loans guaranteed</i>	120	175	-140	-90	-91	-102	-113
	Outstandings	758	933	793	703	612	510	397
Veterans Administration (housing)	Commitments	5,983	18,648	19,875	20,355	20,994	21,311	21,732
	New guaranteed loans	5,542	16,995	18,641	20,320	20,996	21,260	21,730
	<i>Net change</i>	5,171	17,075	18,314	18,759	19,391	19,736	20,150
	Outstandings	108,784	125,858	144,172	162,931	182,322	202,058	222,208
Export-Import Bank	Commitments	5,832	8,000	10,000	10,000	10,000	10,000	10,000
	New guaranteed loans	2,921	4,670	5,560	6,020	6,230	6,400	6,440
	<i>Net loans guaranteed</i>	-914	490	510	320	190	130	100
	Outstandings	6,069	6,559	7,069	7,389	7,579	7,709	7,809
National Credit Union Administration	Commitments	34	30	28	26	24	22	22
	New guaranteed loans	34	30	28	26	24	22	22
	<i>Net loans guaranteed</i>	-12	-5	-3	-6	-10	-14	-18
	Outstandings	106	100	98	92	82	68	50

Small Business Administration:								
Business loan guarantees	Commitments	2,019	2,650	2,650	2,300	1,700	1,000	1,000
	New guaranteed loans	2,727	2,800	2,360	1,980	1,460	860	860
	<i>Net loans guaranteed</i>	<i>-30</i>	<i>-249</i>	<i>-390</i>	<i>-585</i>	<i>-1,050</i>	<i>-1,445</i>	<i>-1,335</i>
	Outstandings	9,947	9,698	9,308	8,723	7,673	6,228	4,893
Disaster Loan fund	Commitments	6						
	New guaranteed loans	6						
	<i>Net loans guaranteed</i>	<i>3</i>	<i>-3</i>	<i>-3</i>	<i>-2</i>	<i>-1</i>		<i>-2</i>
	Outstandings	11	8	5	3	2	2	
Pollution control bond guarantees	Commitments	50	150	150	150	150	150	150
	New guaranteed loans	50	150	150	150	150	150	150
	<i>Net loans guaranteed</i>	<i>50</i>	<i>150</i>	<i>150</i>	<i>150</i>	<i>150</i>	<i>150</i>	<i>150</i>
	Outstandings	306	456	606	756	906	1,056	1,206
Tennessee Valley Authority	Commitments	4,513	5,412	6,258	6,790	7,217	7,692	7,904
	New guaranteed loans	4,513	5,412	6,258	6,790	7,217	7,692	7,904
	<i>Net loans guaranteed</i>	<i>336</i>	<i>193</i>	<i>181</i>	<i>116</i>	<i>86</i>	<i>151</i>	<i>*</i>
	Outstandings	1,258	1,451	1,632	1,749	1,835	1,986	1,986
Other agencies and programs	Commitments	204	229					
	New guaranteed loans	115	159	182				
	<i>Net loans guaranteed</i>	<i>22</i>	<i>90</i>	<i>99</i>	<i>-57</i>	<i>-145</i>	<i>-164</i>	<i>-164</i>
	Outstandings	1,444	1,535	1,634	1,576	1,431	1,267	1,103
Subtotal, guaranteed loans (gross)	Commitments	118,325	197,882	179,155	179,956	178,875	178,675	184,139
	New guaranteed loans	102,056	168,142	167,087	168,748	165,524	163,905	169,356
	<i>Net loans guaranteed</i>	<i>45,671</i>	<i>97,454</i>	<i>89,875</i>	<i>79,640</i>	<i>81,259</i>	<i>77,251</i>	<i>74,768</i>
	Outstandings	547,327	644,781	708,085	787,725	868,984	946,235	1,021,002
Less secondary guaranteed loans: ¹								
GNMA guarantees of FHA/VA/FmHA pools	Commitments	36,382	68,250	58,650	58,650	58,650	58,650	58,650
	New guaranteed loans	13,515	35,240	39,100	39,100	39,100	39,100	39,100
	<i>Net loans guaranteed</i>	<i>10,901</i>	<i>28,063</i>	<i>30,900</i>	<i>22,833</i>	<i>29,603</i>	<i>26,885</i>	<i>25,568</i>
	Outstandings	115,537	143,600	174,500	197,333	226,936	253,812	279,389

Table F-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or program		Actual 1982	Estimate					
			1983	1984	1985	1986	1987	1988
Subtotal, guaranteed loans (net)	Commitments	81,943	129,632	120,505	121,306	120,225	120,025	125,489
	New guaranteed loans	88,541	132,902	127,987	129,648	126,424	124,805	130,256
	<i>Net loans guaranteed</i>	<i>34,770</i>	<i>69,392</i>	<i>58,975</i>	<i>56,807</i>	<i>51,656</i>	<i>50,366</i>	<i>49,200</i>
	Outstandings	431,789	501,181	533,585	590,392	642,048	692,414	741,613
Less guaranteed loans held as direct loans: ²								
By budget agency (GNMA)	Commitments	1,985	501					
	New guaranteed loans	2,731	2,151	2,035				
	<i>Net loans guaranteed</i>	<i>-241</i>	<i>-626</i>	<i>-68</i>	<i>-1,168</i>	<i>-934</i>	<i>-43</i>	<i>-41</i>
	Outstandings	4,067	3,428	3,360	2,192	1,258	1,215	1,174
By off-budget Federal Financing Bank ³	Commitments	26,232	26,465	21,771	20,350	17,090	16,607	21,226
	New guaranteed loans							
	<i>Net loans guaranteed</i>	<i>14,155</i>	<i>14,239</i>	<i>10,192</i>	<i>9,145</i>	<i>7,990</i>	<i>7,752</i>	<i>7,759</i>
	Outstandings	96,519	110,758	94,378	103,524	111,514	119,266	127,025
Total, primary guaranteed loans	Commitments	53,726	102,667	98,734	100,957	103,135	103,419	104,262
	New guaranteed loans	85,810	130,751	125,952	129,648	126,424	124,805	130,256
	<i>Net loans guaranteed</i>	<i>20,856</i>	<i>55,779</i>	<i>48,851</i>	<i>48,830</i>	<i>44,599</i>	<i>42,657</i>	<i>41,481</i>
	Outstandings	331,204	386,995	435,847	484,676	529,276	571,933	613,414
Memorandum:								
Callable capital contributions to international financial organizations ⁵	Commitments	2,340	2,415	2,863	2,863	2,863	2,863	2,863
	New guaranteed loans	2,340	2,415	2,863	2,863	2,863	2,863	2,863
	<i>Net loans guaranteed</i>	<i>2,340</i>	<i>2,415</i>	<i>2,863</i>	<i>2,863</i>	<i>2,863</i>	<i>2,863</i>	<i>2,863</i>
	Outstandings	16,079	18,494	21,356	24,219	27,082	29,944	32,807

ADDENDUM

Guaranteed loans held as direct loans by Government sponsored enterprises:

Federal National Mortgage Association.....	Commitments	245	813	751	(4)	(4)	(4)	(4)
	New guaranteed loans	245	813	751	(4)	(4)	(4)	(4)
	Net loans guaranteed	-1,025	-671	-1,156	(4)	(4)	(4)	(4)
	Outstandings	38,767	38,096	36,940	(4)	(4)	(4)	(4)
Federal home loan banks	Commitments				(4)	(4)	(4)	(4)
	New guaranteed loans				(4)	(4)	(4)	(4)
	Net loans guaranteed	-1	-1	-2	(4)	(4)	(4)	(4)
	Outstandings	85	84	82	(4)	(4)	(4)	(4)
Federal Home Loan Mortgage Corporation	Commitments				(4)	(4)	(4)	(4)
	New guaranteed loans				(4)	(4)	(4)	(4)
	Net loans guaranteed	-8	-10	-11	(4)	(4)	(4)	(4)
	Outstandings	1,030	1,020	1,009	(4)	(4)	(4)	(4)
Farm Credit Administration	Commitments	46			(4)	(4)	(4)	(4)
	New guaranteed loans	46			(4)	(4)	(4)	(4)
	Net loans guaranteed	46			(4)	(4)	(4)	(4)
	Outstandings	116	116	116	(4)	(4)	(4)	(4)
Student Loan Marketing Association	Commitments	2,051	2,181	2,154	(4)	(4)	(4)	(4)
	New guaranteed loans	2,051	2,181	2,154	(4)	(4)	(4)	(4)
	Net loans guaranteed	1,684	1,833	881	(4)	(4)	(4)	(4)
	Outstandings	1,714	3,547	4,428	(4)	(4)	(4)	(4)
Total Enterprise holdings	Commitments	2,342	2,994	2,905	(4)	(4)	(4)	(4)
	New guaranteed loans	2,342	2,994	2,905	(4)	(4)	(4)	(4)
	Net loans guaranteed	696	1,150	-288	(4)	(4)	(4)	(4)
	Outstandings	41,712	42,863	42,575	(4)	(4)	(4)	(4)

¹Secondary 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.

²When guaranteed loans are acquired by a budget account, they become direct loans and are counted as such in Table F-6. They are therefore deducted from totals in this table.

³Net outlays for the FFB in 1984 have been adjusted to reflect the reclassification as Federal agency debt of the sales of CBO's to the FFB by the Rural Housing Insurance Fund. Due to this reclassification, net outlays of FFB in 1984 do not reflect the net change in the outlays of RHIF; and the end-of-year balance of \$26,572 million also is not reflected in the grand totals of outstandings for 1984 through 1988.

⁴Not estimated.

⁵Callable capital subscriptions by the United States and other member countries provide backing for borrowings in U.S. and overseas capital markets. These subscriptions would be called only to meet the obligations of the Bank when other resources were exhausted. To date, there has never been a need to call upon these resources.

The addition of loan guarantees for each program yields a total termed "guaranteed loans (gross)" in the table. The amount includes some double counting. Elimination of the double counting requires two adjustments. The first adjustment deducts loans previously guaranteed, i.e. 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. This deduction yields a total termed "guaranteed loans (net)." 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 is termed "primary guaranteed loans." An addendum to the table shows guaranteed loans purchased by Government-sponsored enterprises.

Net loans guaranteed are expected to increase significantly between 1982 and 1984, from \$20.9 billion in 1982 to \$48.9 billion in 1984. This increase is due primarily to improved economic conditions reflected in lower interest rates. In 1982, there was a significant decrease in net loans guaranteed from previous levels of \$32 billion in 1980 and \$28 billion in 1981. This reduction in loan activity was due primarily to the recession and its aftermath. Although affecting all Government guaranteed loan activity, the housing programs were especially sensitive to the high interest rates reflected in the 29% decrease in activity between 1981 and 1982. As the housing industry recovers from its depressed 1982 level, a surge in activity is expected in 1983 and 1984 with an estimated increase between 1982 and 1984 in net guaranteed loans of \$20 billion in the FHA mortgage insurance program and \$13 billion in the Veterans' Administration mortgage insurance program.

Major increases in Export-Import Bank guaranteed loans are due to an expanding market in exports and a reluctance by private lenders to increase their international loan portfolio as well as an expanded guaranteed loan program for export trading companies scheduled to begin in 1983. Decreases in REA reflect lower demand in the electric market, reducing the need for assistance to REA borrowers.

FUNCTIONAL AREAS SUPPORTED BY FEDERAL CREDIT ASSISTANCE

New direct loan disbursements and new loans guaranteed by function are shown in table F-10. The largest Federal credit activity occurs in commerce and housing credit, international affairs, and veterans benefits. These three functions are expected to comprise 63% of new obligations and commitments in 1984. Part 5 of the *Budget* discusses Federal credit activities by function together with Federal outlays.

Part 5 of the *Budget* also presents new direct loan obligations and new commitments for guaranteed loans as well as net change and outstandings by function. Table F-10 supplements the Part 5 credit tables by presenting the volume of new direct loans disbursed and new loans guaranteed by function.

Table F-10. NEW DIRECT LOAN DISBURSEMENTS AND NEW GUARANTEED LOANS BY FUNCTION

(In millions of dollars)

Function		Actual 1982	Estimate					
			1983	1984	1985	1986	1987	1988
National defense (050)	Direct loan disbursements	25						
	Guaranteed loans		2	4	6	5	3	3
International affairs (150)	Direct loan disbursements	7,890	9,585	10,631	10,581	10,570	10,268	10,287
	Guaranteed loans	6,042	8,503	10,779	10,606	10,955	11,161	11,209
General science, space and technology (250)	Direct loan disbursements	146	205	37				
	Guaranteed loans	146	205	37				
Energy (270)	Direct loan disbursements	9,825	10,680	10,131	10,540	10,875	11,322	11,684
	Guaranteed loans	11,276	12,170	11,705	12,126	11,831	12,296	12,536
Natural resources and environment (300)	Direct loan disbursements	30	33	40	33	30	7	2
	Guaranteed loans							
Agriculture (350)	Direct loan disbursements	6,097	8,467	1,372	1,449	7,316	8,566	7
	Guaranteed loans	7,082	9,232	8,412	7,100	4,140	3,255	7,424
Commerce and housing credit (370) ¹	Direct loan disbursements	1,253	73	5,568	2,644	2,194	2,048	1,833
	Guaranteed loans	18,018	45,863	36,992	38,534	38,032	37,444	37,457
Transportation (400)	Direct loan disbursements	151	201	109	99	55	55	55
	Guaranteed loans	1,293	531	415	415	400	400	400
Community and regional development (450)	Direct loan disbursements	— 199	102	— 1,160	— 501	677	756	521
	Guaranteed loans	2,104	1,912	2,090	1,040	309	232	462
Education, training, employment and social services (500)	Direct loan disbursements	1,322	691	654	498	574	649	749
	Guaranteed loans	6,580	6,593	7,198	7,656	8,143	8,477	8,860

Health (550)	Direct loan disbursements	24	18	9	8	9	4	4
	Guaranteed loans	217	242	181	185	181	175	175
Income security (600)	Direct loan disbursements	906	1,005	1,002	752	503	253	103
	Guaranteed loans	26,862	28,503	29,500	31,661	31,432	30,102	30,000
Veterans benefits and services (700)	Direct loan disbursements	874	849	885	902	923	905	920
	Guaranteed loans	5,542	16,995	18,641	20,320	20,996	21,260	21,730
General government (800)	Direct loan disbursements	12						
	Guaranteed loans	48						
General purpose fiscal assistance (850)	Direct loan disbursements	285	295	115				
	Guaranteed loans	600						
Total new loans in the credit budget	Direct loan disbursements	28,640	32,205	29,395	27,007	33,724	34,833	26,165
	Guaranteed loans	85,810	130,751	125,954	129,649	129,648	124,805	130,256

¹ New guaranteed loans for this function have been adjusted for guaranteed loans held as direct loans by GNMA. When guaranteed loans are acquired by a budget account, they become direct loans, and are counted as such in this table. The deduction for GNMA eliminates overlap with direct loans.

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 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 tradition they consult with the Treasury Department in planning the marketing of their debt. Government-sponsored enterprises include the Student Loan Marketing Association (SLMA), the Federal National Mortgage Association (FNMA), three components of the Farm Credit System, (Banks for cooperatives, Federal intermediate credit banks, and Federal land banks) and the Federal Home Loan Bank system (FHLBS) which includes the Federal Home Loan Banks and 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, borrowed exclusively from the FFB from the inception of the FFB until 1982. It now raises all its additional funds in private markets. Sale of capital stock and retained earnings provide only a very small portion of the resources that these enterprises 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 funds 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

⁸The program of GNMA (a budget entity in HUD) to guarantee mortgage-backed securities achieves a similar purpose 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, but that is not done here because GNMA is part of the Federal Government. GNMA data for this activity appear as entries in Table F-9, Guaranteed Loans.

to the primary lenders. These loans and advances are then paid back as monetary and financial conditions improve. In recent years, this former group of enterprises, such as Federal home loan banks, 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 primary mortgage lending institutions.

Table F-11 shows the lending and borrowing of Government-sponsored enterprises for 1982 through 1984. 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 1983 and 1984, according to the plans of FHLMC and FNMA. Both enterprises are greatly expanding their new programs of conventional mortgage-backed securities beginning in 1982. The new securities are packaged by mortgage lenders and guaranteed by FHLMC and FNMA in a way that is similar to the GNMA program. FHLMC deals primarily in conventional mortgages. In contrast, historically, FNMA purchased mainly FHA/VA mortgages for its portfolio. However, with the advent of FNMA's conventional mortgage-backed securities program in late 1981, FNMA has shifted its primary business away from FHA/VA mortgages to conventional mortgages. This leaves GNMA as the major secondary market outlet for FHA/VA mortgages. Net lending by the FHLB's is expected to fall sharply during 1983 and rise only slightly during 1984. This decrease in 1983 is due to anticipated high repayments. The gross level of 1983 advances by FHLB's are also expected to grow. The activity of the other Government-sponsored enterprises is expected to remain relatively stable during 1983 and 1984.

The economic assumptions on which the estimates in table F-11 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.

Table F-11. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES

(In millions of dollars)

Enterprise		Actual 1982	Estimate	
			1983	1984
LENDING (Funds Advanced)				
Student Loan Marketing Association.....	Obligations	2,066	2,294	2,373
	New transactions	2,066	2,294	2,373
	Net change.....	1,689	1,928	1,078
	Outstandings.....	6,019	7,947	9,025
Federal National Mortgage Association: Corporation accounts	Obligations	14,644	12,467	12,377
	New transactions	10,464	14,730	14,361
	Net change.....	9,159	11,791	11,279
	Outstandings.....	68,841	80,632	91,911
Mortgage-backed securities.....	Obligations	13,300	19,000	15,000
	New transactions	8,200	17,000	14,000
	Net change.....	8,100	16,800	13,700
	Outstandings.....	8,100	24,900	38,600
Farm Credit Administration: Banks for cooperatives	Obligations	23,951	29,367	31,956
	New transactions	23,951	29,367	31,956
	Net change.....	- 337	1,394	1,192
	Outstandings.....	9,092	10,486	11,677
Federal intermediate credit banks	Obligations	18,619	21,059	23,785
	New transactions	18,619	21,059	23,785
	Net change.....	- 114	2,305	2,772
	Outstandings.....	21,775	24,080	26,852
Federal land banks.....	Obligations	8,976	9,486	10,653
	New transactions	8,976	9,486	10,653
	Net change.....	6,053	6,043	6,778
	Outstandings.....	50,506	56,549	63,327
Federal Home Loan Bank system: Federal home loan banks.....	Obligations	45,538	41,138	41,833
	New transactions	45,538	41,138	41,833
	Net change.....	2,411	- 2,943	- 402
	Outstandings.....	70,717	67,774	67,372
Federal Home Loan Mortgage Corporation: Corporation accounts.....	Obligations		1,000	
	New transactions		1,000	
	Net change.....	- 244	579	- 250
	Outstandings.....	5,166	5,745	5,495
Participation certificate pools ¹	Obligations	26,995	21,000	20,000
	New transactions	17,834	20,700	23,000
	Net change.....	17,227	18,261	19,106
	Outstandings.....	35,146	53,407	72,513
Subtotal, lending (gross)	Obligations	154,109	156,811	157,977
	New transactions	135,648	156,774	161,961
	Net change.....	43,944	56,158	55,253
	Outstandings.....	275,361	331,519	386,772
Less loans between sponsored enterprises: Federal home loan banks to FHLMC	Obligations			
	New transactions			
	Net change.....	- 882	- 500	- 700
	Outstandings.....	2,990	2,490	1,790

Table F-11. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES—Continued

(In millions of dollars)

Enterprise		Actual 1982	Estimate	
			1983	1984
Less secondary funds advanced from Federal sources:				
SLMA from FFB ²	Obligations			
	New transactions			
	Net change	700		
	Outstandings	5,000	5,000	5,000
TVA to FNMA	Obligations	80		
	New transactions	80		
	Net change	80		
	Outstandings	80	80	80
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Obligations	245	813	751
	New transactions	245	813	751
	Net change	-1,025	-671	-1,156
	Outstandings	38,767	38,096	36,940
Federal home loan banks	Obligations			
	New transactions			
	Net change	-1	-1	-2
	Outstandings	85	84	82
Federal Home Loan Mortgage Corporation	Obligations			
	New transactions			
	Net change	-8	-10	-11
	Outstandings	1,030	1,020	1,009
Farm Credit Administration	Obligations	46		
	New transactions	46		
	Net change	46		
	Outstandings	116	116	116
Student Loan Marketing Association ²	Obligations	2,051	2,181	2,154
	New transactions	2,051	2,181	2,154
	Net change	1,684	1,833	881
	Outstandings	1,714	3,547	4,428
Total credit advanced	Obligations	151,687	153,817	155,072
	New transactions	133,226	153,780	159,056
	Net change	43,350	55,508	56,240
	Outstandings	225,579	281,086	337,327
BORROWING (Funds Raised)				
Student Loan Marketing Association	Net change	2,325	1,404	1,175
	Outstandings	6,893	8,297	9,472
Federal National Mortgage Association ³	Net change	19,251	27,813	24,870
	Outstandings	75,938	103,752	128,622
Farm Credit Administration:				
Banks for cooperatives	Net change	-423	1,252	1,104
	Outstandings	8,699	9,951	11,055
Federal intermediate credit banks	Net change	-258	1,991	2,535
	Outstandings	21,023	23,014	25,549
Federal land banks	Net change	5,427	5,181	5,968
	Outstandings	46,503	51,684	57,652
Federal Home Loan Bank system:				
Federal home loan banks	Net change	3,216	-2,197	-270
	Outstandings	60,844	58,647	58,377

Table F-11. CREDIT ADVANCED AND RAISED BY GOVERNMENT-SPONSORED ENTERPRISES—Continued

(In millions of dollars)

Enterprise		Actual 1982	Estimate	
			1983	1984
Federal Home Loan Mortgage Corporation	<i>Net change</i>	17,430	17,836	18,647
	<i>Outstandings</i>	40,744	58,610	77,256
Subtotal, borrowing (gross)	<i>Net change</i>	46,968	53,280	54,029
	<i>Outstandings</i>	260,674	313,955	367,984
Less borrowing from other sponsored enterprises.	<i>Net change</i>	-882	-500	-700
	<i>Outstandings</i>	3,681	3,181	2,481
Less borrowing from Federal sources:				
SLMA from FFB ²	<i>Net change</i>	700		
	<i>Outstandings</i>	5,000	5,000	5,000
FNMA from TVA	<i>Net change</i>	80		
	<i>Outstandings</i>	80	80	80
Total borrowing from the public and Government.	<i>Net change</i>	47,070	53,780	54,729
	<i>Outstandings</i>	251,913	305,694	360,423
Less investments in Federal securities:				
Investments in Federal securities	<i>Net change</i>	2,594	-447	-264
	<i>Outstandings</i>	4,547	4,100	3,835
Less borrowings for guaranteed loans held as direct loans by:				
Federal National Mortgage Association	<i>Net change</i>	-1,025	-671	-1,156
	<i>Outstandings</i>	38,767	38,096	36,940
Federal home loan banks	<i>Net change</i>	-1	-1	-2
	<i>Outstandings</i>	85	84	82
Federal Home Loan Mortgage Corporation	<i>Net change</i>	-8	-10	-11
	<i>Outstandings</i>	1,030	1,020	1,009
Farm Credit Administration	<i>Net change</i>	46		
	<i>Outstandings</i>	116	116	116
Student Loan Marketing Association ²	<i>Net change</i>	1,625	1,404	1,175
	<i>Outstandings</i>	1,893	3,297	4,472
Total credit raised	<i>Net change</i>	43,837	53,505	54,987
	<i>Outstandings</i>	205,476	258,980	313,967

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-6) as direct loans. All SLMA loans are student loans guaranteed by the Federal Government. They have, therefore been counted above (table F-9) 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.

SUMMARY OF CREDIT ADVANCED AND RAISED UNDER FEDERAL AUSPICES

The credit advanced and raised under Federal auspices is summarized in table F-12. Credit advanced by direct and guaranteed loan programs reached \$44 billion in 1982. This lending level is estimated to increase to \$75 billion in 1983, and fall to \$59 billion in 1984. Loans by Government-sponsored enterprises will increase by \$12 billion in 1983, increasing slightly in 1984. Outstanding

credit advances to the public under Federal auspices are expected to total \$984 billion by the end of 1984.

Net credit raised under Federal auspices totaled \$87.6 billion in 1982, and is expected to reach to \$130.9 billion in 1983, and to decrease to \$115.2 billion in 1984.

Table F-12. SUMMARY OF CREDIT ADVANCED AND CREDIT RAISED UNDER FEDERAL AUSPICES

(In billions of dollars)

		Actual 1982	Estimate	
			1983	1984
LENDING (Credit advanced)				
Direct loans:				
On-budget agencies (from table F-6)	Net change.....	9.1	5.2	-0.3
	Outstanding.....	100.2	105.4	105.1
Off-budget entities (from table F-6)	Net change.....	14.3	14.4	10.4
	Outstanding.....	107.6	122.0	105.9
Primary guaranteed loans (from table F-9)	Net change.....	20.9	55.8	48.9
	Outstanding.....	331.2	387.0	435.8
Total Federal Government credit advanced	Net change	44.3	75.4	59.0
	Outstanding	539.0	614.4	646.7
Loans by Government-sponsored enterprises (from Table F-11).	Net change.....	43.4	55.5	56.2
	Outstanding.....	225.6	281.1	337.3
Total, credit advanced to the public under Federal auspices.	Net change	87.6	130.9	115.2
	Outstanding	764.6	895.5	984.0
BORROWING (Credit raised)				
Federal borrowing from the public.....	Net change.....	135.0	215.0	203.0
	Outstanding.....	929.4	1,144.4	1,347.4
Guaranteed borrowing (same as guaranteed loans above).	Net change.....	20.9	55.8	48.9
	Outstanding.....	331.2	387.0	435.8
Total Federal Government credit raised	Net change	155.9	270.8	251.9
	Outstanding	1,260.6	1,531.4	1,783.2
Borrowing by Government-sponsored enterprises (from Table F-11).	Net change.....	43.8	53.5	55.0
	Outstanding.....	205.5	259.0	314.0
Total, credit raised from the public under Federal auspices.	Net change	199.7	324.3	306.8
	Outstanding	1,466.1	1,790.4	2,097.2

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.⁹ The resulting subsidy to borrowers has normally been a saving of 25 to 35 percent of the taxable interest rate on long-term obligations.

The tax exemption reallocates credit resources to the assisted borrowers, just as do Federal direct loans and loan guarantees. 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.

During the first half century of income tax, tax exemption was confined mainly to State and local government borrowing for public purposes. During the 1960's, however, tax-exempt financing was increasingly made available for certain private uses. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt financing to private borrowers. The authorities transfer their exempt status to the private borrowers' debt obligation, or lend the proceeds of the issue to the borrower. The State or local government typically is not responsible for the payment of interest and principal in the event of default. The 1968 and 1969 tax acts made bonds issued for use by a private trade or business taxable, but a number of exceptions were permitted that have allowed major growth of tax-exempt financing for some private users.

Table F-13 shows that the sale of tax-exempt bonds used for private purposes has increased greatly in recent years. Tax-exempt bonds issued for five private activities—owner-occupied and rental housing, private non-profit hospitals, student loans, pollution control facilities, and businesses financed with “small-issue” industrial development bonds (IDB's)—will reach an estimated \$42.6 billion of new obligations in calendar year 1984. These private purpose bonds will account for 43% of total new long-term tax-exempt issues, compared with only 24% of total long-term issues just eight years earlier. State and local government debt and private purpose bonds that could not otherwise be identified or classified are included in the total of other tax-exempt bonds. Refunding bonds typically are used to refinance public projects under different terms than the original bonds, often with lower interest rates.

In calendar year 1982, estimated total new tax-exempt issues increased by \$32.1 billion above 1981 to \$87.2 billion. Almost all of this growth occurred in housing bonds and State and local government debt issues. Lower mortgage interest rates partly explain the growth in single and multiple family housing bonds. However, the authority to use tax-exempt bonds for single family housing con-

⁹Tax exemption is a tax expenditure, the subject of *Special Analysis G, "Tax Expenditures."* It includes a discussion of revenue losses attributable to special provisions of the tax code, including specific types of tax-exempt bonds.

struction is expected to expire at the end of 1983. As interest rates declined in 1982, projects typically financed with tax-exempt bonds became more feasible. With the expectation that interest rates will continue to fall through 1984, State and local authorities are likely to issue more bonds to finance new public facilities and projects that were postponed earlier when interest rates were very high.

The significant growth of private purpose bonds has contributed to a reduction in the relative advantage of tax-exempt financing. While long-term tax-exempt bonds have traditionally had a cost advantage of between 25 and 35 percent over taxable bonds, the cost advantage currently is between 10 and 20 percent on securities with 20-year maturities. Tax-exempt yields must increase relative to the yields on alternative investments in order to attract additional funds. The reduction in the cost advantage increases the financing costs for all State and local government borrowing, including the costs for traditional public projects such as roads, sewers, and schools.

In recent years, Congress has placed further restrictions on the use of tax-exempt financing by private entities. The Omnibus Reconciliation Act of 1980 imposed a number of restrictions on the use of tax-exempt credit for owner-occupied housing, including the elimination of tax exemption for such bonds after 1983 as noted above.¹⁰ Last year the Administration successfully proposed legislation to reduce the use of private purpose tax-exempt bonds through several changes in the tax code. The Tax Equity and Fiscal Responsibility Act of 1982 required that most private purpose bonds be approved by an elected public official after a public hearing, and that assets of certain exempt private activities financed with tax-exempt bonds after 1982 be depreciated using the straight-line method rather than accelerated depreciation. The 1982 tax act also eliminated the tax exemption for "small-issue" IDB's after 1986.

Table F-13 presents estimates of the annual tax revenue lost to the Treasury from all tax-exempt bonds issued each year, the present value of the tax loss from these bonds, and the value of the subsidy received by the borrower. The annual tax loss measures the amount of reduction in receipts resulting from the issuance of tax-exempt rather than taxable debt in that year. Further tax losses occur over the entire life of the tax-exempt security. Therefore, the present value of the total tax loss is much larger than the annual tax loss. The cost to the Treasury in lost tax revenue exceeds the financial benefits to the borrower, because the lender also receives a subsidy. Table F-13 also shows separately the annual tax revenue loss and present value of the tax loss from private purpose tax-exempt bonds.

¹⁰However, most general obligation bonds to finance veterans' owner-occupied housing and bonds to finance multi-family rental housing remain tax exempt.

While direct and guaranteed loan programs are included in the credit budget, tax-exempt credit is not. Although tax-exempt financing affects resource allocation and has efficiency 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.

Table F-13. TAX EXEMPT FINANCING: PRESENT VALUE OF TAX SUBSIDIES TO NEW ISSUES—(in billions of dollars)

	Calendar years ¹												
	Actual										Estimated		
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total new issues, long-term tax exempts.....	23.6	23.9	24.2	30.5	35.0	46.9	49.1	48.4	54.5	55.1	87.2	95.8	98.9
Private purpose tax-exempts.....	(¹)	(¹)	(¹)	4.9	8.3	13.2	15.9	25.0	28.6	25.1	41.6	45.1	42.6
Housing bonds.....	(¹)	(¹)	(¹)	1.4	2.7	4.5	7.1	12.1	14.0	5.6	15.0	17.9	10.0
Single-family mortgage revenue bonds.....	(¹)	(¹)	(¹)		0.7	1.0	3.4	7.8	10.5	3.6	10.0	11.0	
Multi-family industrial development bonds.....	(¹)	(¹)	(¹)	0.9	1.4	2.9	2.5	2.7	2.2	1.1	4.5	6.0	8.0
Veterans general obligation bonds.....	(¹)	(¹)	(¹)	0.6	0.6	0.6	1.2	1.6	1.3	0.9	0.5	0.9	2.0
Private hospitals.....	(¹)	(¹)	(¹)	1.4	1.9	3.3	2.2	2.4	2.8	3.5	6.1	6.7	7.4
Student loans.....	(¹)	(¹)	(¹)	*	0.1	0.1	0.3	0.6	0.5	1.1	1.6	2.0	2.5
Pollution control.....	(¹)	(¹)	(¹)	2.0	2.1	3.0	2.8	2.5	2.5	3.9	5.1	5.2	5.7
Small-issue industrial development bonds.....	(¹)	(¹)	(¹)	(¹)	1.5	2.3	3.5	7.4	8.8	11.0	13.8	13.3	17.0
Refundings.....	1.6	1.2	0.6	0.9	3.5	9.6	9.3	1.9	1.6	1.2	4.0	5.0	6.0
Other tax-exempt issues ²	22.0	22.7	23.6	24.7	23.2	24.1	23.9	21.5	24.3	28.8	41.6	45.7	50.3
Subsidy estimates (new issues only): ³													
All new issues:													
Annual tax loss, all new issues.....	0.7	0.7	0.9	1.1	1.2	1.6	1.8	1.9	2.7	3.3	4.6	4.3	4.1
Present value, tax loss.....	7.1	7.3	7.8	10.0	11.2	14.8	16.1	16.3	19.6	21.0	32.2	33.9	34.0
Present value, borrower benefit.....	5.1	5.7	5.9	6.5	8.8	12.4	14.1	15.0	16.0	13.2	23.7	24.7	24.7
Private purpose issues only:													
Annual tax loss.....	(¹)	(¹)	(¹)	0.2	0.3	0.4	0.5	1.0	1.4	1.5	2.2	2.0	1.8
Present value, tax loss.....	(¹)	(¹)	(¹)	1.6	2.7	3.9	4.9	8.4	10.3	9.6	15.4	16.0	14.7
MEMORANDUM													
AAA State and local bond yields, percent.....	5.04	4.99	5.86	6.42	5.66	5.20	5.52	5.92	7.85	10.43	8.59	7.50	6.92
AAA Corporate bond yields, percent.....	7.21	7.44	8.57	8.83	8.43	8.02	8.73	9.63	11.94	14.17	12.43	10.81	9.96
Outstanding, long-term tax-exempt issues.....	160.7	175.1	188.9	205.2	225.0	251.3	279.1	308.2	341.1	370.0	422.3	481.0	540.3
Outstanding, all tax-exempt issues.....	176.5	191.2	207.7	223.8	239.5	262.9	291.3	321.1	356.2	389.8	446.9	508.0	567.3

* \$50 million or less.

¹ 1975-81 estimates of tax-exempt volume and distribution and 1982-84 projections are by the Department of the Treasury, Office of Tax Analysis. Estimates are unavailable for private purpose tax-exempts before 1975.² Includes State and local government debt for public purposes and some private purpose debt 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 and 1982-84 yields estimates by Office of Management and Budget.

INTEREST SUBSIDIES

Federal credit programs provide credit to selected borrowers on more favorable terms than would otherwise be available in private credit markets. These favorable terms result in a subsidy to the borrower. 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 Federal direct loan programs; and therefore, the rates for comparable loans in the private market will be higher. 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 rates less than the market rate, not charging the borrower a premium for risk.

This section presents estimates of the explicit subsidies provided through lower interest rates for Federal direct loan programs and one loan guaranteed program. The total interest subsidy in any year 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 determine, 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. The first estimates the value of the subsidy to borrowers; the second, the cost to the Government.

The first approach is intended to show the value of the subsidy to the borrower. It compares Federal credit program interest rates against private sector rates for comparable loans (see table F-14a). In order to define comparable private rates, this approach relies on

relating Federal credit programs to broad categories of private loan types rather than making a detailed analysis of individual program characteristics.¹¹ For example, the subsidies on Rural Electrification Administration loans are computed by comparing the average REA interest rates against rates for recently offered shares of 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 is intended to estimate the cost of the interest subsidies to the Federal Government (see table F-14b). It applies a single interest rate to all Federal credit programs: the 10-year Treasury bond rate averaged over the last 6 months. The estimates in table F-14b are less than the estimates in table F-14a because the Government can borrow more cheaply than can private lenders. Thus, the value of the subsidy to the borrower is larger than the cost of the loan to the Government.

The subsidy estimates are intended to provide an estimate of the order of magnitude of interest subsidies, and to suggest the relative distribution of subsidies among the programs. Neither method is exact, and neither quantifies the total subsidy provided in Federal credit programs.

- The measurement of interest subsidies in these tables 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.

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 one loan guarantee program, guaranteed student loans, where the Federal Government directly contributes all or part of the interest payments on the loan.

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

The sensitivity of interest subsidy estimates to assumptions.—Estimates of interest subsidy in tables F-14a and F-14b 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. For example, a reduction in market interest rates will lower the subsidy even if there is no policy change. Nevertheless, the estimates of the interest subsidies in credit programs shown in these tables can be used to indicate which programs are more deeply subsidized than others, and the general magnitude of the subsidies.

Table F-14a. **INTEREST SUBSIDY VALUES FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE**

(Dollar amount in millions)

Agency and programs	Average loan terms		Obligations or commitments			Market rate discount			
	Percent	Years	1982	1983	1984	Market rate	Present value of subsidy stream		
							1982	1983	1984
DIRECT LOANS									
Funds Appropriated to the President:									
Economic support fund	3.0	40.0	366	481	468	12.5	241	317	308
Foreign military sales credit.....	10.5	15.0	800	1,175	1,000	12.5	82	121	103
Functional development assistance.....	2.8	33.1	398	409	387	12.5	252	259	245
Agriculture:									
Price support and related programs.....	10.6	0.7	11,500	11,877	8,040	14.0	292	302	204
Agricultural credit	9.2	10.0	4,199	4,264	3,979	14.0	744	755	705
Rural housing	3.0	33.0	3,454	3,377	308	13.0	2,203	2,154	196
Farm export credits—									
Public Law 480	3.6	31.5	777	750	768	12.5	453	438	448
Rural development	7.4	40.0	568	518	360	12.2	208	189	132
Rural telephone bank ..	11.1	35.0	185	185	185	14.5	41	41	41
Rural electric and telephone.....	4.9	35.0	1,099	1,101	575	14.5	649	650	340
Education:									
Student financial assistance.....	5.0	10.0	175	179		18.0	72	73	
Student loan insurance.....	7.5	7.0	289	391	424	18.0	78	106	115
College housing	3.0	30.0	40			13.4	25		
Energy:									
Bonneville Power Administration	0.2	19.9	4	40	40	14.5	3	27	27
Health and Human Services:									
Health maintenance organizations	12.0	20.0	14	42	12	15.5	3	8	2
Housing and Urban Development:									
Federal Housing Administration	10.0	20.0	284	341	288	13.4	55	66	56
Government National Mortgage Assn	7.5	40.0	1,985	504	3	12.5	739	187	*
Housing for elderly and handicapped	9.2	40.0	819	634	476	14.5	285	221	166
Housing rehabilitation	3.0	20.0	49	84		13.5	27	46	
Low rent public housing	6.6	.3	905	1,000	1,000	13.5	10	11	11
Transportation:									
Highway programs ¹ ..	3.5	10.0	69	50	37	10.6	3	2	1
Rail programs	3.4	20.2	43	102		14.7	24	57	
Veterans									
Administration:									
Housing programs	12.0	29.0	720	691	721	13.0	50	48	50

Table F-14a. **INTEREST SUBSIDY VALUES FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—**
Continued

(Dollar amount in millions)

Agency and programs	Average loan terms		Obligations or commitments			Market rate discount			
	Percent	Years	1982	1983	1984	Market rate	Present value of subsidy stream		
							1982	1983	1984
Insurance policy loans ¹	10.9	30.0	152	156	163	14.5	35	36	37
District of Columbia.....	8.2	30.0	145	145	115	12.2	41	41	33
Export-Import Bank.....	11.0	12.0	3,516	3,830	3,830	15.5	641	699	699
NCUA.....	14.6	.2	82	95	95	15.5	*	*	*
Small Business Administration:									
Business loans.....	14.5	8.5	682	749	512	15.5	23	25	17
Disaster loans.....	11.5	9.0	237	440	440	15.5	32	59	59
Tennessee Valley Authority.....	5.4	8.2	77	89	99	14.5	21	25	28
Other agencies and programs.....	7.1	7.7	155	107	106	15.7	2	6	4
Federal Financing Bank: Loans to the public.....	10.3	10.0	30,082	27,044	23,701	14.62	4,750	4,270	3,742
Total—Direct loan subsidies ²			63,092	60,841	48,076		12,096	11,238	7,768
GUARANTEED LOANS									
Education:									
Student loan insurance ²	8.5	10.0	6,195	6,778	7,391	18.0	1,932	2,114	2,305
Grand total			69,287	67,619	55,467		14,028	13,352	10,073

* \$500 thousand or less.

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)

Table F-14b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			13% discount			
	Percent	Years	1982	1983	1984	Annual subsidy per \$100 million	Present value of subsidy stream		
							1982	1983	1984
DIRECT LOANS									
Funds Appropriated to the President:									
Economic support fund	3.0	40.0	366	481	468	8.78	246	323	314
Foreign military sales credit	10.5	15.0	800	1,175	1,000	1.92	101	148	126
Functional development assistance.....	2.8	33.1	398	409	387	8.51	257	264	250
Agriculture:									
Price support and related programs	10.6	0.7	11,500	11,877	8,040	2.86	207	214	145
Agricultural credit	9.2	10.0	4,199	4,264	3,979	2.59	606	615	574
Rural housing.....	3.0	33.0	3,454	3,377	308	8.41	2,203	2,154	196
Farm export credits—Public Law 480.....	3.6	31.5	777	750	768	7.91	465	449	460
Rural development	7.4	40.0	568	518	360	5.28	230	209	146
Rural telephone bank ..	11.1	35.0	185	185	185	1.80	25	25	25
Rural electric and telephone.....	4.9	35.0	1,099	1,101	575	7.16	599	600	313
Education:									
Student financial assistance.....	5.0	10.0	175	179		5.19	51	52	
Student loan insurance.....	7.5	7.0	289	391	424	3.42	45	61	67
College housing.....	3.0	30.0	40			8.21	25		
Energy:									
Bonneville Power Administration	0.2	19.9	4	40	40	8.95	3	25	25
Health and Human Services:									
Health maintenance organizations	12.0	20.0	14	42	12	.85	1	3	1
Housing and Urban Development:									
Federal Housing Administration	10.0	20.0	284	341	288	2.48	50	60	51
Government National Mortgage Assn	7.5	40.0	1,985	504		5.17	786	199	*
Housing for elderly and handicapped	9.2	40.0	819	634	476	3.59	225	174	131
Housing rehabilitation ..	3.0	20.0	49	84		7.40	26	44	
Low rent public housing	6.6	0.2	905	1,000	1,000	4.29	9	10	10
Transportation:									
Highway programs ¹ ..	3.5	10.0	69	50	37	3.16	7	3	1
Rail programs	3.4	20.2	43	102		7.19	22	52	
Veterans Administration:									
Housing programs.....	12.0	29.0	720	691	721	.92	50	48	50

Table F-14b. INTEREST SUBSIDY COSTS FOR NEWLY COMMITTED FEDERAL CREDIT ASSISTANCE—
Continued

(In millions of dollars)

Agency and programs	Average loan terms		Obligations or commitments			13% discount			
	Percent	Years	1982	1983	1984	Annual subsidy per \$100 million	Present value of subsidy stream		
							1982	1983	1984
Insurance policy loans ¹	11.0	30.0	152	156	163	1.92	22	23	24
District of Columbia.....	8.2	30.0	145	145	115	4.30	47	47	37
Export-Import Bank.....	11.0	12.0	3,516	3,830	3,830	1.45	310	337	337
NCUA.....	14.6	0.2	82	95	95	-1.13	*	*	*
Small Business Administration:									
Business loans.....	14.5	8.5	682	749	512	-1.03	-36	-40	-27
Disaster loans.....	11.5	9.0	237	440	440	1.02	13	24	24
Tennessee Valley Authority.....	5.4	8.2	77	89	99	4.77	18	21	24
Other agencies and programs.....	7.1	7.7	155	107	106	3.74	6	2	1
Federal Financing Bank Loans to the public....	10.3	10.0	30,082	27,044	23,701	1.85	3,099	2,786	2,441
Total—Direct loan subsidies ²			63,092	60,841	48,076		9,716	8,935	5,747
GUARANTEED LOANS									
Education									
Student loan insurance ²	8.5	10.0	6,195	6,778	7,391	3.04	1,051	1,150	1,254
Grand total			69,287	67,619	55,467		10,767	10,084	7,000

* \$500 thousand or less.

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 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 some cases to propose termination of the programs. 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.

Legislation will also be introduced effecting the treatment of Certificates of Beneficial Ownership (CBO's) in the Rural housing insurance fund. This legislation involves removing the statutory requirement that the proceeds from CBO's be treated as a sale of an asset. With this change, CBO transactions will be treated in accordance with the recommendations of the 1967 President's Com-

mission on Budget Concepts. Under the proposed legislation, the issuance of CBO's will be considered borrowing rather than income and the retirement of CBO's will be redemption of debt. The CBO's outstanding at the start of 1984 will be reclassified as agency debt. Also affecting RHIF is a proposal to transfer the assets, liabilities and balances from the Self-help land development fund to RHIF. Since there has been little loan activity in the land development fund, it would be more efficient to consolidate all activity in RHIF.

The administration is again seeking legislation to help the Federal Housing Administration (FHA) keep abreast of recent changes in housing finance and to reflect an expanding role for private mortgage insurers. The proposed legislation would remove the current statutory ceilings on FHA-insured mortgages, allowing FHA to insure variable rate mortgages. At the same time, the FHA regulation prohibiting FHA-insured homebuyers from being charged any points will be eliminated. Points are interest charges that are paid at the time a property is purchased and are used by lenders to increase effective interest rates on FHA-insured mortgages. Currently, additional points cannot be charged to buyers directly. Buyers may pay points indirectly, however, through increased housing prices. The elimination of both the ceiling on interest rates and the prohibition of buyer paying points is intended to help mortgage markets operate more effectively and reduce artificially high housing prices.

RECENTLY ENACTED LEGISLATION

This section summarizes legislation enacted during the second session of the 97th Congress involving Federal credit programs. Unlike the first session of Congress, there was no single major piece of legislation dealing with a large number of credit programs.

The Export Trading Companies Act of 1982 establishes a guaranteed loan program administered by the Export-Import Bank to creditors of export trading companies. These loans will be secured by the companies export account receivables or inventories of exportable goods. The guaranteed loan will be made only if the Board of Directors determines the private credit market is not providing adequate financing or if the guarantees will promote trade that would not occur otherwise. The Act specifies that the guaranteed loans should ultimately promote exports from smaller, minority businesses or agricultural concerns.

The Veterans Compensation, Education, and Employment Amendments Act of 1982 initiates a user fee for veterans obtaining Veterans Administration home loans. The amount of the fee is one-half of 1% of the total loan amount. The fee will be paid either before the loan is made or included in the loan amount.

The Garn-St Germain Depository Institutions Act of 1982 is a major step toward deregulating and restructuring the nation's financial system. It provides the means by which depository institutions can compete effectively in the financial community in the highly competitive, less regulated environment of the future. Due to the severity of financial problems that have faced the thrift industry, the major provisions of the Act contain short-term and long-range remedies to ensure the lasting viability of this vital segment of our financial community. In particular, the Act establishes a three-year program whereby the FHLBB and the FDIC may purchase net worth certificates from troubled depository institutions in exchange for promissory notes. The certificates would be considered capital and for that reason would be included in the net worth of the affected institution. Unless an institution defaulted, there would be no monetary transaction between the FHLBB or the FDIC and the depository institutions. The Act also allows the Federal National Mortgage Association to issue preferred stock.

The Student Financial Assistance Technical Amendments Act of 1982 waives the Federal Government's position with respect to other creditors in the event of bankruptcy by the Student Loan Marketing Association (SLMA). Prior to 1982, SLMA obtained funds from the Federal Financing Bank (FFB). However, as part of a general Administration policy to limit Government-sponsored enterprise borrowing from the FFB, SLMA began to obtain funds through private financial markets. Before passage of this Act, the Federal Government would have equal claim with other creditors in the case of bankruptcy. Congress felt this hampered SLMA ability to raise money in private financial markets given the extensive FFB borrowing, therefore other creditors will have priority over the Federal Government in the event of bankruptcy.

The Housing and Community Development Extension of Insurance Programs Act of 1982 continues the Federal Housing Administration's basic insuring authority to May 1983. Also, the Act allows the Federal Home Loan Mortgage Corporation to issue preferred stock, thereby providing FHLMC parity with the Federal National Mortgage Association. FNMA was granted similar authority in the Garn-St Germain Depository Institutions Act of 1982.

The District of Columbia Revenue Bonds for Educational Expenses Amendment of 1982 allows the District of Columbia to issue revenue bonds for the purpose of financing student loans. The possible reduction of student loans from other Federal sources prompted this piece of legislation. Whether a bond issue is actually made and particular guidelines of the program will be determined by the District of Columbia.

The No Net Cost Tobacco Program Act of 1982 requires the establishment of a capital fund by farm producer associations. This

fund should help insure that all loans made by the Commodity Credit Corporation (CCC) would be paid in full. Beginning in 1982, any producer benefiting from price supports must contribute to the fund to be eligible for the program. In addition, any net gain from the sale of loan tobacco will be retained by the CCC for application against any losses.

SPECIAL ANALYSIS G

TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires a listing of a "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 liability."

The definition of tax expenditures used in this analysis is based on the distinction between the "normal" or "reference" provisions of the tax structure needed to make the tax operational, and the "special" provisions that are exceptions to the reference tax provisions. Such exceptions are designed to further other objectives, such as health care, export promotion, or employment of the handicapped. Their operation is, therefore, comparable to outlay programs, such as milk price supports and rent subsidies that also provide a subsidy to particular activities. For this reason, the expressions "tax subsidies" and "tax expenditures" are often used synonymously. Because the term "tax subsidies" is somewhat more descriptive than "tax expenditures," the former will be used in the remainder of this analysis.

The reference tax provisions are those which deal with the basic structural features of the Federal income tax. These features include such concepts as the definition of income subject to tax; taxable units and their threshold levels of taxability; the relationship between the taxation of corporations and their shareholders; the tax rate schedules; the basic tax accounting rules; 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 such reference provisions, it would be possible to have a fully operational income tax that did not contain any of the special provisions that give rise to tax subsidies.

While the distinction between the reference and special provisions of the Code may be clear as general concepts, there are numerous difficulties encountered when applying these concepts to obtain an actual list of tax subsidies. The inclusion of wages in the tax base is a clear example of a reference tax provision; the exclusion of fringe benefits is due to special provisions, and therefore clearly constitutes a tax subsidy. On the other hand, a less clear

example is provided by the capital gains provisions, which apply to a broad class of transactions and taxpayers, but are exceptions to the general rules governing taxation of income from all other sources. As explained more fully below, the capital gains provisions are considered a tax subsidy.

ALTERNATIVE DEFINITIONS OF TAX EXPENDITURES

While the current income tax is a useful reference standard, it is not the only one that might be used. Some analysts would prefer using a "pure income tax" under which the tax base is equal to an individual's consumption plus the change in his net worth during a year. Other analysts would prefer to use income used for consumption as the reference tax base for measuring tax subsidies. In this latter view, income that is saved would not be taxed.

If the current tax system is compared with a pure income tax for purposes of identifying tax expenditures, the list of tax expenditures would be quite different from the list presented in table G-1. For example, the following would be considered tax expenditures if the reference system were a pure income tax:

- (1) the accelerated cost recovery system (ACRS);
- (2) the exemption of tax on the imputed income from housing;
- (3) the lack of inflation indexation of capital gains, taxation of capital gains only upon realization and the 60-percent exclusion of long-term capital gains; and
- (4) the double taxation of corporate dividends.

The first of these would be a tax expenditure because a pure income tax would allow as a deduction only the economic depreciation on an asset—i.e., the true reduction in the value of the asset. ACRS is a system designed to provide more rapid depreciation than true economic depreciation.

The second of these, the exemption of the imputed income from housing, arises from the fact that owner-occupied housing provides income in kind to the owner. A house is a capital asset. The difference between a house and a corporate bond is that the return on the house is in the form of free rent whereas the return on the corporate bond is in the form of cash. Nonetheless, both assets return income and under a pure income tax, that income would be taxed in the same manner. Thus, the value of the free rental services provided by an owner-occupied home would be included in a pure income tax base. However, a deduction for mortgage interest payments (indexed for inflation) would be allowed just as there is a deduction for investment interest when one borrows money to invest in a corporate bond. If the reference tax is a pure income tax, the mortgage interest deduction would not be treated as a tax expenditure. Instead, there would be a tax expenditure based on

the exemption of the imputed rent from the owner-occupied home, adjusted for depreciation.

The case of capital gains is quite complicated. Under a pure income tax, real accrued capital gains, i.e., accrued capital gains adjusted for a purely inflationary rise in the value of an asset, would be taxed just as any other income. Thus current law, when compared to a pure income tax, has three tax expenditures with regard to long-term capital gains. The first is that these gains are not indexed. This is a negative tax expenditure, i.e., it may cause a higher tax liability that would occur under a pure income tax. Offsetting this, however, is the 60-percent exclusion of long-term capital gains from adjusted gross income. This is the usual positive tax expenditure resulting in lower tax liability. Finally, capital gains are taxed only when realized, not as they accrue.

Under a pure income tax, all income would be taxed only once to the recipient. Consequently, the double taxation of the corporation income, when compared to a pure income tax, is a negative tax expenditure. It may raise the tax liability above that which would apply under a pure income tax.

If a tax on income used for consumption were used as the reference point, the list of tax expenditures is different from that which would result from a pure income tax and from that which would result from use of the normal provisions of the tax code as the reference structure. The following provisions of current law would be treated as tax expenditures if a pure consumed income tax were used as the reference point:

- (1) the nondeductibility of saving other than saving contributed to individual retirement accounts and Keogh plans;
- (2) the nontaxability of borrowing used for consumption; and
- (3) the nontaxability of bequests consumed by recipients.

Under a consumed income tax, income that is saved would be deducted from the tax base. Consequently, except for contributions to IRA plans and pension plans, the nondeductibility of saving under current law would constitute a negative tax expenditure.

Just as saving would be deducted from the tax base, borrowing would be included in the tax base to the extent it is used for consumption. If an individual borrows \$1,000 in a year and uses that \$1,000 to increase consumption, a tax that is based on consumption would include that \$1,000 in the tax base. Current law has no such provision and thus the absence of a tax on borrowing, if a consumed income tax were used as a reference point, would constitute a positive tax expenditure.

Since a consumed income tax would allow accumulations of wealth to be deductible because they are not consumption, the corresponding treatment of consumption out of wealth requires that such consumption be included in the tax base. Thus, an indi-

vidual who inherits wealth and consumes it over his lifetime would have to include the bequest in his tax base. For example, if a person inherited \$1 million and proceeded to spend \$150,000 a year and, in doing so, reduced the principal amount, all of the \$150,000 a year of consumption would be taxable. Under current law, consumption of wealth does not enter the tax base. Therefore, when current law is compared with a consumed income tax, a positive tax expenditure results from exclusion of spending out of inherited wealth.

While there are valid arguments in favor of identifying and measuring tax expenditures relative to a pure income tax or a consumed income tax, the existing Federal income tax is the best practical alternative available now for listing and computing the amounts of existing tax subsidies. Consequently, the remainder of this analysis is based on existing law.

THE RELATIONSHIP BETWEEN TAX SUBSIDIES AND OUTLAYS

Tax subsidies often have objectives similar to government programs funded through direct appropriations. There are numerous examples of this. Direct expenditures and tax subsidies both reduce the cost of ships; direct interest subsidies and the issuance of tax-exempt bonds both result in lower financing costs for eligible issuers of mortgage bonds and 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 from social security payments as well as the exemption of these payments from income tax.

This special analysis contains quantitative estimates of tax subsidies that can be used in conjunction with the consideration of direct budget outlays. Like the listing of comparable direct outlays, the listing of specific tax items implies neither approval nor disapproval of the special provisions of the tax system that authorize them. Neither does it imply that only the special provisions are worthy of analysis. Many features of the normal tax structure such as the rates, exemption levels, and basic accounting rules, have major effects upon the level and composition of economic activity and the distribution of income. Thus, it is important that both the reference tax structure and exceptions that provide tax subsidies be subject to periodic analysis and review.

The Internal Revenue Code contains provisions relating to individual income, corporate income, estate and gift, excise, and employment taxes—all of which include special provisions that provide subsidies. Nevertheless, this analysis deals only with devi-

ations 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 characteristics 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 Federal income tax.

Under the general provisions of the income tax, 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 tax payments. Under the general provisions of the Code, deductions are not allowed for any expenses allocable to income that is exempt from tax. However, the income from homeownership, that is, the (imputed) gross rental value of owner-occupied housing, is exempt from tax under the reference income tax rule requiring “realization.” The special provisions that allow homeowners to reduce their housing costs by deducting mortgage interest and property taxes are, therefore, considered tax subsidies.

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 could be argued that the capital gains provisions do not involve a tax subsidy. However, under the capital gains provisions of the Code, 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 are retained on the list of tax subsidies.

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 gener-

al income tax rules for that purpose. To see this, one need only ask: "If ACRS is 'special,' what is the 'general' tax accounting rule to which ACRS is an exception?" The ACRS provisions are clearly a divergence from any measure of economic income, but this is not a criterion for designating a tax subsidy.

Because they set forth general rules, the ACRS provisions do not appear in table G-1. They are, nevertheless, very important provisions of the reference tax structure, both because of their sizable revenue cost as compared with prior law (\$10.6 billion in 1982, \$16.7 billion in 1983, and \$25.6 billion in 1984) and because of their importance as investment incentives.

The treatment of ACRS may be contrasted with that of the investment tax credit, which has very similar economic effects. The investment credit is considered a tax subsidy because, unlike ACRS, it does not deal with one of the basic structural elements of the income tax.

Several other issues relating to the distinction between the reference structure of the income tax and tax subsidy provisions are discussed below.

- *Threshold income levels for tax liability.*—The reference structure includes those Code provisions that determine threshold levels of income below which no tax liability is imposed upon different types and sizes of taxpaying units. These levels have been affected by legislated changes in the dollar amounts allowed for personal exemptions and the standard deduction in recent years. However, the additional personal exemptions for taxpayers age 65 and over and for the blind result in tax subsidies because they are special provisions directed at demographic 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 proportional or even regressive rate schedules. Tax subsidies do not result because some income is taxed at lower rates than other income. The income averaging provision of the Code for individuals is also 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 the separate rate schedules for different kinds of taxpayers are considered part of the reference tax structure. The tax subsidy concept is not characterized by any specific set of rate schedules applicable to particular kinds of tax filing units. Similarly, the deduction for second earners, en-

acted 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 organizations, including corporations, partnerships and Subchapter S Corporations, and individual proprietorships. Generally, provisions of the tax law that accommodate different forms of business organization do not 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 corporate entities is considered 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 from deductions for “ordinary and necessary” business expenses. No attempt is made in this analysis to determine whether certain expenses such as those for entertainment and meals not only should reduce the taxable income of employers, but should also be included in the taxable income of the employees receiving such 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 tax structure 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 provisions. One example is the deductibility of gambling losses in excess of gambling gains only when 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 the credit for foreign taxes paid was denied taxpayers who cooperate with, or participate in, an international boycott.

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 resources in the economy 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 the production of

such 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.

Government receipts and outlays "reallocate resources" because they change the composition of GNP from what it would be in their absence. The decisions to provide public goods and services, to subsidize certain prices (and hence outputs), and to make transfers result in producing a menu of goods and services different from what otherwise would be produced. This occurs because control over resources is moved from the private sector to the public sector either by taxation or by borrowing. Functional budget outlay figures, then, provide a basis for evaluating programs, and their total serves as an index of the size of Government. The amount of outlays measures the resource cost to the Federal Government of accomplishing the program objective. Since GNP is a (gross) measure of the market value of goods and services, the ratio of total budget outlays to GNP is commonly used as an indicator of the size of Government relative to the private economy.

When functional budget outlay figures are used to aid in evaluating specific programs, it is essential that the outlay figures be both consistent and comprehensive measures of resource costs. In this regard, it is important that resource costs represent the pre-tax price of resources. 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 such amounts 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 income to the sellers out of which taxes will be paid as determined by the reference tax law 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 payment by private purchasers of the subsidized goods.

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 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 were treated under 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 as they are now with nontaxable allowances. Only when the existing tax subsidy is added to the tax-exempt budget outlay, is this element of National Defense expenditure comparable with other defense outlays.

Resource reallocation results from subsidies and transfers as much as by special exceptions to reference tax law rules or the expenditure of funds. Just as U.S. flag shipping is encouraged by outlays authorized by the Congress, such shipping is also encouraged by special income tax provisions designed to reduce ship-owners' cost of acquiring ships. A review of water transportation programs would therefore be incomplete if no accounting were made of shipping subsidies implemented through the tax system. Similarly, a Federal budget accounting of aid provided to States and to local governments would be incomplete if it did not include amounts provided through tax exemption of interest received by holders of bonds issued by State and local governments. Any total of Federal Government expenditures that omits such tax subsidies does not provide a comprehensive accounting of the resources reallocated by Federal Government fiscal measures.

The estimates of tax subsidies in table G-1 have been prepared to conform to the objectives of functional budget accounting for outlays. Thus, table G-1 figures are estimated as outlay equivalents, the magnitudes of which are consistent with direct budget outlays. The estimated tax subsidy is therefore equal to the direct expenditure of funds that would be required to accomplish the same objective. The entries should be viewed as amounts that should be added to functional budget outlays and restored to budget receipts to provide a consistent and comprehensive display of the resource reallocations produced by Federal fiscal measures.

The basic difference between the outlay equivalent and previous revenue loss estimates is that these estimates reflect the fact that payments would be subject to tax 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. The conventional "revenue loss" estimate for this item computes the tax that would be paid by military personnel if these payments had been taxable. By contrast, the outlay equivalent recognizes that the intent of this personnel policy is to attract and retain the existing military force and that the equivalent taxable pay under the reference tax law

would therefore have to be sufficient to yield them an after-tax (disposable) income large enough to permit the same housing and meal expenditures they now enjoy. Since virtually all military personnel have otherwise taxable incomes, the outlay equivalent estimate exceeds the revenue loss estimate. Thus, the tax subsidy estimate is now measured in a consistent manner with other Defense Department outlays.

2. *Subsidies to reduce market prices.*—The new incremental research and development (R&D) credit provides a subsidy for industrial R&D. A firm qualifying for the credit is not required to include the credit in computing its taxable income, as it would if it were to receive such funds as a cash payment from the Government. The expenditure equivalent of the incremental R&D tax credit is estimated as the amount of subsidy that would have to be paid to firms for their qualified R&D expenditures and that would reduce their costs as much as the tax credit. Again, this estimate of the R&D tax credit expenditure equivalent is larger than the revenue loss amount.

Other tax subsidies that have the effect of reducing market prices are paid by reducing the tax payments of the purchaser. For example, the personal deduction allowed for medical insurance obviously reduces the cost of medical insurance to its purchasers. 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 covered by the insurance. 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 as the revenue loss estimate.

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 the furnishing of equipment to Government contractors.

In general, the beneficiary of a capital grant is not considered to have contributed to the cost of the asset for tax purposes. The asset is shown on the beneficiary's books at its net private cost. Thus, depreciation of only the cost net of the subsidy is recovered. However, in the case of the investment tax credit, the private firm has been allowed cost recovery deductions for the entire cost of credited

assets. Under the outlay equivalent computation, this additional cost recovery is accounted for as an addition to the initial grant (tax credit) to derive the expenditure equivalent. Beginning in January 1983, this grant will be reduced by half the amount of the investment tax credit because the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) provides for a partial basis adjustment for assets eligible for the investment tax credit.

Tax deferrals resulting from special accelerated capital cost recovery allowances are a form of Government lending. For example, under the reference tax rules, investments for the discovery and development of mineral deposits would be capitalized when incurred and recovered as depletion allowances as production takes place from the deposits. Under special tax rules, however, these investment expenditures are recovered as deductions when made, reducing taxes when the investment is made, and increasing taxes in later years. The deferral of tax, as compared with the tax stream that would have occurred under reference tax rules, is 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.

The tax subsidy estimates reported in table G-1 were prepared by the Treasury Department and are based upon income tax law enacted as of December 31, 1982. The estimates show the expenditure equivalent of each special tax provision by fiscal year. Estimates of the tax subsidies resulting from the exclusion of Federal Government payments to individuals from taxable income, are based on estimates of payments shown elsewhere in the budget.

The estimating procedure for tax subsidies uses the same implicit assumption that governs estimates of out-year budget outlays; viz, 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 levels that 1984 budget estimates are based upon.

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 would be expected to change dramatically if the tax subsidy were removed. Because of these behavioral changes, the revenue gain from repeal of a provision may be much lower than the tax subsidy figure. For example, realizations of capital gains could be expected

to drop 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 such as employer-paid medical insurance premiums that is currently untaxed. The expected response would be a decrease in the amount of employer-paid medical premiums, and a possible 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 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 revenue loss 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. 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. Consistent with these revisions, receipts and expenditure projections would also have to be changed. The estimated net effect of repeal of the investment tax credit on receipts, therefore, would not be equivalent to the tax subsidy.

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. 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 to obtain a grand total. Adding tax subsidy amounts produces inaccurate totals because certain tax subsidies affect the value of other tax subsidies. In some cases, the reduction in tax subsidies from the simultaneous deletion of two tax provisions items would be greater than the sum of the reductions from the separate deletion of the two items. 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 was 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 combined reduction in tax subsidies from the deletion of two items 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 from simultaneously repealing both preferences would therefore be lower than the sum of the two estimates obtained from repealing each one separately.

In general, eliminating several itemized deductions at one time would reduce tax subsidies by less than the sum of the reductions measured by eliminating each item separately. This occurs because more taxpayers would use the zero bracket amount. Conversely, simultaneously eliminating many 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. Tax subsidies and other tax provisions have frequently been changed together or viewed as substitutes for one another. Furthermore, a direct outlay might be substituted for a tax subsidy. Thus, aggregating tax subsidies that took interactions 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 in the economy 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, estimates are not separately reported 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 1982-84 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. Significant changes effected by provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) are noted within each category.

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. Beginning in 1982, the prescribed period for physical presence abroad is 11 out of 12 months.

Beginning in 1982, the special deductions and exclusions formerly allowed taxpayers living abroad no longer apply. Instead, eligible taxpayers in 1982 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 increased to \$80,000 in 1983 and continues to rise by increments of \$5,000 per year until it reaches \$95,000 in 1986. These provisions 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 employees working abroad also results 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. Beginning in 1983 the deemed distribution to corporate shareholders increases to 57.5% of taxable income. 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 for years beginning in 1983 equals 57.5% of total income. The base-period rule is phased-in for DISC's with taxable income between \$100,000 and \$150,000.

Prior to enactment of TEFRA, a taxpayer computed the foreign tax credit limitation separately for foreign oil-related income to prevent the use of foreign taxes paid on oil-related income to offset U.S. tax on other income, and vice versa. Creditable foreign taxes cannot exceed 46% of foreign extraction income, and an unlimited foreign tax credit carryover or carryback was provided for use against taxes on foreign extraction income. However, if the extraction activities and sales of extraction assets resulted in a net loss in any country, the amount of the loss was excluded from the computation of worldwide foreign oil extraction income for the year. As a result, foreign taxes on extraction income had been used to offset U.S. tax on foreign source nonextraction income. In order to remove this unintended tax benefit, under TEFRA the per-country extraction loss rule for taxable years after 1982 was repealed. Thus, starting in 1983, a net loss in one country resulting from extraction activities will reduce the amount of foreign oil-related income and correspondingly reduce the amount of the foreign tax credit available.

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, however, 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 25% of the increase in research expenditures over average expenditures in a base period. For 1983 and subsequent years, the base period is 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.

Prior to TEFRA there were two minimum taxes; the "add-on tax" and the "alternative tax." The add-on minimum tax was

repealed in 1982, but intangible drilling costs are still a preference item for computing an individual's alternative minimum tax.

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. Unlike depreciation, however, percentage depletion is not 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% in 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. The residential energy credits expire on December 31, 1985.

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 biomass property and qualified intercity buses; 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. These credits also expire on December 31, 1985.

Prior to December 31, 1982, there were also additional 10% credits allowed for alternative energy property (i.e., property using fuel other than oil or natural gas); 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; cogenera-

tion equipment; alumina electrolytic cells; and equipment for producing natural gas from geopressurized brine. The additional investment credit can still be claimed for long term projects under these provisions if the taxpayer completed all engineering studies and applied for all required environmental and construction permits in connection with the project prior to January 1, 1983.

A \$3 per barrel of oil-equivalent production credit is provided for several forms of alternative fuels, but, as a general rule, it 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 4 cents of the 9 cents per gallon Federal gasoline excise tax (effective April 1, 1983) 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. In addition, most nonfuel-mineral extractors use percentage 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.

Beginning in 1982, ERTA made available a 25% credit for expenditures to restore certain historic structures. Subsequently, TEFRA reduced the basis of the rehabilitation costs recoverable as depreciation by one-half the amount of the credit. The credit replaces the special depreciation provisions formerly available for historic rehabilitation.

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 inven-

tories 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.

In 1980 and 1981, an exclusion of \$200 (\$400 on a joint return) was allowed for most dividend and interest income. Effective in 1982 the exclusion is reduced to \$100 (\$200 on a joint return) and will apply only to dividend income.

The interest on “small issue” industrial development bonds issued by State and local governments to finance private business property is excluded from income subject to tax. In addition, 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. In general, the Omnibus Budget Reconciliation Act of 1980 restricts the use of mortgage subsidy bonds to the financing of homes purchased by first-time buyers of dwellings with prices below 110% of the average area purchase price and places a State-by-State ceiling on the annual volume of such bonds. While a total ban on mortgage subsidy bonds for single family housing becomes effective January 1, 1984, general obligation bonds to finance single-family housing for veterans is still allowed for 1984 and later years.

TEFRA placed a reporting requirement on all private purpose tax-exempt bonds, except mortgage revenue bonds. Industrial development bonds must be approved by an elected public official after a public hearing. Depreciable property financed by certain types of tax-exempt IDB's must be depreciated using the straight-line method. Small-issue IDB's were prohibited from financing certain types of facilities, such as recreation or entertainment facilities, and a sunset on their tax exemption was set for December 31, 1986. TEFRA also liberalized the eligibility requirements for single-family mortgage revenue bonds.

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 upon the death of the insured.

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.

Sixty percent of net long-term gains from the sale of capital assets may be excluded from income. However, the excluded 60% of net long-term gains is treated as a preference item in computing the "alternative minimum tax for individuals." This tax is applicable only if a taxpayer's regular income 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. Net capital gains from sales or exchanges are taxed at a maximum rate of 20%. This maximum rate is equal to the 40% inclusion rate times the maximum individual rate 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 before or after the sale. The "adjusted sales price" is the amount realized (gross proceeds less selling expenses) minus qualified "fixing up" expenses. If a new house is constructed, it must be occupied within 2 years after the sale.

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 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 formerly were able to recover the original cost gross of the credit. Under the provisions of TEFRA, however, beginning with property placed in service in 1983, the basis of an asset must be reduced by one-half of the investment credit allowed on the asset.

As a general rule, the credit cannot be claimed for investments in land or buildings or for property used abroad. The credit may be claimed as progress payments 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, through annual increments of 10 percentage points, to 90% by 1982. However, the percentage was scaled back to 85% under TEFRA.

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. Safe-harbor leasing under TEFRA was repealed after 1983. For the period between July 1, 1982 and January 1, 1984, a restricted form of safe-harbor leasing was put into effect.

The Economic Recovery Tax Act of 1981 allowed financial institutions to issue special 1-year certificates that paid tax-exempt interest until December 31, 1982. The interest rate on the certificates issued during any week was 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 were required to invest at least 75% of the proceeds from these certificates in housing or agricultural loans.

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.

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. Beginning in 1982 nonitemizers may also deduct a portion of charitable contributions. 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 current value of the asset without taxation of the appreciation in value. Corporations may deduct charitable contributions of up to 10% of their income beginning in 1982. 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.

Beginning in 1982, a 30% 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 \$2,400 for one dependent and \$4,800 for two or more dependents are eligible for the credit. The credit is equal to 30% of qualified expenditures 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.

The targeted jobs credit allows tax credits to employers for qualified wages paid to individuals certified as members of a "targeted group." A credit of 50% of first-year wages and 25% of second-year wages up to \$6,000 of each employee's wages can be taken by the employer to offset up to 90% of his tax liability. However, the employer's deduction for wages is reduced by the amount of the credit. The targeted jobs credit was scheduled to expire at the end of 1982 but was extended by TEFRA until the end of 1984. Also, the credit was expanded to include an 85% credit for up to \$3,000 of wages paid for the summer employment of 16- and 17-year-old disadvantaged youth.

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.

Under TEFRA, for tax years beginning in 1983, the floor for deductible medical expenses is increased from 3 percent to 5 percent of a taxpayer's adjusted gross income. In addition, the separate deduction for one-half (up to \$150) of medical insurance premi-

um expenses is repealed. Beginning in 1984, the one percent of adjusted gross income floor under the deductible amount of drug expenditures is eliminated and only expenditures for prescription drugs and insulin will be deductible.

Interest on State and local government debt issued to finance private, nonprofit hospital construction is excluded from income subject to tax.

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.

After 1982, a 50% tax credit is allowed for qualified clinical testing expenses of drugs to treat certain rare diseases or conditions.

Income security.—Government transfer payments to individuals, such as aid to families with dependent children, are generally excluded from taxable income. They are like gifts which are not taxed under the reference tax laws. Hence, these transfer payments are not considered tax subsidies. In contrast, the exclusion of payments associated with employment such as unemployment compensation and social security benefits give rise to tax subsidies since labor compensation is generally subject to tax.

If the sum of a taxpayer's adjusted gross income, unemployment compensation and excludable disability income is over \$12,000 (\$18,000 for a joint return), on or after January 1, 1982, under TEFRA, the lesser of his unemployment benefits or one-half of the amount over the \$12,000 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 can make deductible contributions to their own retirement plans equal to 15% of their income up to a maximum of \$15,000 per year. Employees can deduct annual contributions of \$2,000 (or 100% of compensation, if less), 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.

Under TEFRA, there were several changes made in the overall limits on contributions and benefits for employees under qualified

pension plans. The maximum annual addition for profit-sharing and other defined contribution plans was reduced from \$45,475 to \$30,000. The maximum annual retirement benefit under a defined benefit pension plan was reduced from \$136,425 to \$90,000. The reduction in the overall limits was accompanied by a freeze on cost-of-living adjustments for three years. Cost-of-living adjustments apply again in 1986 for all plans subject to the overall limitations (qualified plans, Keogh plans, tax-sheltered annuities, and simplified employee pensions) based upon the social security benefit index formula then in effect.

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.

Beginning in 1983, under TEFRA, nonbusiness casualty and theft losses will be deductible only to the extent that the total amount of such losses (after reduction of a \$100 floor for each separate loss) exceeds 10% of the taxpayer's adjusted gross income.

The earned income credit, available to low-income workers with minor dependents, 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 for eligible families is provided through State and local housing authorities. The Omnibus Budget Reconciliation Act of 1980 restricts the use of tax-exempt bonds for multifamily rental housing projects to those that include 20% (15% in certain targeted areas) of units for low- and moderate-income individuals.

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. Most of these bonds are owned by commercial banks and casualty and property insurance companies, but a substantial proportion is also held by individuals who receive 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 certain private purpose facilities, such as hospitals or housing, 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		
	1982	1983	1984
National defense:			
Exclusion of benefits and allowances to Armed Forces personnel.....	2,890	2,780	2,820
Exclusion of military disability pensions.....	165	165	160
Total (after interactions)	3,055	2,945	2,980
International affairs:			
Exclusion of income earned abroad by United States citizens.....	1,850	2,155	2,165
Deferral of income of domestic international sales corporations (DISC)	2,870	2,565	2,000
Total (after interactions)	4,720	4,720	4,165
General science, space, and technology:			
Expensing of research and development expenditures.....	115	-1,160	-1,070
Credit for increasing research activities.....	640	1,060	1,180
Total (after interactions)	830	-115	120
Energy:			
Expensing of exploration and development costs:			
Oil and gas.....	3,285	1,830	1,710
Other fuels.....	45	45	50
Excess of percentage over cost depletion:			
Oil and gas.....	3,065	2,545	2,295
Other fuels.....	600	730	790
Capital gains treatment of royalties on coal.....	310	275	295
Exclusion of interest on State and local government industrial development bonds for certain energy facilities.....	5	15	20
Residential energy credits:			
Supply incentives.....	390	515	690
Conservation incentives.....	435	400	390
Alternative, conservation and new technology credits:			
Supply incentives.....	250	240	255
Conservation incentives.....	290	155	100
Alternative fuel production credit.....	20	45	70
Alcohol fuel credit ¹	5	5	5
Energy credit for intercity buses.....	10	15	15
Total (after interactions)	6,170	4,485	4,245
Natural resources and environment:			
Expensing of exploration and development costs, nonfuel minerals.....	85	90	100
Excess of percentage over cost depletion, nonfuel minerals.....	595	640	690
Exclusion of interest on State and local government pollution control bonds.....	870	1,020	1,150
Tax incentives for preservation of historic structures.....	245	320	385
Capital gains treatment of iron ore.....	40	40	40
Capital gains treatment of certain timber income.....	565	730	910
Investment credit and seven-year amortization for reforestation expenditures.....	20	30	40
Total (after interactions)	2,380	2,825	3,265
Agriculture:			
Expensing of certain capital outlays.....	550	570	590
Capital gains treatment of certain income.....	775	725	745
Total (after interactions)	1,410	1,375	1,415
Commerce and housing credit:			
Dividend and interest exclusion.....	1,530	615	605
Exclusion of interest on State and local industrial development bonds.....	1,795	2,250	2,625
Exemption of credit union income.....	225	245	270
Excess bad debt reserves of financial institutions.....	660	680	1,090
Exclusion of interest on life insurance savings.....	6,625	6,780	7,310
Deductibility of interest on consumer credit.....	10,900	10,710	10,530
Deductibility of mortgage interest on owner-occupied homes.....	23,495	25,255	28,335

Table G-1. OUTLAY EQUIVALENT ESTIMATES FOR TAX SUBSIDIES BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
Deductibility of property tax on owner-occupied homes.....	8,405	8,810	9,645
Exclusion of interest on State and local housing bonds for owner-occupied housing.....	955	1,185	1,315
Capital gains (other than agriculture, timber, iron ore and coal).....	26,590	22,865	23,465
Deferral of capital gains on home sales.....	2,090	2,225	2,515
Exclusion of capital gains on home sales for persons age 55 and over.....	710	765	865
Carryover basis of capital gains at death.....	3,120	3,330	3,685
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures.....	19,255	17,170	18,325
Safe harbor leasing rules.....	2,880	3,270	3,035
Amortization of start-up costs.....	125	195	290
Exclusion of interest on certain savings certificates.....	1,970	840	105
Reinvestment of dividends in public utility stock.....	400	590	670
Total (after interactions).....	111,905	108,300	115,635
Transportation:			
Deferral of tax on shipping companies.....	25	35	40
Exclusion of interest on State and local government bonds for mass transit.....	*	5	15
Total (after interactions).....	25	40	55
Community and regional development:			
Five-year amortization for housing rehabilitation.....	45	60	70
Investment credit for rehabilitation of structures (other than historic).....	295	360	460
Total (after interactions).....	335	425	535
Education, training, employment, and social services:			
Exclusion of interest on State and local student loan bonds.....	115	175	240
Parental personal exemption for students age 19 or over.....	1,065	985	945
Exclusion of employee meals and lodging (other than military).....	730	755	805
Employer educational assistance.....	55	55	15
Exclusion of contributions to prepaid legal services plans.....	20	25	25
Investment credit for ESOPs.....	2,455	2,220	2,405
Deductibility of charitable contributions (education).....	830	770	805
Deductibility of charitable contributions, other than education and health.....	7,550	7,085	7,170
Credit for child and dependent care expenses.....	1,830	2,110	2,430
Credit for employment of AFDC recipients and public assistance recipients under work incentive programs.....	30		
General jobs credit.....	115	35	5
Targeted jobs credit.....	360	495	705
Total (after interactions).....	15,500	15,050	15,895
Health:			
Exclusion of employer contributions for medical insurance premiums and medical care.....	22,555	25,412	28,980
Deductibility of medical expenses.....	3,970	2,950	2,635
Exclusion of interest on State and local hospital bonds.....	730	925	1,115
Deductibility of charitable contributions (health).....	1,240	1,155	1,185
Tax credit for orphan drug research.....		15	25
Total (after interactions).....	28,775	30,755	34,270
Income security:			
Exclusion of social security benefits:			
Disability insurance benefits.....	1,770	1,675	1,660
OASI benefits for retired workers.....	14,940	15,765	16,800
Benefits for dependents and survivors.....	3,735	3,765	3,890
Exclusion of railroad retirement system benefits.....	790	780	725
Exclusion of workmen's compensation benefits.....	1,735	1,875	2,105
Exclusion of special benefits for disabled coal miners.....	185	170	165
Exclusion of untaxed unemployment insurance benefits.....	2,615	3,330	2,940

Table G-1. OUTLAY EQUIVALENT ESTIMATES FOR TAX SUBSIDIES BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
Exclusion of disability pay	190	170	150
Net exclusion of pension contributions and earnings:			
Employer plans.....	65,805	70,005	78,780
Plans for self-employed and others	5,150	5,875	6,480
Exclusion of other employee benefits:			
Premiums on group term life insurance	2,890	2,910	3,095
Premiums on accident and disability insurance	165	160	160
Income of trusts to finance supplementary unemployment benefits	10	5	5
Additional exemption for the blind	35	35	35
Additional exemption for elderly.....	2,385	2,360	2,420
Tax credit for the elderly.....	135	135	135
Deductibility of casualty losses.....	1,295	705	520
Earned income credit ²	460	390	340
Exclusion of interest on State and local housing bonds for rental housing....	425	580	770
Deduction for motor carrier operating rights	115	115	115
Deduction for certain adoption expenses	15	15	15
Total (after interactions)	107,090	113,165	123,260
Veterans benefits and services:			
Exclusion of veterans disability compensation.....	1,860	1,815	1,835
Exclusion of veterans pensions	330	305	295
Exclusion of GI bill benefits.....	175	150	125
Total (after interactions)	2,390	2,290	2,280
General government:			
Credits and deductions for political contributions	185	195	295
General purpose fiscal assistance:			
Exclusion of interest on general purpose State and local debt.....	7,215	8,335	9,430
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	19,085	20,000	21,755
Tax credit for corporations receiving income from doing business in United States possessions	2,365	2,150	1,830
Total (after interactions)	28,885	30,720	33,275
Interest:			
Deferral of interest on savings bonds.....	315	450	500

* \$5 million or less. All estimates have been rounded to the nearest \$5 million.

¹In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of \$55 million in 1982, \$80 million in 1983, and \$90 million in 1984.²The figures in the table indicate the tax subsidies provided by the earned income tax credit. The effect on outlays is: 1982, \$1,280 million; 1983, \$1,205 million; 1984, \$1,125 million.

PROPOSED CHANGES IN TAX SUBSIDIES

The administration has proposed a number of tax revisions that would introduce new tax subsidies or change the costs of existing ones.

Tuition Tax Credit.—The administration proposes a nonrefundable credit for 50 percent of the tuition paid to private elementary and secondary schools for taxpayers' qualified dependents. This credit, which is subject to certain limitations, will be effective for expenses incurred after July 31, 1983.

Enactment of the tuition tax credit will increase the 1984 revenue loss by \$245 million. The corresponding outlay equivalent estimates are \$100 million in 1983 and \$630 million in 1984.

Enterprise Zone Program.—The enterprise zone proposal provides tax incentives for the redevelopment of economically distressed areas. Beginning in 1983, up to 25 small areas per year will be designated "enterprise zones." Starting in 1984, businesses in the zones will be entitled to exemption from tax for certain capital gains, and to tax credits for capital investment, for increases in employment, and for hiring disadvantaged employees. A tax credit is also provided to employees in the zones.

These incentives will increase the 1984 revenue loss by \$85 million. The corresponding outlay equivalent is \$265 million in 1984.

Tax Treatment of Health Insurance Premiums.—Under current law, cash compensation paid to employees is fully taxable for income tax purposes, while compensation paid in the form of health insurance benefits is nontaxable. The administration proposes that, effective January 1, 1984, employees be taxed on employer-paid health insurance premiums in excess of \$175 per month for family plans and \$70 per month for individual plans.

This proposal is estimated to reduce revenue losses by \$1,670 million in 1984. The corresponding outlay equivalent is \$2,420 million in 1984.

Jobs Tax Credit for the Long-Term Unemployed.—The administration proposes a new tax credit for employers that hire individuals who have exhausted their regular and extended Unemployment Insurance (UI) benefits and who would have met the criteria for Federal Supplemental Compensation (FSC) benefits.

This proposal is estimated to increase revenue losses by \$27 million in 1983 and by \$174 million in 1984. The corresponding outlay equivalent estimates are \$184 million in 1983 and \$642 million in 1984.

Social Security Changes.—At present, social security benefits are exempt from the Federal income tax. Under the proposed bipartisan plan, single taxpayers with more than \$20,000 (\$25,000 for married couples filing a joint return) of adjusted gross income from

non-social security sources will be required to include in adjusted gross income one-half of their social security benefits.

In addition, the combined employer-employee Old Age and Survivors and Disability Insurance (OASDI) payroll tax rate is currently scheduled to increase from 10.8% to 11.4% on January 1, 1985 and to 12.4% on January 1, 1990. Under the proposed plan the rate will increase to 11.4% on January 1, 1984, 12.12% on January 1, 1988 and to 12.4%, as currently scheduled, on January 1, 1990. Employees would be allowed a refundable credit on their income tax equal to their portion, .3%, of the rate increase accelerated to 1984.

The taxation of benefits will reduce revenue losses by \$1,100 million in 1984. The corresponding outlay equivalent is \$2,730 million in 1984.

The refundable tax credit will increase revenue losses by \$145 million in 1984. The corresponding outlay equivalent is \$3,225 million in 1984.

Tax incentives for higher education.—The Administration proposes that there be an exclusion from tax for earnings on savings deposited in special accounts to pay future higher education expenses of dependent children. This exclusion, which will be subject to certain limitations, will be effective January 1, 1984.

This proposal is estimated to reduce revenue losses by \$13 million in 1984. The corresponding outlay equivalent is \$35 million in 1984.

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 explained earlier, these revenue loss estimates 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		
	1982	1983	1984
National defense:			
Exclusion of benefits and allowances to Armed Forces personnel.....	2,250	2,200	2,250
Exclusion of military disability pensions.....	165	165	160
International affairs:			
Exclusion of income earned abroad by United States citizens.....	985	1,285	1,300
Deferral of income of domestic international sales corporations (DISC)	1,550	1,385	1,080
General science, space, and technology:			
Expensing of research and development expenditures.....	450	-870	-1,235
Credit for increasing research activities.....	415	645	685
Energy:			
Expensing of exploration and development costs:			
Oil and gas.....	3,430	1,520	1,215
Other fuels.....	25	30	30
Excess of percentage over cost depletion:			
Oil and gas.....	2,100	1,850	1,665
Other fuels.....	410	505	530
Capital gains treatment of royalties on coal.....	205	180	180
Exclusion of interest on State and local government industrial develop- ment bonds for certain energy facilities.....	5	15	20
Residential energy credits:			
Supply incentives.....	250	430	575
Conservation incentives.....	360	330	305
Alternative, conservation and new technology credits:			
Supply incentives.....	205	195	200
Conservation incentives.....	220	125	25
Alternative fuel production credit.....	15	40	70
Alcohol fuel credit ¹	5	5	5
Energy credit for intercity buses.....	10	10	10
Natural resources and environment:			
Expensing of exploration and development costs, nonfuel minerals.....	50	55	60
Excess of percentage over cost depletion, nonfuel minerals.....	405	440	470
Exclusion of interest on State and local government pollution control bonds.....	825	975	1,105
Tax incentives for preservation of historic structures.....	185	270	310
Capital gains treatment of iron ore.....	20	20	20
Capital gains treatment of certain timber income.....	335	370	515
Investment credit and seven-year amortization for reforestation expendi- tures.....	10	15	20
Agriculture:			
Expensing of certain capital outlays.....	545	560	585
Capital gains treatment of certain income.....	610	615	585
Commerce and housing credit:			
Dividend and interest exclusion.....	2,160	445	435
Exclusion of interest on State and local industrial development bonds.....	1,640	2,120	2,520
Exemption of credit union income.....	150	170	185
Excess bad debt reserves of financial institutions.....	405	405	635
Exclusion of interest on life insurance savings.....	4,535	4,805	4,170
Deductibility of interest on consumer credit.....	10,825	10,765	10,540
Deductibility of mortgage interest on owner-occupied homes.....	23,305	25,065	27,945
Deductibility of property tax on owner-occupied homes.....	8,360	8,765	9,535
Exclusion of interest on State and local housing bonds for owner-occupied housing.....	905	1,110	1,290
Capital gains (other than agriculture, timber, iron ore and coal).....	18,020	15,890	16,615
Deferral of capital gains on home sales.....	1,625	1,480	1,740
Exclusion of capital gains on home sales for persons age 55 and over.....	585	535	630

Table G-2. REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
Carryover basis of capital gains at death.....	1,995	2,180	2,370
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures.....	16,455	12,985	14,585
Safe harbor leasing rules.....	3,333	2,990	2,795
Amortization of start-up costs.....	75	120	180
Exclusion of interest on certain savings certificates.....	935	1,665	320
Reinvestment of dividends in public utility stock.....	130	365	415
Transportation:			
Deferral of tax on shipping companies.....	25	30	40
Exclusion of interest on State and local government industrial development bonds for mass transit.....	*	5	15
Community and regional development:			
Five-year amortization for housing rehabilitation.....	45	55	65
Investment credit for rehabilitation of structures (other than historic).....	250	335	365
Education, training, employment, and social services:			
Exclusion of interest on State and local student loan bonds.....	100	155	220
Parental personal exemption for students age 19 or over.....	1,070	995	950
Exclusion of employee meals and lodging (other than military).....	655	680	725
Employer educational assistance.....	40	40	20
Exclusion of contributions to prepaid legal services plans.....	20	25	25
Investment credit for ESOPs.....	1,390	1,250	1,375
Deductibility of charitable contributions (education).....	835	775	840
Deductibility of charitable contributions, other than education and health.....	7,595	7,145	7,190
Credit for child and dependent care expenses.....	1,175	1,520	1,765
Credit for employment of AFDC recipients and public assistance recipients under work incentive programs.....	40	*	.....
General jobs credit.....	80	25	*
Targeted jobs credit.....	235	290	465
Health:			
Exclusion of employer contributions for medical insurance premiums and medical care.....	16,365	18,645	21,300
Deductibility of medical expenses.....	3,945	3,105	2,630
Exclusion of interest on State and local hospital bonds.....	680	865	1,055
Deductibility of charitable contributions (health).....	1,245	1,170	1,205
Tax credit for orphan drug research.....	.....	10	15
Income security:			
Exclusion of social security benefits:			
Disability insurance benefits.....	1,780	1,690	1,660
OASI benefits for retired workers.....	14,825	15,685	16,680
Benefits for dependents and survivors.....	3,725	3,765	3,870
Exclusion of railroad retirement system benefits.....	790	780	735
Exclusion of workmen's compensation benefits.....	1,730	1,870	2,090
Exclusion of special benefits for disabled coal miners.....	185	170	165
Exclusion of untaxed unemployment insurance benefits.....	2,500	3,260	3,020
Exclusion of disability pay.....	155	145	135
Net exclusion of pension contributions and earnings:			
Employer plans.....	45,280	49,700	56,560
Plans for self-employed and others.....	2,835	3,755	4,230
Exclusion of other employee benefits:			
Premiums on group term life insurance.....	2,035	2,100	2,250
Premiums on accident and disability insurance.....	120	115	120
Income of trusts to finance supplementary unemployment benefits.....	10	5	5
Additional exemption for the blind.....	35	35	35
Additional exemption for elderly.....	2,385	2,365	2,410
Tax credit for the elderly.....	135	135	135

Table G-2. REVENUE LOSS ESTIMATES FOR "TAX EXPENDITURES" BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years		
	1982	1983	1984
Deductibility of casualty losses.....	920	575	380
Earned income credit ²	455	385	330
Exclusion of interest on State and local housing bonds for rental housing....	395	530	710
Deduction for motor carrier operating rights.....	140	75	75
Deduction for certain adoption expenses.....	10	10	10
Veterans benefits and services:			
Exclusion of veterans disability compensation.....	1,855	1,825	1,830
Exclusion of veterans pensions.....	330	310	295
Exclusion of GI bill benefits.....	180	150	130
General government:			
Credits and deductions for political contributions.....	180	190	200
General purpose fiscal assistance:			
Exclusion of interest on general purpose State and local debt.....	6,885	8,000	9,105
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes.....	19,160	20,060	21,770
Tax credit for corporations receiving income from doing business in United States possessions.....	1,375	1,245	1,075
Interest:			
Deferral of interest on savings bonds.....	135	435	475

* \$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 1982, \$80 million in 1983, and \$90 million in 1984.² The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1982, \$1,280 million; 1983, \$1,205 million; 1984, \$1,125 million.

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.

The Federal Government's role in domestic programs grew very rapidly over the last two decades. Between 1960 and 1981, outlays for grant-in-aid programs increased at an annual rate of 13%—far faster than the increase in the Federal budget or public sector expenditures as a whole. During the same period, the number of categorical grant programs nearly tripled. Associated with these programs were numerous regulations and restrictions on how the funds could be spent. As a result, the Federal Government imposed its priorities on States and localities and assumed many of their responsibilities.

A major goal of this administration has been to reduce Federal involvement in activities that are more properly administered by State and local governments. Over the past two years the administration has replaced many narrow categorical grant programs with more flexible aid that has fewer restrictions on its use. The number of narrow categorical grant programs has declined by 35%, from 428 in 1980 to 280 in 1982. A number of these were incorporated into the nine block grants enacted in 1981. The block grants give State and local governments considerably more discretion over the use of Federal aid and contain much simpler administrative requirements than their predecessor programs.

The emphasis on shifting responsibility from Federal to State and local governments continued in 1982. The Job Training Partnership Act replaced expiring Comprehensive Employment and Training Act programs with a block grant to States. The block grant combines activities previously financed through three categorical programs and strengthens the State role in providing employment and training programs.

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).

A second major accomplishment in 1982 was enactment of the Surface Transportation Assistance Act. The administration proposed this measure to help rebuild the Nation's deteriorating highway and transit systems. The infrastructure improvements that this Act provides are critical not only to the economic well-being of the Nation but to State and local economies as well.

The Act increases Federal support to States to complete final segments of the interstate highway system, to repair existing interstate roadways, and to repair or replace unsafe bridges. Local aid will be available for street repair and mass transit. Consistent with this administration's goal of reducing Federal involvement in local programs, the Act increases flexibility in the use of transportation funds by State and local governments so that they can devise transportation programs in response to their unique needs.

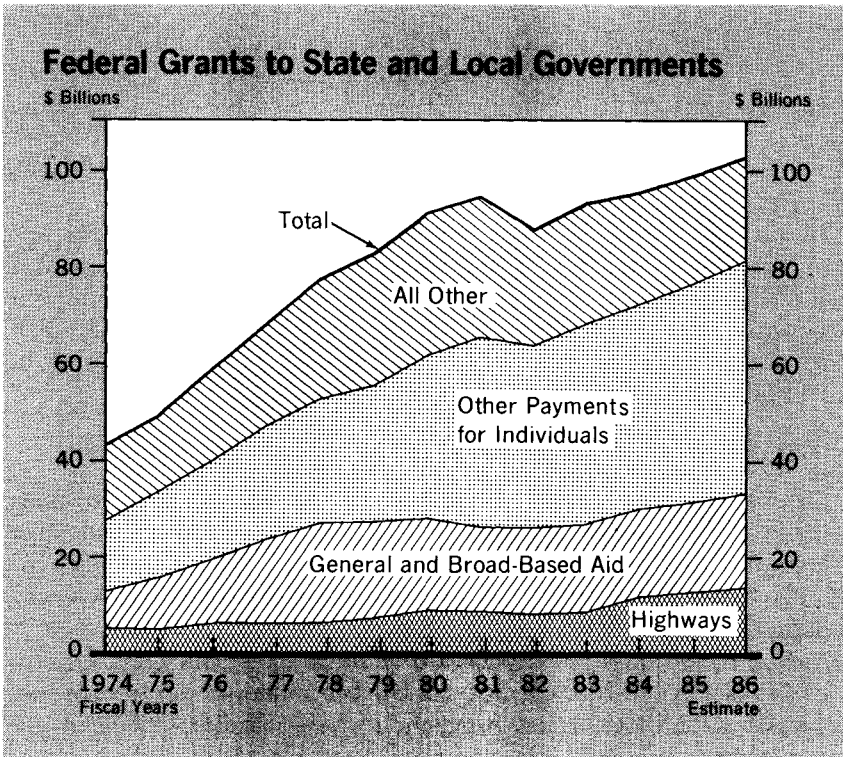
The administration proposes to reduce the Federal role in domestic programs further, primarily through a revised federalism initiative that would give State and local governments more discretion over federally funded grant programs, five new block grants or grant consolidations, and further reductions in narrow categorical programs. The administration will also continue to simplify or eliminate administrative requirements associated with Federal grant programs through regulatory reform and management improvements.

Federal grant-in-aid outlays to State and local governments, which were \$88.2 billion in 1982, are estimated to increase to \$93.5 billion in 1983, and \$95.9 billion in 1984. The following chart shows trends in outlays in major grant categories from 1974 to 1986. General purpose and broad-based aid are expected to increase over the next few years. Payments for individuals, such as medicaid and nutrition assistance, are a large and growing part of grants-in-aid. Grants for highways are expected to increase as a result of the Surface Transportation Assistance Act of 1982. As a group, all other grants are expected to decline through 1986.

THE FEDERALISM INITIATIVE

In January 1982, the administration announced a \$50 billion federalism program that would have returned responsibility for a wide range of Federal assistance programs back to State and local governments along with revenue sources to fund them. The initiative proposed a more rational sorting out of fiscal and program responsibilities among levels of government, to bring about greater efficiency in the administration of public programs.

Since then, Federal, State, and local officials have had numerous meetings to work out the details of the federalism plan. Based on these meetings, the initial program has been substantially im-



proved and a revised federalism proposal will be sent to the Congress early in 1983.

The revised federalism proposal consolidates a number of separate broad-based and categorical grant programs into four block grants:

- a State block grant that would combine a number of education, social services, health, and community development programs;
- a local block grant that would merge the general revenue sharing program with the entitlement portion of the community development block grant;
- a ground transportation block grant that would consolidate several transportation programs; and
- a rural housing block grant to States for low income housing construction and repair.

Between 1984 and 1988, State and local governments would gradually assume responsibility for services associated with the separate grant programs in the State, local, and transportation block grants. States and localities would have discretion over the pace at which they assume these responsibilities. Annual funding for the three block grants would be set at the sum of 1984 enacted levels for the consolidated programs in order to provide a stable and predictable source of revenues while the transfer of responsi-

bilities takes place. The distribution of funds to States and localities would be based on historical allocations and formulas.

After 1988, those State, local, and transportation block grant programs that could be funded if commensurate Federal revenue sources were returned to the States, would be phased out. A Presidential commission would be appointed to make recommendations on revenue return issues.

*Details on the State, local, and transportation block grants are now being worked out. Therefore, the grants-in-aid data in this Special Analysis and elsewhere in the budget, do not take the financial transactions of these three block grants into account. The 1984 budget does, however, include proposed budget authority of \$850 million in 1984 for the rural housing block grant.

NEW BLOCK GRANT AND GRANT CONSOLIDATION PROPOSALS

Several other new grant consolidation and block grant proposals in this budget further consolidate categorical grants and give States and local governments more flexibility and discretion over the use of Federal funds. New grant consolidation and block grant proposals are for:

Indian community development and housing.—This proposal creates a flexible block grant within the existing community development block grant program to assist Indian tribes in addressing their unique community development and housing needs. Budget authority of \$75 million is proposed for 1984, which is \$44 million more than is being allocated to Indian tribes in 1983 for discretionary community development assistance.

Indian housing.—This proposal would consolidate programs administered by the Department of Housing and Urban Development, the Bureau of Indian Affairs, and the Indian Health Service that support housing construction on Indian reservations. Budget authority of \$76 million is requested for 1984, to support the construction of 1,500 housing units.

General nutrition assistance.—This proposal combines the school breakfast, child care feeding, and summer food service programs into one grant to States. The consolidation would give States more flexibility in providing assistance for meals served outside a school lunch setting. Proposed budget authority is \$535 million in 1984.

Older Americans program.—This proposal would consolidate programs authorized by the Older Americans Act into grant programs administered by the Department of Health and Human Services (HHS). The consolidation would include activities currently funded by the elderly feeding program, administered by the Department of Agriculture, and the Department of Labor's

community service employment program. Budget authority proposed for 1984 is \$998 million.

Primary care services.—This health block grant, enacted in 1981, would be expanded to include black lung clinics, migrant health, and family planning programs. Budget authority for the proposal would be \$460 million in 1984, an increase of \$165 million over 1983 to cover the new programs. This increase is the same amount of budget authority enacted for the three programs in 1983.

CHANGES IN THE FEDERAL AID PROGRAM

Summary of changes.—Table H-1 shows changes in grant programs from 1982 and 1983 and from 1983 to 1984 divided into two categories: those grants that finance State or local payments for individuals, and all other grants.

In total, grants that are subsequently paid as income support for individuals—such as medicaid, nutrition assistance and housing programs—are estimated to increase by \$4.2 billion from 1982 to 1983 and by \$0.6 billion from 1983 to 1984. The largest increases between 1982 and 1983 are for the medicaid programs and for programs that provide nutrition and housing assistance. Between 1983 and 1984 the largest increase is for medicaid programs. The largest decreases are for assistance payments (aid to families with dependent children), and for low income home energy assistance.

All other grants are expected to increase by \$1.1 billion in 1983, and by \$1.8 billion in 1984. The major increase in both years is a result of the Surface Transportation Assistance Act of 1982. Federal assistance to States and localities for highway programs is expected to increase by \$0.8 billion in 1983 and by \$3.2 billion in 1984.

Changes in major grant programs.—This section describes changes in major grant programs. For a detailed list of these programs, see Table H-11.

Outlays for the Environmental Protection Agency's *construction grants program* are estimated to be \$2.8 billion in 1984, a decrease of \$0.3 billion from 1983. This program provides grants to both State and local governments for the cost of constructing sewage treatment plants. The decrease from 1983 reflects completion of projects approved before 1982 and the concentration of funds on currently existing pollution problems.

Budget authority of \$173 million in 1984 is requested for grants to support State regulatory, enforcement, and pollution control activities. These grant programs include: air quality, water quality, public water supply, underground injection control, hazardous

Table H-1. FEDERAL GRANT-IN-AID CHANGES, 1982-84

(Outlays in billions of dollars)

	Outlays
Total grants, 1982 actual	88.2
Changes	
Payments for individuals:	
Medicaid	1.9
Nutrition assistance	1.2
Housing programs	1.0
Other	0.1
Subtotal payments for individuals	4.2
Other programs:	
Highway programs	0.8
Social service activities	0.5
Sewage treatment plant construction	-0.7
Food donations (CCC)	0.4
Other	0.1
Subtotal, other programs	1.1
Total grants, 1983 estimate	93.5
Changes	
Payments for individuals:	
Medicaid	1.5
Assistance payments (AFDC)	-0.7
Home energy assistance	-0.6
Rural housing	0.3
Other	0.1
Subtotal, payments for individuals	0.6
Other programs:	
Highway programs	3.2
Social service activities	-0.3
Sewage treatment plant construction	-0.3
Food donations (CCC)	-0.2
Urban mass transit	-0.3
Other	-0.3
Subtotal, other programs	1.8
Total grants, 1984 estimate	95.9

wastes, pesticides certification and training, and pesticides enforcement.

Outlays for site specific cooperative agreements with States under the *hazardous substance response fund* are estimated to be \$75 million in 1984, \$38 million above the amount estimated for 1983.

Grants through the *land and water conservation fund*, the *historic preservation fund* and other programs formerly assisted States and localities in the management of recreational and other resources. No new budget authority is requested for these programs in 1984, although grants awarded in prior years will have outlays in 1984 and 1985.

Estimated outlays for *cooperative forestry grant programs* will be reduced from \$23 million in 1983 to \$2 million in 1984. Budget authority for grants to States for fire protection and technical assistance in forest management will not be requested in 1984;

however, funding will be proposed to provide for national data collection, information dissemination and limited, specialized technical assistance to States on problems of national scope.

Grants and food donations in the agriculture function are made through the Commodity Credit Corporation, the extension service, and the cooperative State research service. Outlays for these programs are estimated to be \$1.4 billion in 1983, and \$1.1 billion in 1984.

Outlays for the *Federal-aid highway program* are estimated to be \$11.3 billion in 1984, \$3.7 billion above the 1982 level. An increase in the motor fuels tax, enacted as part of the Surface Transportation Assistance Act of 1981, will provide funds for a major expansion of Federal support to States and localities for the construction and rehabilitation of highways, bridges, and mass transit systems.

Budget authority requested for *highway traffic safety grants* is \$148 million in 1984, a \$7 million increase from 1983. Research and development grants will be concentrated in areas most effective in reducing accidents and injuries. Incentive grants to States, authorized by the Alcohol Traffic Safety Act of 1982, will help combat drunk driving. In addition, highway legislation enacted in 1982 authorized \$10 million in 1984 for a State grant program to enforce Federal safety standards for trucks.

Budget authority requested for *urban mass transit grant programs* is \$3.8 billion in 1984, \$0.4 billion above the 1982 amount. Beginning in 1984, the existing discretionary grant program will be funded with one cent per gallon of the new motor fuels tax increase and will be used for capital projects. A new grant program begins in 1983, financed by highway user taxes in the first year and general funds thereafter. This program will distribute funds on a formula basis for capital and operating projects in urban and rural areas.

Outlays for *grants-in-aid for airports* are expected to increase between 1983 and 1984 from \$0.5 to \$0.7 billion. Projects that improve both commercial and non-commercial airport safety, increase airport capacity, or reduce noise, will receive the highest priority for funding in 1984.

The *community development block grant program* will continue to provide assistance to local governments, Indian tribes, and U.S. Territories primarily through entitlement 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 (1) assist people with low and moderate incomes, (2) prevent or eliminate slums and blight, or (3) address urgent community development needs. For 1984, the administration proposes two major changes in this program: making new housing construction an eligible activity and beginning a new

Indian block grant. Budget authority proposed for 1984 is \$3.5 billion, \$44 million more than provided in 1983. The program is currently planned for inclusion in the administration's revised federalism initiative.

The administration is proposing a *rental rehabilitation grant program* to replace the current section 8 moderate rehabilitation and rehabilitation loan fund programs. This new program will leverage private capital in rehabilitating multi-family properties and therefore be more efficient than the two programs it replaces. Budget authority of \$150 million is requested in 1984 for the rehabilitation of approximately 30,000 rental units for lower income families.

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. The projects are designed to promote local economic revitalization, generate new jobs, and increase local tax bases. New budget authority of \$196 million is requested for the program in 1984, in addition to carry over balances of \$244 million in budget authority from 1983, for a total program level of \$440 million.

The administration has requested no funds in 1984 for the *economic development assistance* programs administered by the Economic Development Administration. Funds for State and local community and economic development programs are available through 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.

Budget authority requested for *elementary, secondary, and vocational education* grant programs is \$5.1 billion in 1984, \$0.1 billion below the 1983 request. Budget authority for the largest of these programs, Chapter 1 of the Education Consolidation and Improvement Act, is proposed at \$3.0 billion in 1984. The grant goes to State and local education agencies to help them meet the additional costs of education for disadvantaged and handicapped students.

Budget authority requested for the *State education block grant* is \$0.5 billion in 1984, the same as in 1983. The State block grant, enacted in 1981, combined about 30 categorical programs into a single multi-purpose grant that gives States increased flexibility in the use of funds for education programs.

Budget authority of \$1.1 billion is also requested for grants to States to help finance the additional costs of *education for the handicapped*.

The *impact aid program* compensates local school districts that are adversely affected by Federal activity. Budget authority of \$465

million will be requested in 1984 for payments to approximately 1,700 school districts.

Budget authority for grant programs authorized by the *Job Training Partnership Act*, is proposed at \$3.5 billion in 1984. This amount would maintain the level of training services financed under CETA. Within this total, \$1.9 billion is proposed for a block grant to provide job training for economically disadvantaged youth and adults. This program will help States improve the efficiency of job training programs by coordinating Federal job training and related State run programs.

The 1982 amendments to the Wagner-Peyser Act provided States with greater flexibility in planning and operating *State employment services*. Beginning in 1984, each State's allotment will be determined by a formula. The \$858 million of estimated outlays in 1984 are equivalent to the 1983 level of \$788 million, adjusted for expected cost increases.

The *work incentive program* was started in 1978 to finance job services, training, and public service employment to recipients of aid to families with dependent children (AFDC). The program has not proven to be cost effective and no budget authority is requested for 1984. Applicants and recipients of AFDC will be required to seek work as a condition of eligibility and can receive training under the Job Training and Partnership Act programs.

For 1984, budget authority of \$1.0 billion is requested for *social services for the elderly* and other special groups. Grants are made to state and area agencies on aging to assist in financing a range of services to older Americans, particularly those with the greatest economic need. Legislation will be proposed in 1984 to consolidate many of these programs and to broaden the range of services to include subsidized part-time employment and elderly nutrition programs.

In 1984, budget authority of \$1.0 billion is requested for *rehabilitation services* with legislation to tie grant funding more closely to successful program performance.

In 1981, a new *social services block grant* was enacted, combining a number of social service programs and related activities. Budget authority of \$2.5 billion is requested for the program in 1984, \$50 million more than requested for 1983.

No budget authority is requested for the *community services block grant* program in 1984. States will have the flexibility to fund community services activities under the social services block grant.

In 1984, \$600 million in budget authority is requested for *foster care, adoption assistance*, and a new *child welfare services* program, that combines child welfare services and training.

Services for children, youth, and families are designed to improve the quality of services for neglected, abused, homeless, or low-

income children. Budget authority of \$1.1 billion is requested for these programs in 1984, an increase of \$128 million from 1983.

The *medicaid* program continues to be the largest grant-in-aid. This program supports State efforts to provide health services to low-income residents. The Omnibus Budget Reconciliation Act of 1981 established target rates of medicaid cost increases to encourage States to limit the program's tremendous growth. The Congress also adopted a number of the administration's proposals designed to help States manage their programs more efficiently. The 1984 budget proposes additional measures to achieve cost savings. Despite estimated savings of \$293 million in 1984, outlays for the program are estimated to increase from \$19.3 billion in 1983 to \$20.8 billion in 1984.

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. Budget authority requested for these programs in 1984 is \$1.4 billion, an increase of \$0.2 billion from 1983. This increase is due to an administration proposal to expand the primary care services block grant to include categorical programs for black lung clinics, migrant health, and family planning.

Outlays for *assistance payments* (aid to families with dependent children) and *child support enforcement programs* are expected to be \$8.2 billion in 1983, and \$7.5 billion in 1984. Proposals to target assistance on those in greatest need will result in savings for States as well as for the Federal Government.

Outlays for the Federal share of State administrative expenses for the *food stamp program* are estimated to be \$689 million in 1984. The budget includes proposals to improve State administration of the program and to target benefits on those most in need.

Outlays for *nutrition assistance for Puerto Rico* are estimated to be \$825 million in 1984. This program replaced the portion of the food stamp program that was for Puerto Rican residents.

The *child nutrition program* subsidizes meals for children in schools, child care facilities, and other institutional settings. Outlays are estimated to be \$2.8 billion in 1984, compared to \$3.0 billion in 1983.

The *special supplemental food program for women, infants, and children* (WIC) provides grants for nutritious food supplements to low-income women and their young children to lessen health problems associated with inadequate diets during critical stages of child development. The administration requests budget authority of \$1.1 billion for WIC in 1984.

The Federal Government reimburses States for cash and medical assistance, employment training, social services, State administra-

tive costs, and child welfare services to low-income refugees and entrants who are not eligible for AFDC, medicaid, or general assistance. In 1984, the administration will request budget authority of \$466 million for a per capita grant assistance program to fund States for *refugee and entrant assistance*.

To moderate the impact of rising energy costs on low-income families, \$1.3 billion in budget authority is proposed for *low-income home energy assistance* in 1984. This is a \$0.7 billion reduction from 1983. In an effort to direct these funds more precisely to low-income persons, legislation is being proposed to revise the State allotment formula. The new formula directs more funds to States with severe winter climates and large low-income populations.

The administration is requesting budget authority of \$90 million in 1984 for a new *criminal justice assistance grant program*. The program would provide training, technical, and financial assistance to State and local criminal justice agencies, with a special focus on the apprehension of violent and repeat offenders.

One of the largest grants is *general revenue sharing*, which provides assistance to local governments with virtually no restriction on the use of funds. Outlays for the program, which the administration proposes to renew in 1983, are estimated to remain at \$4.6 billion in both 1983 and 1984. Under the administration's federalism initiative, general revenue sharing would be combined with the entitlement portion of the community development block grant program, into a local block grant beginning in 1984.

Revenues are shared with State and local governments from receipts received from timber and mineral sales on Federal lands. These payments are proposed to be increased from \$0.6 billion in 1983 to \$1.1 billion in 1984. In addition, \$96 million in *payments-in-lieu of taxes* are proposed for 1984.

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 \$1.9 billion in 1984, and \$1.8 billion of new guaranteed loans are estimated in 1984.

(More information on Federal credit activities is available in table H-12 and in Special Analysis F.)

Tax Expenditures.—Federal aid to State and local governments is also provided through tax expenditures. The two major tax expenditures are the deductibility of most 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 1984 tax expenditure for property taxes on owner-occupied homes is estimated to be \$9.6 billion and the tax expenditure for other nonbusiness State and local taxes—primarily income and sales taxes—is estimated to be \$21.8 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 tax expenditure is \$9.4 billion in 1984 for the exclusion of interest on State and local general obligation bonds and public purpose revenue bonds.

Interest on State and local industrial revenue bonds is also tax exempt. These bonds finance industrial and transportation projects, pollution control facilities and housing. Tax expenditures in 1984 are estimated to be \$2.6 billion for industrial facilities, \$1.2 billion for pollution control facilities, and \$0.8 billion 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. Although the eligibility requirements for single family mortgage revenue bonds were liberalized by the Tax Equity and Fiscal Responsibility Act of 1982, a ban placed on the use of these funds in the Omnibus Budget Reconciliation Act of 1980 becomes effective January 1, 1984. The 1984 tax expenditure is estimated to be \$1.3 billion.

Interest on State and local bonds that finance hospitals, student loans, certain energy facilities, and mass transit is also tax exempt. Tax expenditures in 1984 for these items are estimated to be \$1.1 billion, \$0.2 billion, \$20 million and \$15 million, respectively.

Total Federal aid to State and local governments through tax expenditures is estimated to be \$54.5 billion in 1984.

The administration will propose an enterprise zone program that would provide tax incentives for the redevelopment of economically distressed areas. Beginning in 1983, up to 25 small areas per year would be designated "enterprise zones." Starting in 1984, businesses in the zones would be entitled to exemption from tax for certain gains, and to tax credits for capital investment, for increases in

employment, and for hiring disadvantaged employees. A tax credit would also be provided to employees in the zones. The tax expenditure from this proposal is estimated to be \$265 million in 1984.

(More information on tax expenditures is provided in Special Analysis G. Special Analysis F contains additional information on assistance from tax-exempt financing.)

FEDERAL GRANTS-IN-AID BY FUNCTION, AGENCY, AND REGION

Distribution of grants by function.—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.

In recent years the budget documents have included detailed data for two years beyond the budget year to improved planning for the longer term. Consequently, the discussions and data in many parts of this budget include the 1984-86 planning period. Consistent with that approach, this special analysis shows estimates through 1986 in many of the tables and on the chart on a previous page.

Table H-2. **FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION**

(In millions of dollars)

Function	Actual 1982	Estimate			
		1983	1984	1985	1986
National defense.....	68	76	103	127	162
Energy.....	509	592	368	298	262
Natural resources and environment.....	4,871	4,110	3,658	3,519	3,293
Agriculture.....	986	1,399	1,119	1,066	1,076
Commerce and housing credit.....	3	3	2	2	2
Transportation.....	12,171	13,315	16,436	17,229	17,778
Community and regional development.....	5,379	5,022	4,829	4,748	4,593
Education, training, employment, and social services.....	16,589	16,768	16,193	16,065	16,053
Health.....	18,839	20,644	22,207	24,662	26,879
Income security.....	21,930	24,918	23,752	24,210	24,966
Veterans benefits and services.....	63	73	71	73	76
Administration of justice.....	187	136	139	142	84
General government.....	252	226	175	174	165
General purpose fiscal assistance.....	6,347	6,257	6,874	6,848	7,080
Total outlays.....	88,194	93,537	95,926	99,162	102,468

Table H-2 shows a functional distribution of Federal grant-in-aid outlays. The functional composition of grant outlays has changed significantly over the years, as shown in table H-3. The most dramatic growth has occurred in the health function, which increased from 3% of Federal aid in 1960 to an estimated 23% in 1984. Other changes occurred between 1960 and 1984 in education,

training, employment, and social services programs which increased from 7% in 1960 to an estimated 17% in 1984. General purpose fiscal assistance also increased with the addition of revenue sharing, from 2% in 1960 to an estimated 7% in 1984. Between 1982 and 1984 the largest change is expected to occur for transportation, which is estimated to increase from 14% to 17% of total grant outlays. This increase is due to the enactment of the Surface Transportation Assistance Act of 1982.

Table H-3. PERCENTAGE DISTRIBUTION OF FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION

	Actual				Estimate			
	1960	1970	1980	1982	1983	1984	1985	1986
Energy.....	*	*	1	1	1	*	*	*
Natural resources and environment.....	2	2	6	6	4	4	4	3
Agriculture.....	3	4	1	1	1	1	1	1
Transportation.....	43	19	14	14	14	17	17	17
Community and regional development.....	2	5	7	6	5	5	5	4
Education, training, employment, and social services.....	7	27	24	19	18	17	16	16
Health.....	3	16	17	21	22	23	25	26
Income security.....	38	24	20	25	27	25	24	24
General purpose fiscal assistance.....	2	2	9	7	7	7	7	7
Other.....	*	1	1	1	1	1	*	2
Total.....	100	100	100	100	100	100	100	100

*0.5% or less.

Distribution of grants by agency.—Table H-4 shows grant outlays by agency. The Department of Health and Human Services will provide 38% of total estimated grant-in-aid outlays in 1984, far more than any other agency.

Table H-4. FEDERAL GRANT-IN-AID OUTLAYS BY AGENCY

(In millions of dollars)

Agency	Actual 1982	Estimate	
		1983	1984
Funds Appropriated to the President.....	414	382	333
Department of Agriculture.....	6,764	8,240	7,776
Department of Commerce.....	488	390	235
Education Activities.....	7,185	7,319	7,087
Energy Activities.....	356	405	175
Department of Health and Human Services.....	34,254	36,702	36,611
Department of Housing and Urban Development.....	9,206	10,052	10,479
Department of the Interior.....	1,590	1,519	1,912
Department of Justice.....	168	108	113
Department of Labor.....	5,567	5,790	5,696
Department of Transportation.....	12,105	13,248	16,369
Department of the Treasury.....	4,883	4,909	4,917
Environmental Protection Agency.....	4,079	3,387	3,116
Other.....	1,135	1,086	1,107
Total outlays.....	88,194	93,537	95,926

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 high-way 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 as human resource programs have grown relative to physical resource programs. General revenue sharing has also tended to equalize per capita figures among the regions. Region VIII, which had per capita grants 24% above the national average in 1972, now has grants only 8% above the average, while Region V has risen from 21% below the average to only 4% below. Grants to Region V have grown the most during the period, averaging 10.8% per year.

Table H-5. DISTRIBUTION OF GRANTS BY REGION, SELECTED FISCAL YEARS

	Federal Region	1982 ¹ total grants	Dollars per capita		Average annual percent increase, 1972-82
			1972	1982 ²	
I.	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island.....	5.5	173	437	9.5
II.	New York, New Jersey, Puerto Rico, Virgin Islands.....	13.5	203	475	8.7
III.	Virginia, Pennsylvania, Delaware, Maryland, West Virginia, District of Columbia.....	10.4	155	419	10.2
IV.	Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida.....	13.5	149	340	8.4
V.	Illinois, Indiana, Michigan, Ohio, Wisconsin, Minnesota.....	16.5	127	362	10.8
VI.	Arkansas, Louisiana, Oklahoma, New Mexico, Texas.....	7.9	159	305	6.6
VII.	Iowa, Kansas, Missouri, Nebraska.....	3.8	130	319	9.2
VIII.	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming.....	2.9	200	411	7.3
IX.	Arizona, California, Nevada, Hawaii, other territories.....	10.8	188	372	6.9
X.	Idaho, Oregon, Washington, Alaska.....	3.5	199	427	7.7
	United States.....	88.2	161	379	8.7

¹ Preliminary estimate, in billions of dollars.

² Based on 1981 population. See "Federal Aid to States," Department of the Treasury, for additional information concerning State distribution of Federal grants.

HISTORICAL PERSPECTIVES

In recent decades, Federal aid to State and local governments has become a major factor in the financing of certain government functions. The rudiments of the present system date back more than 100 years to the Civil War. The Morrill Act, passed in 1862, established the land grant colleges and instituted certain federally required standards, as is characteristic of the present grant-in-aid system. Federal aid was later initiated for agriculture, highways,

vocational education and rehabilitation, 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 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 they increased to nearly \$78 billion, an average annual increase of 16% since 1965. In 1984 Federal grants are expected to be 11.3% of total Federal outlays and 16.3% of domestic Federal outlays. Table H-6 shows historical data for grant outlays since 1950.

Table H-6 also shows grants-in-aid as a percent of State and local expenditures and as a percent of gross national product (GNP). Grants as a percent of State and local expenditures increased from 15.3% in 1965 to 26.8% in 1978, declining to 22.1% in 1982. Grants increased as a percent of GNP from 0.9% in 1950 to a peak of 3.7% in 1978, declining to 2.9% in 1982.

Table H-6. HISTORICAL TREND OF FEDERAL GRANT-IN-AID OUTLAYS

(Fiscal years; dollar amounts in millions)

	Total grants-in-aid	Federal grants as a percent of			
		Budget outlays		State and local expenditures ²	Gross National Product
		Total	Domestic ¹		
Five-year intervals:					
1950	\$2,253	5.3%	8.8%	10.4%	0.9%
1955	3,207	4.7	12.1	10.1	0.8
1960	7,020	7.6	15.9	14.7	1.4
1965	10,904	9.2	16.5	15.3	1.7
1970	24,014	12.3	21.3	19.2	2.3
1975	49,834	15.4	21.5	23.0	3.3
Annually:					
1976	59,093	16.2	21.9	24.2	3.5
1977	68,414	17.1	22.9	25.9	3.7
1978	77,889	17.4	23.1	26.8	3.7
1979	82,858	16.9	22.5	26.3	3.5
1980	91,472	15.9	21.2	26.2	3.6
1981	94,762	14.4	19.5	25.0	3.1
1982	88,194	12.1	16.6	22.1	2.9
1983 estimate	93,537	11.6	16.2	NA	2.9
1984 estimate	95,926	11.3	16.3	NA	2.7
1985 estimate	99,162	10.8	16.0	NA	2.6
1986 estimate	102,468	10.4	15.7	NA	2.5

¹Excludes outlays for the national defense and international affairs functions.

²As defined in the national income and product accounts.

NA = Not available.

The chart shows total governmental expenditures as a percent of GNP since 1950. Federal expenditures including grants have increased as a percent of GNP from 16% in 1950 to 25% in 1982, while State and local expenditures including grants have increased from 7% in 1950 to 12% in 1982.

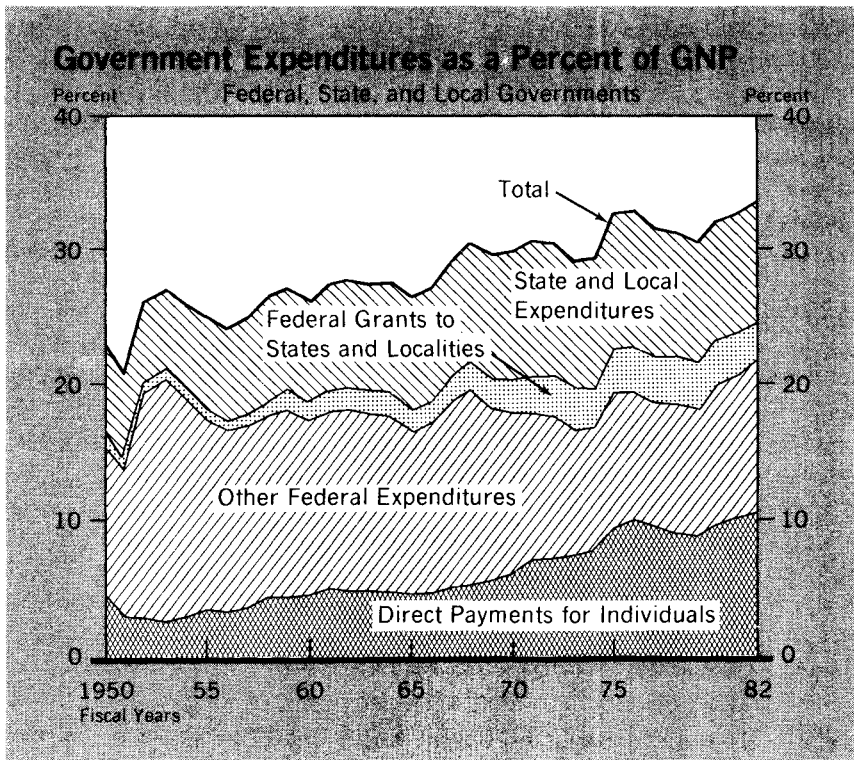


Table H-7 shows the composition of grant-in-aid outlays since 1950 according to the categories of payments for individuals, capital investment, and other purposes. Almost half of estimated 1984 grants are to States and localities as payments for individuals.² Most such grants are accompanied by State or local matching payments. Among the larger of these programs are medicaid, assistance payments, housing assistance, and nutrition programs for children.

Table H-7 also shows the share of State and local capital expenditures financed by Federal grants or by revenues from State and local own sources. The Federal share increased from 8.3% in 1955 to 23.9% in 1960 largely because of the initiation of Federal financing for the interstate highway system. The share increased from 24.6% in 1970 to 39.6% in 1980, increasing by more than half in ten years. This rise was due in part to the rapid growth of Federal aid in real terms—the major programs being highways, mass transit, community development block grants, and sewage treatment plans—and in part to substantial real declines in State and local spending from their own sources. In constant 1972 dollars, Federal aid grew from \$8.1 billion in 1970 to \$10.6 billion in 1980, an

²Payments for individuals are defined as Federal budget outlays providing benefits in cash or in-kind that constitute income transfers to individuals or families.

Table H-7. COMPOSITION OF GRANT-IN-AID OUTLAYS

(Fiscal years; dollar amounts in millions)

	Total grants-in- aid	Composition of grants-in-aid			Share of State and local capital expenditures financed by—	
		Grants for payments for individu- als ¹	Grants for capital invest- ment ²	Other	Grants-in-aid	Own source revenues
Five year intervals:						
1950.....	2,253	1,257	484	512	8.4%	91.6%
1955.....	3,207	1,623	820	764	8.3	91.7
1960.....	7,020	2,479	3,321	1,220	23.9	76.1
1965.....	10,904	3,931	4,985	1,988	24.8	75.2
1970.....	24,014	9,023	7,053	7,938	24.6	75.4
1975.....	49,834	17,441	10,867	21,526	25.8	74.2
Annually:						
1976.....	59,093	21,023	13,475	24,595	31.1	68.9
1977.....	68,414	23,860	16,109	28,445	41.1	58.9
1978.....	77,889	25,981	18,316	33,592	41.1	58.9
1979.....	82,858	28,765	20,043	34,050	40.0	60.0
1980.....	91,472	34,174	22,464	34,834	39.6	60.4
1981.....	94,762	39,934	22,132	32,696	39.0	61.0
1982.....	88,194	40,744	20,480	26,970	37.9	62.1
1983 estimate.....	93,537	44,978	20,606	27,953	NA	NA
1984 estimate.....	95,926	45,531	23,685	26,710	NA	NA

¹ For an identification of accounts in this category, see Table H-11 and footnotes.² Excludes a small capital grant that is included as a payment for individuals.

NA=Not available.

average annual increase of 2.6%, while capital expenditures financed from State and local own sources declined from \$26.0 billion in 1970 to \$16.8 billion in 1980, an average annual decline of 4.2%.

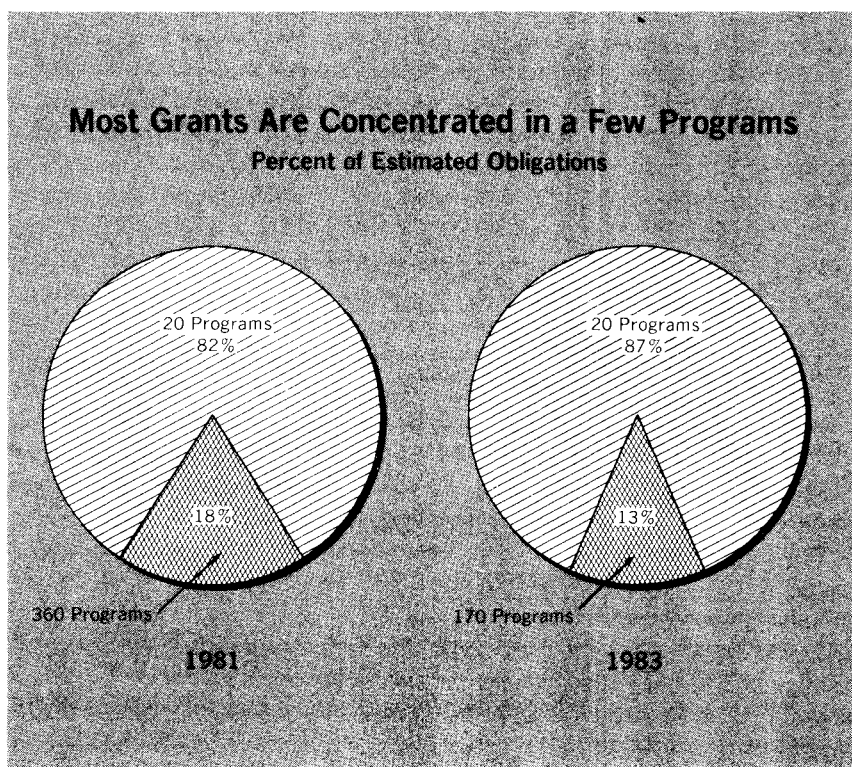
Grants for capital investment are estimated to be \$23.7 billion in 1984, 25% of total grants-in-aid.

GRANTS SIMPLIFICATION

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 early 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-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 gov-



ernments 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 1982, these grants are estimated to be one-fifth of total grants-in-aid. Despite the elimination of the State portion of general revenue sharing, this percentage remains about one-fifth through 1986.

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 1982, State and local governments were estimated to provide approximately \$1 of matching funds for \$2.22 of Federal aid; this ratio is expected to decline slightly in 1984. 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 1983 almost 90% of estimated obligations is concentrated in only 20 programs. Nevertheless, there are 150 other categorical grants with different matching requirements, timing difficulties, complex application procedures, program duplication, and other administrative problems.

Table H-8. OUTLAYS FOR GENERAL-PURPOSE, BROAD-BASED, AND OTHER GRANTS

(Dollar amounts in millions)

	Actual				Estimate			
	1972	1976	1980	1982	1983	1984	1985	1986
General-purpose grants:								
General revenue sharing		\$6,243	\$6,829	\$4,569	\$4,567	\$4,567	\$4,567	\$4,567
Other general purpose fiscal assistance and TVA ¹	\$516	907	1,765	1,941	1,878	2,501	2,475	2,708
Subtotal, general-purpose grants	516	7,150	8,594	6,510	6,445	7,068	7,042	7,275
Broad-based:								
Community development		983	3,902	3,792	3,525	3,526	3,474	3,497
Health	90	128	83	661	1,115	1,299	1,357	1,357
State education block grants				48	35	440	451	451
School aid in federally affected areas	602	558	622	546	572	499	478	468
Employment and training		1,698	2,144	1,793	1,639	1,415	1,886	1,886
Social services	1,930	2,251	2,763	2,567	2,571	2,500	2,600	2,700
Low-income home energy assistance				1,685	1,961	1,396	1,349	1,298
Other	233	554	818	390	414	476	689	972
Subtotal, broad-based grants	2,855	6,172	10,332	11,482	11,832	11,551	12,284	12,629
Other grants	31,001	45,771	72,546	70,202	75,260	77,307	79,836	82,564
Total	34,372	59,093	91,472	88,194	93,537	95,926	99,162	102,468
ADDENDUM: PERCENT OF TOTAL								
General-purpose grants	1.5%	12.1%	9.4%	7.4%	6.9%	7.4%	7.1%	7.1%
Broad-based grants	8.3%	10.4%	11.3%	13.0%	12.6%	12.0%	12.4%	12.3%
Other grants	90.2%	77.5%	79.3%	79.6%	80.5%	80.6%	80.5%	80.6%
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.

The chart also shows that there were 360 grants in 1981 and an estimated 170 in 1983, a reduction of 190, or 53%. Most of the decline is the direct result of the 9 new block grants enacted in 1981 and the elimination or consolidation 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 has saved a significant number of hours for State and local governments. Paperwork associated with the nine block grants decreased by an estimated 5.4 million hours in 1982.

In addition to reductions in the number of categorical grant programs, the administration has simplified or eliminated many mandatory administrative or procedural requirements associated with the Federal grants that remain. Regulatory reforms have increased the efficiency of the intergovernmental grant-in-aid system, and management improvements have strengthened the au-

thority of State and local elected officials over Federal financing and development activities in their jurisdictions.

Regulatory Reform.—In January 1981, President Reagan established a Presidential Task Force on Regulatory Relief. The main purpose of the Task Force has been to review existing regulations and identify those that are burdensome, unnecessary, and counterproductive. During 1981, the Task Force designated over 100 existing regulations for review. Twenty-seven of these had a major impact on State and local governments. In 1982 the Task Force designated eight more regulations, bringing to 35 the number of rules under review that affect State and local governments. Several Federal agencies have also initiated reviews of requirements associated with their own grant programs that could hamper local efficiency and accountability and increase program costs.

Twenty-five reviews were completed during the past two years by either the Task Force or by various Federal agencies. The reviews have resulted in significant changes in existing regulations.

- The Department of Agriculture simplified cost accounting requirements for the national school lunch program, eliminating nearly 12 million hours of administrative work each year.
- The Department of Education adopted new rules governing Federal financial assistance to State and local education agencies. Paperwork requirements were reduced and schools were freed of unnecessary Federal supervision, direction, and control.
- The Department of Health and Human Services revised medic-aid rules to give States greater flexibility in administering the program.
- The Department of Transportation modified standards for highway repair work permitting States to establish their own less costly procedures and criteria for resurfacing, restoration and rehabilitation of existing highways.

Available data indicate that regulatory relief actions have saved State and local governments at least \$4 to \$6 billion in initial costs and at least \$2 billion on an annual basis.

Over 25 other reviews are now underway in several agencies.

- The Environmental Protection Agency will continue to consolidate and simplify the rules for several EPA grant programs.
- The Office of Personnel Management proposes to simplify the personnel procedures States must adopt in order to be eligible for federally funded programs such as food stamps and medic-aid. States will certify compliance instead of submitting detailed and repetitive reports.
- The Department of Health and Human Services intends to modify its regulations governing State administered non-entitlement programs to reduce excessively detailed reporting re-

quirements and elaborate cost accounting and recordkeeping procedures.

The administration is also trying to simplify selected generally applicable crosscutting requirements imposed on State and local governments. Crosscutting requirements are policy requirements and administrative management standards that apply to some or all assistance programs. As a first step, a directory describing 60 of these requirements was prepared for use by Federal agencies and State and local governments. In addition, legislation was introduced and management reforms instituted, to improve relocation assistance and real property acquisition policies and to improve historical and archeological preservation requirements.

Management Improvement.—This administration has tried to improve the management of intergovernmental assistance by providing more opportunity for consultation with State and local governments, by offering more reliable and timely information on actual and prospective funding levels, and by streamlining the financial management system for Federal aid. Selected actions taken include:

- Executive Order 12372, Intergovernmental Review of Federal Programs, established a new procedure giving State and local officials more access to and influence over Federal activities that affect their jurisdictions. The order requires Federal agencies to use a State developed process for obtaining the views of State and local officials. Federal agencies must accommodate those views when possible.
- The Federal Assistance Awards Data System was established 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.
- Budget Information for States, a report that is published soon after the budget is released, provides State-by-State allocations of the funding levels of the major formula grant programs for the past, current, and budget year.
- Audit systems are being streamlined to place maximum reliance on audits made by State and local government. The system calls for vigorous followup on audit findings and timely collection of audit related debts.
- Steps are being taken to develop sound internal accounting and administrative control systems to foster efficient management of grant programs and eliminate fraud and abuse. In a series of regional meetings scheduled for this year, Federal agencies will work with States to reduce waste and fraud in jointly administered grant programs.
- Agencies are being encouraged to develop cash management systems that will minimize or eliminate excess Federal cash

balances held by grant recipients. One agency has developed a method that requires States to estimate when benefit checks will be cashed and to draw funds at that time rather than when checks are issued. At the same time, the Federal Government is trying to accelerate its reimbursements to State and local governments.

- Agencies are in the process of delegating authority to State and local recipients of Federal aid to establish their own procurement systems. State and local systems that meet Federal standards are being certified in advance so that Federal involvement in procurement can be kept to a minimum.

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 (NIPA) 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. Both series 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 NIPA 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. Because both Census and the NIPA 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 NIPA series is grants to subsidize the operation of public enterprises, mainly housing and transportation facilities. These are counted as subsi-

dies by the Federal Government in the NIPA 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, 1978-81

(In billions of dollars)

	1978	1979	1980	1981
Budget (Special Analysis H).....	77.9	82.9	91.5	94.8
Less principal exclusions:				
Agricultural commodities.....	-0.6	-0.7	-1.1	-1.1
Geographical exclusions.....	-1.6	-1.8	-2.0	-1.8
Plus payments for research.....	2.2	2.4	2.9	3.2
Federal unemployment benefits and related.....	1.2	0.8	1.3	2.6
All other (net).....	0.1	-0.6	-1.8	-3.1
Federal payments (Census).....	79.2	85.2	90.8	94.6
Less:				
Low-rent public housing.....	-2.3	-2.8	-3.3	-3.9
Federal unemployment benefits and related.....	-1.2	-0.8	-1.3	-2.6
All other (net).....	-1.0	-2.5	0.5	2.0
Grants-in-aid (national income and product accounts).....	74.7	79.1	86.7	90.1

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 (NIPA) 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 govern-

³Special Analysis B provides general information on the Federal sector of the national income and product accounts.

ments as a sector of the economy and other sectors. The State and local data are presented here to provide a context in which to compare the grants-in-aid.

There are three major differences between NIPA 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 NIPA data but are generally included in budgetary data. Second, a large number of transactions in the NIPA accounts are recorded on an accrual basis, while many governments show transactions on a cash basis. Third, NIPA data aggregate total State and local transactions, whereas many governments separate their general fund from special funds. As a result of these differences, NIPA totals are not the same as an aggregate of these governments' financial budgets. However, the NIPA data do provide timely estimates of total State and local fiscal transactions not otherwise available and if used with care can provide helpful financial indicators.

NIPA State and local sector.—Table H-10 provides 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. These funds accumulate assets to pay for their future liabilities. Because 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 because it includes capital expenditures, often financed through borrowing, and the account was in deficit in the 1950's and 1960's. However, as noted above, State and local governments have reduced real capital investment that is generally financed from borrowing, and in most cases are required by State constitutions or laws to finance current operating programs from current revenues.

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 accu-

⁴The operating account contains all transactions except those of social insurance funds, including expenditures for capital investment.

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	297.7	269.7	28.0	18.0	10.1
1978	327.6	297.3	30.3	20.3	10.0
1979	352.0	321.5	30.4	23.8	6.6
1980	385.9	357.8	28.2	27.3	0.9
1981	416.8	385.0	31.7	31.8	—0.1
1982 ¹	414.9	437.3	31.8	36.3	—4.4

SEASONALLY ADJUSTED, ANNUAL RATES

1981:					
I	410.0	378.6	31.3	30.3	1.1
II	415.2	382.2	32.9	31.3	1.7
III	420.3	386.9	33.5	32.3	1.2
IV	421.5	392.4	29.1	33.3	—4.2
1982:					
I	424.2	396.5	27.7	34.5	—6.8
II	434.3	402.2	32.1	35.7	—3.6
III	440.5	408.2	32.3	36.9	—4.5

* \$50 million or less.

¹ Preliminary.

mulated during 1972-73 rather than enact new tax increases. The operating account moved slightly into surplus in 1976 and this surplus expanded significantly in 1977 and 1978. The operating account has a surplus of \$0.9 billion in 1980, a \$0.1 billion deficit in 1981, and a \$4.4 billion deficit in 1982.

DETAILED FEDERAL AID TABLES

The following two tables present detailed Federal aid data for 1982, 1983, and 1984. 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.

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY

(In millions of dollars)

1982 actual	1983 estimate	1984 estimate	Function, agency and program	Functional code ¹	1982 actual	1983 estimate	1984 estimate
OUTLAYS					BUDGET AUTHORITY		
			National defense:				
			Department of Defense—Military:				
29	30	30	National Guard centers construction	051	29	30	30
39	46	73	Federal Emergency Management Agency	054	80	91	141
68	76	103	Total, national defense	050	109	121	171
			Energy:				
346	404	174	Energy Activities: Energy conservation grants	272			
163	188	193	Tennessee Valley Authority	271	129	176	75
509	592	368	Total, energy	270	129	176	75
			Natural resources and environment:				
			Department of Agriculture:				
144	91	15	Watershed and flood prevention operations	301	140	65	28
13	7	7	Resource conservation and development	302	11	3	
10	5	4	Forest research	302	10	5	5
32	33	2	State and private forestry	302	34	35	
			Department of Commerce:				
33	15	11	NOAA—Coastal zone management	302	3	4	
50	68	12	NOAA—Operations research and facilities	306	50	68	12
			Department of the Interior:				
148	163	168	Fish and Wildlife Service Grants	303	157	153	171
1	1		Operation of the National Park System	303			
1	2		National recreation and preservation	303		2	
2	7		Park Construction	303	2	7	
31	36	30	Urban park and recreation fund	303	8		
211			Land and water conservation fund	303			

See footnotes at end of table.

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)

1982 actual	1983 estimate	1984 estimate	Function, agency and program	Functional code ¹	1982 actual	1983 estimate	1984 estimate
	197	169	Land acquisition.....	303	6	5	
36	24	14	Historic preservation fund.....	303	25	26	
*	*	*	Miscellaneous permanent appropriations.....	303	*	*	*
66	62	109	Office of Surface Mining, Reclamation, and Enforcement.....	302	84	165	232
6	11	1	Bureau of Mines.....	306	9		
6	*		Youth conservation corps.....	302			
			Environmental Protection Agency:				
320	250	241	Abatement, control, and compliance.....	304	239	233	173
3,756	3,100	2,800	Sewage treatment plant construction grants.....	304	2,400	2,430	2,400
3	37	75	Hazardous substance response trust fund.....	304	32	58	95
4,871	4,110	3,658	Total, natural resources and environment.....	300	3,209	3,259	3,115
			Agriculture:				
			Department of Agriculture:				
129	132	136	Cooperative State research service.....	352	92	98	96
307	328	295	Extension service.....	352	316	329	287
548	937	688	Commodity Credit Corporation.....	351	548	937	720
1	2	0	Agricultural Marketing Service.....	352	1	1	0
986	1,399	1,119	Total, agriculture.....	350	957	1,364	1,103
			Commerce and housing credit:				
1	1		Department of Agriculture: Rural housing supervisory assistance grants.....	371			
2	2	2	Department of Commerce: Minority business development.....	376	2	2	2
3	3	2	Total, commerce and housing credit.....	370	2	2	2
			Transportation:				
			Department of Transportation:				
8	15	11	Highway beautification.....	401	1	1	0
16	269	389	Interstate transfer grants—highways.....	401	401	518	0

7,590	8,216	11,303	Federal aid highways (trust fund)	401	8,137	12,425	13,542
21	12	13	Highway related safety grants.....	401	10	*	10
		9	Motor carrier safety grants.....	401			10
		4	Appalachian highway system	401			79
130	80	71	Other highway aid	401	27	3	0
138	119	122	National Highway Traffic Safety Administration	401	203	141	148
80	207	25	Federal Railroad Administration.....	401	70	2	
3,782	3,740	3,416	Urban mass transportation fund	401	3,464	3,494	2,600
	55	242	Mass transportation capital fund	401		779	1,250
339	527	745	Airport and airway trust fund	402	476	800	994
	5	15	National recreational boating safety.....	403		45	45
2	3	3	Research and special programs	407	2	4	4
65	66	67	Washington Metropolitan Area Transit Authority.....	401	52	52	52
12,171	13,315	16,436	Total, transportation	400	12,843	18,263	18,732
			Community and regional development:				
			Funds appropriated to the President:				
304	248	201	Appalachian regional development programs.....	452	150	150	
*	1		Appalachian housing fund	452			
110	133	132	Disaster relief	453	150	78	
			Department of Agriculture:				
3	1	*	Rural development planning grants.....	452			
210	208	165	Rural water and waste disposal grants.....	452	125	125	90
6	5	2	Rural development grants	452			
3	3	2	Rural community fire protection grants	452	3	3	
			Department of Commerce:				
323	235	147	Economic development assistance programs.....	452	199	10	
40	30	30	Local public works program.....	452			
*			Drought assistance program	453			
10	8	5	Regional development programs.....	452			
16	3	1	Regional development commissions.....	452	*		
1	5	4	NOAA: Coastal energy impact fund	452			
			Energy Activities:				
10			Energy conservation grants	452			
			Department of Housing and Urban Development:				
3,792	3,525	3,526	Community development grants	451	3,456	3,456	3,500

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)

1982 actual	1983 estimate	1984 estimate	Function, agency and program	Functional code ¹	1982 actual	1983 estimate	1984 estimate
101	71	50	Urban renewal programs.....	451			
6	6	3	Other categorical programs replaced by block grants.....	451			
388	488	512	Urban development action grants.....	451	474	440	196
			Rental rehabilitation grants.....	451			150
20	4		Planning assistance.....	451	—1		
4	1		Neighborhood self-help development program.....	451			
1	1		New Community Development Corporation.....	451	—1		
17	17	19	Department of the Interior: Bureau of Indian Affairs.....	452	17	17	19
4	13	13	Federal Emergency Management Agency.....	501	1	13	13
14	16	16	Neighborhood Reinvestment Corporation.....	451	14	16	16
5,379	5,022	4,829	Total, community and regional development.....	450	4,587	4,307	3,984
			Education, training, employment, and social services:				
			Department of Commerce:				
1			Job opportunities program.....	504			
12	24	23	Public telecommunications facilities, planning and construction.....	503	18	15	
			Education Activities:				
2,939	3,008	3,010	Compensatory education for the disadvantaged.....	501	3,028	3,028	3,008
546	572	499	Impact aid.....	501	466	475	465
636	461	463	Special programs and populations.....	501	495	458	509
74	70	28	Indian education.....	501	78	51	1
110	92	84	Bilingual education.....	501	92	62	64
1,131	1,120	1,148	Education for the handicapped.....	501	1,061	1,099	1,100
780	1,038	1,012	Rehabilitation services and handicapped research.....	506	952	1,037	1,037
802	752	776	Vocational and adult education.....	501	728	809	475
57	63	14	Student financial assistance.....	502	74	60	
3	3		Higher education.....	502	3	3	
101	135	48	Libraries.....	503	80	80	
5	5	5	Special institutions.....	501	5	5	5

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THE BUDGET FOR FISCAL YEAR 1984

222	299	26
2,567	2,571	2,500
1,531	1,660	1,951
13	9	7
389	565	590
240	352	98
5	5	5
3,295	2,912	2,843
56	61	47
38		
24	11	26
685	778	832
131	38	
172	137	130
23	29	28
16,589	16,768	16,193
*	*	
29	32	35
595	553	161
120	179	90
656	492	110
		954
17,391	19,326	20,799
42	56	54
5	4	5
18,839	20,644	22,207

Department of Health and Human Services:

Work incentives	504	267	257	
Social services block grant	506	2,400	2,450	2,500
Human development services	506	1,621	1,674	2,120
Research and demonstration	506	8	8	3
Family social services	506	465	560	601
Community services	506	340	348	
Department of the Interior:				
Operation of Indian programs	501	5	5	5
Department of Labor:				
Training and employment services	504	2,382	3,030	3,469
Community service employment for older Americans	504	62	62	
Temporary employment assistance	504			
State unemployment insurance and employment service operations	504	19	22	31
Unemployment trust fund: Training and employment	504	716	778	1,014
Community Services Administration	506			
Corporation for Public Broadcasting	503	172	137	130
National Foundation on the Arts and the Humanities	503	29	28	26
Total, education, training, employment, and social services	500	15,564	16,539	16,565

Health:

Special Action Office for Drug Abuse Prevention	554			
Department of Agriculture: Food Safety and Inspection Service	554	30	32	35
Department of Health and Human Services:				
Health resources and services ²	553	421	415	6
Disease control	551	142	153	71
Alcohol, drug abuse, and mental health ²	551	432	439	
Grants to States for health ²	551			1,358
Medicaid ²	551	18,014	14,795	20,738
Department of Labor:				
Occupational Safety and Health Administration	554	47	52	54
Mine Safety and Health Administration	554	4	5	6
Total, health	550	19,091	15,890	22,266

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)

1982 actual	1983 estimate	1984 estimate	Function, agency and program	Functional code ¹	1982 actual	1983 estimate	1984 estimate
			Income security:				
		280	Department of Agriculture:				
			Rural housing block grant ²	604			850
20	20	15	Rural housing for domestic farm labor ²	604	14		4
8	7	8	Mutual and self-help housing ²	604	4	13	
379	415	365	Agricultural Marketing Service ²	605	457	395	410
752	769	689	Food stamp program ²	605	686	622	690
	780	825	Nutrition assistance for Puerto Rico ²	605		825	825
22	19	19	Special milk program ²	605	27	19	11
2,853	3,021	2,786	Child nutrition programs ²	605	2,690	3,004	2,771
928	1,115	1,090	Special supplemental food programs (WIC) ²	605	933	1,090	1,090
121	165	77	Food donations program ²	605	141	160	50
			Department of Health and Human Services:				
		5	Supplemental security income program ²	609	20	12	5
7,947	7,734	7,059	Assistance payments programs ²	609	5,961	7,719	7,060
	435	413	Child support enforcement	609		450	394
1,685	1,961	1,396	Low income home energy assistance ²	609	1,872	1,984	1,298
878	554	452	Refugee and entrant assistance ²	609	623	545	466
1	1	*	Payments to States from receipts for child support	609	1	*	*
			Department of Housing and Urban Development:				
3,883	4,388	4,815	Subsidized housing programs ²	604	12,215	5,821	-2,343
		40	Indian housing ²	604			76
1,008	1,551	1,520	Payments for operation of low income housing projects ²	604	1,491	1,282	1,637
3	5	6	Congregate services program ²	604		4	
1,422	1,968	1,889	Department of Labor: Unemployment trust fund	603	1,541	1,953	1,889
21,930	24,918	23,752	Total, income security	600	28,696	25,896	17,183
			Veterans benefits and services:				
			Veterans Administration:				
42	44	45	Medical care ²	703	42	44	45

	6	6	Medical administration and miscellaneous operating expenses.....	703	12		4
15	16	15	Grants for construction of State extended care facilities ²	703	16	18	18
5	3	*	Assistance for health manpower training institutions.....	703			
1	4	5	Grants for the construction of State veterans cemeteries.....	705		3	3
63	73	71	Total, veterans benefits and services	700	70	64	70
Administration of justice:							
2	11	6	Department of Housing and Urban Development: Fair housing assistance.....	751	5	6	5
Department of Justice:							
9	9	9	National Institute of Corrections	754	4	4	5
159	99	104	Justice assistance.....	754	73	68	90
17	17	19	Equal Employment Opportunity Commission	751	18	19	18
187	136	139	Total, administration of justice	750	99	96	118
General government:							
Department of the Interior:							
115	76	63	Administration of territories	806	88	70	59
131	148	112	Trust Territory of the Pacific Islands	806	99	96	88
7	1		Office of Personnel Management: Intergovernmental personnel assistance.....	806			
252	226	175	Total, general government	800	186	166	147
General purpose fiscal assistance:							
243	145	269	Department of Agriculture: Forest Service permanent appropriations	852	243	145	269
5	6	6	Department of Defense—Civil: Water resources permanent appropriations.....	852	6	6	6
*	1	1	Energy activities—Payments to States under Federal Power Act	852	1	1	1
Department of the Interior:							
96	96	96	Payments in lieu of taxes.....	852	96	96	96
639	601	58	Bureau of Land Management permanent appropriations	852	639	601	58
12	12	13	National wildlife refuge fund.....	852	13	13	13
		995	Payments to States from receipts under the Mineral Leasing Act	852			995
66	60	60	Payments to U.S. territories	852	66	57	60
*			Internal revenue collections for the Virgin Islands	852			
Department of the Treasury:							
4,569	4,567	4,567	General revenue sharing	851	4,567	4,567	4,567

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)

1982 actual	1983 estimate	1984 estimate	Function, agency and program	Functional code ¹	1982 actual	1983 estimate	1984 estimate
69	72	75	U.S. Customs Service.....	852	63	72	75
245	270	275	Internal revenue collections for Puerto Rico.....	852	239	270	275
402	427	461	Federal payment to the District of Columbia.....	852	402	427	461
6,347	6,257	6,874	Total, general purpose fiscal assistance	850	6,336	6,253	6,875
88,194	93,537	95,926	Total, grants-in-aid		91,878	92,398	90,405

^{*}\$500 thousand or less.¹For a description of these codes, see Table 14 in the *Budget of the United States Government, 1984*.²Programs included in the "Grants for payments to individuals" category shown in Table H-7.

Table H-12. CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS ¹

(In millions of dollars)

Function, agency and program		1982 actual	1983 estimate	1984 estimate
Direct Loans				
Natural resources and environment:				
Department of the Interior:				
Bureau of Reclamation loan program	New loans	30	25	40
	Net loans	24	20	35
	Outstandings	331	351	387
Drought emergency loan fund	New loans			
	Net loans	-6	-3	-3
	Outstandings	19	16	14
Total, natural resources and environment	New loans	30	25	40
	Net loans	18	17	32
	Outstandings	350	367	401
Agriculture and Commerce and housing credit:				
Department of Agriculture:				
Agriculture credit insurance fund and rural housing insurance funds	New loans	1	1	1
	Net loans	-1	-*	-*
	Outstandings	1	1	1
Transportation:				
Department of Transportation:				
Federal aid highways (trust fund)	New loans	24	8	16
	Net loans	24	8	16
	Outstandings	39	47	62
Right-of-way revolving fund	New loans	1		
	Net loans	1		
	Outstandings	196	196	196
Total, transportation	New loans	25	8	16
	Net loans	25	8	16
	Outstandings	235	243	258
Community and regional development:				
Department of Agriculture:				
Rural development insurance fund	New loans	955	809	675
	Net loans	-89	21	-108
	Outstandings	153	173	65
Department of Commerce:				
Drought assistance program	New loans	*		
	Net loans	4	-4	-4
	Outstandings	94	90	86
Coastal energy impact fund	New loans	29	15	9
	Net loans	28	14	7
	Outstandings	95	108	115
Department of Housing and Urban Development:				
Urban renewal programs	New loans	22	15	8
	Net loans	-11	-1	
	Outstandings	1		
Revolving fund (liquidating programs)	New loans		*	
	Net loans	-20	-21	-22
	Outstandings	442	422	400

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		1982 actual	1983 estimate	1984 estimate
Total, community and regional development	New loans	1,005	839	692
	Net loans	-88	9	-127
	Outstandings	785	793	666
Education, training, employment and social services:				
Education activities:				
Student loan insurance fund and other	New loans	4	16	
	Net loans	4	-4	-21
	Outstandings	90	86	65
College housing loans	New loans	48	45	27
	Net loans	14	9	-12
	Outstandings	1,218	1,227	1,215
Higher education facilities loan fund	New loans			
	Net loans	-4	-5	-5
	Outstandings	98	93	88
Total education, training, employment, and social services	New loans	52	61	27
	Net loans	14		-38
	Outstandings	1,406	1,406	1,367
Income security:				
Department of Housing and Urban Development:				
Low-rent public housing	New loans	905	1,000	1,000
	Net loans	-21		
	Outstandings	162	162	162
General purpose fiscal assistance:				
Other independent agencies:				
Loans to the District of Columbia	New loans	285	295	115
	Net loans	117	116	84
	Outstandings	1,684	1,799	1,883
Grand total, direct loans	New loans	2,303	2,229	1,891
	Net loans	64	150	-33
	Outstandings	4,623	4,771	4,738
Guaranteed Loans				
Agriculture and Commerce and Housing Credit:				
Department of Agriculture:				
Rural housing insurance fund	New loans	1	1	1
	Net loans	-1	*	*
	Outstandings	22	21	21
Community and regional development:				
Department of Agriculture:				
Rural development insurance fund	New loans	1,535	1,191	1,644
	Net loans	988	669	650
	Outstandings	6,886	7,555	8,205
Department of Housing and Urban Development:				
Urban renewal programs	New loans	7	3	
	Net loans	-65	-60	-16
	Outstandings	116	56	40

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		1982 actual	1983 estimate	1984 estimate
Community development loans	New loans	90	155	182
	Net loans	43	119	134
	Outstandings	117	236	370
Total, community and regional development ...	New loans	1,632	1,349	1,826
	Net loans	966	728	768
	Outstandings	7,119	7,847	8,615
General purpose fiscal assistance:				
Department of the Treasury:				
New York City loan guarantees	New loans	600		
	Net loans	507	— 156	— 154
	Outstandings	1,444	1,288	1,134
Grand total, guaranteed loans	New loans	2,233	1,350	1,827
	Net loans	1,472	572	614
	Outstandings	8,585	9,156	9,770

* \$500 thousand or less.

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

This administration has a strong commitment to restrain Federal civilian employment. Significant reductions have been achieved in nondefense employment since the administration took office.

FULL-TIME EQUIVALENT OF TOTAL FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

Beginning with fiscal year 1982, control of executive branch agency civilian employment was shifted to a full-time equivalent (FTE) or workyear basis. (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.)

Full-time permanent employment accounted, on an FTE basis, for nearly 88% of the workforce in fiscal year 1982. The remainder is made up of the full-time equivalent 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.

The estimates in table I-1 are related to employment ceilings that constitute upper limits to employment levels. The table contains an estimated lapse to take account of the fact that, over the past several years, actual nondefense employment has ranged from 0.7% to 3.3% below budget estimates. In 1982, the actual total was 3.3% below the 1983 Budget estimate for 1982. The estimates for 1983-1985 anticipate lapses of about 1.4%.

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

(Excluding the Postal Service)

	Fiscal year				
	1982 revised Budget estimate ²	1982 actual ³	1983 estimate	1984 estimate	1985 estimate
Agriculture	121,000	111,853	111,000	108,900	106,900
Commerce	36,300	32,437	35,400	33,100	33,800
Defense—civil functions	32,100	31,263	30,600	28,900	28,900
Education	6,600	5,639	5,500	5,300	5,200
Energy	18,700	17,920	16,700	15,800	15,800
Health and Human Services	154,000	141,548	142,000	137,900	134,000
Housing and Urban Development	15,700	14,609	14,000	12,700	12,700
Interior	81,700	73,220	74,900	73,500	73,500
Justice	54,400	53,876	56,900	58,200	58,800
Labor	21,600	19,184	19,400	19,300	18,800
State	22,900	23,545	23,900	24,400	24,400
Transportation	68,100	60,340	62,600	62,500	62,500
Treasury	124,300	115,829	127,100	126,300	126,000
Environmental Protection Agency	12,900	11,450	10,900	10,400	10,400
National Aeronautics and Space Administration	22,700	22,430	22,000	22,000	22,000
Veterans Administration	209,600	215,321	217,100	219,000	220,600
Other:					
Agency for International Development	5,600	5,385	5,400	5,300	5,100
General Services Administration	32,800	30,168	29,600	29,100	29,100
Nuclear Regulatory Commission	3,400	3,468	3,400	3,400	3,300
Office of Personnel Management	6,600	5,996	5,900	5,800	5,800
Panama Canal Commission	9,100	8,708	8,900	8,900	8,900
Small Business Administration	4,700	4,340	4,300	4,100	3,900
Tennessee Valley Authority	44,700	41,230	40,600	39,600	40,000
United States Information Agency	7,600	7,805	8,100	8,500	8,500
Miscellaneous	45,000	40,118	40,400	40,100	39,900
Contingencies	1,000				
Estimated nondefense lapse			— 15,000	— 15,000	— 15,000
Subtotal	1,163,100	1,097,682	1,101,600	1,088,000	1,083,800
Defense—military functions ⁴	937,700	978,081	968,800	989,900	992,000
Total	2,100,800	2,075,763	2,070,400	2,077,900	2,075,800

¹ Excludes developmental positions under the Worker-Trainee Opportunity Program (WTOP) as well as certain statutory exemptions.² As contained in the revised 1982 Budget, transmitted to the Congress in March 1981.³ Data are estimated for portions of Defense-civil functions as well as for the Federal Reserve System, Board of Governors, the International Trade Commission, and the Merit Systems Protection Board.⁴ Section 904 of the 1982 Defense Authorization Act (Public Law 97-86) exempts the Department of Defense from full-time equivalent employment controls. Data shown are estimated.

SIGNIFICANT CHANGES IN FULL-TIME EQUIVALENT EMPLOYMENT

Many agencies show decreases, in table I-1, from the 1983 estimates to the corresponding estimates for 1984.

- Department of Health and Human Services (—4,100).—Employment will be reduced by eliminating excessive overhead staff; continuing the community services closeout; decreasing regulatory requirements for health and social services programs; and deregulating categorical grants and consolidating selected grant programs.

- Department of Commerce (−2,280).—Decreases will result from completion of the Economic and Agricultural Censuses, the termination of the Economic Development Administration, and the phasedown or elimination of the National Oceanic and Atmospheric Administration marine and atmospheric related services and research activities. A planned increase of about 100 workyears is intended to reduce backlogs in the Patent and Trademark Office.
- Department of Agriculture (−2,050).—Decreases amounting to nearly 1,900 workyears are planned for the Forest Service for program reductions and expected increases in management productivity. Most of the balance of the decrease occurs in the Soil Conservation Service and Food and Nutrition Service with a partial offset by a small increase for the Farmers Home Administration to meet debt management requirements.
- Department of Defense—Civil Functions (−1,629).—Reductions are due to declining program levels resulting in 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 the Interior (−1,338).—Decreases will occur due to Bureau of Indian Affairs school closures and transfers, streamlined research and regulatory processes, improved operational efficiencies, and less labor intensive methods of natural resource management. These reductions are partially offset by increased staffing to operate and maintain the national park system.
- The Department of Housing and Urban Development (−1,247).—This decrease results from both programmatic and administrative changes. In the housing area, modernization and operating subsidies have been combined with a simplified formula mechanism. Both Section 8 and public housing construction have been largely eliminated. In the community development area, programs have been combined and simplified, with greater devolution of program administration and decision-making to States and localities. Federal Housing Administration employment will decrease due to privatization of loan processing. Finally, a greater reliance on ADP operations and contractual services and a streamlining of administrative functions both at headquarters and in the field will reduce administrative employment.
- Tennessee Valley Authority (−1,052).—A slowdown in the growth of electricity demand has forced TVA to cancel and/or defer construction on some nuclear generating units. This will

lead to reductions of on-site construction workers and associated personnel such as engineers and administrative staff.

- Energy Activities (−884).—Employment will continue to decline for energy overhead, regulatory activities and near-term research and development activities. This decline is consistent with changes made in recent years to carry out the administration's emphasis on the importance of private sector initiatives to provide for our energy needs.
- The Department of the Treasury (−737).—Decreases will occur as a result of streamlining various departmental functions. These will be partially offset by increases in the Internal Revenue Service to administer provisions of the Tax Equity and Fiscal Responsibility Act.
- General Services Administration (−564).—Decreases will occur agency-wide due to continuing management efficiencies.
- Environmental Protection Agency (−477).—Reductions reflect increased operating efficiencies, accelerated delegation of environmental programs to states and completed regulatory activities. High priority enforcement and regulatory programs are fully supported.

Some agencies show increases.

- Department of Defense—Military Functions (21,101).—Increases are related to the nation's commitment to maintain an adequate, responsive defense posture. These increases are in readiness-related areas such as maintenance support, supply inventory control, medical care, weapons modernization programs, military construction, and sealift activities. The estimates shown in table I-1 *include* amounts for planned contracting out of certain activities. If these plans are realized, the estimates would decrease by about 2,900 in 1983, 14,000 in 1984, and 26,500 in 1985.
- Veterans Administration (1,894).—Additional staff will be used at new and modernized medical facilities, including six outpatient clinics, two nursing homes, and five replacement hospitals.
- United States Information Agency (463).—This increase will improve the program quality of the Voice of America (VOA), begin a major expansion and improvement of VOA broadcast facilities, and, through a variety of activities, demonstrate to people abroad the vitality and benefits of democracy.
- Department of State (418).—Additional staffing is needed for growing consular, passport, and administrative services workloads; enhanced worldwide communications and information systems; and additional reporting and analyses needs.

END-OF-YEAR EMPLOYMENT LEVELS

Another way to look at Federal employment is on the basis of the number of employees on the rolls at the end of a fiscal year.

Total Federal civilian employment in the executive branch was 2,108,100 at the end of 1982, excluding 659,600 Postal Service employees. At the end of January 1981, when this administration took office, nondefense total employment stood at 1,232,181, and on September 30, 1982, the corresponding number was 1,140,903; a decrease of 91,278 employees.

Table I-2 shows Government-wide Federal civilian employment as of the end of fiscal years 1980, 1981, and 1982. Postal Service employment (including the Postal Rate Commission) is also shown, together with data for the legislative and judicial branches and for active duty military personnel.

Table I-2. TOTAL FEDERAL EMPLOYMENT END-OF-YEAR

Description	September 30		
	1980 actual	1981 actual	1982 actual
Civilian employment in the executive branch:			
Full-time permanent.....	1,866,773	1,851,045	1,833,687
Other than full-time permanent	266,963	264,949	252,026
DOD-Military functions (total employment)	(916,293)	(939,942)	(944,810)
Non-DOD (total employment)	(1,217,443)	(1,176,052)	(1,140,903)
Subtotal.....	2,133,736	2,115,994	2,085,713
Postal Service:			
Full-time permanent.....	535,050	543,504	546,019
Other than full-time permanent	125,035	119,664	113,602
Subtotal.....	660,085	663,168	659,621
Special categories ¹	27,535	26,963	22,400
Subtotal, executive branch civilian employment.....	2,821,356	2,806,125	2,767,734
Military personnel on active duty: ²			
Department of Defense.....	2,050,127	2,082,183	2,108,612
Department of Transportation (Coast Guard)	39,375	39,819	38,248
Subtotal, military personnel	2,089,502	2,122,002	2,146,860
Total, executive branch employment	4,910,858	4,928,127	4,914,594
Legislative and judicial personnel: ³			
Full-time permanent.....	32,779	32,844	32,898
Other than full-time permanent	21,998	21,423	21,885
Subtotal, legislative and judicial branches	54,777	54,267	54,783
Grand total	4,965,635	4,982,394	4,969,377

¹ Developmental positions under the Worker-Trainee Opportunity Program; disadvantaged summer and part-time workers under such Office of Personnel Management programs as Summer Aids, stay in school, and Junior Fellowship; and certain statutory exemptions.

² Excludes reserve components.

³ Excludes members and officers of 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 consists primarily of the Government's share (as employer) of health insurance, term life insurance, and Federal retirement and old-age survivors' disability and health 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 military personnel, reenlistment bonuses.

This budget assumes no October 1983 pay increase for Federal white and blue collar workers and military personnel. The final decision on the level of the fiscal year 1984 pay increase will be made in the late summer, as the law provides, after Presidential review of the recommendations of the President's Pay Agent, the Federal Employees Pay Council and the Advisory Committee on Federal Pay, and after a review of the economic conditions prevailing then.

Legislation is proposed in the 1984 Budget to reform certain aspects of the civil service retirement system:

- *Annuity adjustment for retirement prior to age 65.*—To be phased in over a period of 10 years; employees age 55 or over at enactment would not be affected.
- *Cost-of-living adjustments (COLA).*—The cost-of-living adjustment would be eliminated for 1984. Further, current law limits COLA adjustments to one half of the CPI (for retirees under age 62) through 1985. This change would be made permanent.
- *Increased employee deductions for retirement.*—Employee retirement deductions would increase from 7 to 9% in 1984, and to 11% in 1985.
- *Increased employer contributions for retirement.*—Employer contributions for retirement would also increase to match the increase in employee deductions described above. This would include the U.S. Postal Service and the District of Columbia government.
- *Annuity calculations to be based on the highest 5 years of earnings.*—The current calculation base is the highest 3 years; employees within 3 years of retirement eligibility would not be affected.
- *Modify replacement rates.*—Currently, a formula is used that determines the percentage of salary that is replaced by retirement benefits. For example, the replacement rate is now

56.25% of the final 3 years' salary for 30 years of service. This proposal would alter this formula to reduce the replacement rate, if necessary, in conjunction with other proposals, to reduce the normal cost of the system to 22% of payroll and enable employee contributions to be limited to 11% of salary.

Additional details concerning these proposals may be found in Part 5 of the 1984 Budget of the United States.

As indicated in table I-3, obligations for civilian personnel compensation and benefits in 1984 are projected to reach \$65 billion, excluding the Postal Service.

Table I-3. **PERSONNEL COMPENSATION AND BENEFITS**

[In millions of dollars]

Description	1982 actual	1983 estimate	1984 estimate
Civilian personnel costs:			
Executive branch: ¹			
Direct compensation.....	49,624	52,417	53,094
Personnel benefits ²	9,265	10,428	10,790
DOD-Military functions, civilian personnel:			
Direct compensation.....	(21,846)	(22,720)	(23,299)
Personnel benefits.....	(2,281)	(2,659)	(3,277)
Subtotal.....	58,889	62,845	62,935
Legislative and judiciary: ³			
Direct compensation.....	912	990	1,027
Personnel benefits ³	91	111	118
Subtotal.....	1,003	1,101	1,145
Total, civilian personnel costs.....	59,892	63,946	65,029
Military personnel costs: ⁵			
Direct compensation.....	37,020	39,311	40,712
Personnel benefits ⁶	3,007	3,238	3,591
Total, military pay costs.....	40,027	42,549	44,303
Grand total, personnel costs.....	99,919	106,495	109,332

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, retirement, and effective in calendar year 1983 Medicare Hospital Insurance, 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 \$3,600 million in 1982 and are estimated to be \$3,941 million in 1983 and \$3,908 million in 1984.

³ Excludes members and officers of Congress.

⁴ Excludes reserve components.

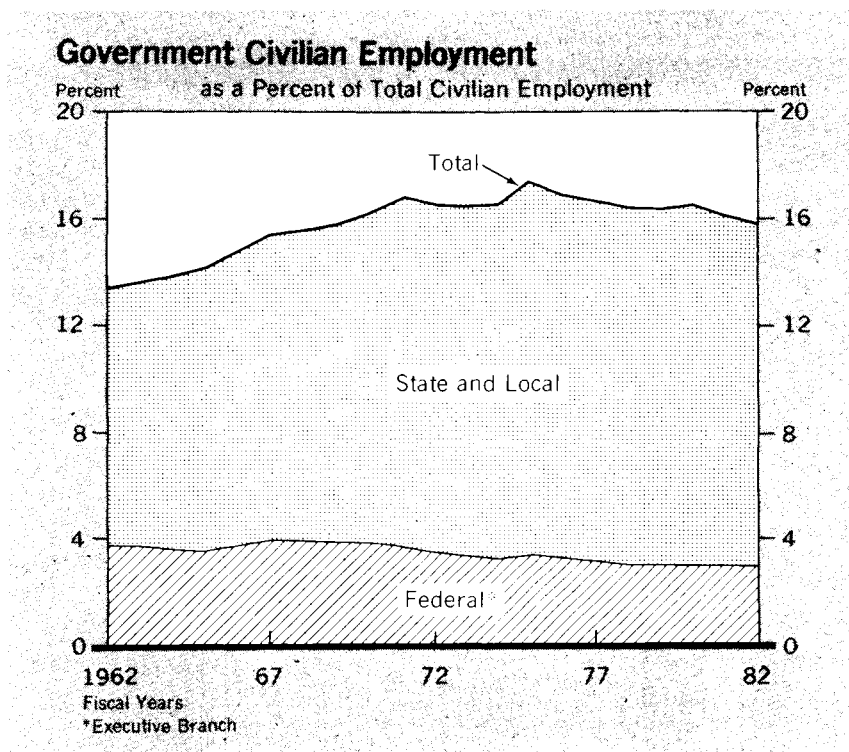
⁵ Excludes payments to current military retirees which amounted to \$14,941 million in 1982 and are estimated to be \$16,155 million in 1983 and \$16,806 million in 1984.

GOVERNMENT EMPLOYMENT AND LABOR FORCE COMPARISONS

As shown on the following chart, Government employment—Federal, State, and local—will comprise about 15.9% of the total employed civilian labor force in 1982.

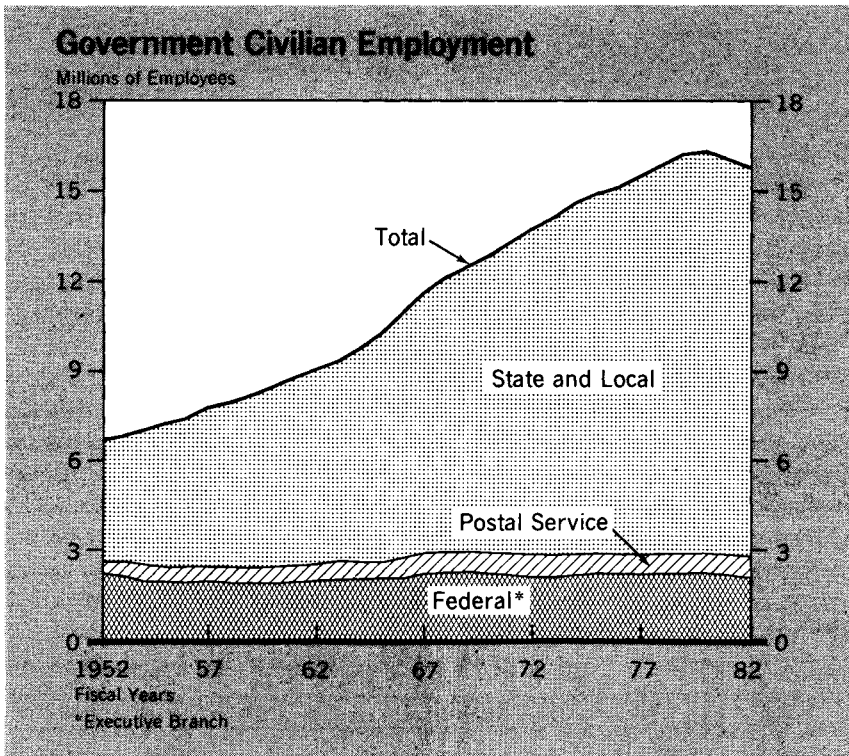
Within this segment, Federal civilian employment in the executive branch accounts for 2.78% of the total employed civilian labor force in 1982, down from a high of 3.82% in 1968.

The percentage of the total employed civilian labor force attributable to State and local government has grown from 9.6% in 1962 to 13.2% in 1982.



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 38.4% in 1952 to an estimated 17.4% in 1982. Employment for all government had been rising steadily due to increases in State and local government employment, but began declining in 1981.



The ratio of Federal civilian employment to the total U.S. population is expected to be 11.9 per thousand in 1982, the lowest this ratio has been during the thirty year span shown.

Table I-4. GOVERNMENT EMPLOYMENT AND POPULATION, 1952-82

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
1952.....	2,574	4,134	6,708	38.4	157,553	16.3
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	⁶ 228,298	12.4
1981 ²	2,787	13,281	16,068	17.4	⁶ 230,479	12.1
1982.....	2,768	13,123	15,891	17.4	⁶ 232,634	11.9

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 1982, as of Sept. 30.

⁶ U.S. population data for 1980-1982 are the latest available from the Census Bureau.

PART 3

SELECTED

FEDERAL PROGRAMS

3-1

INTRODUCTION

Part 3 furnishes Government-wide program and financial information in selected program areas—civil rights and research and development, designated J and K.

Special Analysis J (Civil Rights Activities) summarizes Federal spending for civil rights activities, concentrating on compliance, investigation, and enforcement efforts.

Special Analysis K (Research and Development) identifies Federal programs for the conduct of research and development, and for the support of facilities related to such activities.

SPECIAL ANALYSIS J

CIVIL RIGHTS ACTIVITIES

TO GIVE SUBSTANCE TO AMERICA'S COMMITMENT. . .

"The battle against discrimination still goes on, and much remains to be done. But in a single generation, an entire Nation recommitted itself to the cause of equal rights and used the full force of law to ban once and for all racial bias in public education, in hiring, and in the voting booth. Nowhere does history offer a parallel to this vast undertaking . . ."—PRESIDENT REAGAN, March 23, 1982

Coverage and scope.—Equality of individual rights and opportunity are central to the American idea. Our national commitment to assuring that these rights and opportunities apply equally to all Americans has come to be embodied in approximately 130 Federal statutes, in addition to the guarantees set forth in the Constitution itself. These provisions address such basic areas as employment, housing, education, access to credit and public accommodations; as well as voting, jury service and other rights and responsibilities of citizenship. They prohibit discrimination based on race, color, religion, sex, national origin, age, or handicap. The Federal involvement in implementing these statutes is broad: each of the 107 separate Federal agencies is responsible for assuring nondiscrimination in its own activities, and 37 agencies have some civil rights enforcement responsibilities.

Since the first OMB Civil Rights Special Analysis was published in 1971, Federal expenditures for civil rights programs have grown apace.¹ While a reflection of America's commitment to civil rights, this growth was in past years too frequently regarded as the exclusive measure of its implementation. By 1981, it had become clear that:

—Among the 130 Federal civil rights statutes, there was substantial duplication. This multiplied the number of agencies

¹There have been corresponding refinements in the data included in Special Analyses. In 1981, OMB completed a major revision of the requirements for agency reporting of civil rights data which eliminated the practice of reporting, as civil rights outlays, expenditures for such purposes as general management costs not directly related to implementing civil rights requirements, and agency training and upward mobility costs not attributable to the Federal Equal Opportunity Recruitment Program or other equal employment opportunity requirements. The reporting schedule was also modified to assure that data for the previous year included actual data for all four quarters of the fiscal year. While the elimination of extraneous expenditures has increased the accuracy with which successive Special Analysis outlay figures depict the Federal Government's commitment of resources to civil rights, these refinements reduced the comparability of the published figures (e.g., the Defense Department reported that the deletion of general upward mobility expenditures alone reduced its total reported civil rights expenditures for 1981 by \$23.2 million dollars). To correct this problem, previous year figures used in this Special Analysis reflect, insofar as possible, only expenditures for those activities considered in this Special Analysis.

charged with eliminating discrimination, but diminished their collective effectiveness in doing so as resources were squandered in fruitless competition for jurisdiction.

- As the result of neglect or misguided paternalism, “civil rights” activities in too many agencies became a synonym for mismanagement and inefficiency not tolerated in line functions. And also for staff bickering: At times, an agency’s highest incidence of discrimination complaints could be found in its civil rights office.
- Several enforcement efforts were structurally flawed: their regulations were confusing and difficult to comply with; they continued to devote resources to clearly ineffectual procedures or to problems long since corrected.²
- Some civil rights programs had strayed from the very principles they were intended to secure, subordinating their difficult mandate of assuring nondiscrimination to the administrative expedience of quotas. As these expedients were frequently as poorly executed as they were conceived, they doubly injured their intended beneficiaries: by creating the appearance of preference, while at the same time denying essential protections against discrimination.

This administration has devoted serious attention both to the management of these programs and to our examination of their moral underpinnings. In all Federal civil rights programs, such attention has reasserted the fundamental principle of equal treatment for all individuals, without regard to their race, sex, color, religion, national origin, or condition of disability. For several, it has focused overdue attention on longstanding management problems.

The analysis which follows reflects that attention and its seriousness: implicitly, in its emphasis on the improvements which have already been secured; and explicitly in its assessment of the problems which remain to be overcome.

Perspectives on Federal civil rights outlays

In 1960, the Federal Government spent \$1.7 million for civil rights purposes. These expenditures were concentrated in the U.S. Commission on Civil Rights and the Departments of Justice and Labor. The first Civil Rights Special Analysis published by OMB reported that expenditures for such purposes had grown to \$189.7 million in 1971. In 1980, Federal civil rights expenditures reached \$512.6 million. Agencies spent \$567.6 million on civil rights activities in 1982 and, given enactment of the President’s proposed budget, agencies will spend an estimated \$634.1 million on these activities in 1984.

²A more detailed discussion of these structural management, and regulatory problems can be found on pp. 1-9, Special Analysis J: Civil Rights Activities, Special Analyses, Budget of the United States Government, 1983.

Table J-1. FEDERAL CIVIL RIGHTS OUTLAYS*, 1980-1984

(In millions of dollars)

1980 (actual).....	512.6
1981 (actual).....	543.4
1982 (actual).....	567.6
1983 (estimated).....	607.2
1984 (proposed).....	634.1

*Total outlays reported by Federal agencies for activities reflected in current reporting base. One of the agencies which reported in 1980 (the Community Services Administration) has since been abolished. Due to improved reporting, several smaller Federal entities which did not report in 1980 have reported in subsequent years. Equivalent figures covering only agencies reporting in each of the years covered by this table are: 1980, 512.1; 1981, 541.6; 1982, 566.8; 1983, 606.3; 1984, 633.2.

As emphasized in the discussion above, however, the increased expenditures effected and proposed by this Administration are not a mere reflection of a longstanding trend:

- Not simply in their magnitude but in the context of the overall budget itself, they represent a substantial increase in the priority accorded civil rights. Such increases are striking and indicative of real support in the current budgetary context, in contrast to increases in past years when all discretionary expenditures were rising.
- The increases proposed by the President represent realistic commitments, not inflated promises. In 1982, actual civil rights outlays by Federal agencies substantially exceeded estimates.³ This represents a sharp departure from past, grossly inflated projections.
- This Administration is committed not simply to spending money on civil rights, but to securing them. Civil rights programs have been judged on their merits, and not treated as the budgetary equivalents of “sacred cows” to be increased or maintained on a quota basis (only to be ignored during the remainder of the year). As this analysis will demonstrate, expenditures for some civil rights⁴ programs have been increased, some decreased, and many maintained at current levels. In instances where additional savings at no loss in protections remain to be achieved, this analysis does not hesitate to identify them.

³The agencies represented in the FY 1983 Special Analysis estimated that they would spend a total of \$562.7 million on civil rights activities during 1982 and actually spent over \$4 million more, a total of \$566.8 million (the estimate figure reflects corrections in figures for DOD and HUD while the actual expenditure figure excludes agencies who reported this year but not last year; without these corrections, the difference would be \$40 million). Most previous estimates have substantially exceeded actual expenditures. For example, the equivalent estimate for 1979 was \$555.6 million, but actual reported expenditures were \$469.1 million—over \$86 million less.

⁴Includes Federal efforts to assure: protection of basic constitutional and civil rights, nondiscrimination in federally assisted programs and activities, equal employment opportunity, fair housing, equal credit; as well as civil rights related research activities.

Table J-2.—OUTLAYS FOR PRINCIPAL CIVIL RIGHTS ENFORCEMENT AGENCIES

(In millions of dollars)

	Actual			Estimate 1983	Proposed 1984
	1980	1981	1982		
Civil Rights Division (DOJ)	14.5	16.7	17.2	18.6	25.6
Equal Employment Opportunity Commission	130.8	134.2	137.6	147	153
Office of Fair Housing and Equal Opportunity (HUD)	18.4	21.7	24.6	34.1	30.4
Office for Civil Rights:					
Health and Human Services	*	19.3	19.1	19.6	19.6
Education	*	43.3	45.3	44.3	44.6
Total*	58.8	62.6	64.4	63.9	64.2
Office of Federal Contract Compliance Programs (DOL)	50.6	48.1	42.5	43.8	47.4

* These offices were one until 1980, and reliable data for that year is available only on a total basis. Education activities will be proposed for reassignment to appropriate executive departments and agencies pursuant to reorganization legislation to be submitted at a later date.

PROTECTING THE CONSTITUTIONAL RIGHTS OF ALL CITIZENS

"... The record shows that we've been firm in protecting civil liberties ever since we entered office 20 months ago . . . In 1888, Frederick Douglass expressed [our] commitment [:] 'A government that can give liberty in its Constitution ought to have power to protect liberty in its administration'."—PRESIDENT REAGAN, September 15, 1982

The Constitution and laws of the United States guarantee to each individual the right to security in one's person and property, and to the free exercise of the fundamental rights of citizenship. These guarantees, which apply irrespective of an individual's religion, national origin, race, color, or sex are the most important of civil rights, for they are basic to all others. During 1982, the Administration continued to restore emphasis to this most fundamental area of Federal civil rights responsibility.

The Department of Justice is primarily responsible for assuring these protections. In addition to the guarantees embodied in the Constitution itself, the Department enforces:

- Title 18 of the United States Code, which prohibits deprivations of rights and privileges guaranteed under the Constitution of 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.
- 30 other civil rights criminal statutes (in addition to those cited above).
- The Voting Rights Act of 1965, as amended (42 U.S.C. 1973 et seq.) and the Overseas Citizens Voting Rights Act (42 U.S.C. 1973 dd) which guarantees all qualified citizens the right to

register and vote without discrimination on account of race, color, membership in a language minority group, age, or absence from legal residence).

- The Civil Rights of Institutionalized Persons Act of 1980 (42 U.S.C. 1997), which prohibits deprivations of the constitutional rights of institutionalized persons.

During 1982, the Department of Justice's Federal Bureau of Investigation completed 7,983 investigations involving alleged violations of these fundamental rights, and the Bureau expects to perform in excess of 10,000 such investigations per year through 1984. Other components of the Department of Justice completed 3,600 investigations of such violations in 1982, and the Department expects this number to increase to 3,800 in 1984.

The Bureau devoted \$8.1 million and the equivalent of 189 full time professional personnel (FTE's) to these investigations in 1982. The President's request for 1984 provides for outlays of \$11.5 million for the Bureau's efforts to assure these essential protections.

The Department's attorneys were equally active in enforcing these guarantees in 1982. The Criminal Section of the Department's Civil Rights Division is responsible for prosecuting criminal civil rights violations. During 1982, the section reviewed approximately 3,200 matters which had been investigated by the Federal Bureau of Investigation and approximately 7,100 other inquiries and complaints, and presented the results of 81 investigations to Federal grand juries. As a result, fifty indictments were returned and six informations were filed charging a total of 98 defendants. Trials were conducted in 43 cases, resulting in the conviction of 23 defendants. An additional 25 defendants tendered guilty pleas. U.S. Attorneys throughout the United States also prosecute such violations, and during 1982, the Department as a whole initiated prosecutions of 193 individuals for such violations, obtained 76 guilty pleas and 27 convictions.

Also during 1982, the Criminal Section was particularly active in assuring that civil rights were not abused by government officials sworn to protect them. Forty-three of the 56 cases filed involved possible violations of 18 U.S.C. 242 (deprivation of rights under color of law) or Section 241 (conspiracy against the rights of citizens). Law enforcement officials were defendants in 34 of the 43 cases tried. Examples of cases successfully prosecuted by the Section in 1982 were those involving:

- a Hildago, Texas, police officer who arranged for the kidnapping of a U.S. citizen into Mexico;
- two former police officers and a civilian in Tyler, Texas, involved in a conspiracy to fabricate evidence and testimony in State proceedings;

- civil rights violations stemming from an incident where two inmates in Louisiana died after being locked up for 15 hours in a 32" x 70" x 78" metal "hot box."
- the sexual abuse of two female Mexican aliens by two border patrol officers.

The section also secured the indictment of 17 persons alleged to have held individuals in involuntary servitude or peonage, a dramatic increase over previous years:

Table J-3. **INDIVIDUALS INDICTED UNDER STATUTES PROHIBITING PEONAGE AND INVOLUNTARY SERVITUDE**

Fiscal year—	<i>Individuals indicted</i>
1980.....	5
1981.....	1
1982.....	17

Speaking in 1981 the President served notice on persons and terrorist groups bent on violating the civil rights of individuals that ". . . 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". During 1982, the Civil Rights Division continued to be especially active in redeeming the President's pledge. The eight cases it brought against fourteen defendants, involved a wide range of violence and intimidation: including crossburning, vandalism, firebombings, and physical attacks. Through 1984, the Civil Rights Division will increase the impact of the resources it devotes to criminal civil rights prosecutions by engaging in more joint prosecutions with local U.S. Attorneys. This combination of the former's specialized expertise and the latter's familiarity with local court practices will deliver, with even greater force, a national response to those who would ignore the President's warning.

The Department's Community Relations Service was involved in efforts to defuse racial, religious, and ethnic tensions before they give rise to such denials of rights. The Service's activities during 1982, in cooperation with State and local officials, addressed the entire spectrum of such unrest, including: racially motivated acts with the potential for denying equal housing opportunity in California or free access to Federal parks in Massachusetts; tensions involving Haitian or Indo-Chinese refugees in Florida, Puerto Rico, Texas, and Minnesota; the activities of the Ku Klux Klan and other hate groups in West Virginia and Connecticut.

The Civil Rights of Institutionalized Persons Act of 1980 was designed to provide the Federal Government standing to sue in

cases of severe deprivations of the rights of institutionalized individuals. The Civil Rights Division's Special Litigation Section is primarily responsible for the Justice's enforcement of this Act. During 1982, the Section completed 21 investigations of alleged violations of the Act. Six trials in which the Section participated were completed, and all resulted in decisions sustaining the Government's position. In all, the Section obtained 13 consent decrees and court orders enjoining violations of the Act, including: an order in Puerto Rico prosecuting practices of confining mentally handicapped or physically ill inmates in isolation and subjecting juveniles to physical abuse; and an order requiring that female inmates in Kentucky prisons be accorded the same treatment as male inmates.

The President has frequently described the right to vote as the "crown jewel of our liberties". To assure that statutory protections of this right are maintained and strengthened, the President signed the Voting Rights Amendments of 1982 into law on June 29, 1982. This legislation incorporated the longest extension of the Act's provisions since its passage in 1965, as well as new language considerably expanding the protections afforded by the Act. As a result of the Administration's efforts, the Act did not include language, included in earlier versions of the legislation, which could have been interpreted to require proportional representation based on race or national origin.

In addition, the Department of Justice was particularly active in enforcing the Voting Rights Act and similar statutes during 1982. The Civil Rights Division's Voting Rights Section initiated participation in 13 cases. Six concerned whether statewide redistricting plans denied or abridged the right of minorities to vote in California, Georgia, Mississippi, New York, and Texas; one involved the redistricting for the city council in Chicago; two sought to enforce objections under Section 5 in local jurisdictions; two opposed changes to at-large elections in South Carolina counties; and, two involved attempts by individual counties to terminate the coverage under the special provisions of the Voting Rights Act. Over 2,800 submissions of more than 13,300 voting changes were received under Section 5 of the Act, more than any previous year of the Act's existence, and 41 objections were made to submitted changes including 15 objections to 24 statewide redistricting plans for more than one legislative body. A total of 799 Federal observers were assigned to five elections in three states, including the largest number of observers ever assigned to a single election in the State of Alabama. In addition, 139 persons were listed (registered) by Federal examiners who were appointed to two counties in Georgia, the first time since 1975 that Federal examiners have been used to register voters under Section 7 of the Act. The Section also distrib-

uted 2,500 copies of publications designed to assist local officials and citizens in their voluntary efforts to assure compliance with the Voting Rights Act.

The President's Budget provides for a substantial increase in resources devoted to the task of assuring that the Presidential election of 1984 is conducted in full compliance with the Voting Rights Act and other Federal guarantees of the right to vote:

Table J-4. FEDERAL RESOURCES DEVOTED TO VOTING RIGHTS ENFORCEMENT

	Actual		Estimate 1983	Proposed 1984
	1981	1982		
Department of Justice:				
Outlays (millions).....	2.48	2.52	2.66	3.18
Professional FTE's.....	44	42	45	61
Office of Personnel Management:				
Outlays (millions).....	.3	1.0	.8	1.1
Professional FTE's.....	10.2	20	20	26

In addition to the Department of Justice, the Office of Personnel Management (OPM) provides observers to monitor compliance with the Voting Rights Act. During 1982, OPM assigned 937 observers to 2 elections. During 1984, OPM expects to assign 1,350 observers to 10 elections in furtherance of the President's commitment to assure that the "crown jewel of America's liberties" is not withheld from the grasp of any American on the basis of race, color, or membership in a language minority group.

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."—PRESIDENT REAGAN, June 29, 1981

If government is to "assure liberty in its administration", it is fundamental that government itself must not discriminate either in its mandates or their execution. During 1982, the Administration continued efforts initiated in 1981 to eliminate invidious discrimination based on sex from the statutes and regulations of the Federal Government itself, and to assist States in their efforts to eliminate such provisions from their own mandates. It also continued efforts to identify and eliminate impediments to assuring non-discrimination in the provision of federally assisted services and benefits.

Eliminating invidious sex discrimination from Government mandates.—Aware that discrimination may too frequently be traced to the mandates of Government itself the President moved swiftly to address the problem. Pursuant to these efforts:

—Executive Order 12336, establishing the Task Force on Legal Equity for Women, was issued. The Task Force is responsible

- for identifying, in the regulations of every Federal agency, provisions that mandate invidious discrimination based on sex.
- The Department of Justice reviewed Federal statutes to identify similar provisions.
 - The Fifty States Project was initiated. This is a cooperative effort to help every State and territory identify and eliminate statutory provisions that discriminate against women.
 - A Coordinating Council on Women was organized in the White House to assure that Federal actions having a particular impact on women are properly addressed by the administration.

Although the task is large and multifaceted, the first fruits of this effort are already apparent. Omnibus legislation was introduced in the Ninety-seventh Congress to eliminate sexually discriminatory provisions identified by the Department of Justice from the United States Code.

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 all 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.
- The Age Discrimination Act of 1975 prohibits discrimination based on age in all federally assisted programs and activities.
- Section 504 of the Rehabilitation Act of 1973 prohibits discrimination on the basis of handicap in all federally assisted programs and activities.

As the Administration has previously noted,⁵ several problems have diminished the effectiveness of efforts to assure that programs and activities assisted with Federal funds are open to all without discrimination. Some are inherent in the piecemeal manner in which the statutes were enacted:

- The absence of crosscutting provisions prohibiting federally assisted programs and activities from discriminating based on religion.
- A similar absence of protection against discrimination based on sex, except in federally assisted education activities.

⁵Pp. 10-15, *Special Analysis J: Civil Rights Activities*. Special Analyses, Budget of the United States Government, 1983.

Others result primarily from the manner in which enforcement of these protections has been organized and administered. The frequency with which agency staffs have actually identified and eliminated discrimination is disturbingly rare—largely because this fundamental statutory mission has been subordinated to the pursuit of other agendas, or to agencies' self-interest in continuing to provide assistance. Deficiencies in the way enforcement resources have been allocated and applied have also played a substantial role:

- The allocation of overall enforcement resources has frequently failed to reflect the actual incidence of discrimination in the various federally assisted programs.
- Largely as a consequence of this fundamental problem, agency enforcement often emphasized technical trivia or focused on areas such as equal employment which other agencies were designated (and more qualified) to address; many recipients were reviewed and investigated by several agencies while the practices of others were never examined; and enforcement of these statutes was frequently hampered by nonproductive reporting and other paperwork burdens.

To address the problem of lack of consistent protections against discrimination based on religion or sex, the Administration proposed the inclusion of protections against discrimination on these grounds in several titles of the Omnibus Budget Reconciliation Act of 1981. As a result, for example, all of the Block Grants administered by the Department of Health and Human Services include such prohibitions. In addition, the Administration has included these protections in legislation that would implement Block Grants in other areas. Congressional passage of these proposals would extend basic protections against discrimination to many Americans.⁶

During 1982, the Administration also continued the more difficult task of restoring substance to the existing nondiscrimination guarantees. When the "Infant Doe" case⁷ made it apparent that an untold number of infants with disabilities were being denied the care and treatment necessary to sustain life, the President acted quickly. Noting that "Our nation's commitment to equal protection of the law will have little meaning if we deny such protection to those who have not been blessed with the same physical and

⁶As a matter of policy, the Administration has consistently moved to address such gaps in civil rights protection through permanent legislation. This is because attempts to address them through reinterpretation of Congressional mandates, be they administrative (e.g., with regard to tax exemptions for discriminatory institutions) or judicial (as some have urged the Administration to seek with regard to the coverage of title IX) are never secure, as they may as easily be withdrawn through the same processes. The past tendency to avoid legislative choices on civil rights issues (or, as in the case of employment quotas under title VII, to ignore choices clearly made) has too frequently resulted in policies untethered by a full consideration of equally valid concerns, or lacking the popular consensus required for success in a democratic society.

⁷A highly publicized incident in which a child with disabilities born in Bloomington, Indiana died as the result of the denial of life saving care.

mental gifts we too often take for granted", the President instructed the Attorney General and Secretary of Health and Human Services (HHS) to take immediate steps to notify hospitals receiving Federal funds that Section 504's prohibitions against discrimination in the provision of services most definitely apply to those services necessary to save and sustain lives. HHS's Office for Civil Rights has adopted expedited complaint procedures to assure timely and effective intervention in such cases, and is examining hospitals' practices in this area during routine compliance reviews.

Also during 1982, the Department of Justice's Office of Justice Assistance and Research (OJARS) initiated the first fund termination action to enforce section 504 in the history of that statute. OJARS was ultimately able to negotiate a settlement of this matter, which involved alleged discrimination on the basis of handicap by a State Department of Corrections. The Administration also continued the sensitive process of reviewing the existing Government-wide coordination regulations for section 504 to improve their consistency and to reflect recent Supreme Court decisions.⁸ This process has included extensive consultations with representatives of persons with disabilities, State and local governments and other recipients of Federal assistance.

Administrative enforcement of the other crosscutting provisions similarly reflected the Administration's emphasis on returning to the basics of nondiscrimination enforcement. The Department of Agriculture, for example, concluded agreements designed to eliminate illegal segregation in the activities of two State Cooperative Extension Services. This year, the Department is addressing allegations of similar illegal segregation in a third.

Substantial improvements were also effected in the largest of the agency enforcement programs. The Department of Education's Office for Civil Rights (OCR) undertook a wide range of reforms designed to improve methods for allocating work and measuring performance, reduce the amount of resources wasted on duplicative or otherwise unnecessary paperwork, and eliminate unnecessary levels of management review. The Office also moved to streamline compliance procedures by implementing the Early Complaint Resolution procedure. This procedure affords complainants and recipients an opportunity to resolve many complaints voluntarily before costly investigations are initiated. This year, OCR will explore ways in which the involvement of States in assuring compliance with the nondiscrimination requirements it enforces can be en-

⁸E.g., *Davis v. Southeastern Community College* (442 U.S. 397 (1979)), in which the Court ruled that section 504 does not forbid the requirement of reasonable physical qualifications for admission to a program, and that regulations under section 504 are unauthorized to the extent that they require modifications in a recipients program beyond what is necessary to eliminate discrimination against an "otherwise qualified handicapped individual". See also *University of Texas v. Camenisch* (451 U.S. 390 (1981)).

Table J-5. **OUTLAYS BY MAJOR ACTIVITY, ENFORCEMENT OF NONDISCRIMINATION IN FEDERALLY ASSISTED SERVICES AND BENEFITS** ¹

[In millions of dollars]

	Actual 1982	Estimated 1983	Proposed 1984
Activity:			
Mediation	.02	.05	.07
Complaint resolution	30.9	32.3	32.1
Preaward reviews	4.3	4.1	4.7
Compliance reviews and routine monitoring	19.1	21.3	22
Research, ¹ information dissemination, and technical assistance	8.5	8.7	8.9
Legal and administrative enforcement:			
Department of Justice	.58	.63	.64
All other agencies	1.6	1.63	1.63
Monitoring of consent decrees and compliance agreements:			
Department of Justice	.24	.26	.28
Department of Education	1.56	1.6	1.6
All other agencies	.7	.6	.6
Policy development and implementation ²	15.3	16.8	16.6
Interagency coordination:			
Health and Human Services (Age Discrimination Act)	.09	.14	.14
Justice (all other statutes)	2.2	2.3	2.4

¹Includes expenditures of enforcement agencies only (research activities by the U.S. Commission on Civil Rights in this area are reported separately). Outlays for equal employment activities under title VI and similar statutes, to the extent they are identifiable, are reported in the section dealing with equal employment enforcement.

²Includes expenditures for developing regulations and procedures, training program staff, internal program audit and evaluation activities, and similar purposes.

hanced, identifying States with substantially equivalent laws and the capacity to undertake civil rights compliance activities.⁹

As a result of these and other management improvements, the Office reduced its workload of pending complaints by 27% and (in a marked departure from past years) kept well ahead of its incoming workload: during 1982, the Office for Civil Rights received 1,834 new complaints—and completed processing of 2,256. The Office also made progress in eliminating backlog and “carryover” complaints from past years: closing 1982 with 11 backlog and 69 carryover complaints (compared with 25 and 113, respectively, at the end of 1981). In addition, the Office initiated 36% more compliance reviews, and completed 16% more, than during the previous year.

As discussed above, however, the most serious problems historically presented by this area of civil rights enforcement transcend individual agencies. The Department of Justice, under Executive Order 12250, is primarily¹⁰ responsible for addressing those cross-cutting problems. The exceptional dispersal of responsibility in this area (even when only the major crosscutting statutes coordinated

⁹Federal enforcement of title VI and similar requirements is one of the few major areas of civil rights enforcement which does not currently use the capabilities of State and local agencies to assist in assuring nondiscrimination. Such involvement has long been an essential feature of title VII enforcement, and the Department of Housing and Urban Development has rapidly expanded the involvement of such agencies in enforcing the Fair Housing Act. See below.

¹⁰The Age Discrimination Act, for which coordination responsibility is assigned by statute to the Department of Health and Human Services, is the only exception. Most enforcement of the Age Discrimination Act is centralized. Under procedures funded by HHS, agencies forward all complaints under this Act to the Federal Mediation and Conciliation Service, which resolves most of those complaints through mediation.

by the Department of Justice are considered¹¹ renders responsibility particularly difficult:

Table J-6. **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

Both this dispersal, and the resources devoted to enforcing these statutes, are expanding:

Table J-7. **OUTLAYS AND PROFESSIONAL WORKYEARS FOR ENFORCEMENT AGENCIES, NONDISCRIMINATION IN PROVISION OF FEDERALLY ASSISTED SERVICES AND BENEFITS**

	Actual		Estimate	Proposed
	1981	1982	1983	1984
Agencies	18	20	21	21
Outlays (millions)	77	85.5	88.4	89.4

The Department of Justice has the difficult task of assuring that these increases are not dissipated in procedures which are poorly implemented or no longer serve a useful purpose. Traditional preaward review procedures seem particularly ripe for reappraisal. As noted below, in 1981 only about 2% of the preaward reviews conducted by all agencies resulted in finding any deficiencies requiring correction before assistance could be awarded—and fewer than 1% of these activities resulted in identifying and correcting any discriminatory practices. In 1982, which saw substantially more preaward review activity, the percentage of noncompliance findings of all kinds fell to 1.8%, and the percentage resulting in correction of discriminatory practices to only 1%. That this further deterioration was accompanied by a substantial increase in reported preawards conducted exclusively through desk audits (reviews of written material submitted by applicants) suggests that this is a particularly questionable use of resources.

Table J-8. **PREAWARD REVIEWS AND RESULTS: NONDISCRIMINATION IN PROVISION OF FEDERALLY ASSISTED SERVICES AND BENEFITS¹**

	Actual		Estimate	Proposed
	1981	1982	1983	1984
Agencies	10	12	13	13
Outlays (millions)	2.75	4.3	4.1	4.7

¹¹The Department of Justice also coordinates the enforcement of numerous program-specific statutes requiring nondiscrimination.

Table J-8. PREAWARD REVIEWS AND RESULTS: NONDISCRIMINATION IN PROVISION OF FEDERALLY ASSISTED SERVICES AND BENEFITS ¹—Continued

	Actual		Estimate	Proposed
	1981	1982	1983	1984
Professional FTE's	76	74	64	65
Total preawards completed	15,953	30,795	24,784	24,405
Onsite	6,150	4,124	4,056	3,580
Desk audit only	9,803	26,671	20,728	20,825
Compliance findings ¹	13,980	30,238	NA	NA
Noncompliance findings ¹	332	557	NA	NA
Total awards conditioned on corrective action	322	547	NA	NA
Noncompliance findings involving discrimination	56	69	NA	NA
Number of corrective action agreements resolving discrimination	54	61	NA	NA

¹ Ability or inability of a potential recipient to comply with nondiscrimination requirements without additional action. Total numbers of findings do not equal total reviews because some agencies use preawards only for targeting postaward activity.

Moreover, in 1981 all noncompliance findings of any kind were made by only three of the 10 agencies conducting preaward reviews—and all discrimination findings by only two. Seven agencies which reported conducting 14,613 preaward reviews (at a cost of \$1.8 million) *found no deficiencies of any kind*, and eight spent \$2 million on preawards without a single one resulting in the correction of any discriminatory practices. While more agencies reported that they identified deficiencies (mostly technical) during preaward reviews during 1982, two agencies which reported that they had conducted preaward reviews of *all* recipients of new assistance (constituting 50% of preaward reviews reported by the Federal Government as a whole) found no deficiencies of any kind—at a cost of over half a million dollars and 14 professional FTE's. And agencies that corrected no discrimination as a result of preawards spend \$1.2 million on that activity.

Postaward review procedures, or the manner in which they are implemented, appear equally in need of reappraisal:

Table J-9. POSTAWARD REVIEWS AND RESULTS: NONDISCRIMINATION IN PROVISION OF FEDERALLY ASSISTED SERVICES AND BENEFITS

	Actual		Estimate	Proposed
	1981	1982	1983	1984
Agencies	1.3	14	17	16
Outlays (millions)	13.4	17.6	19.5	20.3
Professional FTE's	386	422	435	434
Total completed	12,451	¹ 27,355	14,658	14,266
Onsite	8,389	14,867	12,976	12,605
Desk audit only	4,062	¹ 12,488	1,682	1,661
Compliance findings	12,076	26,856	NA	NA
Noncompliance findings	375	499	NA	NA
Noncompliance findings involving discrimination	196	313	NA	NA
Number of corrective action agreements resolving discrimination	134	311	NA	NA

¹ 12,310 of these reviews were reported by the Small Business Administration (SBA), which attributed the extraordinarily large number to the completion of work completed in previous years. 11,738 of the reviews reported were desk audits based on a reporting requirement which has since been disapproved by OMB. As a result, the number of desk audits will decrease in 1983 and 1984 to 1,000—but the number of onsite reviews will increase from 572 in 1982 to 800 in each year. Of the reviews SBA reports it completed in 1982 (at a cost of \$1.4 million), none resulted in finding noncompliance of any kind.

Even when the problematic SBA desk audits are subtracted, the rate at which even routine reviews resulted in the correction of illegal discrimination was a disappointing two percent.

While the thesis that administratively targeted reviews are more likely to identify and resolve discrimination than complaint investigations has become part of the conventional wisdom¹² in civil rights enforcement, this would not appear to be the case in this area:

Table J-10. INVESTIGATIONS COMPLETED AND RESULTS, NONDISCRIMINATION IN FEDERALLY ASSISTED SERVICES AND BENEFITS

(1982 actual)

Total completed.....	2,252
Compliance findings.....	1,511
Noncompliance findings.....	741
Number resolved through written agreements to correct illegal discrimination.....	690

In addition to the enforcement anomalies discussed above, current arrangements for enforcing these statutes raise serious questions of cost effectiveness. The cost of interagency expenditures of coordination of these statutes alone exceeds the enforcement expenditures of all but four of the agencies coordinated. In addition to these expenses, there are the considerable outlays for administrative overhead and legal support necessary to maintain separate programs in each agency.

The Civil Rights Division is working with the President's Task Force on Regulatory Relief to develop revised coordination regulations to address these problems. The nature of the problems which have historically characterized enforcement of these provisions, however, suggest that substantial improvement in this area may require basic reforms in the organization and structure of the administrative enforcement of these provisions.

Judicial enforcement.—The Department of Justice's Civil Rights Division is primarily responsible for litigation enforcing these provisions. During 1982, the Civil Rights Division negotiated a consent decree desegregating two state-run colleges in Louisiana, and an agreed-up order was entered implementing a comprehensive program to ensure equal opportunity for men and women to participate in intercollegiate athletics at the University of Alaska. Consent decrees were also approved desegregating six junior colleges in Mississippi, and the division commenced a trial on the merits in a

¹²For example, "Civil rights enforcement officials as well as this Commission, agree that activities targeted at systemic discrimination, such as compliance reviews, are more effective and equitable enforcement mechanisms than investigations of individual complaints". *The Federal Civil Rights Enforcement Budget*, U.S. Commission on Civil Rights, June, 1982, P. 65.

suit alleging that the Massachusetts Maritime Academy discriminates against women in admission.

As has previously been the case, much of the Division's activity concentrated on eliminating *de jure* segregation in elementary and secondary education. The Division worked with local elementary and secondary school officials to develop plans effectively resolving several longstanding cases. A stipulated desegregation plan for Port Arthur, Texas was approved. Consent decrees modifying orders were entered in cases involving Gadsden County, Florida, Pointe Coupee Parish, Louisiana, Scott County, Mississippi, Omaha, Nebraska, and Kansas City, Kansas. In another suit, a consent decree was negotiated after the court found that the Ector County, Texas school system was unconstitutionally segregated. In Mobile, Alabama a consent decree which establishes a procedure for educational experts to make recommendations and for a committee of parents and citizens to propose changes that would further school desegregation.

During 1982, the Department continued to implement its new policy for remedying *de jure* segregation. In past administrations, the Department concentrated simply on substituting new patterns of discriminatory assignment of students based on race and national origin for the old ones, through forced busing. Such mandates not only excluded many students from the schools they wished to attend based solely on their race or national origin, but also frequently reassigned students to schools which were not better than those they had previously attended. The Department is now securing remedies which not only assure equal access to education, regardless of race or national origin, but also assure access to education of equal quality.

The Department has also widened the scope of the equal protection violations it seeks to eliminate. In addition to continuing to investigate allegations of illegal discrimination in pupil assignment during 1982, the Civil Rights Division also initiated investigations of alleged discrimination based on race, color, or national origin in the quality of education. Such violations, where found, will be litigated in addition those involving *de jure* segregation. Due to past neglect of this problem, the law in this area has yet to be developed. The Civil Rights Division's careful but deliberate move to address it thus not only places the Department on the frontier of Constitutional interpretation and protection, but also promises to open a new frontier of opportunities that may heretofore have been illegally denied.¹³

¹³In appellate litigation under these statutes, the Supreme Court's decision in *North Haven v. Bell* was most significant. The Court's principal holdings in this case were that Title IX prohibits employment discrimination, and that it applies to all programs or activities for which an institution receives Federal assistance. The Department of Justice is applying these principles in other litigation involving Title IX.

TO REMOVE THE FINAL BARRIERS: SECURING EQUAL TREATMENT

"I am for affirmative action; I am against quotas. I have lived long enough to know a time in this country when quotas were used to discriminate, not end discrimination." —PRESIDENT REAGAN, January 19, 1982

ENFORCING EQUAL EMPLOYMENT OPPORTUNITY

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.

In past administrations,¹⁴ a fundamental dilemma in the enforcement of these provisions was permitted to develop. Some programs intended to assure that all individuals are able to advance regardless of their race, color, or national origin had degenerated into quota systems—erecting new barriers to individual achievement on those very grounds. There is growing recognition that the barriers to individual achievement created by quotas are not simply the most obvious (if some persons are provided opportunities because of their group membership, other persons are denied them on the same basis). By enabling others to cast doubt on their experience and accomplishments, quotas may be creating highly formidable barriers for their intended beneficiaries.¹⁵

The Department of Justice is responsible for litigating alleged violations of Title VII, by public employers; and of Executive Order

¹⁴Joseph Califano, former secretary of HHS, reports being instructed by the President to "review the work of our subordinates, and 'get rid of all of those who are incompetent, except minorities and women.'" Joseph A. Califano, Jr., *Governing America*, p. 341.

¹⁵E.g., in a recent interview Reginald E. Gilliam Jr., Vice Chairman of the Interstate Commerce Commission, noted that blacks who manage to enter the system often face a "gauntlet of sniping and backbiting";

"This often takes the form of ignorant verbal dismissals of exceptional individuals with comments like 'he or she wouldn't have gotten that position except for EEO'", Mr. Gilliam said, referring to affirmative action and other policies designated to promote equal employment opportunity that followed the Civil Rights Act of 1964. "All your degrees, your clerkships, your previous positions that often predate equal employment policies, Oxford, whatever all may be explained away by 'EEO'." New York Times, December 28, 1982.

11246, as amended, by Federal contractors. The Department is also responsible for litigating any equal employment issues arising under Title VI and similar nondiscrimination provisions. Among the agencies responsible for implementing equal employment statutes, the Department of Justice has lead in developing discrimination remedies which open doors to equal employment opportunity without unjustly stigmatizing those who pass through them.

In 1981, the Department implemented a new approach to remedies for employment discrimination. In place of the employment quotas of the past, the Department is requiring employers found to have discriminated to institute specific programs that assure that members of the group previously excluded are considered for future employment opportunities. The Department will also assure that genuinely nondiscriminatory procedures are used in selecting from the resulting pool of eligibles. These remedies will institutionalize the process of nondiscriminatory selection, and thus have a longer lasting impact than court imposed numbers forgotten when decrees have expired.

During 1982, the Civil Rights Division continued to refine this new approach as it implemented a vigorous program of equal employment litigation. The Department filed six new pattern and practice suits against public employers, including the Department's first suit alleging such discrimination based on sex in higher education. The Department had 113 lawsuits in progress by the end of 1982. Overall, the Department's efforts resulted in the hire, promotion, or reinstatement of 1,400 identified victims of discrimination and \$4.4 million in backpay for 1,000 persons. In addition, long term remedies designed to assure future nondiscrimination were implemented by 10 public agencies or institutions employing over 16,000 persons.

As in its other appellate activities, the Department's efforts regarding equal employment issues concentrated on restoring the basic principle of nondiscrimination to the interpretation of the laws. During 1982, for example, its appellate activity firmly established the right of persons employed by subsidiaries of foreign corporations to be free from employment discrimination based on race, color, religion, national origin, or sex. During 1983, the Department is moving to assure that corrective action mandated for employment discrimination fully "makes whole" its victims without, in turn, creating new ones. In *Firefighters v. Boston*, currently before the Supreme Court, the Department is defending this principle in regard to a court order which required the layoff of firefighters solely based on their race. Responding to the protests of female, Hispanic, and white male police officers who face the prospect of being denied promotions they have earned based solely on their race, the Department has also moved to intervene in a case

involving the New Orleans Police Department. Concurrently, the Department of Justice has filed a brief with the Supreme Court challenging the current practice of many pension plans of requiring different contributions, or providing different periodic payments, solely on the basis of the participants' sex. The Department's position in this case summarizes the thrust of its appellate efforts in this and other areas: Title VII and similar civil rights statutes protect all individuals, and require that employment and other covered decisions be made on the basis of their individual accomplishments and characteristics—not on presumptions based solely on their race, sex, national origin, or other irrelevant factors.

The President's 1984 budget provides for outlays of \$2.8 million for the Department's equal employment enforcement activities in 1984. 1982 also saw continued improvements in the effectiveness of the EEOC:

Although the number of charges received by EEOC dropped by 7%, the number of charges processed by EEOC dropped by less than 4%—and the number of persons benefitted through charge settlements increased by 36%, and the total dollar benefits obtained through such settlements increased by 10%.

Table J-11. EEOC ADMINISTRATIVE COMPLAINT PROCESSING ¹

	1980	1981	1982
Total receipts.....	56,425	58,754	54,590
Total closures.....	57,327	71,690	68,890
Persons benefitted ² through settlements.....	(³)	38,114	51,795
Total dollar value of settlements (millions).....	\$57.3	\$91.7	\$101.1

¹Includes administrative processing of charges filed under Title VII, the Age Discrimination in Employment Act, and the Equal Pay Act.

²Includes, in addition to backpay and other dollar settlements, reinstatement, hires, promotions, and other nonfinancial relief.

³No data available.

During 1982, the EEOC continued to involve State and local agencies in resolving discrimination complaints. During 1982, the Commission provided over 17.5 million in grants to State and local nondiscrimination agencies, and deferred 38,800 charges to these agencies for processing. During 1984, the EEOC will provide \$18 million in grants to State and local agencies, and will defer 40,750 charges for processing at the State and local level.

Thus, the Administration has continued and expanded the improvements secured in the 1970's in EEOC's implementation of its complaint processing and enforcement responsibilities. The Administration found, however, that many endemic management problems remained to be addressed. The General Accounting Office and the Office of Personnel Management were asked to assist in the effort to define those problems so that they might be corrected.

The GAO found that many of the same recordkeeping and financial management problems it had identified in 1976 continued to exist in 1981. The Commission had no accurate records of the

money owed it and the personnel responsible for handling the Commission's funds were poorly supervised and trained and their duties were not adequately separated to preclude fraud and waste. Compounding these difficulties, necessary financial management audits were not being performed because the agency's internal audit staff was too small to perform them. As a final result:

Table J-12. EEOC LEGAL ENFORCEMENT

	Actual		
	1980	1981	1982
Total dollar benefits through case resolutions (millions)	\$20.3	\$16.2	\$33.53
Cases in progress (end of fiscal year)	683	873	930

- The Commission's financial chaos posed the threat of "unnecessary cancellation of programmed activities, slippage of required programs, and even job losses for agency employees" because it had no accurate knowledge of the funds available for program purposes.
- Millions of dollars owed to the Commission were unavailable for program activities. For example, some \$1.1 million in travel advances were outstanding, and "very little action [had been] taken to collect or settle amounts that had been outstanding for extended periods".
- The Commission's inability to pay its bills in a timely manner cost it substantial amounts of discounts (available for timely payment) which would have increased the impact of its outlays.
- Year-end financial expenditure reports for the previous two fiscal years had been certified as correct, even though it "should have been obvious to agency personnel that the figures were incorrect".

In a separate audit of the Commission's Office of Review and Appeals, the GAO examined 19 allegations involving . . . "a wide range of alleged management and operating problems concluding that many of the allegations made were valid". GAO also found that the Commission's new leadership is "aware of the problems and . . . taking action to address them".¹⁶

The OPM study, conducted in a headquarters division and two district offices concluded that, in the units surveyed:

- "substantial overgrading" existed "and likely exists in other parts of the agency."
- The supervisory structure was "excessive and expensive."

¹⁶ "Continuing Financial Management Problems at the Equal Employment Opportunity Commission," General Accounting Office, May 17, 1982 inquiry into Alleged Operating and Management Problems in EEOC's Office of Review and Appeals" on August 29, 1982.

- Management accountability procedures did not “. . . account for the ‘quality’ or the achievement of agency’s overall objectives.”
- A work environment “beset by acrimony, improper employee conduct, poor performance, and favoritism”.¹⁷

To aid in the elimination of these deficiencies on an agency-wide basis, OPM will conduct a wider ranging survey in 1983.

The current Chairman of the EEOC, who assumed office in the closing months of the fiscal year, has inherited the challenge of addressing these longstanding problems. Chairman Thomas has encouraged evaluation by GAO and OPM and partial parties, and has rapidly implemented their recommendations. Much remains to be done through 1984, and the Chairman currently has several studies underway regarding how the agency’s general operations might be improved. After reviewing the deficiencies landed by GAO and the administration’s efforts to correct them, the Chairman of the Senate Committee responsible for oversight of the Commission’s activities observed that:

“This administration and this committee have been criticized for lack of commitment to civil rights, yet . . . Our goal has been that of increasing our efforts at pursuing those goals. Because we ask critical questions [and take] the studies of GAO seriously, we are accused of being anti-civil rights. I must question whether those who criticize are also the same as those who would allow the conditions which the GAO reviewed at EEOC to continue and thereby deny the services to the people who need the assistance for which the agency was created?”

In addition to initiating action to resolve these management problems, the Administration also took action to strengthen the protections the EEOC is responsible for assuring under the Age Discrimination in Employment Act. Emphasizing that “when it comes to retirement the criterion should be fitness for work, not year of birth”, the President announced his support for legislation eliminating mandatory retirement requirements in government and private industry based solely on age.

The President’s budget provides for outlays of \$153 million for the Equal Employment Opportunity Commission in 1984.

Of the Federal Government’s efforts to assure equal employment opportunities, the programs administered by the Department of Labor’s Office of Federal Contract Compliance Programs have most starkly posed the dilemma referred to above. 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

¹⁷“Personnel Management Evaluation Report: Personnel and administrated management in the U.S. Equal Employment Opportunity Commission”, May 1982.

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 involved 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 confrontations over which job titles belonged in which "job group", or how the eight factors for determining the "availability" of minorities and women for jobs should be considered in arriving at overall "availability" figures. Compliance with these (and related Federal) requirements generated an estimated \$1 billion per year in expenditures by employers among the "Fortune 500"¹⁸ alone. The concepts of "job groups" and "availability" could be, and frequently were, manipulated to justify failure to recruit and employ qualified minorities and women.
- 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

¹⁸ Estimate by the Equal Employment Advisory Council cited in Daniel Seligman, "Affirmative Action is Here to Stay", *Fortune*, April 19, 1982, p. 156.

to comply might nevertheless be found in noncompliance was inherent in the ambiguity of OFCCP's regulations, and was frequently realized.

The Administration is continuing its review of OFCCP's regulations to develop revisions to these regulations which will eliminate these problems, and restore the focus of OFCCP's efforts to assuring that Federal contractors make vigorous efforts, through recruitment, training, counseling and the like, to assure that minorities, women, Vietnam era veterans, and persons with disabilities are assured of every available employment opportunity consistent with their skills, abilities, and aspirations.

While the work on reforming its regulations continued, OFCCP's management completed important management reforms, including consolidating several area offices to reduce overhead.

OFCCP completed 2589 complaint investigations and 3081 compliance reviews during 1982. Of these, 404 investigations and 1294 compliance reviews produced relief for identified victims of discrimination, including \$7,149,733 backpay for 1133 persons. 17,614 identified victims of discrimination were placed in or restored to jobs.

The President's budget provides for outlays of \$47.4 million for OFCCP's nondiscrimination efforts in 1984.

In addition to those discussed above, other problems in Federal EEO enforcement remain to be addressed.

The Uniform Guidelines on Employee Selection Procedures (UGESP) require examination to assure they are not discouraging the use of valid and job related employee selection devices.¹⁹ Review of these regulations, targeted by the President's Task Force on Regulatory Relief, will continue in 1983.

In addition, there are continued problems duplication in Federal EEO enforcement, including:

- While EEOC and OFCCP have periodically negotiated memoranda of understanding intended to preclude duplicate reviews and investigations, this objective has yet to be achieved.
- The work of EEOC is also duplicated by yet other agencies, operating under Title VI and other statutes requiring nondiscrimination in federally assisted programs. Significant progress toward reducing this duplication will be made this year, with the issuance of a joint regulation by EEOC and the Department of Justice providing for referral of many employment discrimination complaints received by these agencies to the EEOC for processing. However, a substantial number will still be retained for investigation by the individual agencies. Many of the complaints retained for investigation will be class actions—with a potential for overlap with the systemic activities

¹⁹See, e.g., "Uniform Guidelines on Employee Selection Procedures Should Be Reviewed and Revised", *General Accounting Office*, July 30, 1982.

of the EEOC and (particularly with regard to colleges and universities) those of the OFCCP as well.

- In addition to the problems inherent in duplication, the cost effectiveness of these duplicate activities in identifying and resolving discrimination is questionable:

Table J-13. EXPENDITURES AND OUTCOMES, EEO ADMINISTRATIVE ENFORCEMENT ACTIVITIES ¹

	1982 Actual	
	EEOC	Other EEO programs
Total direct compliance outlays (millions) ¹	\$48.6	\$40.2
Total persons receiving relief for discrimination as a result of activities ²	51,795	18,866
Total value of financial settlements.....	\$101,194,695	\$7,262,392

¹ Compares direct outlays for EEOC's administrative processing of complaints with direct outlays for other programs' administrative processing of complaints and conduct of pre and post award compliance reviews.

² Includes all forms of relief, including hire, promotion, reinstatement, and other remedies in addition to backpay.

Civil Service Equal Employment Opportunity.—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.

Table J-14. TOTAL RESOURCES DEVOTED TO FEDERAL INTERNAL EQUAL EMPLOYMENT

	Actual		Estimate 1983	Proposed 1984
	1981	1982		
Total Outlays (millions).....	177.7	181.3	184.3	203.9
Total full time permanent internal EEO staff ¹	2,930	3,441	3,517	3,542
Total other Federal work years ²				

¹ Professional and clerical personnel employed full time in internal EEO activities.

² Effort devoted to counseling, complaint, investigations, affirmative recruitment, and other activities by individuals not employed in internal EEO positions.

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 considered for positions in which they have been determined to be underrepresented.

Despite the necessary economies which have been effected in Federal employment, the representation of minorities and women

in Federal employment has not only remained stable, but has risen somewhat:

Table J-15. **PERCENTAGE REPRESENTATION OF MINORITIES AND WOMEN IN THE FEDERAL WORKFORCE** ¹

	Total Federal employment	
	Minorities	Women
December 1980	23.5	39
July 1982 ²	23.9	39.3

	Total full time white collar employment	
	Minorities	Women
November 1980	20.9	45.6
March 1982	21.5	46

¹ Nonpostal civilian employment. Produced from the Central Personnel Data File. "Total Federal Employment" data includes all work schedules. Excludes agencies not covered by the CPDF such as: Architect of the Capitol, U.S. Botanic Gardens, Congressional Budget Office, Board of Governors of the Federal Reserve System, Library of Congress, Office of the Vice President, Office of Technology Assessment, Postal Rate Commission, Tennessee Valley Authority, the White House Office, the Central Intelligence Agency, the National Security Agency and most of the Judicial Branch. "Full Time White Collar Employment" data also excludes agencies listed above.

² Latest available figures.

During 1982, the Federal Government spent more on implementing EEO requirements in the civil service than on all external enforcement of equal employment requirements by the two largest enforcement agencies (EEOC and OFCCP) combined.

A substantial portion of this disparity is attributable to the extraordinary costliness of processing discrimination complaints against Federal agencies contributed substantially to this disparity. Federal entities devoted over \$72 million and 2,215 professional FTE's to processing EEO grievances in 1982, including \$44 million and 1,067 FTE's for processing formal complaints. While EEO counseling is usually performed as a collateral duty, most formal complaints are processed by personnel employed solely for that purpose.²⁰

Table J-16. **INTERNAL EEO COMPLAINT PROCESSING COSTS**

(In millions of dollars)

	Actual			Est. 1983	Proposed 1984
	1980	1981	1982		
Counseling.....		18.6	28.0	29.9	31.7
Direct processing of complaints*		36.8	44	47.8	51.1
Total		55.4	72	77.7	82.8

*Includes processing of formal complaints by agencies, and appellate processing by EEOC only. The Merit Systems Protection Board is responsible for processing appeals of complaints which allege both discrimination and violations of other Federal personnel requirements. The MSPB processes a substantial number of such appeals (778 in 1982 a figure expected to rise to 945 in 1984), the Board did not begin monitoring the costs of these appeals on a separate basis until this year. Detailed information on MSPB's processing of these appeals will be included in next year's Civil Rights Special Analysis.

²⁰ An increasing number of agencies have, however, been required to report to private contractors to perform such investigations. The Department of Agriculture alone spent \$297 thousand for such investigations in 1982, and expects that figure to reach \$741 thousand in 1984. In addition, Federal agencies spent over \$11 million on legal expenses associated with EEO grievances, a figure expected to exceed \$14 million in 1984.

When the costs and results of internal EEO complaint processing are compared with EEOC's record in the private sector (agencies closed 15,759 complaints in 1982 at a direct cost of \$44 million, compared with EEOC's direct costs of \$49 million to close 68,890 complaints), it is apparent that current arrangements and procedures for processing EEO complaints against Federal agencies are needlessly expensive. While it is difficult to compute the costs of processing on a complaint by complaint basis in large agencies which process many complaints, these costs are starkly apparent in the smaller entities subject to the procedures. For example, a complaint against the Pennsylvania Avenue Development Corporation (which an EEOC complaints examiner recently concluded was based on "assertions [that] are not only unsupported but are for the most part based on unfounded speculation and unreasonable suspicions") has been in processing for two years. The case has required PADC to expend \$15,000 in salary and other costs (not including additional costs for complaint counseling, performed for PADC under an inter-agency agreement by the General Services Administration, and the complaints examiner provided by EEOC) and reproduce some 2000 pages.

Among the principle reasons for the extraordinary costliness of these procedures are:

- There are twice as many steps in Federal as in private sector complaint processing. Moreover, there are as many as four administrative determinations on the merits for Federal complaints, compared with only one in processing private sector complaints. These multiple levels of review are largely designed to protect complainants against potential abuses of agency self-processing.
- Most agencies have fixed numbers of staff designated to perform the complaint processing functions. As these staff are not fungible among agencies, some agencies must hire private contractors to handle unexpectedly high workloads while other agencies' staffs are idle.
- Due to the dispersal of processing staff among agencies, quality of training and supervision varies considerably from agency to agency, as does the quality and timeliness of complaint processing.

In addition, direct agency expenditures for implementing affirmative action requirements applicable to Federal agencies are continuing to rise substantially at the same time that placement opportunities are declining in most agencies:

Table J-17. DIRECT EXPENDITURES ON AFFIRMATIVE EMPLOYMENT PROGRAMS

	Actual 1982	Estimate 1983	Proposed 1984
Total outlays (millions)	\$57.9	\$60.7	\$62.9

Through 1984, the Administration will continue to examine ways in which equal employment can be implemented in the Federal Government with greater fairness and efficiency. As the Chairman of the Equal Employment Opportunity Commission, Clarence Thomas, has forcefully observed: "We cannot afford to base decisions on the same assumptions, year after year, about the nature of the problem or the requirements for a solution. . . . We cannot afford to devote significant time and energy to policies or programs which effect no measurable progress".

Military Service equal opportunity.—During 1982, the Administration continued to improve the effectiveness of efforts to assure equal opportunities for the over 2,000,000 men and women who serve in the nation's armed forces. Over 1.5 million personnel received training designed to promote equal opportunities and preclude such problems as sexual harassment. Programs designed to assure consideration of qualified minority and women applicants resulted in the recruitment of 11,698 female and 9,481 minority officer candidates in 1982. As a result of these and similar efforts, the percentage of military officers who are women has increased by 12%, and the percentage of officers who are members of minority groups has increased by 11% since 1980:

Table J-18. PERCENTAGES OF MILITARY OFFICERS WHO ARE MINORITIES OR WOMEN

	Percentage total officers		Change 1980-82
	1980	1982	
Minorities	9.1	10.1	+ 11
Women	8.2	9.2	+ 12

These policies have also contributed to the continued-substantial percentage of enlisted personnel who are members of minority groups, and continued growth in the percentage who are women:

Table J-19. PERCENTAGES OF ENLISTED PERSONNEL WHO ARE MINORITIES OR WOMEN

	Percent total enlisted personnel	
	1980	1982
Minorities	30.3	30.3
Women	8.5	9

Service in this nation's Armed Services has traditionally attracted persons of all backgrounds who wish to progress on the basis of their individual abilities and accomplishments. This has been particularly true for members of minority groups, as the military has frequently lead other institutions in eliminating barriers based on race, national origin, and religion. Providing contemporary evidence for the President's observation that the concept of proportional representation has historically been used to exclude minorities, some have argued in recent years that the number of minorities in the military should be artificially restricted to reflect their percentage in the population as a whole. In 1982, a Presidential Task Force appointed to study military personnel issues reemphasized the Administration's rejection of this notion. In addressing this issue, the panel aptly summarized the Administration's thrust in all of the equal employment efforts discussed above:

Some observers express concern about the high proportion of blacks in the enlisted force, which is 22% . . . The population as a whole, in contrast, is 12% black. [We] do not look on this as a problem. In a volunteer force, both blacks and non-blacks who can qualify have equal freedom to enlist. The fact that many blacks volunteer is a tribute to their patriotism. Black servicemembers have served the nation ably and honorably. It would be both unnecessary and unfair to move a quota-based recruitment system to achieve some arbitrary notion of a proper racial balance.

ENFORCING EQUAL HOUSING OPPORTUNITY

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 primarily 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.

Title VIII provides for deferral for complaints filed with HUD to State and local fair housing agencies with equivalent statutory authority. During 1982 HUD continued its aggressive efforts to expand involvement of State and local agencies in assuring Fair Housing. HUD obligated over \$5 million for direct grants and technical assistance to help State and local agencies develop proce-

dures, train staff, and other measures necessary to develop the capacity to process fair housing complaints. As a result, the number of State and local agencies participating in charge processing grew from 42 to 61, an increase of 60%. Through 1984, HUD expects to increase the number of participating State and local agencies to 90—almost tripling the number in the program at the beginning of 1981. Through 1984, the number of Title VIII complaints processed at the State and local rather than the Federal level will further increase in 1984. The costs of the program, however, will decrease (to \$3.7 million a year, mostly in grants to defray the costs of complaint processing) because the initial high outlays for start-up costs will no longer be necessary.

Table J-20. NUMBER OF STATE AND LOCAL AGENCIES WITH CHARGE PROCESSING AGREEMENTS

End of fiscal year—	Number
1980.....	32
1981.....	42
1982.....	67
1983 (estimated).....	70
1984 (estimated).....	90

During 1982, HUD invested similar “seed money” in local Community Housing Resource Boards. These Boards initiate affirmative marketing and other voluntary efforts to assure fair housing. Some 613 of these Boards were in existence at the end of 1982, and it is anticipated that an additional 50 will be organized in 1983. Again, costs will decrease as the initial capacity building is completed: from obligations of \$2.1 million in 1982 to \$1 million in 1984.

Table J-21. TOTAL FAIR HOUSING COMPLAINTS PROCESS BY HUD AND STATE AND LOCAL AGENCIES

	Total closures	Percent change, 1980-82
Year:		
1980.....	2,860	
1982.....	4,230	+ 48%

These investments in the abilities of the private sector and State and local governments will reduce the incidence of violations which give rise to complaints. Where complaints are filed, more will be resolved by the States and communities in which the parties reside. During 1982, for example, HUD referred 56.7% of the complaints it received to State and local agencies for process (compared with only 13% in 1980), and State and local agencies were responsible for over 58% of all voluntary complaint settlements achieved under Title VIII. As a result of this cooperation between HUD and State

and local agencies, there has been a substantial increase in the service provided to persons filing complaints under Title VIII, with 41% more complaints closed in 1982 than in 1980.

Table J-22. FAIR HOUSING COMPLAINTS REFERRED TO STATE AND LOCAL AGENCIES

	Actual		
	1980	1981	1982
Complaints received	3,039	4,209	4,726
Complaints referred	410	1,661	2,679

The Department of Justice's Civil Rights Division is responsible for litigating alleged pattern and practice violations of Title VIII. During 1982, the Department settled 3 major housing discrimination cases and filed 2 new suits. The Division negotiated a consent decree in a redlining suit brought under both the credit and housing statutes. This settlement provides comprehensive relief to assure that persons living on American Indian Reservations in Arizona will not be denied mortgage loans because the property interest involved reservation land, and that applications by Indians for nonhousing loans would be fairly evaluated. After a trial, the Division obtained a favorable decision and remedial order in a case involving a city in suburban Detroit which had violated the Fair Housing Act by blocking construction of housing for low-income and elderly persons in response to racially motivated opposition. This Division is continuing its vigorous enforcement of Title VIII in 1983. In January, the Division filed a major suit alleging systemic violations of the Fair Housing Act by the city of Cicero, Illinois.

The Department of Justice's appellate activity resulted in a Supreme Court ruling with particular significance for the future of Title VIII enforcement. This ruling sanctioned the use of "testers" in identifying the remaining vestiges of denial of fair housing opportunities.

ENFORCING 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.

Despite the wide dispersal of authority for enforcing ECOA and other fair lending laws many of the problems of duplication pres-

ent in other areas of dispersed responsibility have been avoided in the enforcement of these statutes. Because the structure for enforcing ECOA reflects the division of responsibility for the overall regulation of financial institutions, agencies are able to review compliance with ECOA and other financial regulations at the same time. As the distinctions among financial institutions (which originally gave rise to separate regulatory bodies for the different classes of institutions) have been substantially eroded in recent years, the Administration is currently examining the extent to which separate regulatory bodies continue to be required.

Since the passage of the ECOA, the Department of Justice's Civil Rights Division has worked closely with Federal regulatory agencies and have filed significant suits challenging the nonhousing lending practices of banks, small loan companies and retail creditors as well as the practices of real estate appraisers and mortgage lenders. The suits include cases against large creditors—one defendant processes approximately 4,000,000 loan applications each year—and will clearly have a substantial impact on the industry. In addition to negotiating a consent decree in the "redlining" suit (discussed above under Fair Housing), the Division also completed the first trial on the merits of a government-initiated credit case, and filed a suit alleging that the nation's third largest small loan company is unlawfully discriminating on the basis of sex and marital status. A total of five Equal Credit suits were in progress at the close of 1982.

The President's budget for 1984 provides for outlays of \$700 thousand for ECOA litigation by the Department of Justice. As several of the entities responsible for the administrative enforcement of ECOA and other fair lending requirements (e.g., the Federal Reserve Board, the agency designated by Congress to coordinate enforcement of the Equal Credit Opportunity Act) are not required to submit their budgets to OMB for review, no total outlay data for administrative enforcement are available.

CIVIL RIGHTS RESEARCH: CONTINUING THE SEARCH FOR 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.

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. The President has announced his support for extending the Congressional authorization of the Commission (due to expire this year) in his State of the Union Message.

This is but one indication of the importance to this Administration of the Commission's mandate to assure that the laws protecting individuals against discrimination are faithfully executed.

Table J-23. U.S. COMMISSION ON CIVIL RIGHTS RESEARCH AND INFORMATION DISSEMINATION, RESOURCE OUTLAYS BY PROGRAM AREA

	Actual outlays			Estimated 1983	Proposed 1984
	1980	^a 1981	1982		
Federal service EEO.....	(¹)	385	227	239	606
Private sector EEO.....	(¹)	2,971	3,984	4,172	3,996
Fair Housing.....	(¹)	616	690	597	1,211
Nondiscrimination in provision of federally assisted services and benefits.....	(¹)	2,602	3,299	3,580	3,265
Voting rights.....	(¹)	1,237	819	716	484
Civil and Constitutional Rights.....	(¹)	3,897	2,641	2,505	2,422
Minority business enterprise programs.....	(¹)	103	138	119	121
Total.....	11,485	11,712	11,788	11,928	12,214

¹ Prior to 1981, OMB did not request a breakdown by research category.

² Difference between total research outlays and total Commission outlays represents internal EEO expenditure for all years except 1981. In 1981, the Commission reported \$183 thousand in expenditures for processing complaints of civil rights violations of various kinds.

The Women's Bureau of the Department of Labor is continuing to explore new approaches to addressing employment problems affecting women, with particular attention to initiatives involving the private sector and State and local governments. During 1982, for example, the Bureau worked with private employers and State and local governments on programs to improve opportunities for women in construction apprenticeships, and to address the employment problems of female ex-offenders, displaced homemakers, and older women.

BY PRECEPT AND EXAMPLE: TAKING RIGHTS SERIOUSLY . . .

"Yes, there are differences over how to attain the equality we seek for all our people. And sometimes, amidst all the overblown rhetoric, the differences tend to seem bigger than they are. But actions speak louder than words. . . ."

PRESIDENT REAGAN, June 29, 1982

Thus, the Federal involvement in assuring civil rights reflects a national commitment to implementing our highest ideals. The Administration's accomplishments in restoring substance to this involvement are significant when judged by the traditional measures: resources devoted to civil rights enforcement;²¹ management im-

²¹ The Administration has made equally significant progress in areas which are related to, but not covered, by this Analysis. On December 17, 1982, President Reagan announced a plan to create and expand more than 120,000 new and existing minority businesses in the next ten years. Approximately \$1.5 billion in credit assistance and \$300 million in management and technical assistance will be made available in support of this effort. The Administration has also moved to strengthen historically black colleges and universities. The President signed an Executive Order strengthening the Federal commitment to these institutions, and the Administration has provided \$9.6 million in additional Title III funding (an 8% increase). The Administration's quick action to save Meharry Medical College (which has trained more than 40% of all black physicians) is particularly worthy of note. The Administration not only provided several million dollars in assistance to the medical school, but acted to expand Veterans' Administration's affiliation with it. Such expanded affiliation had been sought by Meharry, without success, through several previous administrations.

provements; cases and charges handled; actions brought; settlements reached; and compensation and opportunities restored to wronged individuals.

But the Administration's most important contributions, and those by which its commitment may best be measured, have been its efforts to restore substance to the definition of the civil rights which the Federal Government enforces. The Administration has reaffirmed the original vision which lies at the heart of our national commitment: an America that is colorblind, gender-neutral, ethnically and religiously tolerant and diverse; an America which judges individuals on the basis of their abilities. And it has reemphasized the clear meaning of the statutes intended to implement this commitment: that these laws protect individuals against treatment based solely on their race, sex, color, national origin, religion, or disability; and that they mandate equal access to opportunities for all individuals.

Considerable progress remains to be achieved. Through 1984, this Administration will neither diminish its reaffirmation of America's commitment to equal treatment, nor shrink from the measures required to give it effect as well as expression. And there will be persons of good will who will continue to call for a return to expedients which, for a time, were allowed to substitute for that commitment. But the likelihood of debate on those measures will continue to reflect, not a division of purpose, but the intensity of our common national commitment.

Table J-24. CIVIL RIGHTS OUTLAYS BY DEPARTMENT AND AGENCY

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Department of Agriculture.....	15.3	17.0	17.7
Department of Commerce.....	3.7	4.4	4.4
Department of Defense	117.0	125.0	133.9
Department of Education ¹	45.3	45.0	45.3
Department of Energy ¹	3.1	3.4	3.7
Department of Health and Human Services.....	27.1	27.9	28.8
Department of Housing and Urban Development.....	24.6	34.0	30.4
Department of the Interior	10.3	10.4	10.5
Department of Justice.....	39.9	43.7	46.9
Department of Labor.....	52.6	54.5	58.7
Department of State	.3	.5	.4
Department of Transportation.....	13.9	14.6	15.1
Department of the Treasury.....	11.2	11.7	12.2
Equal Employment Opportunity Commission	137.6	147.0	153.0
Commission on Civil Rights.....	11.89	12.04	12.21
Office of Personnel Management.....	3.6	3.3	3.8
Small Business Administration	2.4	2.4	2.4
Veterans Administration	11.4	12.2	13.4
All other Executive agencies ²	17.0	17.2	18.3
(U.S. Postal Service) ³	18.0	19.6	21.4
(Legislative Branch—GAO, GPO) ³	1.4	1.4	1.6

Table J-24. CIVIL RIGHTS OUTLAYS BY DEPARTMENT AND AGENCY—Continued

(In millions of dollars)

	1982 actual	1983 estimate	1984 estimate
Total.....	567.6	607.2	634.1

¹ The Education and Energy activities included under these accounts will be proposed for reassignment to appropriate executive departments and agencies pursuant to reorganization legislation to be submitted at a later date.

² Includes outlays by 49 agencies.

³ U.S. Postal Service and Legislative Branch outlays appear in the Annexed Budget and are included here for memorandum purposes only.

Table J-25. TOTAL ESTIMATED FEDERAL CIVIL RIGHTS EXPENDITURES BY CATEGORY, FISCAL YEAR 1984

(In millions of dollars)

Category	Total estimated expenditures
Federal Civilian Equal Employment Opportunity	203.9
Military Equal Opportunity	51.8
Private Sector and non-Federal Public Sector Equal Employment Opportunity	211.5
Fair Housing	28.4
Nondiscrimination, Federally Assisted Programs	94.2
Equal Credit Opportunity	5.3
Voting Rights	4.8
Other Civil and Constitutional Rights	30.8

Table J-26. TOTAL FULL-TIME PERMANENT CIVIL RIGHTS STAFF BY EXECUTIVE DEPARTMENT AND AGENCY, FISCAL YEAR 1984 (ESTIMATE)

	Total ¹	Internal EEO	External programs ¹
Department of Agriculture.....	173	109	64
Department of Commerce.....	86	79	7
Department of Defense.....	2,486	² 2,407	33
Department of Education.....	965	15	950
Department of Energy.....	50	41	9
Department of Health and Human Services.....	688	179	509
Department of Housing and Urban Development.....	582	47	535
Department of the Interior.....	224	220	4
Department of Justice.....	905	156	749
Department of Labor.....	1,215	66	1,150
Department of State			
Department of Transportation.....	119	88	31
Department of the Treasury.....	254	214	40
Equal Employment Opportunity Commission	2,980	18	2,962
Commission on Civil Rights	236	3	233
Office of Personnel Management.....	45	45	
Small Business Administration	50	14	32
Veterans Administration	73	70	3
All other Executive agencies.....	500	345	16
(U.S. Postal Service).....	416	416	NA
(Legislative Branch—GAO, GPO)	26	26	NA
Total.....	12,074	4,558	7,327

¹ 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.

² Includes 917 FTP staff devoted to military service equal opportunity.

Table J-27. **DISTRIBUTION OF PROFESSIONAL FTE's* AMONG PROGRAM CATEGORIES, EXECUTIVE DEPARTMENTS AND AGENCIES, FISCAL YEAR 1984 ESTIMATE**

	<i>Total FTE</i>
Federal service equal opportunity	5,365
Military service equal opportunity.....	2,566
Private sector and non-Federal public sector equal employment opportunity	3,020
Fair housing	168
Nondiscrimination, federally assisted programs.....	1,939.26
Equal Credit Opportunity.....	151
Voting rights	96
Other Civil and Constitutional Rights	370

*Includes all professional FTE's devoted to the designated activities.

SPECIAL ANALYSIS K

RESEARCH AND DEVELOPMENT

This analysis covers the funding of research and development across all departments and agencies with R&D programs of \$10 million or more, representing over 99% of total Federal funds for R&D. It consists of two sections. The first highlights the R&D policies and trends in the 1984 budget. The second describes in more detail the R&D programs of 13 agencies whose R&D obligations individually exceed \$150 million.

PART I. HIGHLIGHTS

Total Federal funding for research and development, including R&D facilities, is proposed at \$47.0 billion in 1984, an increase of \$6.9 billion or 17% above the 1983 level of \$40.1 billion. Included within the overall R&D funding is support for the conduct of basic research, estimated to increase by 10%, from \$6.0 billion in 1983 to \$6.6 billion in 1984, including an 18% increase in programs of the National Science Foundation.

The Federal Government funds R&D activities to serve two broad purposes:

- To meet specific Federal Government needs—where the principal user of the R&D is the Government itself—for example, to ensure a strong national defense;
- To meet broad national needs—where the Federal Government supports R&D that the private sector lacks incentive to invest in adequately, in the national interest—to help assure the strength of the economy and the quality of life for all people. Included in this category are, for example, agricultural and health research; support of basic research through programs of the National Science Foundation and the general science programs of the current Department of Energy; and the pursuit of selected long-term energy technologies, such as magnetic fusion.

The 1984 budget continues to reflect the established policies of the Administration in funding R&D but further strengthens support in areas of major Federal responsibility. It provides for:

- Major increases across all R&D programs of the Department of Defense;
- A significant increase in Government-wide support of basic research with emphasis on support of research in the physical

K-1

sciences and engineering. Advances in these fields are key to future national defense and the long term competitiveness of the U.S. economy, particularly in high technology industries.

- A number of major new initiatives, particularly in energy-related programs, currently in the Department of Energy, and in NASA that will significantly enhance the research productivity of the Nation's scientific community especially in basic research. These include a new center for materials research at the Lawrence Berkeley Laboratory, expansion of the National Synchrotron Light Source at Brookhaven National Laboratory, a new colliding beam facility at the Stanford Linear Accelerator Center, and a numerical aerodynamic simulation capability at NASA's Ames Research Laboratory.
- Continued reductions in Federal support of nearer-term R&D and demonstration programs (e.g., in energy technologies). For such programs the private sector, not the Federal Government, has the expertise and capability to select and fund the advancement of technologies that can be successfully brought into the marketplace. To complement private sector efforts, the Federal Government's role is primarily to create an economic climate conducive to private investments, through such measures as tax incentives and reductions in the burden of regulations. Federal Government investments should be limited to longer term research and technology support which the private sector does not have the economic incentive to provide for adequately to serve the national interest.

The Administration will further seek, in 1984, to make more effective use of increased research funds, particularly in the basic sciences to:

- Attract the highest caliber scientists and engineers, particularly young faculty members, into research and encourage and support them in their careers. These efforts will assist in ensuring a high quality scientific workforce to meet needs of the Nation both in the near and the long term;
- Encourage greater and more creative interaction among university, Government and industry scientists to bring the Nation's best scientific expertise together in addressing the most challenging scientific and technical problems and opportunities; and
- Upgrade the scientific instrumentation of universities to enhance productivity and excellence in research and the training of scientists and engineers.

The 1984 budget also includes proposed efforts by the NSF and the Department of Education to improve the teaching of science and mathematics in the Nation's secondary schools. Though not covered in this analysis, these efforts will help in improving the

capability of the future work force to contribute to economic growth in an increasingly technological society.

Total obligations and outlays for the conduct of all Federal R&D programs and for related facilities are shown in Table K-1.

TABLE K-1. TOTAL FEDERAL FUNDING FOR CONDUCT OF R&D AND RELATED FACILITIES

(In billions of dollars)

	Obligations			Outlays		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Conduct of R&D	36.4	38.9	45.8	34.5	37.7	42.7
R&D Facilities	1.2	1.2	1.2	1.3	1.2	1.1
Total	37.6	40.1	47.0	35.8	38.9	43.8

CONDUCT OF RESEARCH AND DEVELOPMENT

The 1984 budget includes \$45.8 billion in obligations for the conduct of R&D, an increase of \$6.9 billion or 18% over 1983. Highlights of the programs of the major R&D agencies that account for 93% 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 are estimated at \$29.9 billion in 1984, an increase of \$6.7 billion or about 29% above 1983. This represents 65% of the total Federal funds for R&D proposed for 1984. The increased funds are proposed for R&D largely related to advanced strategic systems such as the Peacemaker and Trident II ballistic missiles. In addition, the Department would also provide for increased emphasis on basic research in such areas as materials and microelectronics, and advanced technology development in such areas as very high speed integrated circuits.
- **National Aeronautics and Space Administration (NASA).**—Obligations for the conduct of R&D by NASA are estimated at \$2.5 billion in 1984, about equal to 1983. The 1984 request would allow NASA to pursue a vigorous program of space science, applications, and advanced technology for space projects and future aircraft. The 1984 budget proposes several new initiatives such as a Venus Radar Mapper to provide a map of the surface of Venus, a numerical aerodynamic simulation capability, and development of advanced composites for large aircraft structures. Previously approved projects such as the Space Telescope, and the Advanced Communications Technology Satellite (ACTS) will be continued.

- **Energy Related Activities.**¹—Obligations for the conduct of R&D programs currently in the Department of Energy are estimated at \$4.7 billion, about the same as in 1983. However, basic research funding would be increased by \$160 million, or more than 18% over 1983. Increases are proposed to strengthen the nuclear weapons R&D program, to enhance support for long-term energy research, and to maintain a strong national basic science effort in high energy and nuclear physics. These increases are offset by proposed reductions in support for nearer-term energy technologies such as fossil and solar demonstrations, where reliance is placed on private sector support.
- **Department of Health and Human Services (HHS).**—Obligations for the conduct of R&D in HHS are proposed for an increase of \$100 million, from \$4.3 billion in 1983 to \$4.4 billion in 1984. This represents a 12% increase over the two year period, 1982-1984. The National Institutes of Health (NIH) account for about 87% of total R&D funding by HHS. An increase of \$71 million above 1983 is proposed for R&D programs of NIH, including basic research in the biomedical sciences.
- **National Science Foundation (NSF).**—R&D obligations by NSF are expected to increase by \$180 million, or 17%—to \$1.2 billion in 1984. The additional funds will largely be devoted to strengthening support of basic research in the mathematical and physical sciences and engineering, that support long-term economic growth. This increase also provides additional funds for upgrading research instrumentation at universities.

Table K-2 summarizes Federal support for the conduct of R&D by agency.

CONDUCT OF BASIC RESEARCH

The 1984 budget continues to reflect the Administration's view that investments in basic research across all scientific disciplines are critical to the long-term economic strength of the Nation and the well-being of its citizens. Basic research in such fields as mathematics, physics, chemistry, and engineering provides the foundation, in the long term, for a strong national defense, and leads to new discoveries and new technologies and industries that enhance U.S. competitiveness, employment and the quality of life.

Federal Government funding for the conduct of basic research is included within the total support for the conduct of R&D. In 1984, obligations for the conduct of basic research are estimated at \$6.6 billion, an increase of \$594 million or 10% above the 1983 level.

¹These programs, along with other activities currently funded by the Department of Energy, will be proposed for reassignment to other Executive departments and agencies.

TABLE K-2. CONDUCT OF RESEARCH AND DEVELOPMENT BY MAJOR DEPARTMENTS AND AGENCIES

(In millions of dollars)

Department or agency	Obligations			Outlays		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Defense-Military Functions	20,576	23,179	29,882	18,201	21,847	26,844
Energy Related Activities.....	4,758	4,712	4,713	4,974	5,012	4,911
Health and Human Services	3,935	4,316	4,416	3,978	4,262	4,339
(National Institutes of Health)	(3,432)	(3,771)	(3,842)	(3,438)	(3,737)	(3,808)
National Aeronautics and Space Administration..	3,084	2,506	2,473	3,220	2,386	2,421
National Science Foundation.....	975	1,060	1,240	1,014	1,002	1,137
Agriculture	798	850	849	808	839	848
Transportation	309	393	519	349	376	451
Interior	381	373	329	392	411	348
Commerce	290	312	227	285	315	249
Environmental Protection Agency	335	241	208	336	295	250
Nuclear Regulatory Commission	221	210	200	209	210	200
Veterans Administration	140	165	163	138	157	156
Agency for International Development	165	152	161	179	200	152
All other ¹	388	391	418	426	425	433
Total	36,354	38,860	45,796	34,509	37,735	42,741

¹ Includes the Departments of Education, Justice, Labor, Housing and Urban Development and Treasury, the Tennessee Valley Authority, the Smithsonian Institution, the Corps of Engineers, and the Federal Emergency Management Agency.

This increase will result in a "real" growth in the Government-wide support of basic research of more than 4% above 1983.

For agencies primarily supporting basic research in the physical and engineering sciences, particularly DOD, NASA, NSF, and including the energy-related programs currently under DOE, the increase in 1984 will be 15% over 1983.

Support for basic research in the life sciences, particularly in NIH, has been growing significantly in recent years. The Administration is seeking, through emphasis on the physical and engineering sciences in the 1984 budget, to balance Federal support of basic research across all major disciplines.

Enhanced support of basic research will further strengthen the scientific capability of the Nation's universities whose researchers receive about half of the total Federal obligations for basic research and conduct about 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		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Agencies supporting primarily physical sciences and engineering: ²						
National Science Foundation.....	916	998	1,181	954	943	1,083
Energy Related Activities.....	777	861	1,021	774	859	1,001
Defense—Military Functions.....	686	769	867	603	746	776
National Aeronautics and Space Administration.....	538	605	682	537	588	658
Interior.....	74	88	89	74	89	94
Commerce.....	17	18	16	16	16	17
Other Agencies ³	9	7	8	9	7	8
Subtotal.....	3,017	3,347	3,864	2,967	3,249	3,636
Agencies supporting primarily life and other sciences: ⁴						
Health and Human Services.....	1,953	2,184	2,238	1,962	2,154	2,214
(National Institutes of Health).....	(1,840)	(2,049)	(2,086)	(1,835)	(2,022)	(2,068)
Agriculture.....	331	362	381	338	356	380
Smithsonian Institution.....	55	60	68	47	60	62
Environmental Protection Agency.....	33	21	17	30	25	22
Veterans Administration.....	13	15	15	13	15	15
Education.....	16	16	14	22	22	18
Other Agencies ⁵	22	22	22	22	23	13
Subtotal.....	2,422	2,678	2,755	2,434	2,655	2,723
Total.....	5,439	6,025	6,619	5,401	5,904	6,359

¹ Amounts reported in this table are included in totals for conduct of R&D.² Includes mathematics and computer sciences.³ Includes the Corps of Engineers, the Federal Emergency Management Agency, the Tennessee Valley Authority, and the Department of Transportation.⁴ Includes psychology and social sciences.⁵ Includes the Departments of Labor, Justice, and Treasury, and the Agency for International Development.

R&D FACILITIES

Excellence in research and development requires the availability of modern facilities and equipment. Additional funding for research equipment and instrumentation is included in support for the conduct of R&D including basic research. Funds identified separately by Federal departments and agencies for R&D facilities are summarized in Table K-4.

Obligations for R&D facilities, which include primarily construction or renovation of general purpose laboratories and research support facilities, would decrease by \$54 million, to \$1,195 million in 1984.

Trends in the funding of R&D facilities generally reflect program directions in agency support for the conduct of R&D as described below.

Table K-4. RESEARCH AND DEVELOPMENT FACILITIES BY MAJOR DEPARTMENTS AND AGENCIES

(In millions of dollars)

Department or agency	Obligations			Outlays		
	1982 actual	1983 estimate	1984 estimate	1982 actual	1983 estimate	1984 estimate
Energy Related Activities.....	762	619	501	804	623	532
Defense—Military Functions.....	290	323	438	232	289	349
National Aeronautics and Space Administration..	92	160	156	109	136	129
Health and Human Services.....	29	60	29	38	31	35
(National Institutes of Health)	(20)	(21)	(26)	(35)	(20)	(20)
Agriculture	30	38	26	30	45	22
All other ¹	30	49	45	40	34	48
Total.....	1,234	1,249	1,195	1,253	1,158	1,114

¹Includes the Departments of Transportation, Commerce, Interior, and Treasury, the Agency for International Development, Veterans Administration, Tennessee Valley Authority, Smithsonian Institution and the National Science Foundation.

PART II. AGENCY R&D PROGRAMS

Presented below are summaries of the R&D activities of the 13 agencies whose R&D obligations individually exceed \$150 million.

DEPARTMENT OF DEFENSE

The Defense R&D program is oriented toward the development of strategic and tactical weapons and supporting systems to provide for the Nation's defense. DOD obligations for the conduct of R&D in 1984 would total \$29.9 billion, an increase of \$6.7 billion over 1983. Within the total, funding for basic research would increase by \$98 million to \$867 million in 1984. R&D facilities funding would total \$438 million, up from \$323 million in 1983. Major R&D efforts by DOD mission category in 1984 include:

Technology Base and Advanced Technology Development.—The purpose of these programs is to investigate promising new technologies and to avoid technological surprise by potential adversaries. The Very High Speed Integrated Circuits program will continue to push for further miniaturization of microelectronic devices. Increased attention also will be paid to human factors in the Defense mission. Protection against chemical agents, aids for use in training of personnel and exploration of the relation between man and machine will be stressed. Other areas of focus include information processing, materials research, fault-resistant electronics and advanced computer languages.

Strategic Programs.—In addition to the Peacekeeper and Trident II efforts, continued emphasis will be given to ballistic missile defense, an advanced technology bomber and an anti-satellite system. The communications and control systems that are needed for these and existing systems will also receive increased emphasis.

Tactical Programs.—Systems are under development that will improve the capability of U.S. general purpose and theater nuclear forces, and allow the rapid deployment of those forces wherever the vital interests of the U.S. are threatened.

- The Army is continuing work on upgrades to the M-1 tank and Bradley Fighting Vehicle System and is increasing its efforts on remotely piloted vehicles and some areas of air defense.
- The Air Force is developing a deep strike interdiction version of an existing fighter aircraft, a more reliable fighter engine, an air-to-air missile and a new trainer aircraft for undergraduate pilot training.
- The Navy is developing a lightweight anti-submarine torpedo, a new longer range anti-submarine missile and a new destroyer. 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 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.

Table K-5. DEPARTMENT OF DEFENSE—MILITARY RESEARCH AND DEVELOPMENT

(In millions of dollars)

Type of activity	1982 actual	1983 estimate	1984 estimate
OBLIGATIONS			
Conduct of R&D:			
Research, development, test and evaluation:			
Technology base.....	2,945	3,137	3,555
Advanced technology development	750	826	1,211
Strategic programs.....	4,846	5,747	8,978
Tactical programs.....	6,750	7,222	8,705
Intelligence and communications.....	2,104	2,686	3,474
Program management and support.....	2,538	2,869	3,236
Other appropriations.....	642	692	722
Total conduct of R&D.....	20,576	23,179	29,882
Total conduct of basic research, included above.....	(686)	(769)	(867)
R&D facilities.....	290	323	438
Total obligations.....	20,866	23,502	30,320
OUTLAYS			
Conduct of R&D.....	18,201	21,847	26,844
R&D facilities.....	232	289	349
Total outlays.....	18,432	22,136	27,194

NATO Cooperation.—Cooperation in research and development and joint production of new weapon systems will be pursued to make the best use of Alliance resources. Funding for these activities is not identified separately in Table K-5 but is included in the other categories listed in that table.

Table K-5 provides the details of the Department of Defense military R&D funding.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Through the programs of NASA, the Federal Government develops and operates the Shuttle based Space Transportation System and makes investments in R&D that yield other new space technologies to improve the national security and the long term scientific and technological strength of the Nation. NASA programs also provide new knowledge about the Earth, the solar system, and the universe.

Now that the Space Shuttle is in its operational phase, it is no longer appropriate to classify all of NASA programs as R&D. Therefore, the amounts shown for 1982, 1983, and 1984 for NASA R&D exclude funding for Shuttle production and operation, tracking and data acquisition activities, and related institutional support.

In 1984, R&D obligations for the agency will decrease slightly due to spending patterns on previously initiated projects, although new obligational authority for R&D activities is projected to increase by \$44 million. Basic research obligations by NASA in 1984 would amount to \$682 million, an increase of \$77 million over 1983. Obligations for construction of R&D facilities in 1984 would total \$156 million.

Space Transportation.—With the initiation of Space Shuttle operations in November 1982, the major R&D phase of the Shuttle program has been concluded. A fully operational and cost effective Shuttle is essential to exploit space effectively and to help maintain U.S. leadership in space throughout this century.

Space Transportation R&D activities provided by the 1984 budget include Shuttle modifications and improvements and continued development of two versions of the Centaur upper stage—a new high energy upper stage for use with the Shuttle. Also included will be a tethered satellite program to extend the use of the Shuttle to conduct scientific experiments in the boundary region between space and the Earth's upper atmosphere. The tethered satellite will be an international cooperative program with the Italian government.

Space Science.—In this area, spacecraft in flight are conducting deep space astronomical observations from Earth orbit or exploring the solar system.

- The High Energy Astronomy Observatory (HEAO), launched in 1979, 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 for an encounter in 1986.
- The flight of several other smaller scientific satellites (e.g., International Ultraviolet Explorer) will be continued.

The 1984 budget supports continuation of the flight of these satellites in space and the 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.
- 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 1986 and will arrive at Jupiter in 1988 to carry out long-term studies of the planet, its satellites, and its magnetosphere.

In 1984, funds are also proposed to initiate the Venus Radar mapper project, for a 1988 launch, to map the planet. A new Explorer class project for research in ultraviolet astronomy will also be initiated, recognizing the potential of lower cost missions to conduct important science experiments in space.

Space and Terrestrial Applications.—The 1984 budget continues to support research that could lead to the broad application of space technology to national needs. The 1984 budget proposes continued funding for space-related research activities to:

- Improve understanding of Earth resources, climate, weather, and pollution;
- Advance knowledge in materials science and materials processing through low gravity experiments in space;
- Extend the capability for satellite communications to higher frequencies than those employed with current satellites;

The 1984 budget reduction for Space and Terrestrial Applications reflects decreasing obligations in two major projects that are nearing completion, Landsat and the Earth Radiation Budget Experiment (ERBE). However, the budget also includes increasing obligations for an Advanced Communications Technology Satellite (ACTS), while funding for other continuing programs will be maintained at about the same level as in 1983.

Landsat D, the fourth in the series of experimental Earth observing satellites, was launched successfully in July 1982 and is performing satisfactorily. A follow-on satellite will be completed in 1984, ready to succeed Landsat D when needed. Space remote-sensing technology, such as that employed by Landsat D, has the potential to improve our ability to manage critical Earth resources.

The ERBE satellite will be launched by the Shuttle in 1984. The program is designed to provide global measurements of the level of solar and cosmic radiation absorbed by the Earth and also map levels of ozone and other aerosols in the stratosphere. Such observation will help improve our understanding of the factors that determine the Earth's climate.

TABLE K-6. NATIONAL AERONAUTICS AND SPACE ADMINISTRATION—RESEARCH AND DEVELOPMENT

(In millions of dollars)

Type of activity	1982 actual	1983 estimate	1984 estimate
OBLIGATIONS			
Conduct of R&D:			
Space transportation systems	890	117	183
Space science	582	752	779
Space and terrestrial applications	319	398	289
Aeronautical research and technology	258	313	300
Space research and technology	118	131	138
Tracking and data acquisition	12	8	22
Research and program management	905	787	762
Total conduct of R&D	3,084	2,506	2,473
Total conduct of basic research, included above	(538)	(605)	(682)
R&D facilities	92	160	156
Total obligations	3,176	2,666	2,629
OUTLAYS			
Conduct of R&D	3,220	2,386	2,421
R&D facilities	109	136	129
Total outlays	3,329	2,522	2,550

The development of the ACTS will be a joint venture of government and industry and will provide advanced, higher frequency, satellite communications technology for use later in the decade.

Aeronautical Research and Technology.—The 1984 budget includes funds for a significant enhancement in new obligational

authority for research in fundamental aeronautical disciplines such as fluid and thermal physics, materials and structures, and propulsion. In addition, technology development at the concept, technique or component level would also be enhanced. Planned obligations for aeronautical R&D will decrease slightly in 1984 because of the extraordinary rate of obligations against prior year authority experienced in 1983. New budgetary authority would increase from \$280 million in 1983 to \$300 million in 1984.

Funds are included for initiating in 1984, the development of a numerical aerodynamic simulation capability which will further the state-of-the-art of aerodynamic research and design and will also be an important tool for research in areas such as climate modeling and computational chemistry.

The 1984 budget also provides for research and technology development related to the use of composite materials in large aircraft structures. These lightweight materials would result in longer-range and more efficient military and civil aircraft.

Agency-wide support activities.—Obligations for agency-wide support activities would remain at about the 1983 level. These programs include primarily NASA civil service and administrative costs supporting R&D activities, construction and maintenance of the agency's R&D facilities, and R&D addressing fundamental space technology problems and opportunities common to a wide spectrum of space programs.

Table K-6 provides the details of NASA's R&D funding.

ENERGY RELATED ACTIVITIES

Energy related R&D, currently supported by the Department of Energy, covers a broad range of activities: a *National Defense Program* related to the development and testing of nuclear weapons; a *General Science Program* of basic research in high energy physics and nuclear sciences; and an *Energy Program* focused on long-term R&D. Table K-7 provides summary information on the funding of these programs.

Obligations for the conduct of energy related R&D (including facilities) are estimated to total \$5.2 billion in 1984, a decrease of \$117 million from 1983. Obligations in 1984 for R&D facilities, including the construction or upgrading of laboratories and other research support facilities, will amount to \$501 million.

Obligations for the conduct of basic research, included in the total for the conduct of R&D, are estimated to be slightly over \$1 billion in 1984. This represents an increase of \$160 million, or more than 18% over the 1983 level. Within the basic research total, \$82 million would be provided to initiate a number of major new projects in both the Energy Program and the General Science Pro-

gram, that will significantly improve the Nation's capacity for basic research at the frontiers of science. These include:

- initiation of a national advanced materials research center at the Lawrence Berkeley Laboratory to improve the linkages among academic, national laboratory, and industry scientists for the future advancement of high technology industries;
- expansion of the National Synchrotron Light Source at Brookhaven National Laboratory to meet the growing need of industry, national laboratories, and universities for this research tool;
- building on a rapid time scale, a linear colliding beam accelerator at the Stanford Linear Accelerator Center to demonstrate the feasibility of new techniques for very high energy electron-positron collisions;
- upgrading of on-campus Van de Graaff accelerators at the University of Washington and Yale University to maintain the performance capabilities of two essential components of the university based nuclear physics research program; and
- a \$6 million university instrumentation procurement program to provide large state-of-the-art equipment used in energy-related research areas.

Highlights of the Energy related R&D activities by major programs are provided below:

The *National Defense Program* primarily supports the continued development and testing of nuclear weapons. It also supports the development of improved technologies for monitoring nuclear weapons treaties and of improved methods for safeguarding nuclear materials. In addition R&D efforts will continue in developing methods for the safe storage and disposal of radioactive wastes resulting from weapons production, and research on improved propulsion reactors for naval vessels. Obligations for the National Defense Program for the conduct of R&D will increase from \$1.7 billion in 1983 to \$1.9 billion in 1984. Funds for R&D facilities in 1984 include construction of the Waste Isolation Plant (WIPP) in New Mexico for R&D on disposal of nuclear waste. Conduct of R&D increases provide funds for staff additions to strengthen the national weapons laboratories, for increased weapons tests, and for increased research in the basic physics of nuclear weapons.

The *General Science Program* supports research in high energy and nuclear physics. An increase of \$90 million, to \$643 million in 1984, for the conduct of basic research will continue support for advanced accelerator concepts as well as for theoretical efforts to understand the basic constituents of matter and energy and the forces that govern their interaction. 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 1984 budget request would provide for (a) increased utilization of existing accelerator facilities, (b) operation of the newly completed (1983) Energy Saver Superconducting Synchrotron at Fermilab in the 500-1,000 GeV energy range, and (c) continuation of the construction at Fermilab of the Tevatron I and II projects which will provide increased proton-fixed target and proton-antiproton colliding beam capabilities. Funds will also be provided for upgrading accelerators at Yale University and the University of Washington and for initiation of the Stanford Linear Collider (SLC).

The *Energy Program* is focused in 1984 on long-term R&D to complement industry investments in new or improved energy technologies. It supports basic and generic research to enhance the scientific base for future advances in these technologies and continues support for the development of selected technologies of a high risk but potentially high payoff nature, such as magnetic fusion, where significant private investment is unlikely. In addition, the Energy Program includes research on the environmental and human health effects of energy production technologies. Energy Program obligations for the conduct of R&D would decrease from \$2.4 billion in 1983 to \$2.2 billion in 1984, largely reflecting net savings from proposed reductions in non-nuclear technology development and demonstration activities. Obligations for R&D facilities in this area would be \$152 million, a reduction of \$84 million, paralleling the reduction in the conduct of R&D.

In the *basic energy sciences*, funding for the conduct of R&D and related facilities will increase by \$67 million to \$350 million in 1984 for research in such fields as nuclear science, chemistry, engineering, materials science, mathematics, biology, and geoscience. This program provides the fundamental scientific and technical base for future advances in technology development. In addition, it provides support for the operation of several unique national facilities such as the National Synchrotron Light Source (NSLS) at the Brookhaven National Laboratory, the High Voltage Electron Microscope at Lawrence Berkeley Laboratory (LBL), and the Electromagnetic Isotope Separation Plant (calutrons) at Oak Ridge National Laboratory. In 1984 a national materials research center at LBL and an upgrade of the NSLS facility will be initiated.

The 1984 budget will continue the redirection of the non-nuclear R&D programs to limit federal support to long-term generic research and place greater reliance on the private sector for support of nearer-term technology development. Obligations for the conduct of R&D in the *fossil*, *solar* and *conservation* programs are expected to be \$302 million in 1984, a decrease of \$405 million from 1983.

Funding for the conduct of *fossil* related R&D and associated facilities would be \$138 million in 1984, a decrease of \$234 million.

The 1984 budget is focused on research to strengthen the technical base for future fossil technology development. Support would continue to be provided in such areas as the chemistry of coal conversion, environmental controls, combustion research, and the understanding of the behavior of oil and gas reservoirs.

Research in support of *solar* energy, proposed at a level of \$87 million, will emphasize materials development for a variety of applications and continue to support research in the areas of solar thermal, photovoltaics, biomass, and wind conversion. In 1983, work on the international SOLERAS agreement will be completed. Research to foster energy *conservation* will be focused on improved understanding of energy losses in building systems, research on alternative heat engines, and development of advanced technologies for electrical systems and energy storage. Technology demonstrations in industrial, transportation, and buildings and community systems conservation will be scaled down in 1984. Conduct of R&D for energy *conservation* in 1984 would be \$84 million.

The 1984 budget provides for a broad program of research in fission and fusion energy sources R&D. In the *magnetic fusion* program, funding of \$467 million for the conduct of R&D and associated facilities would enable the continuation of investigations, at about the 1983 program level, of key physics issues involved with confined plasmas and further research on superconducting magnets, high power radiofrequency electronics, advanced materials development, and mathematical computer modeling needed for fusion technology development.

Within the fission effort the *breeder reactor* program will be funded at \$603 million in 1984, maintaining a priority for 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 the conduct of breeder R&D will increase by \$62 million over 1983. Other nuclear fission research areas such as *nuclear fuel cycle, converter reactors systems, and advanced nuclear systems* are funded for conduct of R&D and associated facilities at a level of \$129 million for 1984.

Additional funds are proposed for nuclear safety and *commercial nuclear waste* management research. For example, in cooperation with the Nuclear Regulatory Commission, technical investigations associated with the disabled Three Mile Island nuclear power reactor will be supported. The fission R&D program will also seek to resolve technical issues associated with the construction of a permanent repository for nuclear waste. Obligations for these activities in 1984 will total \$69 million.

Finally, the Energy Program supports R&D to determine the biological and environmental effects of energy production and use. The *biological and environmental research* R&D emphasizes the

health effects of radiation, the use of radiation in medical diagnosis and therapy, and generic biological research related to radiation and other cellular traumas. The level of obligation for such activities will be \$158 million in 1984. This effort also supports research to determine the relationship between the CO₂ content of the atmosphere and the earth's climate changes. Funding in 1984 for CO₂ studies will total \$12 million.

Table K-7. ENERGY RELATED ACTIVITIES ¹

(In millions of dollars)

Type of activity	1982 actual	1983 estimate	1984 estimate
OBLIGATIONS			
Conduct of R&D:			
National defense program.....	1,526	1,727	1,905
General science program.....	500	553	643
Energy program.....	2,731	2,432	2,165
Total conduct of R&D.....	4,758	4,712	4,713
Total conduct of basic research, included above.....	(777)	(861)	(1,021)
R&D facilities.....	762	619	501
Total obligations.....	5,519	5,331	5,214
OUTLAYS			
Conduct of R&D.....	4,974	5,012	4,911
R&D facilities.....	804	623	532
Total outlays.....	5,778	5,635	5,443

¹ These programs, currently supported by the Department of Energy, will be proposed for reassignment to other Executive departments and agencies.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department of Health and Human Services (HHS) obligations in 1984 for the conduct of R&D would increase by \$100 million over the 1983 level to a total of \$4.4 billion. Within this total, funding for basic research is estimated to be \$2.2 billion. Obligations for R&D facilities would total \$29 million in 1984. This represents a decline from the \$60 million provided in 1983. The higher level of obligations in 1983 was primarily due to the nonrecurring costs for a single large project—construction of the new research headquarters for the Food and Drug Administration.

Health.—Over 87% of the Department's funds for the conduct of R&D and over 93% of the Department's basic research funds would be 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. Several other agencies within the Department—the Alcohol, Drug Abuse, and Mental Health Administration, the Food and Drug Administration, the Centers for Disease Control, the Health Resources and Services

Administration, the Health Care Financing Administration, and the Office of the Assistant Secretary for Health—also support R&D programs in health related research.

The *National Institutes of Health (NIH)* consist of 11 separate Institutes which would obligate \$3.8 billion in 1984 for the conduct of R&D, an increase of \$71 million above the 1983 level; over one-half or \$2.1 billion of NIH's total 1984 R&D budget would support basic research. Among the most significant activities to be supported by NIH are:

- Basic research on cancer chemoprevention including studies of nutritional factors; rehabilitation of patients with chronic obstructive pulmonary disease; prevention of glaucoma; diagnostic imaging, and the biological response to mixtures of chemicals;
- Clinical research where the emphasis is on intervention, including prototype development and refinement of products, techniques, processes, methods, and practices;
- Expansion of cooperative clinical trials on the acquired immunodeficiency syndrome/Kaposi Sarcoma problems; isolated systolic hypertension in the elderly; herpes simplex virus vaccine; and antiviral drugs against neonatal herpes, herpes encephalitis, herpes genitalis; the efficacy of interferon for controlling the frequency and severity of multiple sclerosis; gonococcal vaccines and the prevention of premature labor and the role of folic acid in neural tube defects; and
- Greater emphasis on basic clinical research into the cause, cure, and prevention of diabetes.

The *Alcohol, Drug Abuse and Mental Health Administration (ADAMHA)* conducts studies on the causes, prevention and treatment of alcohol and drug abuse and mental disease and neurological disorders, with emphasis on improving knowledge of effective prevention of these public health problems.

The 1984 budget proposes increases in levels for extramural research programs in biomedical, behaviorial and clinical areas. Obligations for ADAMHA would increase in 1984 to \$314 million, an increase of \$36 million over 1983.

Specific research areas would address:

- Neurosciences, behavioral sciences, psychopharmacology, and clinical investigations and evaluations of services to the mentally ill, with special emphasis on preventing and diagnosing mental and emotional problems in children;
- Drug abuse among the Nation's youth, including studies on the adverse health hazards of marihuana and cocaine; and
- Causes and consequences of alcohol abuse, particularly among teenagers.

The *Food and Drug Administration (FDA)* supports research relevant to its mission of regulating food, drugs, and biological and radiological products. In 1984, obligations for these activities are estimated at \$82 million.

The *Centers for Disease Control (CDC)* supports studies on the epidemiology and control of communicable diseases and on health promotion and disease prevention. In 1984, obligations for these activities are estimated at \$75 million.

Other Health Related Agencies within HHS would support research in areas such as how socioeconomic facts affect social security programs and the economy; 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 Resources and 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 1984 would be \$53 million, \$11 million below 1983. The proposed 1984 budget would support a variety of developmental and social service research aimed at improving the Head Start program; the quality of life for the elderly; knowledge of child abuse and neglect; day care systems; family and community support systems and fostering independence for the disabled.

Table K-8 provides the details of the R&D funding of the Department of Health and Human Services.

NATIONAL SCIENCE FOUNDATION

The National Science Foundation (NSF) supports primarily basic research in all scientific disciplines through grants to scientists and engineers in academic institutions. NSF programs serve to advance scientific knowledge. Foundation support is particularly important because it complements the basic research programs of other agencies and assists in balancing Federal support for promising research across all fields of science and engineering.

The 1984 NSF budget includes \$1.2 billion in obligations for the conduct of R&D, an increase of \$180 million or 17 percent above 1983. This would provide a growth of about 12 percent in addition to cost increases due to inflation. Within this increase, support for the conduct of basic research would increase by about 18 percent. Specifically, the 1984 budget would:

- Provide special emphasis on disciplines such as mathematics, materials science, astronomy, and electrical, computer, and chemical engineering. Research in these disciplines has the potential to make important contributions to the long term

Table K-8. DEPARTMENT OF HEALTH AND HUMAN SERVICES—RESEARCH AND DEVELOPMENT

(In millions of dollars)

Type of activity and organizational units	1982 actual	1983 estimate	1984 estimate
OBLIGATIONS			
Conduct of R&D:			
Health:			
National Institutes of Health	3,432	3,771	3,842
Alcohol, Drug Abuse, and Mental Health Administration	243	278	314
Food and Drug Administration	73	77	82
Centers for Disease Control	75	70	75
Health Resources and Services Administration	12	10	1
Health Care Financing Administration	29	30	30
Office of the Assistant Secretary for Health	16	16	18
Subtotal, Health	3,879	4,252	4,362
Human Services:			
Office of Human Development Services	26	23	11
Social Security Administration	17	26	31
Departmental Management	13	15	11
Subtotal, Human Services	56	64	53
Total conduct of R&D	3,935	4,316	4,416
Total conduct of basic research, included above	(1,953)	(2,184)	(2,238)
R&D facilities	29	60	29
Total obligations	3,964	4,376	4,444
OUTLAYS			
Conduct of R&D	3,978	4,262	4,339
R&D facilities	38	31	35
Total outlays	4,015	4,292	4,374

competitiveness of the U.S. economy, particularly in high technology dependent industries.

- Provide \$180 million in 1984, an increase of 61% over 1983, for upgrading research instrumentation primarily at universities. This sharp increase is included within the support for the conduct of basic research. Along with funds provided for this purpose in other agencies, the increase in the NSF budget would enhance research productivity by helping to alleviate the problem of growing obsolescence of research instrumentation at universities. It would also help ensure that future scientists and engineers are trained in the use of modern research instrumentation and techniques.
- Fund the continuation of the deep sea drilling project to provide scientific geologic information related to the Earth's crust, ocean sediments, geochemistry and paleontology.

In addition, the 1984 budget proposes increased funding in the U.S. Antarctic program for improvement of logistic support. These improvements are critical to the conduct of a safe and effective

research program and to the maintenance of an active and influential U.S presence in Antarctica.

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 \$849 million in 1984, a decrease of \$1 million from 1983. Of the total, \$381 million would support basic research, an increase of \$19 million over the 1983 expected obligations of \$362 million.

The Department's 1984 budget is highlighted below by major bureau:

The Agricultural Research Service (ARS) would obligate \$458 million for research designed to produce new knowledge and technologies required to assure the continuing vitality of the Nation's food and agriculture enterprise. This represents an increase of \$12 million over 1983.

In 1984, increased emphasis would be placed on genetic engineering in the plant and animal sciences, human nutrition research, and improved post-harvest technologies. In addition, a new program of post-doctoral fellowships in ARS laboratories would be initiated. Short term applied research and development would continue to receive reduced Federal effort, since such activities are more appropriately financed by the private sector.

The Cooperative State Research Service would obligate \$222 million to maintain support of the cooperative program with institutions in 50 States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa and Micronesia engaged in research in agriculture, forestry, veterinary medicine, and the rural home and the community. Also, the budget would continue the competitive grants program in basic research important to increasing the efficiency of food production and improving human nutrition. For the first time, competitive grants for research in the animal sciences would be made.

The Forest Service would obligate \$101 million, a decrease of \$4 million from 1983, to provide knowledge needed to manage and protect forest and related rangeland resources to gain maximum economic and social benefits from their use. Research would be conducted on: genetics; silviculture and timber management; watershed management; wildlife, 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, \$68 million would be obligated in other departmental programs for economic research, international cooperation and de-

velopment, transportation of commodities, nutrition information, and statistical reporting.

DEPARTMENT OF COMMERCE

The Department of Commerce has responsibility for ocean science and engineering research, meteorological research and forecasting, and for maintaining measurement standards. The 1984 budget would continue these programs in the National Oceanic and Atmospheric Administration (NOAA), the National Bureau of Standards (NBS), and other areas of the Department.

Obligations for the conduct of R&D by the Department in 1984 are estimated at \$227 million, a decrease of \$86 million from 1983. This decrease applies largely to relatively nearer term applied research and development, more appropriately the responsibility of the private sector.

National Oceanic and Atmospheric Administration (NOAA).—NOAA would continue R&D programs to develop systems and components for nautical and aeronautical mapping and charting; ocean engineering systems in support of NOAA ocean research and operational programs; better ways to conserve, protect, and manage the Nation's fishery resources; new and improved fishing equipment to protect endangered and/or threatened species; and timely and accurate meteorological, hydrologic, and oceanographic forecasting, detecting and tracking systems for protection of life and property. Obligations for the conduct of R&D by NOAA in 1984 would decrease from \$194 million to \$135 million. This reduction reflects decreases in applied areas, more appropriately supported by the private sector.

National Bureau of Standards (NBS).—R&D efforts for NBS are aimed at developing and maintaining a system of measurement required to support the Nation's industrial and scientific endeavors.

In 1984, NBS is expected to obligate \$78 million for the conduct of R&D. This represents a \$16 million decrease from 1983. Funding for the following programs would be terminated or reduced on the grounds that such research can and should be supported by the private sector: fire science and engineering (\$6 million), building research (\$3 million), ADP standards (\$6 million), and recycled oil (\$1 million).

Other Commerce R&D Activities.—Funding for smaller research and development programs in the Department of Commerce, which include those in the Bureau of the Census, the Patent and Trademark Office, and the National Telecommunications and Information Administration, would be \$14 million in 1984.

DEPARTMENT OF THE INTERIOR

The R&D activities of the Department of the Interior derive from its broad-ranging responsibilities for management of the Nation's natural resources, including developing energy and mineral resources, restoring and preserving wildlife habitats and wilderness areas, and improving the quality of our water resources.

Obligations for the conduct of R&D for the Department of the Interior for 1984 are estimated at \$329 million. This represents a decrease of approximately \$44 million from the 1983 level, primarily in applied mining and applied geological research.

Almost 90% of the Department's 1984 funds for the conduct of R&D would be obligated by the Geological Survey (\$136 million), Fish and Wildlife Service (\$89 million), and Bureau of Mines (\$68 million). Highlights of the 1984 research objectives of these and other departmental programs are described below.

The *Geological Survey* undertakes research on the extent, distribution, and character of the Nation's natural resources and on the geologic processes, structures, and hazards that affect the development and use of the land and physical environment. Research priorities in 1984 would include continued development of:

- Accurate appraisals of land and mineral resources;
- New and improved methods of mineral exploration;
- An improved scientific basis for investigation and measurement of water resources; and
- Basic data on geologic principles and processes.

The *Fish and Wildlife Service* supports research performed in the Service's laboratories and field stations, and through cooperative efforts with State fish and game departments. It also provides Federal aid to States for research on restoration of fish and wildlife resources. This research provides basic biological information about species numbers, population dynamics, ecological relationships, and habitat requirements. In 1984, the Service would support research activities concerned with:

- The habitat of waterfowl, migratory birds, mammals and non-migratory birds;
- Endangered and threatened species status, distribution and threats;
- Impact of broad-scale environmental changes on fish and wildlife populations and habitat; and
- Fish husbandry and aquaculture.

The *Bureau of Mines* conducts basic and applied research across the minerals cycle to improve our understanding of the principles of mining and minerals processing, and to reduce associated health hazards. Reductions are proposed in applied research, particularly in projects of a commercial nature which are more appropriate for the private sector to support. Basic research is proposed to increase

by 22% through reallocations of funds from applied research projects. The 1984 budget reflects an increased emphasis on strategic and critical minerals R&D activities and would stress:

- Long-range, high-risk research in extractive metallurgy technology that may result in new processing methods;
- Development of domestic source substitutes for imported strategic and critical minerals;
- Health-related research on the proper quality and quantity of air flow in underground mines; and
- Longer-term, generic research on fire and explosion prevention, methane and underground control, industrial hazards, post-disaster survival and rescue, explosives, and systems engineering.

Other Departmental Programs would provide for:

- Development of technology to generate additional water supplies by cloud seeding techniques; and
- Development of new materials, planning tools, design and construction techniques to solve problems arising in the development and operation of water resources projects.

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) programs and for regulatory (e.g., automotive and aircraft safety standards) programs. Obligations for the conduct of research and development by the Department are estimated at \$519 million for 1984, an increase of \$126 million over 1983. The Department's 1984 budget for R&D, with explanations of major changes from 1983, is highlighted below by agency.

The Federal Aviation Administration would obligate \$304 million in 1984. The proposed 1984 R&D obligations for FAA represent an increase over 1983 of \$161 million. A major portion of this increase occurs in the advanced computer, aviation weather, communications and systems programs. This increase would allow greater emphasis on engineering work to enhance the safety and efficiency of the national air traffic control system, and on emerging technology to improve collision avoidance systems and enroute and terminal air traffic control systems.

The National Highway Traffic Safety Administration would obligate \$57 million for motor vehicle research, traffic safety research and demonstrations emphasizing safety belt usage, alcohol counter measures, and for analytical studies. In 1984, a small increase is planned for highway safety research in support of the safety belt program. The National Accident Sampling System which provides

for the collection and analysis of nationally representative accident and injury data would be continued.

The Urban Mass Transportation Administration would obligate \$46 million to assist in the development of improved mass transportation systems, equipment and procedures. Emphasis would be placed on research aimed at improving the operation and maintenance of existing transit systems.

The Federal Highway Administration would obligate \$49 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 truck safety.

The Federal Railroad Administration would obligate \$17 million to continue highest priority safety research. This would result in more cost-effective safety compliance and enforcement techniques.

The Maritime Administration would obligate \$13 million to improve the productivity and competitive posture of the U.S. maritime industries. This level is \$4 million below the 1983 budget.

The U.S. Coast Guard would obligate \$22 million to support research to maintain and improve search and rescue systems, environmental protection, marine safety, aids to navigation, and the enforcement of laws and treaties, and activities affecting all Coast Guard missions. The proposed 1984 figure represents an increase of \$2 million above the 1983 level.

The Research and Special Programs Administration would obligate \$5 million to support emergency preparedness and mobilization, hazardous materials and pipeline safety regulatory programs, and long range university research.

The Office of the Secretary would obligate \$7 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 missions. For 1984, EPA's R&D program will focus on three major concerns: (1) better linkage of research to the Agency's regulatory priorities; (2) greater attention to quality assurance to improve the reliability of scientific data used in Agency decisions; and (3) restructuring the Agency's long-range basic research program.

Total obligations for EPA's R&D program in 1984 are proposed to be \$208 million, a decrease of 14% from 1983. This reduction reflects completion of major research to support regulatory decisions

and reductions for development of pollution control technologies. EPA's major research activities are highlighted below.

The acid rain/energy research program will be increased to understand better the phenomena of acid deposition. Specifically, a comprehensive atmospheric field study will be initiated, dry deposition monitoring will be accelerated, and watershed research studies will be expanded. Research in support of the Limestone Injection Multistage Burner (LIMB) control technology will be continued.

The hazardous waste research program will support efforts on land disposal of hazardous waste, post-closure monitoring of land disposal facilities, screening protocols for hazardous wastes, and research support for permitting hazardous waste disposal facilities.

The Superfund research program will maintain its research efforts at 1983 levels. However, funding will shift from engineering activities to monitoring and environmental effects research which are closely associated with current field work at hazardous waste sites. Funds for this research program are derived from the Hazardous Substance Response Trust Fund which is funded primarily by a tax on oil and chemical industries.

The drinking water research program will strengthen risk assessments, health research, and monitoring for the Drinking Water Program. Resources for groundwater transport and fate research are maintained at 1983 levels. Work will continue on revising the Primary Drinking Water regulations.

The air research program will continue the development of comprehensive health risk assessments for hazardous air pollutants, improve monitoring methods for sampling and analyzing non-criteria organic pollutants and improve air quality dispersion models.

The water quality research program will emphasize research on ocean dumping and water-quality based pollution control requirements. In the municipal wastewater area, research will focus on innovative and alternative wastewater treatment technologies and more efficient sludge management techniques. Industrial wastewater research will be reduced reflecting completion of the effluent guidelines effort and will be refocused to support the waste water permitting program.

The toxic substances research program will increase development of health risk assessment models. Total research funding is slightly lower in 1984 reflecting the completion of a major monitoring study and completion of engineering technical support for the review of chemicals.

The interdisciplinary research program will continue to support the Agency's research centers, long-term research grants, and development of economic benefits methods.

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 connected with 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 1984, NRC's obligations for the conduct of R&D are expected to decrease from \$210 to \$200 million. This reduction from 1983 is due primarily to the transfer of work at the Loss of Fluid Test Facility (LOFT) to an international consortium. Key areas, such as accident evaluation and mitigation and systems reliability analysis will be strengthened. In addition, reactor safety research, principally on the Clinch River Fast Breeder Reactor, will be continued.

VETERANS ADMINISTRATION

The Veterans Administration (VA) conducts and administers medical, rehabilitation, and health services research. In 1984 this agency would obligate \$163 million, 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 1984 include special research on Agent Orange, alcoholism, aging, and post-traumatic stress.

In *rehabilitation research*, the VA focuses on problems in the field of prosthetics, orthotics, wheelchairs, spinal cord injury and sensory aides for improving the care and rehabilitation of disabled veterans, including amputees, paraplegics and the blind.

The *health services research program* supports projects at VA facilities to improve the effectiveness, economy, and accessibility of health care services. In addition, emphasis will be placed on research relevant to health care delivery to veterans and the services provided to them.

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 and social and economic research aimed at improving U.S. and host country understanding of the barriers to development.

Obligations of AID for the conduct of R&D are estimated at \$161 million in 1984, an increase of \$9 million over 1983.

Programs under AID reflect the administration's recognition of the importance of R&D in addressing the problems faced by the Third World.

The majority of AID's 1984 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.

OTHER AGENCY PROGRAMS

An additional 9 departments and agencies (listed in table K-2, footnote 1) would obligate an estimated \$418 million in 1984, for the conduct of R&D, an increase of \$27 million over the 1983 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 1984 are the Smithsonian Institution, Housing and Urban Development, the Federal Emergency Management Agency, the Tennessee Valley Authority, and the Departments of Justice, Labor, and Treasury.

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	25.4
1979.....	13.6	15.4	29.0
1980.....	15.1	16.6	31.7
1981.....	17.8	17.2	35.0
1982.....	22.1	² 14.3	36.4
1983 (estimate).....	24.9	² 14.0	38.9
1984 (estimate).....	31.8	² 14.0	45.8

¹Includes military-related R&D programs of the Departments of Defense and Energy.²Excludes NASA funding for shuttle production and operation, tracking and data acquisition activities, and related institutional support.