Special Analyses

Budget of the United States Government

Fiscal Year 1986

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

THE BUDGET DOCUMENTS

Budget of the United States Government, 1986 contains the Budget Message of the President and presents an overview of the President's budget proposals. It includes explanations of spending programs in terms of national needs, agency missions, and basic programs, and an analysis of receipts, including a discussion of the President's tax program. This document also contains a description of the budget system and various summary tables on the budget as a whole.

United States Budget in Brief, 1986 is designed for use by the general public. It provides a more concise, less technical overview of the 1986 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, 1986—Appendix contains detailed information on the various appropriations and funds that comprise the budget. The *Appendix* contains more detailed information than any of the other budget documents. It includes for each agency: the proposed text of appropriation language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or groups of agencies. Supplementals and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget-totals.

Special Analyses, Budget of the United States Government, 1986 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; information on Federal aid to State and local governments; and Government-wide program and financial information for Federal civil rights and research and development programs.

Historical Tables, Budget of the United States Government, 1986, is a new volume. It provides data on budget receipts, outlays, surpluses or deficits, and Federal debt covering extended time periods—in many cases from 1940–1990. These are much longer time periods than those covered by similar tables in other budget documents. The tables include various aggregations of budget components in current prices, constant prices, and as percentages of the budget totals and of the gross national product. The document includes, for example, data on receipts by major source from 1940 to 1990; and Federal debt from 1940 to 1990. The data for the years prior to 1986 have, where necessary, been restructured to be consistent with the concepts and presentation used in the 1986 Budget, so these data series are comparable over time.

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

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, as amended, 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 budget outlays and proposed budget authority that would be included in the budget for the following fiscal year if programs and activities of the United States Government were carried on during that year at the same level as the current year without a change in policy.

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. Generally, 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, interest on the Federal debt, 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 effects of policy differences from the effects of differences in the economic assumptions.

[1] Summary comparisons are in the *Budget of the United States Government, Fiscal Year 1986*, Part 2.

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 3, in the 1986 *Budget.*

Table A–1. **SUMMARY OF ECONOMIC ASSUMPTIONS**

(Fiscal years)

	1984	1985	1986	1987	1988	1989	1990
Gross national product (in billions of current dollars)	3,581	3,868	4,198	4,551	4,922	5,304	5,684
Change in constant dollar GNP (percent change, year over year)	7.0	4.3	4.0	4.0	4.0	3.9	3.7
Inflation measures (percent change, year over year):							
GNP deflator	3.8	3.6	4.3	4.2	4.0	3.7	3.4
Consumer Price Index	3.3	3.9	4.3	4.2	4.0	3.7	3.4
Federal construction deflator	2.0	3.6	4.8	4.6	4.3	4.0	3.7
State and local purchases deflator	6.3	4.7	4.8	4.6	4.4	4.0	3.7
Unemployment rate (percent, fourth quarter, calendar year)	7.1	6.9	6.8	6.5	6.2	6.0	5.7
Interest rate, 91-day Treasury bills (percent)	9.5	8.4	7.9	7.5	6.2	5.3	5.0
Interest rate, 10-year Treasury notes (percent)	12.4	11.3	10.5	9.7	7.8	6.0	5.5
ADDENDUM							
Federal pay raise (percent):							
Current services: Military and civilian	[1] 4.0	[1] 3.5	4.0	5.2	5.4	5.3	5.0
President's Budget:							
Military	[2] 4.0	[2,3] 4.0	0.0	5.2	5.4	5.3	5.0
Civilian [2]	4.0	3.5	−5.0	3.0	3.0	3.0	3.0

[1] Pay raises for fiscal years 1984 and 1985 are delayed 3 months until the following January. Current services pay raises for fiscal years 1986–1990 occur in October. The military pay raise for fiscal year 1985 is 4.0%.
[2] Proposed pay raise is delayed 3 months until the following January. Other pay raises occur in October.
[3] A 3.0% military pay raise is proposed for July, 1985.

The Current Services Concept

The current services estimates are neither recommended amounts nor forecasts as to what the budget results for 1985–1990 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 continued enacted budget policy?"

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 expected costs of continuing ongoing Federal programs at 1985 levels in real terms, without policy change; that is, they omit all proposed new legislative initiatives, presidential or congressional, that are not now enacted. (The major exceptions to this approach are described below.) In general, the 1985 level on which the current services estimates are based is that which is authorized or implied by enacted 1985 appropriations or continuing resolutions as modified by administrative actions anticipated to be in place before the end of 1985. 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. To facilitate the comparison between the current services estimates and the President's budget proposals, the current services estimates are presented in the same account structure as the budget, even if legislation is required to effect any structural changes that may be proposed in the budget. For example, in this year's budget the administration is proposing legislation to place currently off-budget Federal entities on-budget. The current services estimates show these off-budget entities as on-budget, but at current services program levels.

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

—For the Legislative Branch and the Judiciary, the estimates are the budget requests submitted by these Branches.

—For the Department of Defense—Military, NASA and the atomic-energy defense activities of the Department of Energy, the estimates are enacted 1985 appropriations followed by administration policy as of the Mid-Session Review of the 1985 Budget. Annual real (after adjustment for inflation) growth in current services budget authority for Department of Defense—Military (DOD) ranges from just under 9% in 1986 to less than 5% in 1989 and 1990. Real growth in current services outlays for DOD is estimated at 10.6% in 1986, declining to somewhat more than 5% per year in 1989 and 1990.

—For the Postal Service fund, current services outlays are estimated at zero for 1987 and beyond.

—For veterans major construction, the estimates are the agency budget request.

—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 1985 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 generally assumed for purposes of current services estimates that it will be renewed and that budget authority will be held constant in real terms. 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. Airport and airway trust fund taxes and highway trust fund taxes scheduled to expire under current law are assumed to be extended at present rates. Hazardous substance trust fund taxes scheduled to expire September 30, 1985 are assumed to be reauthorized and expanded to fund the program at the current real level.

Current Services Totals

As shown in Table A–2, current services outlays are estimated to be $1,024.5 billion in 1986, 6.7% higher than in 1985, and budget authority is estimated to be $1,130.2 billion, an increase of 6.0% over 1985. Outlays are projected to grow at an average annual rate of 6.8% from 1986 to 1990. Receipts for 1986 are estimated to increase 7.8% on a current services basis, from $736.9 billion in 1985 to $794.3 billion in 1986. Receipts are projected to grow at an average annual rate of 8.7% from 1986 to 1990. The resulting 1986 current services deficit is $230.3 billion, $6.7 billion higher than the $223.6 billion deficit for 1985. The deficit is projected to increase to a peak of $247.8 billion in 1988 and then to decline to $224.4 billion by 1990.

Table A–2. **CURRENT SERVICES TOTALS**

(In billions of dollars)

	1984 actual	1985	1986	1987	1988	1989	1990
Budget authority	949.8	1,065.8	1,130.2	1,227.6	1,353.1	1,435.7	1,524.1
Receipts	666.5	736.9	794.3	863.7	952.3	1,030.0	1,108.4
Total outlays	851.8	960.4	1,024.5	1,109.3	1,200.1	1,262.8	1,332.8
Total deficit (–)	–185.3	–223.6	–230.3	–245.6	–247.8	–232.8	–224.4
Memorandum:							
Off-budget outlays included above	10.0	12.5	9.2	5.9	6.0	6.0	4.4
Outlays excluding off-budget	841.8	948.0	1,015.3	1,103.3	1,194.0	1,256.8	1,328.4
Deficit (–) excluding off-budget outlays	–175.4	–211.1	–221.1	–239.6	–241.8	–226.8	–220.0
Budget authority excluding off-budget	927.4	1,043.4	1,116.1	1,218.3	1,343.3	1,422.8	1,515.6

Receipts.—Table A-3 shows receipts by major source on a current services basis. Current services receipts are projected to increase by $57.4 billion from 1985 to 1986 and by $314.1 billion from 1986 to 1990, largely due to assumed increases in incomes resulting from both real economic growth and inflation.

Individual income taxes are estimated to increase by $29.8 billion from 1985 to 1986 on a current services basis. This growth of 9.0% is the effect of increased collections resulting from rising personal incomes. Individual income taxes are projected to grow at an average annual rate of 9.4% between 1986 and 1990, to $513.9 billion.

Corporation income taxes on a current services basis are estimated to grow by $8.4 billion or 12.7% from 1985 to 1986, in large part due to higher corporate profits. Corporation income taxes are projected to increase at an average annual rate of 10.6% from 1986 to 1990.

Table A-3. **CURRENT SERVICES RECEIPTS BY SOURCE**

(In billions of dollars)

	1984 actual	1985	1986	1987	1988	1989	1990
Individual income taxes	296.2	329.7	359.4	393.7	435.0	476.8	513.9
Corporation income taxes	56.9	66.4	74.8	88.7	100.0	106.7	111.9
Social insurance taxes and contributions	241.7	268.4	289.4	309.9	346.9	376.1	410.1
Excise taxes	37.4	37.0	34.4	34.3	32.8	32.3	32.7
Other	34.3	35.4	36.3	37.1	37.6	38.2	39.9
Total	**666.5**	**736.9**	**794.3**	**863.7**	**952.3**	**1,030.0**	**1,108.4**

Social insurance taxes and contributions are estimated to increase by $21.0 billion on a current services basis between 1985 and 1986, and by an additional $120.7 billion between 1986 and 1990. The estimates reflect assumed increases in total wages and salaries paid; scheduled increases in the combined employer-employee social security (OASDHI) tax rate from 14.1% to 14.3% on January 1, 1986, to 15.02% on January 1, 1988 and to 15.3% on January 1, 1990; and annual increases in the social security taxable earnings base to $52,200 by 1990.

On a current services basis, excise taxes are estimated to decrease by $2.6 billion or 7.1% from 1985 to 1986. This decrease is in large part due to a $1.5 billion decline in windfall profit taxes from $6.5 billion in 1985 to $5.0 billion in 1986, and to a $2.1 billion decline in tobacco excise taxes, reflecting expiration of the temporary doubling of these taxes provided in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), effective October 1, 1985.

Excise taxes are projected to decline by $1.7 billion between 1986 and 1990 to an estimated $32.7 billion. This is in large part due to the continued decline in windfall profit tax receipts to $3.0 billion by 1990. The estimates for 1986-1990 assume that the hazardous substance trust fund taxes scheduled to expire in 1985 will be reauthorized and expanded to a level sufficient to fund current services outlays. The estimates for 1988, 1989, and 1990 assume extension of the airport and airway trust fund taxes and the highway trust fund taxes that are scheduled to expire December 31, 1987 and September 30, 1988, respectively.

Other receipts (estate and gift taxes, customs duties, and miscellaneous receipts) are projected to increase on a current services basis by $4.5 billion from 1985 to 1990, largely as a result of increased economic activity.

Table A-4. **CURRENT SERVICES OUTLAYS BY FUNCTION**

(In billions of dollars)

	1984 actual	Current services		1986 administration proposals	1986 difference
		1985 estimate	1986 estimate		
National defense	227.4	253.2	294.6	285.7	−8.9
International affairs	15.9	19.3	19.0	18.3	−0.7
General science, space, and technology	8.3	8.7	9.3	9.3	*
Energy	7.1	8.7	7.9	4.7	−3.2
Natural resources and environment	12.6	13.0	13.2	11.9	−1.3
Agriculture	13.6	20.2	18.1	12.6	−5.5
Commerce and housing credit	6.9	6.0	5.3	2.2	−3.1
Transportation	23.7	27.0	27.9	25.9	−2.1
Community and regional development	7.7	8.6	8.3	7.3	−0.9
Education, training, employment, and social services	27.6	30.6	31.3	29.3	−2.0
Health	30.4	33.9	36.7	34.9	−1.7
Social security and medicare	235.8	257.4	273.6	269.4	−4.2
Income security	112.7	128.3	120.8	115.8	−5.0
Veterans benefits and services	25.6	26.9	27.8	26.8	−1.1
Administration of justice	5.7	6.7	6.9	6.6	−0.3
General government	5.1	5.8	5.8	4.8	−0.9
General purpose fiscal assistance	6.8	6.5	6.6	2.8	−3.8
Net interest	111.1	130.5	145.8	142.5	−3.3
Allowances:					
Civilian agency pay raises			1.4	*	−1.3
Contingencies for other requirements		1.1	0.4	0.4	
Contingencies for uncontrollable programs					
Undistributed offsetting receipts:					
Employer share, employee retirement	−25.3	−26.9	−28.6	−29.0	−0.3
Rents and royalties on the Outer Continental Shelf	−6.7	−5.3	−7.3	−7.3	
Sale of Conrail (proposed)				−1.2	−1.2
Total outlays	**851.8**	**960.4**	**1,024.5**	**973.7**	**−50.8**
Memorandum:					
Off-budget outlays included above	10.0	12.5	9.2	1.5	−7.7
Total, excluding off-budget outlays	841.8	948.0	1,015.3	972.2	−43.1

*$50 million or less.

Outlays.—The level of outlays necessary to continue ongoing Federal programs and activities at constant real levels without policy changes is estimated at $1,024.5 billion in 1986. The increase in current services outlays from 1985 to 1986 is $64.1 billion, or 6.7%. Between 1986 and 1990 current services outlays are projected to increase at an average annual rate of 6.8%.

Table A-4 shows current services outlays by function. Estimates by agency are presented in table A-5. The nondefense outlay increases from 1985 to 1986 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-6 shows the major components of the changes in current services outlays between 1985 and 1986. Outlays for social security

Table A-5. **CURRENT SERVICES OUTLAYS BY AGENCY**

(In billions of dollars)

	1984 actual	Current services		1986 administration proposals	1986 difference
		1985 estimate	1986 estimate		
Legislative branch	1.6	1.8	1.9	1.8	−.2
The Judiciary	.9	1.0	1.1	1.1	....
Executive Office of the President	.1	.1	.1	.1	−*
Funds Appropriated to the President	8.5	11.1	13.0	12.1	−.8
Department of Agriculture	37.5	45.1	43.0	38.5	−4.5
Department of Commerce	1.9	2.2	2.2	2.0	−.2
Department of Defense—Military	220.8	245.9	286.2	277.5	−8.7
Department of Defense—Civil	19.5	18.9	21.4	20.3	−1.0
Department of Education	15.5	17.5	18.0	16.9	−1.2
Department of Energy	10.6	11.3	12.5	9.3	−3.2
Department of Health and Human Services	292.3	318.5	337.8	330.3	−7.5
Department of Housing and Urban Development	16.5	29.9	17.4	15.4	−2.0
Department of the Interior	4.9	5.0	5.0	4.4	−.6
Department of Justice	3.2	3.9	3.9	4.0	*
Department of Labor	24.5	23.7	23.3	22.8	−.5
Department of State	2.4	2.7	2.8	3.3	.5
Department of Transportation	23.9	26.3	27.2	25.1	−2.0
Department of the Treasury	148.3	176.8	194.5	181.0	−13.5
Environmental Protection Agency	4.1	4.4	4.5	4.6	.1
General Services Administration	.2	.2	.2	.1	−*
National Aeronautics and Space Administration	7.0	7.3	7.8	7.8	−*
Office of Personnel Management	22.6	23.6	25.5	24.8	−.7
Small Business Administration	.3	.7	.8	.1	−.6
Veterans Administration	25.6	26.8	27.8	26.7	−1.0
Other independent agencies	11.3	12.3	11.4	10.8	−.7
Allowances	....	1.1	1.7	0.4	−1.3
Undistributed offsetting receipts	−52.3	−57.7	−66.6	−67.6	−0.9
Total outlays	**851.8**	**960.4**	**1,024.5**	**973.7**	**−50.8**
Memorandum:					
Off-budget outlays included above	10.0	12.5	9.2	1.5	−7.7
Total, excluding off-budget outlays	841.8	948.0	1,015.3	972.2	−43.1

*$50 million or less.

(OASDI) are estimated to increase by $11.2 billion between 1985 and 1986, from $191.1 billion in 1985 to $202.3 billion in 1986. Medicare outlays are estimated to increase by $5.0 billion, from $66.3 billion in 1985 to $71.3 billion in 1986, largely as a result of increases in medical care prices and utilization. Outlays for income security programs are estimated to fall by $7.5 billion, from $128.3 billion in 1985 to $120.8 billion in 1986. Outlays for Federal employee retirement and disability programs increase by $4.2 billion between 1985 and 1986 due to automatic cost-of-living increases, increases in the number of beneficiaries, and higher earnings records for new retirees. Unemployment compensation outlays are estimated to decrease by $0.5 billion between 1985 and 1986. Outlays for housing assistance are estimated to decline by $12.3 billion between 1985 and 1986; this is because the 1985 estimate is unusually high, reflecting a tax law change in 1984 that caused a shift from private financing to Federal Government financing of public and Indian housing construction costs. Outlays for the remaining income security programs are estimated to grow by $1.2 billion on net. Table A-7 shows caseload projections for these and other major benefit programs and other selected programmatic assumptions.

The estimated 1986 current services deficit of $230.3 billion would add a like amount to the Federal debt. Primarily because of this increase in debt, net interest outlays would increase by $15.3 billion between 1985 and 1986 under current services assumptions.

Under the administration's 1985 Mid-Session Review budget request, outlays for the Department of Defense—Military in 1986 would be $40.3 billion higher than enacted 1985 levels.

The $2.0 billion decrease in current services outlays for the Agriculture function between 1985 and 1986 results from a decline in estimated outlays required in 1986 for price supports and related Commodity Credit Corporation programs.

Other major increases in current services outlays between 1985 and 1986 include medicaid ($1.8 billion), allowances for civilian agency pay raises ($1.4 billion), and veterans hospital and medical care ($0.8 billion).

Budget authority.—Current services budget authority is estimated to total $1130.2 billion in 1986, $64.4 billion more than in 1985. Increases in budget authority between 1985 and 1986 generally reflect the higher funding levels that would be necessary to maintain 1985 nondefense program levels in real terms in 1986. 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. Budget authority for some programs display erratic year-to-year changes due to sporadic funding patterns or advance funding.

Table A-6. **CHANGE IN CURRENT SERVICES BUDGET AUTHORITY AND OUTLAYS, 1985 TO 1986**

(In billions of dollars)

	Budget authority	Outlays
1985 current services estimate	**1,065.8**	**960.4**
1985–86 changes:		
National defense:		
Department of Defense—Military	40.5	40.3
Other national defense	1.0	1.0
Subtotal, National defense	41.5	41.3
Social security	7.4	11.2
Medicare	11.1	5.0
Income security:		
General retirement and disability (excluding social security)	0.7	0.2
Federal employee retirement and disability	4.9	4.2
Unemployment compensation	0.2	−0.5
Housing assistance	−13.6	−12.3
Food and nutrition assistance	0.4	0.3
Other income security programs	0.9	0.7
Subtotal, income security	−6.5	−7.5
International affairs	−1.5	−0.3
General science, space, and technology	0.4	0.5
Energy programs	−0.4	−0.8
Natural resources and environment	0.8	0.1
Agriculture	−4.2	−2.0
Commerce and housing credit	−2.1	−0.8
Transportation programs	0.8	0.9
Community and regional development	−0.4	−0.4
Education	−*	0.4
Training and Employment	*	*
Social and other labor services	0.2	0.2
Medicaid	2.9	1.8
Other health programs	0.6	1.0
Veterans programs	1.5	1.0
Net interest	15.3	15.3
Allowances for civilian agency pay raises	1.4	1.4
Contingencies for other requirements	−1.5	−0.8
Undistributed offsetting receipts	−3.8	−3.8
All other programs, net	0.6	0.2
Subtotal, changes	**64.4**	**64.1**
1986 current services estimate	**1,130.2**	**1,024.5**
Memorandum:		
1985 off-budget current services estimates included above	22.4	12.5
Changes in off-budget entities	−8.3	−3.3
1986 off-budget current services estimates included above	14.1	9.2
1986 total, excluding off-budget entities	1,116.1	1,015.3

*$50 million or less.

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 1985 and 1986 are also shown in table A-6.

Table A–7. **CASELOADS AND PROGRAMMATIC ASSUMPTIONS**

	Fiscal years					
	1985	1986	1987	1988	1989	1990
Beneficiaries (annual average, in thousands):						
Social security (OASDI)	36,649	37,333	38,006	38,669	39,331	40,007
Railroad retirement [1]	960	942	926	912	895	876
Federal civil service retirement	1,957	2,004	2,050	2,096	2,142	2,187
Military retirement	1,462	1,493	1,522	1,550	1,579	1,608
Veterans compensation	2,582	2,562	2,542	2,521	2,500	2,480
Veterans pensions	1,486	1,387	1,298	1,225	1,160	1,102
GI bill	487	397	331	280	236	154
Disabled coal miners programs	399	377	356	336	315	296
Supplemental security income	3,708	3,743	3,775	3,802	3,819	3,836
Maintenance assistance (AFDC)	10,753	10,797	10,841	10,877	10,926	10,839
Food stamps	20,240	20,120	20,000	19,810	19,600	19,390
HUD Housing subsidy recipients (households)	3,978	4,164	4,259	4,350	4,444	4,538
Medicaid	22,137	22,517	22,585	22,686	22,772	22,754
Medicare:						
Hospital insurance	30,200	30,800	31,400	32,000	32,600	33,200
Supplementary medical insurance	29,900	30,500	31,100	31,700	32,300	32,900
Automatic benefit increases (percent):						
Social security and veterans pensions (January)	3.5	4.1	4.3	4.1	3.9	3.6
Federal employee retirement (January)	3.5	4.1	4.3	4.1	3.9	3.6
Food stamps (October)	4.3	2.7	4.4	4.2	4.1	3.6
Unemployment rate (percent, annual average, fiscal years):						
Total	7.0	6.9	6.7	6.4	6.1	5.9
Insured [2]	2.8	2.8	2.7	2.5	2.4	2.2
Strategic petroleum reserves annual fill rate (millions of barrels)	58.0	58.0	58.0	58.0	58.0	28.8

[1] End of year.
[2] This measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

Increases in budget authority of $7.4 billion for social security and $11.1 billion for medicare are primarily due to higher social security and medicare trust fund receipts.

A $40.5 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 occur under the 1985 Mid-Session Review administration policy. Budget authority for net interest increases by $15.3 billion because of higher borrowing requirements. Other major changes in current services budget authority include a $4.9 billion increase for Federal employee retirement and disability; a $1.4 billion increase for allowances for civilian agency pay raises; a $4.2 billion decrease in agriculture programs; a $13.6 billion decrease in housing assistance programs; and a $2.9 billion increase for medicaid.

Table A-8. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION**

(In billions of dollars)

	1984 actual	Current services		1986 administration proposals	1986 difference
		1985 estimate	1986 estimate		
National defense	265.2	292.1	333.6	322.2	−11.4
International affairs	24.6	26.0	24.5	20.6	−3.9
General science, space, and technology	8.8	9.1	9.5	9.5	−*
Energy	7.9	8.9	8.5	5.1	−3.4
Natural resources and environment	12.3	12.3	13.1	10.9	−2.1
Agriculture	11.8	22.5	18.4	13.0	−5.4
Commerce and housing credit	13.3	12.5	10.3	7.8	−2.5
Transportation	29.3	29.3	30.1	25.5	−4.6
Community and regional development	8.9	8.3	7.9	5.1	−2.8
Education, training, employment, and social services	31.6	31.9	32.1	26.9	−5.1
Health	31.6	33.6	37.1	34.7	−2.3
Social Security and medicare	241.7	270.9	289.4	288.7	−0.7
Income security	138.8	162.4	156.0	144.1	−11.8
Veterans benefits and services	26.5	27.4	28.9	27.4	−1.5
Administration of justice	6.0	6.7	7.0	6.5	−0.4
General government	5.5	5.7	5.9	5.0	−0.9
General purpose fiscal assistance	6.8	6.5	6.6	1.6	−5.0
Net interest	111.1	130.5	145.8	142.5	−3.3
Allowances:					
Civilian agency pay raises			1.4	*	−1.4
Contingencies for other requirements		1.5			
Contingencies for uncontrollable programs					
Undistributed offsetting receipts:					
Employer share, employee retirement	−25.3	−26.9	−28.6	−29.0	0.3
Rents and royalties on the Outer Continental Shelf	−6.7	−5.3	−7.3	−7.3	
Sale of Conrail (proposed)				−1.2	−1.2
Total budget authority	**949.8**	**1,065.8**	**1,130.2**	**1,060.0**	**−70.2**
Memorandum:					
Off-budget authority included above	22.4	22.4	14.1	7.4	−6.7
Total, excluding off-budget authority	927.4	1,043.4	1,116.1	1,052.6	−63.5

*$50 million or less.

Differences Between Current Services and the Budget

The differences between the administration's budget proposals and the current services estimates are summarized in six broad categories in Table A-11; totals are shown in Table A-10.

The administration's proposals would reduce the current services budget deficit by $50.3 billion in 1986 and by 1990 would reduce the deficit by $142.0 billion. Between 1985 and 1990, the cumulative deficit reductions proposed by the administration total $503.0 billion. Receipts proposals would increase the deficit by a total of $5.2 billion between 1985 and 1990, whereas proposed outlay reductions would reduce the deficit by $508.3 billion over the same period. Reductions from the administration's previous defense budget request account for $52.2 billion or 10.4% of the 1985–1990 total deficit reduction. Reductions to human resources programs account for $145.9 billion or 29.0% of the cumulative reduction in total

Table A–9. **CURRENT SERVICES BUDGET AUTHORITY BY AGENCY**

(In billions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals	1986 difference
Legislative branch	1.8	1.8	1.9	1.7	–.2
The Judiciary	.9	1.1	1.2	1.2	....
Executive Office of the President	.1	.1	.1	.1	–*
Funds Appropriated to the President	15.6	14.1	14.5	13.4	–1.1
Department of Agriculture	31.2	42.7	41.8	36.9	–4.9
Department of Commerce	2.0	2.1	2.3	1.8	–.5
Department of Defense—Military	258.2	284.3	324.8	313.7	–11.1
Department of Defense—Civil	19.2	29.8	32.6	32.6	*
Department of Education	15.4	18.6	18.6	15.5	–3.1
Department of Energy	10.5	11.7	13.1	9.7	–3.4
Department of Health and Human Services	299.4	331.2	353.8	348.9	–4.9
Department of Housing and Urban Development	17.9	31.6	18.5	7.0	–11.5
Department of the Interior	4.9	4.9	5.1	3.8	–1.2
Department of Justice	3.5	3.8	4.0	3.9	–.1
Department of Labor	34.8	27.6	28.2	27.3	–1.0
Department of State	3.0	3.2	3.3	3.7	.4
Department of Transportation	28.6	28.5	29.3	24.7	–4.6
Department of the Treasury	161.9	185.2	197.5	184.3	–13.2
Environmental Protection Agency	4.1	4.3	4.5	4.6	.2
General Services Administration	.3	.2	.2	.2	–*
National Aeronautics and Space Administration	7.3	7.5	8.0	7.9	–.1
Office of Personnel Management	37.7	40.7	43.3	42.7	–.6
Small Business Administration	.6	.7	.8	.1	–.7
Veterans Administration	26.5	27.3	28.6	27 .1	–1.5
Other independent agencies	16.7	19.1	19.6	14.8	–4.8
Allowances	....	1.5	1.4	*	–1.4
Undistributed offsetting receipts	–52.3	–57.7	–66.6	–67.6	–0.9
Total budget authority	**949.8**	**1,065.8**	**1,130.2**	**1,060.0**	**–70.2**
Memorandum:					
Off-budget authority included above	22.4	22.4	14.1	7.4	–6.7
Total, excluding off-budget authority	927.4	1,043.4	116.1	1,052.6	–63.5

*$50 million or less.

deficits. Cumulative decreases for international affairs, space and science, and administration of justice of $18.4 billion represent 3.7% of the total. Reductions to civilian agency pay and a broad freeze and selective reductions in other domestic programs account for $217.1 billion or 43.1% of the total. Net interest savings from all of the reductions during 1985–1990 total $74.6 billion or the remaining 14.8%.

Receipts.—As shown in table A–12, the administration's estimate of receipts for 1985 is the same as the current services level of $736.9 billion.

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

(In billions of dollars)

	1984 actual	Estimate					
		1985	1986	1987	1988	1989	1990
Receipts:							
Current services	666.5	736.9	794.3	863.7	952.3	1,030.0	1,108.4
Effect of proposals	....	*	−0.5	−2.0	−1.9	−*	−0.7
Administration budget	666.5	736.9	793.7	861.7	950.4	1,029.9	1,107.7
Total outlays:							
Current services	851.8	960.4	1,024.5	1,109.3	1,200.1	1,262.8	1,332.8
Effect of proposals	....	−1.4	−50.8	−82.7	−105.3	−125.4	−142.7
Administration budget	851.8	959.1	973.7	1,026.6	1,094.8	1,137.4	1,190.0
Total deficit (−):							
Current services	−185.3	−223.6	−230.3	−245.6	−247.8	−232.8	−224.4
Effect of proposals	....	1.4	50.3	80.6	103.4	125.4	142.0
Administration budget	−185.3	−222.2	−180.0	−164.9	−144.4	−107.5	−82.4
Outlays excluding off-budget:							
Current services	841.8	948.0	1,015.3	1,103.3	1,194.0	1,256.8	1,328.4
Effect of proposals	....	−1.4	−43.1	−73.5	−95.0	−114.1	−131.6
Administration budget	841.8	946.6	972.2	1,029.9	1,099.1	1,142.7	1,196.8
Deficit excluding off-budget:							
Current services	−175.4	−211.1	−221.1	−239.6	−241.8	−226.8	−220.0
Effect of proposals	....	1.4	42.6	71.4	93.0	114.0	130.8
Administration budget	−175.4	−209.8	−178.5	−168.2	−148.7	−112.8	−89.1
Budget authority excluding off-budget:							
Current services	927.4	1,043.4	1,116.1	1,218.3	1,343.3	1,422.8	1,515.6
Effect of proposals	....	−0.9	−63.5	−79.6	−94.5	−108.7	−125.9
Administration budget	927.4	1,042.5	1,052.6	1,138.7	1,248.8	1,314.1	1,389.7

* $50 million or less.

Current services receipts for 1986 are estimated at $794.3 billion, only $0.5 billion above the administration's estimate. Legislative and administrative proposals, which include a three-year extension of the incremental R&D tax credit, tax incentives for the redevelopment of economically distressed areas, the acceleration of State and local deposit of social security payroll taxes, and a tuition tax credit, reduce receipts by a net $0.1 billion below the current services level.[1] The administration's Federal employee pay raise proposal reduces Federal employee retirement contributions and social security (OASDHI) receipts by $0.4 billion.

The administration's proposals, including the Federal employee pay raise proposals, are estimated to reduce receipts below the current services level in each year, 1987–1990.

[1] A more detailed discussion of the administration's receipts proposals is presented in the *Budget of the United States Government, Fiscal Year 1985,* Part 4, "Budget Receipts."

Table A–11. **COMPOSITION OF ADMINISTRATION BUDGET PROPOSALS: CHANGE FROM CURRENT SERVICES**

(In billions of dollars)

	1985	1986	1987	1988	1989	1990	Total 1985–1990
National defense	0.6	–8.9	–9.2	–10.1	–11.5	–13.1	–52.2
International affairs, space and science, and justice	0.3	–0.9	–2.8	–4.4	–5.1	–5.4	–18.4
Human resources [1]	–1.3	–14.1	–23.5	–29.8	–35.5	–41.7	–145.9
Net interest	–0.1	–3.3	–9.3	–15.5	–20.0	–26.5	–74.6
Other domestic programs	–0.8	–23.7	–37.9	–45.5	–53.2	–56.0	–217.1
Subtotal, outlays	–1.4	–50.8	–82.7	–105.3	–125.4	–142.7	–508.3
Receipts	*	–0.5	–2.0	–1.9	–*	–0.7	–5.2
Total deficit reduction	–1.4	–50.3	–80.6	–103.4	–125.4	–142.0	–503.0
Off-budget reductions included above		–7.7	–9.2	–10.4	–11.3	–11.2	–49.7
Deficit reduction excluding off-budget	–1.4	–42.6	–71.4	–93.0	–114.0	–130.8	–453.3

*50 million or less.

[1] Education, training, employment and social services; Health; Social security and medicare; Income security; and Veterans functions.

Table A–12. **DIFFERENCES BETWEEN CURRENT SERVICES AND ADMINISTRATION POLICY RECEIPTS**

(In billions of dollars)

	1985	1986	1987	1988	1989	1990
Current services receipts estimates	**736.9**	**794.3**	**863.7**	**952.3**	**1,030.0**	**1,108.4**
Differences:						
Enterprise zone tax incentives		–0.1	–0.5	–0.9	–1.1	–1.1
Tuition tax credit		–0.4	–0.6	–0.9	–0.9	–0.9
Higher education tax incentive		–*	–0.1	–0.3	–0.5	–0.7
Railroad unemployment insurance coverage		0.1	0.2	0.2	0.2	0.1
Black lung disability trust fund [1]		0.2	0.2	0.3	0.3	0.3
State and local deposit of payroll taxes		0.4	*	0.3	1.2	0.2
Equitable taxation of rail industry benefits		*	0.1	0.1	0.1	0.1
IRS revenue initiative			0.5	1.5	2.6	2.8
Dependent care tax credit		–*	–0.2	–0.2	–0.2	–0.1
IRS user fees		*	*	*	*	*
Extension of R&E credit		–0.7	–1.3	–1.5	–1.0	–0.5
Hazardous substance response trust fund [1]		0.3	0.3	0.3	0.3	0.4
Federal pay raise proposal		–0.4	–0.7	–0.8	–1.0	–1.2
Other	*	*	*	0.1	0.1	0.1
Total differences	*	**–0.5**	**–2.0**	**–1.9**	**–***	**–0.7**
Administration policy receipts estimates	**736.9**	**793.7**	**861.7**	**950.4**	**1,029.9**	**1,107.7**

*$50 million or less.

[1] Net of income tax offsets.

Outlays.—Table A-13 shows the major differences between the administration's budget request and current services for outlays by function.

A detailed discussion of the administration's budget authority and outlay proposals is presented in the *Budget of the United States Government, Fiscal Year 1986,* Part 2, and in Part 5, "Meeting National Needs: The Federal Program by Function."

Table A-13. **DIFFERENCES BETWEEN CURRENT SERVICES AND ADMINISTRATION BUDGET REQUEST**

(Outlays; in billions of dollars)

	1985	1986	1987	1988	1989	1990
Current services estimates	**960.4**	**1,024.5**	**1,109.3**	**1,200.1**	**1,262.8**	**1,332.8**
Differences:						
National defense:						
Department of Defense—Military	0.4	−8.7	−9.2	−10.2	−11.5	−12.9
Other	0.1	−0.2	−*	0.1	−*	−0.2
Subtotal, national defense	0.6	−8.9	−9.2	−10.1	−11.5	−13.1
International affairs:						
Foreign economic and financial assistance	0.2	0.1	−0.2	−0.4	−0.7	−1.2
International security assistance:						
Military assistance	....	0.1	0.1	0.1	0.1	0.1
Other	....	−0.8	−1.0	−1.3	−1.5	−1.6
Subtotal, International security assistance	....	−0.7	−0.9	−1.2	−1.4	−1.5
Conduct of foreign affairs	*	0.2	0.2	0.2	0.1	0.1
Foreign information and exchange activities	−*	0.1	0.2	0.1	0.1	0.1
International financial programs	....	−0.4	−1.4	−2.1	−2.4	−2.5
Subtotal, international affairs	0.3	−0.7	−2.1	−3.4	−4.4	−5.0
General science, space, and technology	−*	*	−0.3	−0.6	−0.3	0.1
Energy	−0.5	−3.2	−3.8	−4.3	−4.5	−3.8
Natural resources and environment	−*	−1.3	−2.0	−2.1	−2.3	−2.8
Agriculture:						
Farm income stabilization	−*	−5.3	−9.9	−12.0	−16.0	−16.0
Agricultural research and services	−*	−0.3	−0.3	−0.3	−0.3	−0.3
Subtotal agriculture	−*	−5.5	−10.2	−12.3	−16.3	−16.3
Commerce and housing credit:						
Mortgage credit and deposit insurance	....	−2.5	−3.8	−4.3	−4.6	−4.9
Postal service	....	0.2	−0.9	−0.9	−1.0	−1.0
Other advancement of commerce	−*	−0.8	−1.4	−1.6	−1.7	−1.6
Subtotal, commerce and housing credit	−*	−3.1	−6.1	−6.8	−7.3	−7.5

Table A–13. **DIFFERENCES BETWEEN CURRENT SERVICES AND ADMINISTRATION BUDGET REQUEST—Continued**

(Outlays; in billions of dollars)

	1985	1986	1987	1988	1989	1990
Transportation:						
Ground transportation	*	−1.4	−3.1	−4.6	−5.3	−6.0
Air transportation	−*	−0.2	−0.6	−0.6	−0.9	−1.1
Water transportation	−*	−0.5	−0.8	−0.7	−0.7	−0.7
Other transportation	−*	−*	−*	−*	−*	−*
Subtotal, transportation	−*	−2.1	−4.4	−6.0	−6.8	−7.8
Community and regional development	−0.1	−0.9	−2.0	−2.6	−2.8	−2.7
Education, training, employment, and social services:						
Education	−0.1	−1.2	−2.6	−3.2	−3.3	−3.5
Training and employment	−*	−0.4	−1.1	−1.4	−1.5	−1.7
Social services and other	−*	−0.5	−0.7	−0.8	−0.8	−0.9
Subtotal, education, training, employment, and social services	−0.2	−2.0	−4.5	−5.3	−5.7	−6.1
Health:						
Medicaid	....	−1.1	−2.1	−3.3	−4.6	−6.0
Other health	−*	−0.7	−1.3	−1.6	−1.9	−2.1
Subtotal, health	−*	−1.7	−3.5	−4.9	−6.5	−8.1
Social security and medicare:						
Social security	−*	−0.1	−0.2	−0.2	−0.3	−0.4
Medicare	−*	−4.1	−6.3	−8.3	−10.7	−13.5
Subtotal social security and medicare	−*	−4.2	−6.5	−8.5	−11.0	−13.8
Income security:						
General retirement and disability (excluding social security)	−0.1	−0.3	−0.4	−0.5	−0.6	−0.7
Federal employee retirement and disability	0.1	−1.3	−2.2	−2.8	−3.5	−4.2
Unemployment compensation	....	−*	−*	*	*	*
Housing assistance	−0.9	−1.7	−2.5	−3.0	−2.8	−2.7
Food and nutrition assistance	−*	−0.7	−1.0	−1.1	−1.2	−1.3
Other income security	−*	−1.2	−1.2	−1.3	−1.4	−1.4
Subtotal, income security	−1.0	−5.0	−7.2	−8.7	−9.4	−10.2
Veterans benefits and services:						
Income security for veterans	....	....	....	....	....	....
Hospital and medical care for veterans	−*	−0.4	−1.2	−1.6	−2.0	−2.5
Other	−*	−0.6	−0.7	−0.8	−0.9	−0.9
Subtotal, veterans benefits and services	−*	−1.1	−1.9	−2.4	−2.9	−3.5
Administration of justice:						
Federal law enforcement activities	−*	−*	−0.1	−0.1	−0.1	−0.1
Federal correctional activities	*	*	0.1	*	0.1	0.1
Other	*	−0.3	−0.4	−0.4	−0.4	−0.4
Subtotal, administration of justice	−*	−0.3	−0.3	−0.5	−0.4	−0.5

Table A–13. **DIFFERENCES BETWEEN CURRENT SERVICES AND ADMINISTRATION BUDGET REQUEST—Continued**

(Outlays; in billions of dollars)

	1985	1986	1987	1988	1989	1990
General government:						
Legislative functions	....	−0.2	−0.2	−0.2	−0.2	−0.2
Central fiscal operations	*	−0.5	−0.4	−0.3	−0.3	−0.6
Other	−*	−0.2	−0.2	−0.5	−0.4	−0.4
Subtotal, general government	−*	−0.9	−0.8	−1.0	−0.9	−1.2
General purpose fiscal assistance	*	−3.8	−5.0	−5.1	−5.1	−5.2
Net interest	−0.1	−3.3	−9.3	−15.5	−20.0	−26.5
Allowances:						
Civilian agency pay raises	*	−1.3	−2.5	−3.7	−4.8	−5.9
Contingencies for other requirements	....	....	....	....	....	....
Subtotal, allowances	*	−1.3	−2.5	−3.7	−4.8	−5.9
Undistributed offsetting receipts:						
Employer share, employee retirement	−0.1	−0.3	−1.0	−1.6	−2.4	−2.9
Rents and royalties on the Outer Continental Shelf	....	....	....	....	....	....
Sale of Conrail (proposed)	....	−1.2	....	....	....	....
Subtotal, undistributed offsetting receipts	−0.1	−1.5	−1.0	−1.6	−2.4	−2.9
Total, differences	**−1.4**	**−50.8**	**−82.7**	**−105.3**	**−125.4**	**−142.7**
Budget request	**959.1**	**973.7**	**1,026.6**	**1,094.8**	**1,137.4**	**1,190.0**
Memorandum:						
Excluding off-budget:						
Current services estimates	948.0	1,015.3	1,103.3	1,194.0	1,256.8	1,328.4
Differences	−1.4	−43.1	−73.5	−95.0	−114.1	−131.6
Budget request	946.6	972.2	1,029.9	1,099.1	1,142.7	1,196.8

*$50 million or less.

The effects of administration budget proposals on Federal borrowing and debt held by the public are substantial. As shown below, the budget proposals would reduce debt held by the public from a potential current services level of $2.7 trillion in 1990, by an estimated $503 billion to $2.2 trillion.

	1985	1986	1987	1988	1989	1990
Borrowing from the public (in billions of dollars):						
Current services	203	223	245	247	232	223
Budget proposals	201	173	164	144	107	81
Difference	−1	−50	−81	−103	−125	−142
Debt held by the public (in billions of dollars):						
Current services	1,515	1,738	1,983	2,230	2,462	2,685
Budget proposals	1,514	1,687	1,851	1,994	2,101	2,182
Difference	−1	−52	−132	−236	−361	−503

TABLE A–14. **FEDERAL ENTITIES THAT ARE OFF-BUDGET UNDER CURRENT LAW,[1] DIFFERENCES BETWEEN CURRENT SERVICES AND ADMINISTRATION BUDGET REQUEST**

(Outlays; in billions of dollars)

	1985	1986	1987	1988	1989	1990
Current services estimates	**12.5**	**9.2**	**5.9**	**6.0**	**6.0**	**4.4**
Differences:						
Rural electrification and telephone revolving fund	....	....	....	−0.3	−0.5	−0.7
Rural telephone bank	....	*	−*	−*	−*	−*
Strategic petroleum reserve	....	−1.5	−1.7	−1.7	−1.8	−1.0
Federal Financing Bank:						
Foreign military sales credit	....	....	....	....	....	....
OPIC	....	....	....	....	....	....
Rural electrification	....	0.1	−0.3	−0.5	−0.7	−0.8
Agricultural credit insurance fund	....	−3.0	−3.3	−3.6	−3.8	−4.0
Rural housing insurance fund	....	−2.1	−3.0	−3.2	−3.4	−3.5
Rural development insurance fund	....	−0.1	−0.2	−0.4	−0.4	−0.5
Defense production guarantees	....	....	....	....	....	....
Guarantees of SLMA obligations	....	....	....	....	....	....
Geothermal resources development fund	....	*	....	....	....	....
Alternative fuels production	....	....	....	....	....	....
Medical facilities fund	....	....	....	....	....	....
Health maintenance organization fund	....	....	....	....	....	....
Low-rent public housing	....	....	....	....	....	....
Community development grants	....	−*	−0.1	−0.1	−0.1	−*
Territory of the Virgin Islands	....	....	....	....	....	....
Railroad rehabilitation and improvement	....	−*	*	*	*	*
Federal buildings fund	....	....	....	....	....	....
Space flight, control, and data communications	....	....	....	....	....	....
Small business loans	....	−2.3	−0.6	−0.6	−0.6	−0.6
TVA fund	....	....	....	....	....	....
Subtotal, Federal Financing Bank	....	−7.4	−7.5	−8.3	−9.0	−9.4
Postal Service	....	1.2	....	....	....	....
Regional rail reorganization program	....	....	....	....	....	....
U.S. Synthetic Fuels Corporation	....	....	....	....	....	....
Total differences	....	**−7.7**	**−9.2**	**−10.4**	**−11.3**	**−11.2**
Budget proposals	**12.5**	**1.5**	**−3.2**	**−4.3**	**−5.3**	**−6.8**

*$50 million or less.

[1] Proposed to be included on-budget.

The effects of administration proposals on outlay of Federal entities that are off-budget under current law, but proposed to be included on-budget are shown in Table A–14. Tables A–15 and A–16 provide a more detailed comparison (by function, subfunction, and program) of the President's budget request for 1986 with the current services budget authority and outlay estimates.

Table A-15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
050 NATIONAL DEFENSE				
051 Department of Defense—Military: [1]				
Existing law	258,150	284,276	324,800	313,411
Proposed legislation				289
Off-budget under current law#	2	5	5	5
Subtotal, Department of Defense-Military	258,152	284,281	324,805	313,705
053 Atomic energy defense activities	6,555	7,334	8,323	8,047
054 Defense-related activities:				
Existing law	452	495	515	454
Proposed legislation				
Subtotal, Defense-related activities	452	495	515	454
Total budget authority	265,160	292,110	333,642	322,205
150 INTERNATIONAL AFFAIRS				
151 Foreign economic and financial assistance:				
Multilateral development banks	1,324	1,311	1,369	1,348
International organizations	315	359	330	196
Agency for International Development	2,013	2,267	2,319	2,113
Public Law 480—Food aid	1,377	1,355	1,372	1,307
Peace Corps	117	129	132	125
Refugee assistance	336	326	337	338
Compact of Free Association (Micronesia)				299
Other:				
On-budget under current law	80	95	99	96
Offsetting receipts	−493	−459	−479	−479
Subtotal, Foreign economic and financial assistance	5,069	5,382	5,479	5,343
152 International security assistance:				
Military aid financing:				
On-budget under current law	1,315	4,940	5,157	5,655
Off-budget under current law#	3,503	3,147	1,311	1,311
Military assistance	712	805	841	949
Economic support fund	3,389	3,841	4,010	2,824
Other	110	214	110	108
Offsetting receipts	−86	−93	−99	−99
Subtotal, International security assistance	8,943	12,854	11,329	10,748
153 Conduct of foreign affairs:				
Administration of foreign affairs:				
Existing law	1,392	1,634	1,584	1,848
Proposed legislation				
International organizations and conferences	580	559	583	554
Other	53	65	63	68
Subtotal, Conduct of foreign affairs	2,025	2,257	2,230	2,470
154 Foreign information and exchange activities	798	897	1,000	1,118
155 International financial programs:				
Export-Import Bank	829	3,940	3,570	
Foreign military sales trust fund (net)	−801	734	978	978
International monetary programs	7,774			
Offsetting receipts	−84	−85	−87	−87
Subtotal, International financial programs	7,718	4,588	4,461	891
Total budget authority	24,553	25,978	24,499	20,569

Table A–15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY				
251 General science and basic research:				
National Science Foundation programs	1,328	1,508	1,570	1,574
Department of Energy general science programs	635	727	691	685
Subtotal, General science and basic research	1,964	2,234	2,261	2,260
253 Space flight	4,101	3,906	4,115	4,022
254 Space, science, applications, and technology	1,747	2,021	2,217	2,265
255 Supporting space activities:				
On-budget under current law	868	954	942	977
Off-budget under current law#	142	....	....	....
Subtotal, Supporting space activities	1,010	954	942	977
Total budget authority	8,822	9,116	9,536	9,524
270 ENERGY				
271 Energy supply:				
Research and development	2,260	2,300	2,570	2,203
Uranium enrichment	382	102	....	....
Nuclear waste disposal fund	–11	–793	171	170
Petroleum reserves	–1,311	–717	–1,125	–1,128
Tennessee Valley Authority:				
On-budget under current law	364	435	403	403
Off-budget under current law#	137	90	87	87
Other power marketing	75	90	–64	–569
Subsidies for nonconventional fuel production:				
On-budget under current law	5	*	*	*
Off-budget under current law#	428	512	332	335
Rural electric and telephone:				
On-budget under current law	228	247	254	28
Off-budget under current law#:				
Existing law	2,788	3,332	2,635	2,692
Proposed legislation	....	....	....	–7
Subtotal, Energy supply	5,345	5,599	5,264	4,216
272 Energy conservation:				
Energy conservation grants and R&D	430	459	436	176
Solar Energy and Energy Conservation Bank	25	15	16	....
Subtotal, Energy conservation	455	474	452	176
274 Emergency energy preparedness:				
On-budget under current law	618	6	310	6
Off-budget under current law#	650	2,050	1,674	....
Subtotal, Emergency energy preparedness	1,268	2,056	1,984	6
276 Energy information, policy, and regulation	796	728	780	712
Total budget authority	7,865	8,857	8,480	5,110
300 NATURAL RESOURCES AND ENVIRONMENT				
301 Water resources:				
Corps of Engineers:				
Existing law	2,732	2,830	2,940	2,404
Proposed legislation	....	....	....	403
Bureau of Reclamation	969	1,060	1,052	807
Other	236	216	234	99
Navigation fees (proposed)	....	....	....	–403
Offsetting receipts	–158	–167	–219	–220
Subtotal, Water resources	3,779	3,939	4,007	3,091

Table A–15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
302 Conservation and land management:				
Management of national forests, cooperative forestry, and forestry research (Forest Service):				
Existing law	1,749	1,600	1,894	1,690
Proposed legislation				64
Management of public lands (BLM)	505	480	485	384
Mining reclamation and enforcement	342	372	388	330
Conservation of agricultural lands	614	623	639	372
Other	305	283	293	272
Offsetting receipts:				
Existing law	−2,127	−2,599	−2,661	−2,650
Proposed legislation				106
Subtotal, Conservation and land management	1,389	760	1,038	569
303 Recreational resources:				
Federal land acquisition:				
Existing law	296	284	297	45
Proposed legislation				−30
Urban park and historic preservation funds	35	25	27	
Operation of recreational resources	1,182	1,298	1,444	1,194
Offsetting receipts:				
Existing law	−61	−84	−88	−88
Proposed legislation				−51
Subtotal, Recreational resources	1,453	1,523	1,680	1,070
304 Pollution control and abatement:				
Regulatory, enforcement, and research programs	1,140	1,275	1,288	1,306
Hazardous substance response fund	460	620	643	900
Oil pollution funds	6	9	9	9
Sewage treatment plant construction grants	2,435	2,400	2,520	2,400
Offsetting receipts	−3	−34	−38	−38
Subtotal, Pollution control and abatement	4,037	4,270	4,422	4,577
306 Other natural resources:				
Program activities:				
Existing law	1,629	1,801	1,930	1,539
Proposed legislation				90
Offsetting receipts:				
Existing law	−7	−14	−14	−1
Proposed legislation				−14
Subtotal, Other natural resources	1,622	1,787	1,917	1,613
Total budget authority	12,280	12,280	13,065	10,920
350 AGRICULTURE				
351 Farm income stabilization:				
Commodity price support and related programs:				
Existing law	210	13,048	11,536	11,316
Proposed legislation				−1,821
Crop insurance:				
Existing law	360	311	321	374
Proposed legislation				−118
Agricultural credit:				
On-budget under current law	2,517	1,935	1,440	1,478
Off-budget under current law#:				
Existing law	6,805	5,332	3,139	926
Proposed legislation				−760
Other programs and unallocated overhead	54	51	52	
Subtotal, Farm income stabilization	9,945	20,676	16,488	11,395

Table A-15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
352 Agricultural research and services:				
Research programs	805	804	812	738
Extension programs	334	344	360	265
Marketing programs:				
Existing law	126	127	128	125
Proposed legislation				−24
Animal and plant health programs:				
Existing law	278	282	289	247
Proposed legislation				−12
Economic intelligence	185	191	192	186
Other programs and unallocated overhead:				
Existing law	196	214	219	209
Proposed legislation				−2
Offsetting receipts	−80	−91	−91	−90
Subtotal, Agricultural research and services	1,843	1,871	1,909	1,643
Total budget authority	11,788	22,547	18,396	13,038
370 COMMERCE AND HOUSING CREDIT				
371 Mortgage credit and deposit insurance:				
Mortgage purchase activities (GNMA)	101	*		
Mortgage credit (FHA)	66	208	128	128
Housing for the elderly or handicapped	557	564	640	20
Rural housing programs:				
On-budget under current law	2,606	2,275	2,378	2,280
Off-budget under current law#	5,020	4,445	1,940	26
Federal Savings and Loan Insurance Corp. and other	700			
National Credit Union Administration	381	46	20	20
Subtotal, Mortgage credit and deposit insurance	9,430	7,539	5,106	2,473
372 Postal Service:				
On-budget under current law	879	1,041	1,020	39
Off-budget under current law#:				
Existing law	919	1,403	1,575	1,575
Proposed legislation				213
Subtotal, Postal Service	1,798	2,443	2,595	1,827
376 Other advancement of commerce:				
Small and minority business assistance:				
On-budget under current law	651	779	843	318
Proposed legislation				1,794
Off-budget under current law#	373	625	681	375
Science and technology	331	347	346	326
Economic and demographic statistics	194	198	231	223
International trade and other:				
Existing law	486	539	548	487
Proposed legislation				−1
Subtotal, Other advancement of commerce	2,036	2,487	2,648	3,522
Total budget authority	13,264	12,469	10,349	7,822
400 TRANSPORTATION				
401 Ground transportation:				
Highways:				
Existing law	13,800	14,855	15,326	15,310
Proposed legislation				−100
Highway safety:				
Existing law	277	341	271	258
Proposed legislation				3
Mass transit	4,320	4,178	4,287	1,428

Table A–15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services: 1985 estimate	Current services: 1986 estimate	1986 administration proposals
Railroads:				
On-budget under current law	2,226	799	826	54
Off-budget under current law#	4	5	5	2
Regulation	59	49	51	51
Subtotal, Ground transportation	20,685	20,226	20,766	17,007
402 Air transportation:				
Airports and airways (FAA)	4,600	5,308	5,427	5,075
Aeronautical research and technology	600	633	680	622
Regulation	20	6	....	....
Air carrier subsidies	46	49	53	....
Subtotal, Air transportation	5,266	5,996	6,160	5,697
403 Water transportation:				
Marine safety and transportation:				
Existing law	2,774	2,527	2,640	2,537
Proposed legislation	....	....	....	−11
Proposed boat and yacht fees	....	....	....	−236
Ocean shipping	459	399	413	359
Regulation	11	12	12	12
Subtotal, Water transportation	3,244	2,939	3,066	2,660
407 Other transportation	114	126	132	124
Total budget authority	29,309	29,287	30,124	25,488
450 COMMUNITY AND REGIONAL DEVELOPMENT				
451 Community development:				
Community development block grants	3,468	3,472	3,468	3,125
Community development loan guarantees (Off-budget under current law)#	71	113	150	116
Urban development action grants	440	440	440	....
Rental rehabilitation and rental development	615	....	157	....
Other programs:				
On-budget under current law	224	256	265	263
Subtotal, Community development	4,818	4,281	4,479	3,504
452 Area and regional development:				
Rural development:				
On-budget under current law	1,164	1,140	1,204	872
Off-budget under current law#	1,375	1,297	524	502
Economic development assistance	294	228	239	15
Indian programs	1,012	1,082	1,090	1,044
Regional commissions	167	155	162	....
Tennessee Valley Authority	86	120	125	39
Offsetting receipts	−273	−283	−285	−282
Subtotal, Area and regional development	3,824	3,741	3,059	2,190
453 Disaster relief and insurance:				
Small business disaster loans:				
Existing law	....	....	....	−366
Proposed legislation	....	....	....	−546
Disaster relief	*	100	200	194
National flood insurance fund	99	60	44	78
Other	159	141	146	74
Subtotal, Disaster relief and insurance	257	301	390	−565
Total budget authority	8,899	8,323	7,928	5,129

Table A–15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES				
501 Elementary, secondary, and vocational education:				
Special programs	528	758	790	648
Compensatory education	3,488	3,696	3,866	3,647
Education for the handicapped	1,241	1,321	1,382	1,306
Impact aid	600	695	728	543
Vocational and adult education	839	838	877	838
Other:				
Existing law	546	556	573	499
Proposed legislation				—*
Subtotal, Elementary, secondary, and vocational education	7,243	7,864	8,216	7,481
502 Higher education:				
Student financial assistance	3,977	4,871	4,835	3,569
Guaranteed student loan program:				
Existing law	2,256	3,744	3,330	3,330
Proposed legislation				−615
Other	723	777	785	542
Subtotal, Higher education	6,956	9,393	8,950	6,825
503 Research and general education aids	1,133	1,217	1,276	1,029
504 Training and employment:				
Employment and training assistance	6,546	3,770	3,777	2,806
Older Americans employment	317	326	326	326
Work incentive program	271	267	279	
Federal-State employment service	1,471	986	1,011	941
Other	83	68	71	63
Subtotal, Training and employment	8,688	5,416	5,464	4,136
505 Other labor services	685	721	742	674
506 Social services:				
Social services block grant	2,700	2,725	2,700	2,700
Community service programs	353	372	390	4
Rehabilitation services	1,155	1,233	1,292	1,216
Family social services	686	737	777	741
Services for children, the elderly, and other special groups	1,881	1,996	2,079	1,969
Domestic volunteer programs	136	150	156	148
Other social services	26	27	27	22
Subtotal, Social services	6,937	7,241	7,422	6,800
Total budget authority	31,642	31,852	32,069	26,946
550 HEALTH				
551 Health care services:				
Medicaid grants:				
Existing law	20,674	21,845	24,742	24,631
Proposed legislation				−940
Federal employees' health benefits	1,506	1,342	1,606	1,606
Other health care services:				
On-budget under current law	3,060	3,231	3,310	2,827
Proposed legislation				188
Off-budget under current law#	1	8	1	1
Subtotal, Health care services	25,241	26,425	29,659	28,312

Table A–15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services		1986 administration proposals
		1985 estimate	1986 estimate	
552 Health research:				
National Institutes of Health research	4,281	4,882	5,084	4,588
Other research programs	492	531	545	511
Subtotal, Health research	4,773	5,413	5,629	5,099
553 Education and training of health care work force:				
Research training	213	268	282	265
Clinical training	209	242	252	4
Other	38	43	45	21
Subtotal, Education and training of health care work force	461	553	579	290
554 Consumer and occupational health and safety:				
Consumer safety:				
Existing law	782	812	817	791
Proposed user fees				−115
Other proposed legislation				−2
Occupational safety and health	374	383	396	367
Subtotal, Consumer and occupational health and safety	1,156	1,195	1,213	1,041
Total budget authority	31,630	33,585	37,080	34,741
570 SOCIAL SECURITY AND MEDICARE				
571 Social security:				
Old-age and survivors insurance (OASI):				
Existing law	160,750	175,984	189,677	189,554
Proposed legislation				273
Disability insurance (DI):				
Existing law	17,735	19,934	20,679	20,655
Proposed legislation				25
Interfund transactions	27	3,500	−3,500	−3,500
Subtotal, Social security	178,512	199,418	206,856	207,007
572 Medicare:				
Hospital insurance (HI):				
Existing law	45,545	52,683	62,525	62,266
Proposed legislation				127
Supplementary medical insurance (SMI):				
Existing law	22,526	24,387	26,012	25,953
Proposed legislation				−527
Medicare premiums and collections:				
Existing law	−4,942	−5,547	−5,956	−5,927
Proposed legislation				−194
Interfund transactions:				
Existing law	92	−52		
Proposed legislation				
Subtotal, Medicare	63,220	71,471	82,581	81,698
Total budget authority	241,732	270,889	289,437	288,705
600 INCOME SECURITY				
601 General retirement and disability insurance (excluding social security):				
Railroad retirement:				
Existing law	6,436	5,482	5,773	5,773
Proposed legislation				125
Special benefits for disabled coal miners:				
Existing law	2,085	1,345	1,720	1,624

Table A-15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
Proposed legislation				40
Other	48	58	68	68
Subtotal, General retirement and disability insurance (excluding social security)	8,570	6,886	7,561	7,630
602 Federal employee retirement and disability:				
Civilian retirement and disability programs:				
Existing law	36,727	39,971	42,323	41,485
Proposed legislation				157
Military retirement: [1]				
Existing law	16,512	26,966	29,465	29,977
Proposed legislation				54
Federal employees workers' compensation (FECA):				
Existing law	216	207	255	255
Proposed legislation				−22
Subtotal, Federal employee retirement and disability	53,455	67,144	72,043	71,906
603 Unemployment compensation:				
Existing law	24,320	20,946	21,143	21,195
Proposed legislation				76
Subtotal, Unemployment compensation	24,320	20,946	21,143	21,271
604 Housing assistance:				
Subsidized housing	9,467	10,759	10,098	499
Public housing operating subsidies	1,718	1,138	1,233	1,011
Low-rent public housing loans:				
On-budget under current law	1,120	14,949	1,895	1,847
Proposed legislation				−25
Off-budget under current law#	153			
Other housing assistance	213	160	204	96
Subtotal, Housing assistance	12,671	27,007	13,430	3,428
605 Food and nutrition assistance:				
Food stamps and aid to Puerto Rico:				
Existing law	12,548	12,577	12,714	12,701
Proposed legislation				−20
Child nutrition and other programs:				
Existing law	5,687	5,982	6,288	6,274
Proposed legislation				−686
Subtotal, Food and nutrition assistance	18,235	18,558	19,002	18,268
609 Other income security:				
Supplemental security income	8,651	9,210	9,860	9,861
AFDC and child support enforcement:				
Existing law	8,862	8,919	8,978	8,926
Proposed legislation				−180
Earned income tax credit	1,193	1,054	1,255	1,255
Refugee assistance	542	405	317	317
Low income home energy assistance:				
Existing law	2,075	2,100	2,192	2,100
Financing from petroleum overcharges (proposed)				−809
Other	265	205	198	174
Subtotal, Other income security	21,588	21,893	22,800	21,643
Total budget authority	138,838	162,434	155,979	144,147

Table A-15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
700 VETERANS BENEFITS AND SERVICES				
701 Income security for veterans:				
Service-connected compensation:				
Existing law	10,004	10,222	10,529	10,186
Proposed legislation				343
Non-service-connected pensions	3,916	3,811	3,838	3,838
Burial and other benefits	128	134	137	137
National service life insurance trust fund	1,249	1,249	1,297	1,297
U.S. Government life insurance trust fund	23	21	19	19
All other insurance programs	7	11	10	10
Insurance program receipts	−443	−395	−415	−415
Subtotal, Income security for veterans	14,884	15,054	15,414	15,414
702 Veterans education, training, and rehabilitation:				
G.I. bill	1,443	1,182	1,026	1,026
Post-Vietnam era education	9			
All-volunteer force educational assistance		50	225	225
Veterans jobs program	130			
Subtotal, Veterans education, training, and rehabilitation	1,582	1,232	1,251	1,251
703 Hospital and medical care for veterans:				
Medical care and hospital services	8,244	8,865	9,473	9,090
Third party reimbursement (proposed)				−65
Construction	549	803	1,188	634
Medical administration, research, and other	285	263	267	243
Subtotal, Hospital and medical care for veterans	9,078	9,931	10,928	9,902
704 Veterans housing:				
Loan guaranty revolving fund:				
Existing law	260	307	405	405
Proposed legislation				−405
Housing program receipts	−59			
Subtotal, Veterans housing	201	307	405	
705 Other veterans benefits and services:				
Cemeteries, administration of veterans benefits and other	732	777	798	767
Non-VA support programs	50	57	59	58
Subtotal, Other veterans benefits and services	782	835	857	825
Total budget authority	26,528	27,357	28,855	27,393
750 ADMINISTRATION OF JUSTICE				
751 Federal law enforcement activities:				
Criminal investigations (DEA, FBI and OCDE)	1,445	1,499	1,528	1,531
Alcohol, tobaccco, and firearms investigation (ATF)	160	171	173	170
Border enforcement activities (Customs and INS)	1,166	1,280	1,304	1,277
Protection activities (Secret Service)	302	300	305	295
Other enforcement:				
Existing law	361	394	400	369
Proposed legislation				10
Subtotal, Federal law enforcement activities	3,433	3,643	3,709	3,652
752 Federal litigative and judicial activities:				
Civil and criminal prosecution and representation	723	820	846	881
Federal judicial activities	907	1,061	1,163	1,163
Representation of indigents in civil cases	275	305	320	

Table A–15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
Subtotal, Federal litigative and judicial activities	1,905	2,186	2,330	2,044
753 Federal correctional activities	495	597	593	593
754 Criminal justice assistance	215	230	329	252
Total budget authority	6,047	6,656	6,960	6,542
800 GENERAL GOVERNMENT				
801 Legislative functions:				
Existing law	1,443	1,430	1,581	1,581
Proposed legislation				−193
Subtotal, Legislative functions	1,443	1,430	1,581	1,388
802 Executive direction and management:				
Existing law	111	118	119	113
Proposed legislation				
Subtotal, Executive direction and management	111	118	119	113
803 Central fiscal operations:				
Collection of taxes	3,326	3,543	3,638	3,511
Surplus income, Federal Financing Bank	−170	−201	−208	−206
Other fiscal operations:				
On-budget under current law	314	260	280	269
Proposed legislation				−399
Subtotal, Central fiscal operations	3,469	3,602	3,710	3,175
804 General property and records management:				
Real property:				
On-budget under current law	−118	−224	−199	−199
Personal property	17	18	19	15
Records management	93	101	98	100
Other	344	355	360	338
Subtotal, General property and records management	337	250	278	253
805 Central personnel management:				
Existing law	148	151	155	142
Proposed legislation				
Subtotal, Central personnel management	148	151	155	142
806 Other general government:				
Territories:				
On-budget under current law	196	174	183	75
Indian affairs	3	2	2	2
Treasury claims	237	390	301	301
Other	62	29	30	28
Subtotal, Other general government	498	595	515	406
809 Deductions for offsetting receipts:				
Existing law	−513	−448	−446	−446
Proposed legislation				−58
Subtotal, Deductions for offsetting receipts	−513	−448	−446	−504
Total budget authority	5,494	5,698	5,913	4,975
850 GENERAL PURPOSE FISCAL ASSISTANCE				
851 General revenue sharing:				
General revenue sharing payments:				
Existing law	4,567	4,567	4,567	4,567
Proposed legislation				−4,567

Table A-15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
Administration:				
Existing law	7	8	8	8
Proposed legislation	....	....	....	−2
Subtotal, General revenue sharing	4,574	4,575	4,575	6
852 Other general purpose fiscal assistance:				
Payments and loans to the District of Columbia	570	499	517	498
Payments to States and counties from Forest Service receipts:				
Existing law	203	239	358	423
Proposed legislation	....	....	....	−356
Payments to States from receipts under the Mineral Leasing Act	736	511	532	479
Payments to States and counties from Federal land management activities	74	95	115	57
Payments in lieu of taxes	105	103	105	105
Payments to territories and Puerto Rico	528	480	417	416
Other	7	6	6	6
Subtotal, Other general purpose fiscal assistance	2,223	1,933	2,050	1,628
Total budget authority	6,797	6,508	6,625	1,634
900 NET INTEREST				
901 Interest on the public debt:				
Existing law	153,822	180,395	202,495	199,392
Proposed legislation	....	....	....	−587
Subtotal, Interest on the public debt	153,822	180,395	202,495	198,805
902 Interest received by trust funds:				
Existing law	−20,354	−25,547	−29,724	−29,736
Proposed legislation	....	....	....	587
Subtotal, Interest received by trust funds	−20,354	−25,547	−29,724	−29,149
908 Other interest:				
Interest on refunds of tax collections	1,301	1,185	1,258	1,258
Interest on loans to Federal Financing Bank	−15,135	−17,621	−19,275	−19,038
OCS interest	−18	....	−953	−953
Other:				
Existing law	−8,558	−7,877	−7,994	−7,989
Proposed legislation	....	....	....	−384
Subtotal, Other interest	−22,410	−24,313	−26,964	−27,106
Total budget authority	111,058	130,535	145,806	142,550
920 ALLOWANCES				
921 Civilian agency pay raises:				
Civilian agency pay raises	....	....	1,374	....
Coast Guard military pay raises:				
Existing law	....	....	35	....
Proposed legislation	....	....	....	24
Subtotal, Civilian agency pay raises	....	....	1,409	24
928 Contingencies for other requirements	....	1,500	....	....
Total budget authority	....	1,500	1,409	24

Table A-15. **CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
950 UNDISTRIBUTED OFFSETTING RECEIPTS				
951 Employer share, employee retirement:				
Military retired contributions [1]	−16,503	−16,891	−17,737	−18,232
Other contributions:				
Existing law	−8,760	−9,977	−10,909	−10,463
Proposed legislation				−266
Subtotal, Employer share, employee retirement	−25,263	−26,868	−28,646	−28,961
953 Rents and royalties on the Outer Continental Shelf:				
Existing law	−6,694	−5,302	−7,317	−7,317
Proposed legislation				
Subtotal, Rents and royalties on the Outer Continental Shelf	−6,694	−5,302	−7,317	−7,317
954 Sale of Conrail:				
Proposed legislation				−1,200
Subtotal, Sale of Conrail				−1,200
Total budget authority	−31,957	−32,170	−35,963	−37,478
Total budget authority	**949,751**	**1,065,811**	**1,130,190**	**1,059,983**

*$500 thousand or less.
Proposed to be included on-budget.
[1] Includes the adjustment to show military retired pay for 1984 on a basis comparable to 1985 and subsequent years. See the discussion in Part 6, *Budget of the United States Government, Fiscal Year 1986.*

Table A–16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
050 NATIONAL DEFENSE				
051 Department of Defense—Military: [1]				
Existing law	220,838	245,854	286,200	277,323
Proposed legislation				177
Off-budget under current law#	2	5	5	5
Subtotal, Department of Defense—Military	220,840	245,859	286,205	277,505
053 Atomic energy defense activities	6,120	7,000	7,879	7,700
054 Defense-related activities:				
Existing law	453	382	493	464
Proposed legislation				
Subtotal, Defense-related activities	453	382	493	464
Total outlays	227,413	253,240	294,577	285,669
150 INTERNATIONAL AFFAIRS				
151 Foreign economic and financial assistance:				
Multilateral development banks	1,391	1,398	1,281	1,387
International organizations	308	300	329	266
Agency For International Development	1,779	2,012	2,183	2,058
Public Law 480—Food aid	1,085	1,590	1,372	1,307
Peace Corps	111	127	131	125
Refugee assistance	336	354	338	339
Compact of Free Association (Micronesia)				299
Other:				
On-budget under current law	–33	–23	–19	–19
Off-budget under current law#	–5	–5	–5	–5
Offsetting receipts	–493	–459	–479	–479
Subtotal, Foreign economic and financial assistance	4,478	5,293	5,131	5,278
152 International security assistance:				
Military aid financing:				
On-budget under current law	1,060	2,802	4,603	4,863
Off-budget under current law#	2,818	2,340	282	282
Military assistance	928	848	840	958
Economic support fund	2,874	3,937	3,900	2,825
Other:				
Existing law	331	343	386	385
Proposed legislation				
Offsetting receipts	–86	–93	–99	–99
Subtotal, International security assistance	7,924	10,177	9,912	9,213
153 Conduct of foreign affairs:				
Administration of foreign affairs:				
Existing law	1,251	1,486	1,600	1,831
Proposed legislation				
International organizations and conferences	580	562	587	551
Other	51	62	67	72
Subtotal, Conduct of foreign affairs	1,882	2,110	2,254	2,454
154 Foreign information and exchange activities	682	942	955	1,041
155 International financial programs:				
Export-Import Bank:				
Existing law	1,068	1,359	996	608
Proposed legislation				–5
Foreign military sales trust fund (net)	–300	–200	100	100
International monetary programs	565			
Other	–340	–284	–253	–253

Table A–16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
Offsetting receipts	−84	−85	−87	−87
Subtotal, International financial programs	910	790	756	364
Total outlays	15,876	19,312	19,008	18,349
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY				
251 General science and basic research:				
National Science Foundation programs	1,198	1,431	1,516	1,540
Department of Energy general science programs	650	687	717	697
Subtotal, General science and basic research	1,849	2,118	2,233	2,237
253 Space flight	4,028	3,914	4,100	4,004
254 Space, science, applications, and technology	1,687	1,890	2,117	2,144
255 Supporting space activities:				
On-budget under current law	746	886	934	1,007
Off-budget under current law#	7	−67	−107	−107
Subtotal, Supporting space activities	754	819	827	900
Total outlays	8,317	8,742	9,277	9,285
270 ENERGY				
271 Energy supply:				
Research and development	2,572	2,570	2,584	2,358
Uranium enrichment	12	240		
Nuclear waste disposal fund	−58	−812	125	125
Petroleum reserves	−1,403	−723	−974	−976
Tennessee Valley Authority:				
On-budget under current law	185	535	165	165
Off-budget under current law#	137	90	87	87
Other power marketing	−517	−304	−437	−1,424
Subsidies for nonconventional fuel production:				
On-budget under current law	16	148	317	318
Off-budget under current law#	366	353	11	14
Rural electric and telephone:				
On-budget under current law	226	247	254	28
Off-budget under current law#:				
Existing law	1,717	3,132	2,425	2,482
Proposed legislation				−7
Subtotal, Energy supply	3,252	5,476	4,558	3,170
272 Energy conservation:				
Energy conservation grants and R&D:				
Existing law	519	519	450	346
Proposed legislation				
Solar Energy and Energy Conservation Bank	8	26	43	35
Subtotal, Energy conservation	527	546	493	381
274 Emergency energy preparedness:				
On-budget under current law	189	276	389	236
Off-budget under current law#	2,329	1,630	1,646	148
Subtotal, Emergency energy preparedness	2,518	1,906	2,035	385
276 Energy information, policy, and regulation	790	772	779	736
Total outlays	7,086	8,700	7,865	4,671

Table A-16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
300 NATURAL RESOURCES AND ENVIRONMENT				
301 Water resources:				
Corps of Engineers:				
Existing law	3,096	3,139	3,104	2,590
Proposed legislation				403
Bureau of Reclamation	871	1,025	1,024	980
Other	259	324	273	215
Navigation fees (proposed)				−403
Offsetting receipts	−158	−167	−219	−220
Subtotal, Water resources	4,068	4,321	4,182	3,566
302 Conservation and land management:				
Management of national forests,cooperative forestry, and forestry research (Forest Service):				
Existing law	1,787	1,826	1,880	1,663
Proposed legislation				63
Management of public lands (BLM)	511	478	473	391
Mining reclamation and enforcement	206	283	325	320
Conservation of agricultural lands	605	635	675	548
Other	320	323	290	277
Offsetting receipts:				
Existing law	−2,127	−2,599	−2,661	−2,650
Proposed legislation				106
Subtotal, Conservation and land management	1,302	946	982	719
303 Recreational resources:				
Federal land acquisition	315	342	273	207
Urban park and historic preservation funds	89	70	42	28
Operation of recreational resources	1,239	1,306	1,439	1,264
Offsetting receipts:				
Existing law	−61	−84	−88	−88
Proposed legislation				−51
Subtotal, Recreational resources	1,581	1,634	1,665	1,361
304 Pollution control and abatement:				
Regulatory, enforcement, and research programs	1,137	1,227	1,297	1,288
Hazardous substance response fund	285	450	580	670
Oil pollution funds	3	9	9	9
Sewage treatment plant construction grants	2,623	2,740	2,650	2,650
Offsetting receipts	−3	−34	−38	−38
Subtotal, Pollution control and abatement	4,044	4,392	4,498	4,579
306 Other natural resources:				
Program activities:				
Existing law	1,602	1,770	1,870	1,621
Proposed legislation				55
Offsetting receipts:				
Existing law	−7	−14	−14	−1
Proposed legislation				−14
Subtotal, Other natural resources	1,595	1,757	1,856	1,660
Total outlays	12,591	13,049	13,183	11,884
350 AGRICULTURE				
351 Farm income stabilization:				
Commodity price support and related programs:				
Existing law	7,364	15,081	12,580	12,360
Proposed legislation				−1,821
Crop insurance:				
Existing law	576	423	436	349

Table A-16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services: 1985 estimate	Current services: 1986 estimate	1986 administration proposals
Proposed legislation				−101
Agricultural credit:				
On-budget under current law	2,478	1,609	1,247	1,243
Proposed legislation				−44
Off-budget under current law#:				
Existing law	1,410	1,175	1,889	−324
Proposed legislation				−760
Other programs and unallocated overhead	50	58	52	35
Subtotal, Farm income stabilization	11,877	18,346	16,205	10,937
352 Agricultural research and services:				
Research programs	726	765	847	784
Extension programs	330	342	357	267
Marketing programs:				
Existing law	120	127	129	125
Proposed legislation				−25
Animal and plant health programs:				
Existing law	296	284	291	250
Proposed legislation				−12
Economic intelligence	172	190	193	185
Other programs and unallocated overhead:				
Existing law	172	213	218	211
Proposed legislation				−2
Offsetting receipts	−80	−91	−91	−90
Subtotal, Agricultural research and services	1,736	1,830	1,943	1,691
Total outlays	13,613	20,176	18,148	12,629
370 COMMERCE AND HOUSING CREDIT				
371 Mortgage credit and deposit insurance:				
Mortgage-backed securities (GNMA)	−186	−241	−279	−298
Mortgage purchase activities (GNMA)	842	−441	−447	−447
Mortgage credit (FHA)	−366	−802	−1,089	−1,330
Housing for the elderly or handicapped	661	572	590	590
Rural housing programs:				
On-budget under current law	2,340	2,229	2,598	2,492
Off-budget under current law#	1,090	2,335	1,940	−180
Federal Deposit Insurance Corporation	−248	−1,000	−1,500	−1,500
Federal Savings and Loan Insurance Corp. and other	−561	350	57	57
National Credit Union Administration	193	−822	−96	−96
Subtotal, Mortgage credit and deposit insurance	3,766	2,179	1,773	−713
372 Postal Service:				
On-budget under current law	879	1,041	1,020	39
Off-budget under current law#:				
Existing law	360	320	−15	965
Proposed legislation				213
Subtotal, Postal Service	1,239	1,361	1,005	1,217
376 Other advancement of commerce:				
Small and minority business assistance:				
On-budget under current law	725	876	860	321
Proposed legislation				2,103
Off-budget under current law#	254	500	541	−1,735
Science and technology	260	339	335	319
Economic and demographic statistics	194	211	220	214
International trade and other:				
Existing law	479	547	528	481
Proposed legislation				−1
Subtotal, Other advancement of commerce	1,913	2,474	2,484	1,702

Table A-16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
Total outlays	6,917	6,014	5,262	2,206
400 TRANSPORTATION				
401 Ground transportation:				
Highways	10,520	13,077	13,662	13,664
Highway safety:				
Existing law	240	283	314	306
Proposed legislation	....	....	....	3
Mass transit	3,811	4,217	4,098	3,330
Railroads:				
On-budget under current law	2,447	1,106	1,022	420
Off-budget under current law#	−918	−9	−7	−9
Regulation	57	49	51	52
Subtotal, Ground transportation	16,158	18,724	19,140	17,766
402 Air transportation:				
Airports and airways (FAA)	3,767	4,301	4,701	4,559
Aeronautical research and technology	586	631	670	616
Regulation	21	7	....	....
Air carrier subsidies	41	53	53	....
Subtotal, Air transportation	4,415	4,992	5,424	5,175
403 Water transportation:				
Marine safety and transportation:				
Existing law	2,526	2,653	2,791	2,658
Proposed legislation	....	....	....	−11
Proposed boat and yacht fees	....	....	....	−236
Ocean shipping:				
Existing law	473	521	443	384
Proposed legislation	....	....	....	−14
Regulation	11	12	12	12
Subtotal, Water transportation	3,010	3,186	3,246	2,792
407 Other transportation	85	124	131	127
Total outlays	23,669	27,025	27,941	25,860
450 COMMUNITY AND REGIONAL DEVELOPMENT				
451 Community development:				
Community development block grants	3,819	3,900	3,527	3,520
Community development loan guarantees (Off-budget under current law)#	31	42	51	25
Urban development action grants	454	500	544	522
Rental rehabilitation and rental development	....	95	262	262
Other programs:				
On-budget under current law	216	328	342	288
Off-budget under current law#	....	....	−1	−1
Subtotal, Community development	4,520	4,865	4,724	4,616
452 Area and regional development:				
Rural development:				
On-budget under current law	1,253	1,291	1,279	1,154
Off-budget under current law#	335	659	480	458
Economic development assistance	216	262	233	158
Indian programs	1,108	1,157	1,132	1,114
Regional commissions	221	200	194	157
Tennessee Valley Authority	166	145	125	40
Other	8	−4	−8	−8
Offsetting receipts	−273	−283	−285	−282
Subtotal, Area and regional development	3,034	3,428	3,149	2,792

Table A–16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
453 Disaster relief and insurance:				
Small business disaster loans:				
Existing law	−419	−87	−25	−650
Proposed legislation	....	....	....	184
Disaster relief	243	200	200	194
National flood insurance fund	146	65	48	73
Other	149	147	154	114
Subtotal, Disaster relief and insurance	119	326	377	−84
Total outlays	7,673	8,619	8,250	7,323
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES				
501 Elementary, secondary, and vocational education:				
Special programs	632	514	715	646
Compensatory education	3,077	3,566	3,801	3,787
Education for the handicapped	953	1,403	1,247	1,241
Impact aid	578	747	762	635
Vocational and adult education	743	914	859	858
Other:				
Existing law	538	528	548	503
Proposed legislation	....	....	....	−*
Subtotal, Elementary, secondary, and vocational education	6,520	7,672	7,931	7,670
502 Higher education:				
Student financial assistance	3,743	4,506	4,771	4,447
Guaranteed student loan program:				
Existing law	3,245	3,431	3,310	3,310
Proposed legislation	....	....	....	−412
Other	394	698	695	613
Subtotal, Higher education	7,383	8,635	8,776	7,959
503 Research and general education aids	1,210	1,229	1,259	1,187
504 Training and employment:				
Employment and training assistance	3,196	3,652	3,689	3,551
Older Americans employment	321	319	326	326
Work incentive program	265	267	272	60
Federal-State employment service	799	1,014	983	930
Other	63	75	71	64
Subtotal, Training and employment	4,644	5,327	5,342	4,931
505 Other labor services	639	725	742	679
506 Social services:				
Social services block grant	2,789	2,750	2,702	2,702
Community service programs	346	372	384	129
Rehabilitation services	1,414	1,105	1,193	1,134
Family social services	659	744	773	748
Services for children, the elderly, and other special groups	1,819	1,889	2,032	1,975
Domestic volunteer programs	133	144	154	148
Other social services	25	31	27	26
Subtotal, Social services	7,185	7,035	7,265	6,863
Total outlays	27,579	30,621	31,316	29,288

Table A–16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
550 HEALTH				
551 Health care services:				
Medicaid grants:				
Existing law	20,061	22,985	24,742	24,631
Proposed legislation				−940
Federal employees' health benefits	1,342	1,143	1,460	1,460
Other health care services:				
On-budget under current law	3,134	3,122	3,334	2,874
Proposed legislation				188
Off-budget under current law#	−14	−4	−10	−10
Subtotal, Health care services	24,522	27,245	29,527	28,202
552 Health research:				
National Institutes of Health research	3,963	4,447	4,827	4,681
Other research programs	416	531	541	524
Subtotal, Health research	4,379	4,978	5,368	5,204
553 Education and training of health care work force:				
Research training	195	234	262	265
Clinical training:				
Existing law	166	203	219	177
Proposed legislation				−8
Other	28	41	45	21
Subtotal, Education and training of health care work force	388	478	526	455
554 Consumer and occupational health and safety:				
Consumer safety:				
Existing law	762	819	841	807
Proposed user fees				−115
Other proposed legislation				−2
Occupational safety and health	367	385	394	369
Subtotal, Consumer and occupational health and safety	1,129	1,204	1,235	1,059
Total outlays	30,417	33,905	36,656	34,920
570 SOCIAL SECURITY AND MEDICARE				
571 Social security:				
Old-age and survivors insurance (OASI)	159,841	171,167	182,011	181,922
Disability insurance (DI)	18,382	19,949	20,329	20,323
Interfund transactions				
Subtotal, Social security	178,223	191,116	202,340	202,245
572 Medicare:				
Hospital insurance (HI):				
Existing law	42,108	48,761	51,132	49,115
Proposed legislation				−1,158
Supplementary medical insurance (SMI):				
Existing law	20,374	23,064	26,084	25,984
Proposed legislation				−662
Medicare premiums and collections:				
Existing law	−4,942	−5,547	−5,956	−5,927
Proposed legislation				−194
Interfund transactions:				
Existing law				
Proposed legislation				
Subtotal, Medicare	57,540	66,278	71,260	67,158

Table A-16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
Total outlays	235,764	257,394	273,600	269,404
600 INCOME SECURITY				
601 General retirement and disability insurance (excluding social security):				
Railroad retirement:				
Existing law	3,716	3,895	4,057	4,057
Proposed legislation				−34
Special benefits for disabled coal miners:				
Existing law	1,692	1,714	1,725	1,629
Proposed legislation				40
Pension Benefit Guaranty Corporation:				
Existing law	−10	−12	11	9
Proposed legislation				−184
Other	44	53	63	63
Subtotal, General retirement and disability insurance (excluding social security)	5,441	5,650	5,856	5,580
602 Federal employee retirement and disability:				
Civilian retirement and disability programs:				
Existing law	22,069	23,293	24,949	24,949
Proposed legislation				−741
Military retirement: [1]				
Existing law	16,471	15,809	18,291	18,291
Proposed legislation				−491
Federal employees workers' compensation (FECA):				
Existing law	219	207	255	255
Proposed legislation				−22
Federal employees life insurance fund	−704	−719	−724	−724
Subtotal, Federal employee retirement and disability	38,054	38,589	42,771	41,518
603 Unemployment compensation:				
Existing law	18,421	16,780	16,297	16,297
Proposed legislation				−3
Subtotal, Unemployment compensation	18,421	16,780	16,297	16,294
604 Housing assistance:				
Subsidized housing:				
Existing law	8,774	9,722	10,419	10,539
Proposed legislation				−1,446
Public housing operating subsidies	1,135	1,381	1,368	1,126
Low-rent public housing loans:				
On-budget under current law	1,111	15,097	2,037	1,988
Proposed legislation				−25
Off-budget under current law#	112	−32	−35	−35
Other housing assistance	138	120	185	155
Subtotal, Housing assistance	11,270	26,288	13,974	12,304
605 Food and nutrition assistance:				
Food stamps and aid to Puerto Rico:				
Existing law	12,375	12,607	12,705	12,698
Proposed legislation				−14
Child nutrition and other programs:				
Existing law	5,679	6,066	6,250	6,238
Proposed legislation				−654
Subtotal, Food and nutrition assistance	18,055	18,674	18,955	18,268
609 Other income security:				
Supplemental security income	8,498	9,511	9,888	9,890

Table A-16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services		1986 administration proposals
		1985 estimate	1986 estimate	
AFDC and child support enforcement:				
Existing law	8,855	8,970	9,063	9,007
Proposed legislation				−180
Earned income tax credit	1,193	1,054	1,255	1,255
Refugee assistance	602	450	362	362
Low income home energy assistance:				
Existing law	2,026	2,100	2,192	2,100
Financing from petroleum overcharges (proposed)				−809
Other	254	213	201	181
Subtotal, Other income security	21,427	22,298	22,962	21,806
Total outlays	112,668	128,278	120,816	115,769
700 VETERANS BENEFITS AND SERVICES				
701 Income security for veterans:				
Service-connected compensation:				
Existing law	9,961	10,213	10,480	10,194
Proposed legislation				286
Non-service-connected pensions	3,874	3,847	3,833	3,833
Burial and other benefits	128	134	137	137
National service life insurance trust fund	922	982	1,043	1,043
U.S. Government life insurance trust fund	52	49	46	46
All other insurance programs	−94	−75	13	13
Insurance program receipts	−443	−395	−415	−415
Subtotal, Income security for veterans	14,400	14,754	15,135	15,135
702 Veterans education, training, and rehabilitation:				
G.I. bill	1,408	1,246	1,034	1,034
Post-Vietnam era education	−60	−33	40	40
All-volunteer force educational assistance		*	8	8
Veterans jobs program	17	88	35	35
Other:				
Existing law	−7	−7	−8	−8
Proposed legislation				−*
Subtotal, Veterans education, training, and rehabilitation	1,359	1,295	1,110	1,110
703 Hospital and medical care for veterans:				
Medical care and hospital services	8,124	8,752	9,348	9,052
Third party reimbursement (proposed)				−65
Construction	481	583	791	762
Medical administration, research, and other	257	298	268	245
Subtotal, Hospital and medical care for veterans	8,861	9,634	10,407	9,994
704 Veterans housing:				
Loan guaranty revolving fund:				
Existing law	370	425	384	384
Proposed legislation				−605
Direct loan revolving fund	−45	−49	−46	−46
Other (HUD participation sales trust fund)	−22	−19	−21	−21
Housing program receipts	−59			
Subtotal, Veterans housing	244	358	317	−288
705 Other veterans benefits and services:				
Cemeteries, administration of veterans benefits and other	707	770	792	765
Non-VA support programs	44	58	58	52
Subtotal, Other veterans benefits and services	751	828	851	817

Table A–16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services: 1985 estimate	Current services: 1986 estimate	1986 administration proposals
Total outlays	25,614	26,868	27,820	26,769
750 ADMINISTRATION OF JUSTICE				
751 Federal law enforcement activities:				
Criminal investigations (DEA, FBI and OCDE)	1,301	1,552	1,473	1,514
Alcohol, tobaccco, and firearms investigation (ATF)	158	166	169	166
Border enforcement activities (Customs and INS)	1,127	1,289	1,274	1,268
Protection activities (Secret Service)	267	293	299	288
Other enforcement:				
Existing law	352	402	399	368
Proposed legislation				6
Subtotal, Federal law enforcement activities	3,205	3,701	3,615	3,610
752 Federal litigative and judicial activities:				
Civil and criminal prosecution and representation	676	824	830	879
Federal judicial activities	878	1,043	1,150	1,150
Representation of indigents in civil cases	271	302	318	37
Subtotal, Federal litigative and judicial activities	1,825	2,169	2,299	2,066
753 Federal correctional activities	494	578	632	632
754 Criminal justice assistance	136	240	305	280
Total outlays	5,660	6,688	6,850	6,587
800 GENERAL GOVERNMENT				
801 Legislative functions:				
Existing law	1,319	1,464	1,588	1,588
Proposed legislation				−171
Subtotal, Legislative functions	1,319	1,464	1,588	1,417
802 Executive direction and management:				
Existing law	97	119	118	112
Proposed legislation				
Subtotal, Executive direction and management	97	119	118	112
803 Central fiscal operations:				
Collection of taxes	3,236	3,471	3,565	3,441
Surplus income, Federal Financing Bank	−170	−201	−208	−206
Other fiscal operations:				
On-budget under current law	248	261	286	276
Proposed legislation				−406
Off-budget under current law#	−60			
Subtotal, Central fiscal operations	3,254	3,530	3,643	3,105
804 General property and records management:				
Real property:				
On-budget under current law	−111	−64	−262	−273
Off-budget under current law#	−4	−4	−5	−5
Personal property	15	18	19	15
Records management	86	95	92	104
Other	215	362	365	341
Subtotal, General property and records management	201	406	209	182
805 Central personnel management:				
Existing law	139	154	152	143
Proposed legislation				
Subtotal, Central personnel management	139	154	152	143

Table A-16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
806 Other general government:				
Territories:				
On-budget under current law	175	206	190	93
Off-budget under current law#	—*	—*	−1	−1
Indian affairs	3	2	2	2
Treasury claims	237	391	301	301
Other	143	−14	−4	−6
Subtotal, Other general government	557	584	489	390
809 Deductions for offsetting receipts:				
Existing law	−513	−448	−446	−446
Proposed legislation				−58
Subtotal, Deductions for offsetting receipts	−513	−448	−446	−504
Total outlays	5,053	5,809	5,753	4,845
850 GENERAL PURPOSE FISCAL ASSISTANCE				
851 General revenue sharing:				
General revenue sharing payments:				
Existing law	4,567	4,567	4,567	4,576
Proposed legislation				−3,414
Administration:				
Existing law	7	7	8	7
Proposed legislation				−2
Subtotal, General revenue sharing	4,573	4,574	4,575	1,168
852 Other general purpose fiscal assistance:				
Payments and loans to the District of Columbia	570	499	517	498
Payments to States and counties from Forest Service receipts:				
Existing law	203	239	358	423
Proposed legislation				−356
Payments to States from receipts under the Mineral Leasing Act	736	511	532	479
Payments to States and counties from Federal land management activities	70	95	116	58
Payments in lieu of taxes	104	103	105	105
Payments to territories and Puerto Rico	507	480	416	416
Other	6	7	6	6
Subtotal, Other general purpose fiscal assistance	2,197	1,934	2,050	1,629
Total outlays	6,770	6,508	6,625	2,797
900 NET INTEREST				
901 Interest on the public debt:				
Existing law	153,822	180,395	202,495	199,392
Proposed legislation				−587
Subtotal, Interest on the public debt	153,822	180,395	202,495	198,805
902 Interest received by trust funds:				
Existing law	−20,354	−25,547	−29,724	−29,736
Proposed legislation				587
Subtotal, Interest received by trust funds	−20,354	−25,547	−29,724	−29,149

Table A–16. **CURRENT SERVICES OUTLAYS BY FUNCTION AND PROGRAM—Continued**

(In millions of dollars)

	1984 actual	Current services 1985 estimate	Current services 1986 estimate	1986 administration proposals
908 Other interest:				
Interest on refunds of tax collections	1,301	1,185	1,258	1,258
Interest on loans to Federal Financing Bank	–15,135	–17,621	–19,275	–19,038
OCS interest	–18		–953	–953
Other:				
Existing law	–8,559	–7,877	–7,994	–7,989
Proposed legislation				–384
Subtotal, Other interest	–22,410	–24,313	–26,964	–27,106
Total outlays	111,058	130,535	145,806	142,550
920 ALLOWANCES				
921 Civilian agency pay raises:				
Civilian agency pay raises			1,319	
Coast Guard military pay raises:				
Existing law			35	
Proposed legislation				24
Subtotal, Civilian agency pay raises			1,354	24
928 Contingencies for other requirements		1,125	375	375
Total outlays		1,125	1,729	399
950 UNDISTRIBUTED OFFSETTING RECEIPTS				
951 Employer share, employee retirement:				
Military retired contributions [1]	–16,503	–16,891	–17,737	–18,232
Other contributions:				
Existing law	–8,760	–9,977	–10,909	–10,463
Proposed legislation				–266
Subtotal, Employer share, employee retirement	–25,263	–26,868	–28,646	–28,961
953 Rents and royalties on the Outer Continental Shelf:				
Existing law	–6,694	–5,302	–7,317	–7,317
Proposed legislation				
Subtotal, Rents and royalties on the Outer Continental Shelf	–6,694	–5,302	–7,317	–7,317
954 Sale of Conrail:				
Proposed legislation				–1,200
Subtotal, Sale of Conrail				–1,200
Total outlays	–31,957	–32,170	–35,963	–37,478
Total outlays	**851,781**	**960,439**	**1,024,519**	**973,725**

*$500 thousand or less.

Proposed to be included on-budget.

[1] Includes the adjustment to show military retired pay for 1984 on a basis comparable to 1985 and subsequent years. See the discussion in Part 6, *Budget of the United States Government, Fiscal Year 1986.*

SPECIAL ANALYSIS B

FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT 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, investment, and the distribution of income it also affects the allocation of resources 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 (NIPA) of the United States provide the most useful measures. This special analysis shows Federal finances as measured in the NIPA. 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 1985 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. The final section explains the major differences between the budget and the NIPA concepts. A discussion of fiscal policy can be found in the main budget document and in the *Economic Report of the President.*

Federal Sector Receipts and Expenditures

Table B–1 shows Federal sector NIPA receipts, expenditures, and deficits for 1984–86.

Table B–1. **FEDERAL SECTOR RECEIPTS AND EXPENDITURES IN THE NIPA**

(In billions of dollars)

Description	1984 actual	1985 estimate	1986 estimate
RECEIPTS			
Personal tax and nontax receipts	303.2	340.6	368.8
Corporate profits tax accruals	70.1	75.7	93.1
Indirect business tax and nontax accruals	55.2	56.1	57.1
Contributions for social insurance	259.1	286.1	307.6
Total receipts	687.6	758.5	826.6
EXPENDITURES			
Purchases of goods and services	285.2	326.8	354.9
Defense	(215.4)	(241.5)	(271.7)
Nondefense	(69.8)	(85.3)	(83.2)
Transfer payments	348.4	371.2	387.5
Domestic	(340.7)	(361.0)	(377.6)
Foreign	(7.7)	(10.2)	(9.9)
Grants-in-aid to State and local governments	90.8	100.0	96.1
Net interest paid	109.7	129.6	142.8
Subsidies less current surplus of Government enterprises	23.9	20.8	11.4
Wage disbursements less accruals	−.1	.1	....
Total expenditures	857.9	948.5	992.7
Deficit (—)	−170.3	−190.0	−166.1

*$50 million or less.

Note: The estimates for 1985 and 1986 are preliminary; revisions will be published in the February 1985 issue of the *Survey of Current Business.*

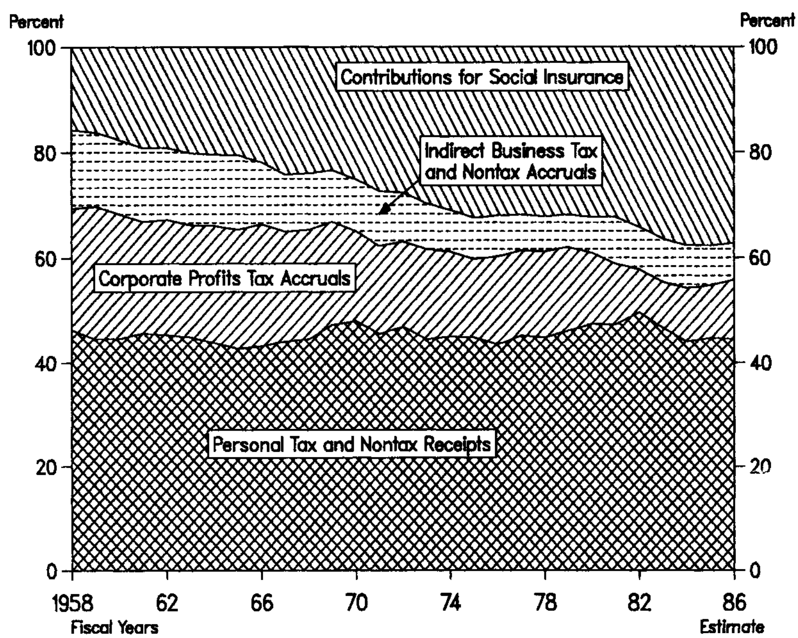
Trends in Federal sector receipts.—Table B–1 divides receipts into four major categories, which are also illustrated in the chart on the distribution of Federal sector receipts by category. Table B–2 shows 3-year averages of Federal sector receipts by category as a percent of the gross national product (GNP). The receipts are shown at 10-year intervals to provide a perspective relative to the 1986 levels. For the earlier periods, 3-year averages were used in order to eliminate the impact of annual fluctuations, thereby permitting greater focus on trends.

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

Description	1953–55 average actual	1963–65 average actual	1973–75 average actual	1983–85 average estimate	1986 estimate
Personal tax and nontax receipts	8.3	8.2	8.7	8.8	8.8
Corporate profits tax accruals	5.0	4.1	3.1	1.9	2.2
Indirect business tax and nontax accruals	2.8	2.6	1.6	1.5	1.4
Contributions for social insurance	2.2	3.8	6.0	7.2	7.3
Total receipts	18.3	18.6	19.4	19.4	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. Increases in income, because of both real growth and inflation, cause these receipts to increase automatically. Indeed, since personal income tax rates are progressive, these receipts normally grow at a faster rate than personal income. Periodically over the past three decades, tax reductions were enacted that partially offset the increase in effective tax rates resulting from the progressive tax structure. However, the Economic Recovery Tax Act of 1981 dramatically 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 slower rate in the future than the increases that would have occurred under pre-existing tax law.

Distribution of Federal Sector Receipts by Category



Corporate profits tax accruals.—Corporate profits tax accruals vary significantly from year to year because corporate profits are highly volatile. The NIPA corporate profits taxes differ from the corresponding budget category primarily because: (1) the NIPA include 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 NIPA record 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 accruals relative to GNP and to total receipts as shown in the chart above, 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, although this was partially offset by subsequent legislation.

Indirect business tax and nontax accruals.—These receipts are composed of excise taxes, customs duties, and various miscellaneous receipts such as 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. This is partly because they normally do not rise in proportion to the nominal growth in the economy, since most are taxes on physical quantities rather than on the value of a good, and partly because some of them, such as the automobile and telephone excise taxes, have been reduced or repealed. Enactment of the Crude Oil Windfall Profit Tax Act of 1980 resulted in a substantial increase in indirect business taxes in 1980 and 1981. 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 also caused indirect business tax accruals to rise. Despite their long-term 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 for 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 and 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 reductions in individual income tax rates provided by the Economic Recovery Tax Act of 1981 and the increases in social security and other social insurance taxes mandated by the Social Security Amendments of 1983 and the Railroad Retirement Act of 1983 dramatically reinforce this trend toward increases in social insurance contributions relative to total NIPA receipts.

Major tax changes.—In the past four years, major tax legislation has been passed to reduce tax rates and increase investment incentives; to curb tax shelter abuse, limit unwarranted tax benefits, and increase taxpayer compliance; to increase payroll taxes as part of overall legislation to restore the solvency of the social security system; and to increase gasoline taxes to fund infrastructure improvements.

In 1985, the Administration will be working with Congress to further reform the tax system to make it simpler and fairer. The effects of these proposals are relatively small and are reflected in the NIPA receipt estimates. Additional details about enacted and proposed tax changes on a unified budget basis can be found in Part 4 of the 1986 *Budget*; additional detail on an NIPA basis will be published in the February 1985 *Survey of Current Business.*

Trends in Federal sector expenditures.**—**Federal sector expenditures are divided into several major NIPA 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, are included in the GNP. The other expenditure categories consist primarily of transfer payments to individuals, net interest payments, and grants to State and local governments. These individuals and governments, in turn, can use the income to finance their own 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 1958. As can be seen, major shifts in the composition of Federal sector expenditures occur over time. Until 1979 for example, defense purchases of goods and services generally claimed 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 and continued declining until 1978. The defense purchases share of Federal sector expenditures rose slightly between 1978 and 1980, but has increased dramatically under this administration. This budget reflects the President's continuing efforts to strengthen our Nation's defense capability. Defense purchases are expected to total 25.5% of Federal sector expenditures in 1985 and 27.4% in 1986; they were 24.1% in 1983 and 25.1% in 1984.

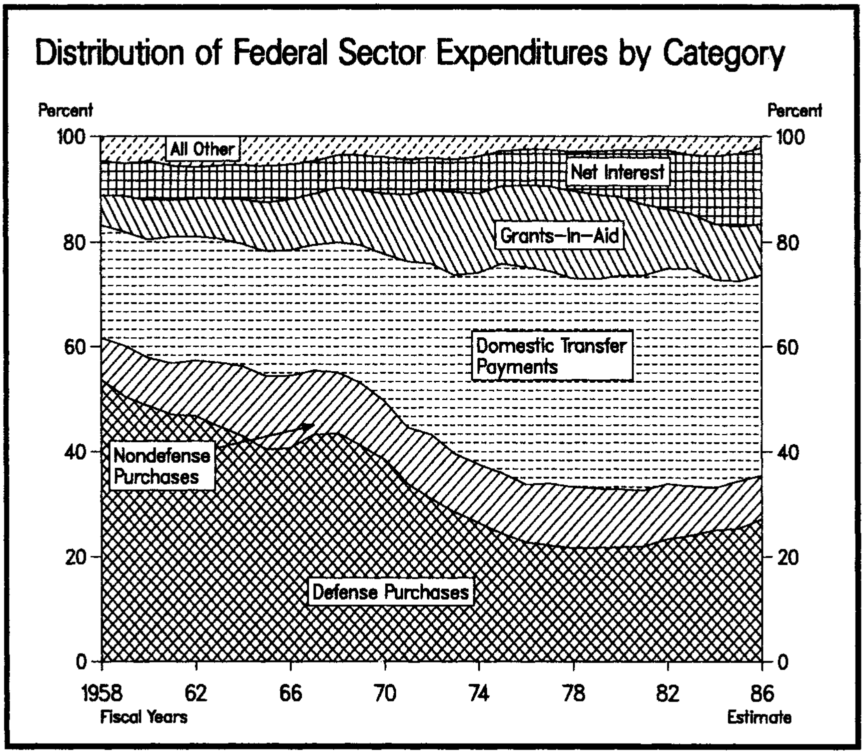


Table B-3 shows 3-year averages of Federal sector expenditures by category as a percent of GNP at 10-year intervals.

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

Description	1953–55 average actual	1963–65 average actual	1973–75 average actual	1983–85 average estimate	1986 estimate
Defense purchases	12.0	8.0	5.5	6.1	6.5
Nondefense purchases	2.0	2.5	2.3	2.2	2.0
Domestic transfer payments	2.9	4.4	7.8	9.8	9.0
Foreign transfer payments	.6	.4	.2	.2	.2
Grants-in-aid to State and local governments	.8	1.6	3.3	2.6	2.3
Net interest paid	1.2	1.2	1.5	3.1	3.4
Subsidies less current surplus of Government enterprises	.2	.7	.5	.6	.3
Total expenditures	19.7	18.8	20.9	24.6	23.6

Note.—Total expenditures include wage disbursements less accruals which are less than 0.1% in most years.

Defense purchases and foreign transfer payments are largely devoted to the conduct of our national defense and foreign affairs, although a significant portion of foreign transfers go to beneficiaries of domestic transfer payments programs (such as social security) who live abroad. In 1953–55, which includes the last year of spending and the subsequent winding-down of the Korean war, defense purchases were 12.0% of GNP, while foreign transfer payments averaged 0.6% of GNP. The total of these, 12.6%, reflects roughly the cost of external affairs. The years 1963–65, the period just prior to the large military build-up for the Vietnam war, reflect a signficantly lower level of defense expenditures relative to GNP than prevailed after the Korean war. Defense purchases and foreign transfers combined were equal to 8.4% of GNP. Even though the 1973–75 period included some spending for the winding-down of the Vietnam war, defense purchases and foreign transfers were down to 5.7% of GNP. In the 1983–85 period, defense purchases plus foreign transfer payments are estimated to be equal to 6.3% of the GNP, well below the 1963–65 average but above the 1973–75 average. In 1986 they are expected to total 6.7% of GNP.

In contrast to the general decline over the past several decades in the share of GNP claimed by the Federal sector for defense purchases and foreign transfers, spending on most other expenditure categories—especially domestic transfer payments, grants-in-aid, and net interest—has risen dramatically relative to GNP. Spending for everything except defense purchases and foreign transfer payments equalled 7.1% of GNP in 1953–55; in 1983–85 such spending is estimated to equal 18.3% of GNP. The current effort to strengthen our national defense capability and to simultaneously reduce the share of the economy claimed by the Federal Government will continue to have an effect in 1986. In that year, spending for everything except defense purchases and foreign transfers is estimated to decline to 16.9% of GNP.

Table B–4 displays defense and nondefense purchases of goods and services, with a split by character of expenditures between compensation of employees and all other purchases. Defense purchases are growing at a much faster rate than nondefense purchases, with non-compensation defense purchases growing at a significantly faster rate than all other categories. Spending for non-compensation defense purchases is estimated to increase by roughly 114% from 1981 to 1986, while spending for defense employee compensation will increase by 40%. In contrast, spending will increase by only 16% for nondefense employee compensation and just 17% for other nondefense purchases.

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. Also included are purchases of goods and services by the military assistance programs that in earlier years were 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 stock-

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

(In billions of dollars)

	1981 actual	1982 actual	1983 actual	1984 actual	1985 estimate	1986 estimate
Defense purchases:						
Compensation of employees	58.8	66.3	71.4	76.9	80.9	82.4
Other	88.3	107.0	125.1	138.5	160.6	189.3
Total defense purchases	146.9	173.0	196.7	215.4	241.5	271.7
Nondefense purchases:						
Compensation of employees	31.2	32.3	34.1	36.2	37.7	36.2
Other	40.2	45.4	44.1	33.6	47.6	47.1
Total nondefense	71.4	77.6	76.5	69.8	85.3	83.2

piles, civil defense, and nuclear weapons programs carried out by other agencies.

The budget calls for an increase of $30.2 billion in defense purchases in 1986 over 1985. 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 two decades. 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 continues in this budget.

Nondefense purchases of goods and services.—This category covers the goods and services purchased by Federal nondefense agencies. Included are such programs as the 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 1977 to 1986, reflecting the agency structure in the 1986 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 also reflect capital formation net of sales of assets and net changes in inventories. The most volatile major segment of nondefense purchases is CCC purchases, because the Corporation buys, sells, or otherwise disposes of agricultural commodities. On occasion—as in 1979 and in 1984—such sales and disposals may exceed new purchases. The negative for nondefense agricultural purchases in 1984 is largely due to disposition of commodities through the payments-in-kind (PIK) program. The NIPA treat the reduction in CCC inventories due to PIK as a reduction in Federal net purchases. However, PIK transactions have no effect on total Federal expenditures since the reduction in Federal purchases is offset by an equal increase in Federal subsidy payments. The value of these subsidies is reflected in the estimates in table B–8.

Table B-5.—**NONDEFENSE PURCHASES OF GOODS AND SERVICES BY AGENCY AND ACTIVITY**

(In billions of dollars)

	Actual								Estimate	
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Legislative and judicial branches	1.4	1.5	1.6	1.8	1.8	2.1	2.2	2.4	2.8	2.9
Department of Agriculture	5.5	4.4	2.7	5.5	5.8	13.2	9.2	−1.1	8.1	7.7
Commodity Credit Corporation	(2.7)	(0.8)	(−1.0)	(1.0)	(1.2)	(8.0)	(3.6)	(−7.0)	(2.5)	(2.8)
Forest Service	(1.1)	(1.2)	(1.5)	(1.7)	(1.9)	(1.9)	(1.8)	(1.8)	(1.9)	(1.8)
All other	(1.7)	(2.3)	(2.2)	(2.7)	(2.8)	(3.3)	(3.8)	(4.1)	(3.8)	(3.2)
Department of Commerce	1.0	1.1	1.2	1.9	1.5	1.5	1.6	1.6	1.8	1.9
Corps of Engineers, Civil	2.3	2.6	3.0	3.3	3.2	3.0	2.9	3.0	3.1	2.7
Department of Education	0.5	0.5	0.5	0.6	0.8	0.8	0.7	0.9	1.0	0.8
Department of Energy	2.7	4.3	4.6	3.4	7.8	5.2	5.1	4.7	4.8	2.8
Department of Health and Human Services	5.7	6.4	6.6	7.6	8.3	8.7	8.4	9.2	10.1	9.9
Health, including medicare	(3.7)	(4.4)	(4.6)	(5.3)	(5.9)	(5.9)	(5.8)	(6.3)	(7.1)	(7.2)
Social security, income security, and other	(2.0)	(2.0)	(2.1)	(2.3)	(2.4)	(2.8)	(2.6)	(2.9)	(3.1)	(2.8)
Department of Housing and Urban Development	0.5	0.6	0.7	0.5	0.4	0.5	0.7	0.4	0.2	0.2
Department of the Interior	2.7	2.9	3.3	3.9	4.0	3.9	4.2	4.5	4.7	4.4
Department of Justice	1.6	1.8	1.9	2.1	2.3	2.4	2.7	3.1	3.6	3.6
Department of Labor	1.1	1.2	1.7	1.9	1.9	1.9	1.6	1.6	1.6	1.5
Department of State	1.0	1.2	1.4	1.5	1.5	1.7	1.9	2.0	2.3	2.6
Department of Transportation	3.6	4.0	4.3	4.8	5.1	5.3	5.7	6.0	6.6	6.7
Coast Guard	(1.0)	(1.1)	(1.3)	(1.4)	(1.6)	(1.8)	(2.1)	(2.2)	(2.3)	(2.3)
Federal Aviation Administration	(2.0)	(2.2)	(2.3)	(2.5)	(2.7)	(2.5)	(2.8)	(3.1)	(3.5)	(3.8)
Other	(0.6)	(0.7)	(0.8)	(0.9)	(0.8)	(0.9)	(0.8)	(0.7)	(0.8)	(0.6)
Department of the Treasury	2.9	3.1	3.4	4.0	4.2	4.2	4.6	4.8	5.3	5.4
Internal Revenue Service	(1.8)	(1.9)	(2.1)	(2.3)	(2.4)	(2.5)	(2.9)	(3.2)	(3.5)	(3.4)
Other	(1.1)	(1.2)	(1.4)	(1.7)	(1.8)	(1.7)	(1.7)	(1.6)	(1.9)	(1.9)
Environmental Protection Agency	0.6	0.6	0.8	0.9	1.0	0.9	1.0	1.1	1.3	1.5
National Aeronautics and Space Administration	3.9	3.9	4.1	4.7	5.3	5.9	6.5	6.9	7.2	7.7
Veterans Administration	5.2	5.8	6.2	7.1	7.6	8.1	8.9	9.6	10.5	10.8
Hospital and medical care	(4.6)	(5.1)	(5.4)	(6.3)	(6.8)	(7.3)	(8.1)	(8.7)	(9.4)	(9.9)
Administration and other	(0.6)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)	(1.0)	(1.0)

All other	6.2	6.7	7.9	7.8	9.0	8.4	8.4	9.1	10.4	10.1
National Science Foundation	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)	(0.7)
Nuclear Regulatory Commission	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.4)
OPM: Employee health benefits and imputed employee retirement contributions	(1.0)	(1.3)	(1.4)	(1.7)	(2.2)	(2.3)	(2.6)	(2.8)	(3.0)	(2.9)
Postal Service	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.4)	(0.6)	(0.8)	(1.0)	(1.5)
Tennessee Valley Authority	(1.2)	(1.5)	(2.0)	(1.7)	(1.5)	(1.0)	(0.9)	(0.5)	(0.8)	(0.7)
United States Information Agency	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.8)	(0.8)
Imputed bank service charges	(0.5)	(0.6)	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Other	(2.3)	(2.1)	(2.7)	(2.5)	(3.2)	(2.8)	(2.5)	(2.9)	(3.2)	(2.5)
Total nondefense purchases	**48.4**	**52.6**	**55.9**	**63.3**	**71.4**	**77.6**	**76.5**	**69.8**	**85.3**	**83.2**

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 24.9% of the total in 1986. The combined nondefense purchases for health care, including medicare and research by the two agencies, is estimated at $17.1 billion in 1986, over 80% of the total purchases for the two agencies. Most of their remaining purchases are for administering social security and income security transfer programs. Both the National Aeronautics and Space Administration, with $7.7 billion in 1986 nondefense purchases, and the Department of Energy, with $2.8 billion in 1986 nondefense purchases, conduct major research and development programs. The Transportation Department's $6.7 billion of 1986 nondefense purchases are mainly for the operation of the Federal Aviation Agency and the Coast Guard. The Corps of Engineers has an estimated $2.7 billion in 1986 nondefense purchases which, along with the Tennessee Valley Authority's $0.7 billion, is primarily used for natural resources public works projects and for 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 as a result of more beneficiaries and higher benefit payments under social insurance programs. As table B-6 shows, spending on human resources programs, especially social security and medicare, dominates domestic transfer payments. This spending is expected to continue to rise in 1986, largely due to increases in the covered population and cost-of-living adjustments. Social security is estimated to account for 51.5% of total domestic transfer payments in 1986, while medicare accounts for another 18.8%, unemployment assistance for 3.9%, Federal civilian and military employee's retirement and disability for 11.0%, and veterans benefits for 4.4% 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 bulk of domestic transfer payments is for income support and is characterized by automatic eligibility of coverage and automatic benefit increases to account for changes in the cost-of-living. For these programs the demographic and economic conditions dominate the growth patterns, and the rate of growth is quite substantial for most years shown. However, due to the sharp decline in the unemployment rate, transfer payments for unemployment benefits are estimated to decline by $14.6 billion between 1983 and 1986, thereby significantly slowing the rate of growth for transfer payments as a whole.

Table B–6. **FUNCTIONAL COMPOSITION OF DOMESTIC TRANSFER PAYMENTS**

(In billions of dollars)

Description	Actual										Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
HUMAN RESOURCES PROGRAMS												
Social security and medicare:												
Social security (OASDI)	61.5	70.3	81.1	89.3	99.4	113.7	134.1	149.6	163.2	170.8	183.2	194.3
Medicare (HI&SMI)	14.1	16.9	20.7	24.2	28.1	33.8	41.1	49.0	56.0	60.8	68.8	71.2
Subtotal, social security and medicare	75.6	87.2	101.8	113.5	127.5	147.5	175.2	198.6	219.3	231.6	252.0	265.5
Income security:												
Railroad retirement	3.0	3.4	3.7	3.9	4.2	4.7	5.2	5.6	6.0	6.0	6.2	6.3
Civil service retirement	6.9	8.2	9.4	10.8	12.2	14.5	17.4	19.2	20.5	21.6	22.8	23.7
Military retired pay	6.2	7.2	8.1	9.0	10.1	11.8	13.6	14.7	15.8	16.3	15.7	17.7
Unemployment benefits	12.5	18.3	14.2	10.9	9.9	16.4	17.9	22.0	29.2	16.8	15.2	14.7
Benefits for coal miners	0.9	1.0	1.0	1.0	1.6	1.8	1.7	1.7	1.7	1.6	1.7	1.6
Supplemental security income	4.2	4.6	4.7	4.9	5.2	5.7	6.4	6.9	7.3	8.1	8.6	8.9
Food and nutrition	4.2	4.7	4.4	4.5	5.7	7.9	9.8	9.5	11.1	10.7	10.8	11.1
Special payments, Treasury [1]	1.7	.9	.9	.9	.8	1.3	1.3	1.2	1.2	1.2	1.1	1.3
Workers' compensation	.4	.5	.6	.6	.7	.8	.9	.9	.9	1.0	1.1	1.1
Other	.1	.2	.2	.1	.1	.5	.2	.3	.3	.3	.3	.4
Subtotal, Income security	40.2	48.9	47.2	46.2	50.6	65.4	74.5	81.9	94.1	83.8	83.5	86.7
Health	.5	.6	.6	.6	.6	.7	.7	.6	.6	.6	.6	.6
Education, training, employment, and social services:												
Education	1.2	1.8	2.4	2.8	3.4	4.5	5.7	5.3	5.9	6.0	6.4	6.3
Training, employment, and social services	.6	.4	.6	.8	.9	1.1	1.1	.9	.8	1.0	1.0	1.0

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

(In billions of dollars)

Description	Actual										Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Subtotal, education, training, employment, and social services	1.8	2.3	2.9	3.5	4.3	5.6	6.8	6.2	6.7	7.0	7.4	7.3
Veterans benefits and services	12.8	14.3	13.3	13.5	14.0	14.4	15.5	16.2	16.5	16.3	16.5	16.6
Total, human resources programs	**130.9**	**153.2**	**165.9**	**177.8**	**196.9**	**233.5**	**272.7**	**303.6**	**337.2**	**339.3**	**359.9**	**376.7**
ALL OTHER FUNCTIONS												
Total functions not included in human resources grouping	**.5**	**.7**	**.7**	**.9**	**.9**	**1.1**	**1.1**	**1.0**	**1.1**	**1.4**	**1.1**	**0.9**
Total domestic transfer payments	**131.4**	**153.8**	**166.6**	**178.7**	**197.8**	**234.6**	**273.7**	**304.5**	**338.3**	**340.7**	**361.0**	**377.6**

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

Note.—Excludes the transition quarter.

Grants-in-aid.—These expenditures help State and local governments provide general public services and finance programs for the needy. Table B–7 shows 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 NIPA, the two sets of data largely overlap. Special Analysis H explains the relationship between the series.

Grants-in-aid may often substitute for 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 are substitutes 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.) Medicaid and most grants in the income security function are grants to assist States to provide income support; most other grants finance State and local services to the public. (The income support may be aid-in-kind, as is the case for medicaid where the State and local spending is to purchase medical care for the poor.)

The growth in most Federal grants-in-aid categories has been constrained over the last four years as part of the administration's efforts to curb the growth in overall spending. However, expenditures have increased significantly for two categories—medicaid and transportation. Despite implementation of reforms to increase program efficiency and effectiveness, medicaid grants rose by about 20% from 1981 to 1984, and are expected to rise by another 19% by 1986. Transportation grants rose by about 32% from 1982 to 1984, largely due to the enactment of the Surface Transportation Assistance Act of 1982. They are expected to rise by another 22% from 1984 to 1986.

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

(In billions of dollars)

Description	Actual										Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
HUMAN RESOURCES PROGRAMS												
Income security:												
Public assistance cash	5.1	5.8	6.3	6.6	6.5	7.2	8.4	7.9	7.8	8.2	8.2	8.0
Child nutrition and other food programs	1.7	2.1	2.7	2.8	3.3	3.6	4.4	4.2	4.7	5.4	5.9	5.6
Other	.7	1.0	1.0	1.0	1.2	2.5	4.5	4.7	5.4	5.4	5.6	5.6
Subtotal, income security	7.5	9.0	10.1	10.5	11.0	13.3	17.2	16.8	17.9	19.1	19.8	19.2
Health:												
Medicaid	6.8	8.6	9.8	10.6	12.4	13.9	16.8	17.3	18.9	20.1	22.9	23.6
Other (includes research, construction, services, and medical training)	2.4	2.8	2.8	2.8	2.7	2.8	3.1	3.1	2.8	3.0	3.1	3.2
Subtotal, health	9.2	11.4	12.7	13.4	15.1	16.7	19.9	20.5	21.8	23.0	26.1	26.8
Social security and medicare	.2	.3	.3	.3	.3	.4	.5	.6	.7	.7	.7	.7
Education, training, employment, and social services:												
Education	4.6	4.5	4.9	5.5	6.6	7.3	7.5	7.0	6.6	6.6	8.0	7.8
Training and employment	3.4	5.6	6.0	9.5	9.2	8.5	6.7	3.3	3.3	2.7	3.1	2.9
Social services	3.6	3.8	4.4	5.0	5.8	5.0	5.4	5.0	5.4	6.3	6.1	5.9
Subtotal, education, training, employment, and social services	11.7	13.9	15.4	20.0	21.6	20.7	19.6	15.3	15.3	15.5	17.2	16.6
Veterans benefits and services	*	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.2
Total human resources programs	**28.7**	**34.5**	**38.5**	**44.2**	**48.1**	**51.3**	**57.3**	**53.2**	**55.8**	**58.3**	**63.9**	**63.4**

OTHER FUNCTIONS:												
Natural resources and environment	2.3	2.9	4.1	3.9	4.7	5.3	4.8	4.7	3.9	3.6	3.8	3.5
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	4.2	4.3	3.9
Other	2.8	2.4	1.8	1.5	1.7	1.9	1.4	1.0	.9	.8	.9	.9
Subtotal, community and regional development	2.8	3.4	4.4	6.8	6.4	6.3	5.8	5.1	4.8	5.0	5.2	4.9
Transportation	5.8	7.5	7.7	8.1	9.5	11.8	12.2	10.8	12.1	14.3	17.0	17.4
General purpose fiscal assistance:												
General revenue sharing	6.1	6.2	6.8	6.8	6.8	6.8	5.1	4.6	4.6	4.6	4.6	1.2
Anti-recession fiscal assistance			1.7	1.3								
Other	.5	.4	.5	.8	.9	1.1	1.1	1.4	1.2	1.6	1.5	1.2
Subtotal, general purpose fiscal assistance	6.6	6.7	9.0	8.9	7.8	7.9	6.3	5.9	5.9	6.2	6.1	2.4
All other functions	2.2	2.6	2.6	2.8	2.6	4.1	3.8	3.6	3.3	3.4	4.1	4.6
Total other functions	**19.7**	**23.0**	**27.7**	**30.4**	**31.0**	**35.4**	**32.8**	**30.2**	**29.9**	**32.4**	**36.1**	**32.7**
Total grants-in-aid	**48.4**	**57.5**	**66.3**	**74.7**	**79.1**	**86.7**	**90.1**	**83.4**	**85.7**	**90.8**	**100.0**	**96.1**

*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 paid 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 NIPA expenditures; from 1952 to 1977 it accounted for only 6–7% of the total each year. In contrast, it rose from 6.9% of Federal sector expenditures in 1977 to 12.8% in 1984, and is expected to continue rising to 13.7% in 1985 and 14.4% in 1986.

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 $18.8 billion in 1984, almost 5 times greater than the $4.0 billion total in 1974. These foreign interest payments are partially offset by interest collections from abroad; in 1974 such collections totaled $1.0 billion, and in 1984 they totaled $4.8 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, about half of the subsidies are generally for housing programs. These subsidies are designed mainly to reduce the cost of housing to moderate- and low-income families. The large increase in Commodity Credit Corporation subsidies in 1984 is due to $8.4 billion of payment-in-kind subsidies that year.

"Government enterprise" is the term used in the NIPA to designate certain business-type operations of the Government that 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 net of sales of assets is classified as nondefense purchases. The largest Government enterprises are the Commodity Credit Corporation, the Postal Service, 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 category by major component.

Table B–8. **SUBSIDIES LESS CURRENT SURPLUS OF GOVERNMENT ENTERPRISES**

(In billions of dollars)

Description	Actual										Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Subsidies:												
Commodity Credit Corporation	0.6	0.3	0.6	2.3	2.0	0.5	1.4	1.6	5.5	10.5	7.6	2.8
Rural housing insurance fund	.2	.3	.4	.4	.6	.6	.8	1.4	1.7	1.7	1.7	1.7
Other Department of Agriculture	.4	.3	.3	.4	.3	.3	.3	.2	.3	.3	.3	.2
Housing (HUD)	2.1	2.3	2.9	3.5	4.3	5.1	6.3	7.6	9.1	9.7	10.3	10.0
Maritime	.5	.5	.5	.5	.5	.6	.5	.6	.4	.4	.4	0.3
Railroad and mass transit	.5	.9	1.3	1.4	1.5	2.0	2.2	1.9	1.7	1.7	1.6	0.5
Other [1]	.1	.4	.3	.3	.6	.5	.1	.2	.1	.1	.1	....
Subtotal	4.4	5.0	6.4	8.9	9.9	9.5	11.7	13.5	18.7	24.3	21.8	15.5
Enterprise surpluses (–) or deficits:												
Commodity Credit Corporation	.3	.2	.2	.8	1.3	1.6	1.8	2.3	5.6	3.6	3.3	2.0
Postal Service	2.5	2.6	2.0	1.9	1.0	2.1	1.1	–.1	.4	.7	.7	–*
Tennessee Valley Authority	–.3	–.4	–.6	–.6	–.8	–1.1	–1.0	–1.2	–1.4	–1.8	–1.9	–2.1
Federal Housing Administration	–2	–.2	–.2	–.2	–.2	–.4	–.4	–.5	–.5	–.8	–1.4	–1.7
Federal Deposit Insurance Corporation	–.2	–.2	–.2	–.3	–.3	–.3	–.4	–.6	–.5	–1.1	–.9	–.9
Federal Savings and Loan Insurance Corporation	–.2	–.2	–.2	–.3	–.3	–.3	*	–.2	.1	–.4	–.6	–.6
All other [1]	–.5	–.6	–.4	–.6	–.8	–.7	–.2	–.1	–.2	–.6	–.2	–.8
Subtotal	1.5	1.2	.5	.8	–*	.9	.9	–.4	3.5	–.4	–1.0	–4.2
Total subsidies less current surplus	**6.0**	**6.2**	**6.9**	**9.7**	**9.9**	**10.4**	**12.5**	**13.0**	**22.2**	**23.9**	**20.8**	**11.4**

* $50 million or less.

[1] Includes wage disbursements less accruals.

Note.—Excludes the transition quarter.

Wage disbursements less accruals.—This is an adjustment occasionally made in the NIPA to bridge between the sum of the expenditure components and the totals. This is necessary when wages and salaries are received in a time period that is different from when they are earned. The budget records these payments on a cash basis (when they are paid). The NIPA treat such payments on an accrual basis (when they are earned) for nondefense purchases and the current surplus of government enterprises, but on a cash basis for total expenditures. Wage disbursements less accruals is the timing adjustment necessary to allow the individual expenditure categories to sum to the total expenditures. The net adjustment made is normally small since wage and salary payments disbursed in one year but earned in another are approximately offset by payments disbursed in the next year but earned in the current one.

Quarterly Estimates

Table B–9 presents quarterly NIPA receipts and expenditures at seasonally adjusted annual rates for 1984 to 1986. The translation of the budget into the NIPA categories is inexact. When the annual NIPA 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 NIPA receipts and expenditures consistent with the 1986 budget, but should be used with clear recognition of their limitations.

Table B-9. **FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPA, QUARTERLY, 1983–86**

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

Description	Actual					Estimated						
	Oct.–Dec. 1983	Jan.–Mar. 1984	Apr.–June 1984	July–Sept. 1984	Oct.–Dec. 1984	Jan.–Mar. 1985	Apr.–June 1985	July–Sept. 1985	Oct.–Dec. 1985	Jan.–Mar. 1986	Apr.–June 1986	July–Sept. 1986
RECEIPTS												
Personal tax and nontax receipts	293.3	301.6	310.7	319.7	327.3	331.1	341.0	350.7	361.9	357.9	371.3	384.9
Corporate profits tax accruals	66.5	73.0	75.6	66.4	64.7	75.6	78.9	83.5	87.9	92.0	94.9	97.4
Indirect business tax and nontax accruals	54.5	54.1	55.9	56.2	56.5	56.5	55.6	55.8	55.9	58.1	58.0	56.4
Contributions for social insurance	240.7	257.6	262.0	265.2	268.8	285.6	289.6	294.2	299.7	308.0	311.7	315.2
Total, receipts	655.0	686.4	704.3	707.4	717.3	748.8	765.1	784.2	805.4	816.0	835.9	853.9
EXPENDITURES												
Purchases of goods and services	266.3	267.6	296.4	302.8	316.1	322.9	330.2	337.5	343.7	350.7	358.8	366.7
Defense	(207.2)	(213.4)	(220.8)	(220.4)	(231.4)	(239.4)	(245.0)	(250.1)	(257.4)	(267.4)	(276.6)	(285.3)
Nondefense	(59.1)	(54.2)	(75.6)	(82.4)	(84.6)	(83.5)	(85.2)	(87.4)	(86.3)	(83.3)	(82.2)	(81.4)
Transfer payments	350.1	347.7	350.1	351.8	357.6	373.8	375.7	376.6	378.6	388.3	390.4	392.3
Domestic	(340.0)	(341.1)	(343.7)	(346.1)	(347.8)	(363.6)	(365.1)	366.4)	(368.6)	(378.4)	(380.5)	(382.5)
Foreign	(10.1)	(6.6)	(6.4)	(5.7)	(9.8)	(10.2)	(10.6)	(10.2)	(10.0)	(9.9)	(9.9)	(9.8)
Grants-in-aid to State and local governments	86.5	90.6	93.2	92.1	95.8	98.5	102.5	102.5	101.1	95.1	94.2	93.3
Net interest paid	102.0	107.6	110.9	121.9	126.6	128.6	130.6	132.6	136.5	140.5	144.8	149.0
Subsidies less current surplus of Government enterprises	30.6	34.4	17.7	15.3	21.5	20.5	20.2	21.5	13.2	11.4	11.2	9.7
Wage disbursements less accruals	*	−.2	−.2	.4	−.2	.5						
Total expenditures	835.5	847.6	868.0	884.3	917.3	944.8	959.2	970.7	973.1	986.0	999.4	1,011.0
Deficit (−)	−180.5	−161.3	−163.7	−176.9	−200.0	−196.0	−194.1	−186.5	−167.7	−170.0	−163.5	−157.1

*$50 million or less.

Note.—Because of the methods normally used to seasonally adjust NIPA 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, NIPA

Table B–10 shows the major differences between the budget and the Federal sector in the NIPA. In order to be consistent with the administration's proposal to include on-budget those Federal entities that are off-budget under current law, the budget outlay totals in table B–10 include the outlays made by all Federal entitites for all years shown. This is a major departure from presentations in previous years when the outlays of off-budget federal entities were not included in total budget outlays. Their inclusion raises total budget outlays by an amount equal to off-budget outlays, but has no effect on Federal sector expenditures because the NIPA have always taken these outlays into account. Since most outlays of the currently off-budget Federal entities are for loans, the major impact is to increase the exclusion made for lending and financial transactions. These and other adjustments made to reconcile the budget to the Federal sector in the NIPA are explained below.

Table B–10. **RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA**

(In billions of dollars)

Description	1982 actual	1983 actual	1984 actual	1985 estimate	1986 estimate
RECEIPTS					
Total budget receipts	617.8	600.6	666.5	736.9	793.7
Government contributions for employee retirement (grossing)	10.7	12.2	13.1	14.7	15.1
Other netting and grossing	9.4	9.3	12.3	13.9	16.1
Timing adjustments	−9.9	6.5	−2.8	−5.3	3.4
Geographic exclusions	−1.5	−1.6	−1.8	−1.9	−2.1
Other	−.1	.1	.3	.2	.4
Federal sector, NIA receipts	626.4	627.1	687.6	758.5	826.6
EXPENDITURES					
Total budget outlays	745.8	808.3	851.8	959.1	973.7
Lending and financial transactions	−19.3	−14.4	−18.2	−36.5	−13.0
Government contributions for employee retirement (grossing)	10.7	12.2	13.1	14.7	15.1
Other netting and grossing	9.4	9.3	12.3	13.9	16.1
Defense timing adjustment	−1.1	.9	2.2	1.5	.9
Bonuses on Outer Continental Shelf land leases	2.4	7.5	3.5	1.7	4.0
Geographic exclusions	−4.9	−4.9	−5.0	−5.2	−5.2
Other	−3.0	−2.3	−1.8	−.7	1.1
Federal sector, NIA expenditures	740.0	816.4	857.9	948.5	992.7

Note.—Data for 1982–85 are revised to include the outlays of Federal entities that are off-budget under current and proposed to be included on-budget.

Lending and financial transactions.—The national income and product accounts conceptually 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 the allocation and distribution of income and output, but they are analyzed more appropriately within a financial market framework, such as that provided by the flow-of-funds data of the Federal Reserve Board. Special Analysis E (Borrowing and Debt) 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 included 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 NIPA record nonrecourse agricultural commodity loans as purchases rather than loans; and (b) capital contributions to international financial institutions are not loans, but are financial transactions excluded from the NIPA.

Government contributions for employee retirement.—The contributions of Government agencies to the retirement trust funds of their employees constitute the largest netting and grossing adjustment. These contributions are not included in the budget totals. While the outlays are recorded in each agency's budget, they are offset by an intragovernmental deduction. However, the NIPA count 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 NIPA 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 and medicare.

In 1985, the budget began financing military retirement on an accrual basis akin to the financing of civil service retirement. This revised approach to financing military retirement will not affect the NIPA until the NIPA historical data can be adjusted on a comparable basis (the next "benchmark" revision).

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 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 NIPA these insurance premiums are treated as social insurance receipts just as are receipts from compulsory Government programs.

Likewise, noncompulsory insurance premiums under the supplementary medical insurance program and similar but much smaller noncompulsory hospital insurance premiums are classified as offsetting collections (negative outlays) in the budget, but are classified as social insurance contributions in the NIPA.

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 workers' 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 NIPA as indirect business nontaxes; this converts the collections from an offset to outlays in the budget to a receipt in the NIPA.

All netting and grossing items, including government contributions for employee retirement, have an equal impact on receipts and expenditures, so they have no effect on the calculation of the NIPA deficit.

Timing adjustments.—The budget records receipts at the time the cash is collected regardless of when the liability is incurred. In contrast, the NIPA attempt to record most receipts from the business sector in the time period in which the liability is incurred rather than when taxes are actually collected, 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 incurred or the cash is received by Treasury. Hence, receipts recorded in the budget for one fiscal year are sometimes recorded in the prior fiscal year in the NIPA due to the lags between the time when liability is incurred or payment made and time of collection. The timing adjustments made to budget receipts attempt to account for these time lags.

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 NIPA 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 NIPA. In addition, some accounting adjustments are included with the defense timing adjustment in this translation. Nondefense timing adjustments are normally small and are included in the "other" category in table B–10.

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 NIPA. As already noted, the budget records these bonuses as proprietary receipts and, therefore, deducts them from budget outlays. The NIPA exclude 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 NIPA exclude such transactions, this constitutes a major reconciliation item between the two data series.

Other.—This category contains miscellaneous adjustments, such as foreign currency transactions that are included in the NIPA but not in the budget.

Table B–11. **FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1975–86**

(In billions of dollars)

Description	Actual										Estimate	
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
RECEIPTS, NIPA BASIS												
Personal tax and nontax receipts	127.5	137.2	166.4	186.5	222.6	250.4	289.4	311.4	294.1	303.2	340.6	368.8
Corporate profits tax accruals	41.8	52.5	58.9	67.3	76.1	69.9	69.3	50.9	53.8	70.1	75.7	93.1
Indirect business tax and and nontax accruals	22.2	24.3	24.5	27.2	29.1	35.5	53.5	50.3	51.0	55.2	56.1	57.1
Contributions for social insurance	91.9	101.0	116.2	133.3	153.1	170.0	197.0	213.9	228.3	259.1	286.1	307.6
Total receipts, national income basis	**283.4**	**314.9**	**365.9**	**414.3**	**480.8**	**525.9**	**609.2**	**626.4**	**627.1**	**687.6**	**758.5**	**826.6**
EXPENDITURES, NIPA BASIS												
Purchases of goods and services	117.9	125.1	139.8	150.4	164.1	189.3	218.4	250.6	273.2	285.2	326.8	354.9
Defense	(80.2)	(84.4)	(91.4)	(97.8)	(108.2)	(126.0)	(147.0)	(173.0)	(196.7)	(215.4)	(241.5)	(271.7)
Nondefense	(37.7)	(40.7)	(48.4)	(52.6)	(55.9)	(63.3)	(71.4)	(77.6)	(76.5)	(69.8)	(85.3)	(83.2)
Transfer payments	134.5	156.8	169.8	182.2	201.8	239.4	279.5	310.6	344.6	348.4	371.2	387.5
Domestic	(131.4)	(153.8)	(166.6)	(178.7)	(197.8)	(234.6)	(273.7)	(304.5)	(338.3)	(340.7)	(361.0)	(377.6)
Foreign	(3.1)	(3.0)	(3.2)	(3.5)	(4.1)	(4.8)	(5.7)	(6.1)	(6.3)	(7.7)	(10.2)	(9.9)
Grants-in-aid to State and local governments	48.4	57.5	66.3	74.7	79.1	86.7	90.1	83.4	85.7	90.8	100.0	96.1
Net interest paid	21.7	25.2	28.4	33.5	40.6	50.7	67.7	82.3	90.3	109.7	129.6	142.8
Subsidies less current surplus of Government enterprises	6.0	6.2	6.9	9.7	9.9	10.4	12.5	13.0	22.2	23.9	20.8	11.4
Wage disbursements less accruals	.4	....	....	–*	*	....	–.1	*	.4	–.1	.1	....
Total expenditures, NIPA basis	**328.8**	**370.7**	**411.2**	**450.4**	**494.6**	**576.5**	**668.2**	**740.0**	**816.4**	**857.9**	**948.5**	**992.7**
Excess of receipts (+) or expenditures (–), NIPA basis	**–45.4**	**–55.8**	**–45.3**	**–36.1**	**–14.8**	**–50.7**	**–58.9**	**–113.6**	**–189.3**	**–170.3**	**–190.0**	**–166.1**

*$50 million or less.

Note.—Excludes the transition quarter. The estimates for 1985 and 1986 are preliminary; any revisions will be published in the February 1984 issue of the *Survey of Current Business.*

PART 2

ANALYSES OF THE BUDGET TOTALS

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 (Federal Investment and Operating Outlays) classifies 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.

Special Analysis 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) analyzes direct loan and loan guarantee programs from the perspective of the credit budget. It presents detailed data on these programs, and describes the activities of Government-sponsored enterprises and the Federal Financing Bank. It also analyzes credit subsidies, loan asset sales, defaults and tax-exempt financing.

Special Analysis G (Tax Expenditures) provides a list and discussion of 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 compares 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 data 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. As shown in table C–1 these funds comprise the budget totals, after adjustments are made for interfund transactions.

Two changes have occurred that affect the totals for the Federal and trust funds: a proposal in this budget to put off-budget entities on-budget and the establishment of a military retirement trust fund in 1985.

Off-budget under current law; proposed to be included on budget.—This analysis generally presents data for these accounts on-budget without separate identification. The effect on the Federal, trust, and budget totals for receipts and outlays, as shown in table C–1, is as follows:

—The Federal fund receipts totals do not change. The off-budget offsetting receipts continue to be deducted before reaching the Federal fund receipt total, except the offset is classified as a Federal intrafund transaction.

—The trust fund receipts totals increase because the offset for the off-budget employer's share, employee retirement is not deducted before reaching the trust fund total. Rather, the offset is treated as an interfund transaction and deducted later, before reaching the budget receipt totals.

—The budget receipts totals do not change. All off-budget offsetting receipts previously deducted before reaching the budget receipt totals continue to be deducted, as described previously.

—The Federal fund outlay totals increase. All accounts for off-budget entities are Federal fund accounts.

—The trust fund outlay totals will increase for the same reason and by the same amount that trust receipts totals increase. The increase does not effect budget outlay totals because the amount is treated as an interfund transaction and deducted before reaching the outlay total.

—The budget outlay totals increase by the increase in Federal fund outlays.

—The budget deficit increases because the budget receipts do not increase but the budget outlays increase, as described above. The amounts of the increase are the Federal fund outlay increases.

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Table C–1. **BUDGET RECEIPTS AND OUTLAYS, BY FUND GROUP**

(In millions of dollars)

Description	1984 actual	1985 estimate	1986 estimate
RECEIPTS			
Federal funds:			
Total in fund accounts	474,334	500,358	541,127
Intrafund transactions:			
Under current law	−21,756	−4,715	−5,145
From entities that are off-budget under current law [1]	−15,378	−17,912	−19,339
Proprietary receipts from the public	−19,105	−18,418	−23,109
Receipts, Federal funds	418,095	459,314	493,534
Trust funds:			
Total in fund accounts	360,128	419,707	445,214
Intrafund transactions	−4,382	−4,149	−3,576
Proprietary receipts from the public	−17,644	−19,063	−20,337
Receipts, trust funds	338,103	396,495	421,302
Interfund transactions:			
Under current law	−87,744	−116,449	−118,230
From entities that are off-budget under current law [1]	−1,997	−2,501	−2,876
Total budget receipts	**666,457**	**736,859**	**793,729**
OUTLAYS			
Federal funds:			
Total in fund accounts:			
Under current law	682,596	760,215	781,023
From entities that are off-budget under current law [1]	9,966	12,459	1,501
Intrafund transactions:			
Under current law	−21,756	−4,715	−5,145
From entities that are off-budget under current law [1]	−15,378	−17,912	−19,339
Proprietary receipts from the public	−19,105	−18,418	−23,109
Outlays, Federal funds	636,324	731,630	734,931
Trust funds:			
Total in fund accounts	327,223	369,617	383,813
Intrafund transactions	−4,382	−4,149	−3,576
Proprietary receipts from the public	−17,644	−19,063	−20,337
Outlays, trust funds	305,198	346,405	359,901
Interfund transactions:			
Under current law	−87,744	−116,449	−118,230
From entities that are off-budget under current law [1]	−1,997	−2,501	−2,876
Total budget outlays	**851,781**	**959,085**	**973,725**
Budget deficit	**−185,324**	**−222,226**	**−179,996**

[1] Proposed to be included on-budget.

Military retirement.—Although the military retirement trust fund was established in 1985, the budget presents 1984 data on a somewhat comparable basis by imputing estimated accrual amounts to that year. The Federal and trust fund outlays in this analysis reflects the change in the following amounts (in millions):

	1984	1985	1986
Federal funds:			
Total in fund accounts:			
Retired military personnel cash benefits	[1] 16,470	[1] 22	[1] 4
Federal contributions for unfunded liability		[1] 9,500	[1] 10,000
Federal payment as employer for employee retirement to trust fund		[2] 17,017	[2] 18,232
Imputed accruals for currently earned military retirement	[2] 16,503		
Intrafund transactions:			
Offset for imputed accruals	[3] −16,503		
Federal fund outlays	16,470	26,539	28,236
Trust funds:			
Total in fund accounts:			
Retired military personnel cash benefits		[1] 15,383	[1] 17,796
Interfund transactions:			
Offset for accruals		[3] −17,017	[3] −18,232
Offset for Federal contribution		[1] −9,500	[1] −10,000

[1] On the "Defense—Civil" line for tables by agency.
[2] On the "Defense—Military" line for tables by agency.
[3] On the "Undistributed offsetting receipts" line.

Federal Funds

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

Federal fund budget receipts and outlays.—In 1986, the Federal fund budget receipts are estimated at $494 billion and outlays are estimated at $735 billion. 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 individual and corporation income taxes, customs duties, some of the excise taxes, and miscellaneous receipts. 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.

As mentioned previously, since all accounts for off-budget entities are Federal fund accounts, the outlays are included as Federal fund outlays in the tables in this analysis. The affected agencies include the Departments of Agriculture (the Rural Electrification and Telephone Revolving Fund loan authorizations and the Rural Telephone Bank, of the Rural Electrification Administration); Energy (the SPR petroleum account); Treasury (the Federal Financing Bank); and other independent agencies (the Postal Service fund, the Regional rail reorganization Program of the U.S. Railway Association and the United States Synthetic Fuels Corporation).

Obligations.—The obligations (net) for Federal funds are estimated at $759 billion for 1986, as set forth in table C–3. These transactions flow largely from budget authority for Federal funds of $527 billion for the year, although some flow from prior years' budget authority.

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 construction programs that are fully funded, to provide for activities of a continuing nature (such as research and development), for loan programs, for standby emergency purposes or for reserves for losses and debt redemption.

Public enterprise revolving 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) or the public. 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 $82 billion in 1986, and gross outlays are planned to total $101 billion, resulting in net outlays of $20 billion.

Trust Funds

The trust fund group is comprised of the regular *trust funds* and a few *trust revolving funds.* The regular trust funds collect certain

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

(In millions of dollars)

Description	1984 actual	1985 estimate	1986 estimate
RECEIPTS BY SOURCE			
Individual income taxes	296,206	329,677	358,889
Corporation income taxes	56,893	66,403	74,088
Excise taxes	22,279	19,704	16,289
Estate and gift taxes	6,010	5,603	5,345
Customs duties	11,340	11,779	12,342
Miscellaneous receipts	25,367	26,148	26,581
Total receipts, Federal funds	418,095	459,314	493,534
OUTLAYS BY AGENCY			
Legislative branch [1]	1,577	1,779	1,755
The Judiciary	863	1,020	1,126
Executive Office of the President	95	117	110
Funds appropriated to the President	8,781	11,275	12,048
Agriculture	37,489	45,041	38,553
Commerce [2]	1,868	2,086	1,944
Defense—Military [3]	220,899	246,286	277,472
Defense—Civil	19,517	12,648	12,551
Education	15,511	17,391	16,870
Energy	10,628	10,991	9,331
Health and Human Services	80,355	83,275	85,115
Housing and Urban Development	16,520	28,922	15,379
Interior	4,845	4,872	4,234
Justice	3,185	3,855	3,955
Labor	8,423	6,434	4,771
State	2,568	2,873	3,368
Transportation	11,942	10,193	6,896
Treasury [2]	150,289	178,296	181,462
Environmental Protection Agency	3,838	4,040	3,979
General Services Administration [4]	210	371	114
National Aeronautics and Space Administration	7,048	7,317	7,772
Office of Personnel Management	16,846	17,174	17,374
Small Business Administration [2]	255	726	150
Veterans Administration	25,169	26,263	26,067
Other independent agencies [5]	10,817	12,558	11,604
Allowances [6]	....	1,131	399
Undistributed offsetting receipts:			
Employer share, employee retirement (imputed)	−16,503	....	....
Other interest	−18	....	−953
Rents and royalties on the Outer Continental Shelf	−6,694	−5,302	−7,317
Sale of Conrail	....	....	−1,200
Total outlays, Federal funds	636,324	731,630	734,931
Excess of outlays (−)	−218,229	−272,316	−241,397

[1] Includes allowances for 10 percent reduction from current services beginning in 1986 (Executive recommendation).
[2] Reflects proposed disestablishment of the Small Business Administration in 1986 and transfer of certain activities to the Departments of Commerce and Treasury.
[3] Includes allowances for military pay raises for Department of Defense in 1985.
[4] Reflects the transfer of the National Archives activities from the General Services Administration to the newly established National Archives and Records Administration in the line for Other independent agencies in all years.
[5] Allowances for military pay raises for Coast Guard and contingencies for other requirements.

taxes and other receipts for specified purposes, such as payment of social security benefits, in accordance with the terms of a trust

Table C–3. **OBLIGATIONS INCURRED, NET, IN FEDERAL FUNDS**

(In millions of dollars)

Department or other unit	1984 actual	1985 estimate	1986 estimate
Legislative branch	1,613	1,800	1,751
The Judiciary	887	1,036	1,145
Executive Office of the President	107	116	111
Funds appropriated to the President	12,559	11,928	12,682
Agriculture	28,848	44,051	34,410
Commerce [1]	2,010	1,887	1,709
Defense—Military [2]	247,122	284,691	309,554
Defense—Civil	19,327	12,649	12,455
Education Activities	16,415	18,274	15,736
Energy Activities	9,968	11,655	9,337
Health and Human Services	80,760	84,108	84,501
Housing and Urban Development	19,307	36,661	16,416
Interior	5,047	5,084	3,774
Justice	3,299	4,039	3,993
Labor	10,587	6,313	4,523
State	2,713	3,397	3,397
Transportation	11,448	9,169	4,883
Treasury [1]	150,464	178,481	181,095
Environmental Protection Agency	4,873	3,593	3,783
General Services Administration [3]	498	356	206
National Aeronautics and Space Administration	7,030	7,918	7,957
Office of Personnel Management	16,884	17,194	17,385
Small Business Administration [1]	379	761	97
Veterans Administration	25,455	26,449	26,482
Other independent agencies: [3]			
Export-Import Bank	686	3,010	−1,430
Federal Home Loan Bank Board	539	1,173	1,183
U.S. Postal Service	1,731	2,076	1,780
Railroad Retirement Board	2,944	3,300	3,492
All other independent agencies	6,602	6,045	6,401
Allowances:			
Coast Guard military pay raises	....	6	24
Contingencies for other requirements	....	1,500	....
Undistributed offsetting receipts:			
Other interest	−18	....	−953
Rents and royalties on the Outer Continental Shelf	−6,694	−5,302	−7,317
Sale of Conrail	....	....	−1,200
Employer share, employee retirement (imputed)	−16,503	....	....
Total	666,889	783,418	759,361

[1] Reflects proposed abolishment of the Small Business Administration in 1985 and transfer of activities to the Departments of Commerce and Treasury.
[2] Includes allowances for military pay raises for Department of Defense.
[3] Reflects the change of the National Archives activities from the General Services Administration to other independent agencies in all years.

agreement or statute. Amounts collected by the funds are classified.

Trust revolving funds are similar to intragovernmental revolving funds and public enterprise revolving funds in that they conduct a cycle of business-type operations and their outlays are normally stated net of collections. Receipts, outlays and balances for trust funds are presented in Table C–6 through C–9.

Cash operations.—Trust fund receipts are estimated at $421.3 billion in 1986, with outlays planned at $359.9 billion, as shown in

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

(In millions of dollars)

Department or other unit	Start 1984		End 1984		End 1985		End 1986	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
Legislative branch	408	252	413	371	435	333	431	316
The Judiciary	80	4	101	5	116	7	135	1
Executive Office of the President	19	.....	21	*	19	.....	20	.....
Funds appropriated to the President	21,051	26,291	23,482	30,991	24,128	32,172	24,756	31,915
Agriculture	24,840	2,095	14,925	2,907	11,920	1,202	6,840	2,075
Commerce [1]	1,377	374	1,480	367	1,281	306	1,046	337
Defense—Military [2]	128,515	43,290	153,253	51,526	191,658	51,426	223,739	55,571
Defense—Civil	978	647	767	496	768	165	673	78
Education	11,398	2,467	12,271	1,236	13,153	1,155	12,020	814
Energy	9,078	2,009	8,278	2,113	8,871	1,516	8,829	968
Health and Human Services	6,406	971	6,683	2,048	7,515	3,791	6,901	207
Housing and Urban Development	213,302	60,515	214,641	58,013	195,120	50,736	190,328	39,529
Interior	2,360	801	2,437	667	2,636	288	2,157	247
Justice	466	279	565	426	749	208	786	124
Labor	1,840	759	3,906	5,056	3,767	1,856	3,503	1,520
State	494	231	597	229	1,122	58	1,150	55
Transportation	9,989	2,444	9,362	2,461	8,339	1,855	6,326	763
Treasury [1]	550	30,340	689	28,233	874	22,907	990	22,911
Environmental Protection Agency	10,035	1,228	10,375	686	9,928	851	9,731	835
General Services Administration	659	1,129	839	934	824	661	917	640
National Aeronautics and Space Administration	1,346	793	1,321	1,001	1,922	594	2,107	523
Office of Personnel Management	112	182	151	266	171	110	182	77
Small Business Administration [1]	56	1,218	180	1,417	215	1,381	.....	.....
Veterans Administration	3,058	2,186	3,306	2,321	3,492	2,185	3,907	1,893
Other independent agencies:								
Export-Import Bank	6,421	399	4,956	.....	5,802	.....	2,937	450
Federal Home Loan Bank Board	1,264	3,715	2,364	3,877	3,187	2,704	4,314	1,520
Railroad Retirement Board	.....	7	.....	6	.....	7	.....	6
All other independent agencies [3]	9,671	2,218	10,502	2,400	11,073	2,859	11,801	2,910
Allowances [4]	.....	.....	.....	.....	375	.....	.....	.....
Total	465,774	186,844	487,864	200,051	509,463	181,332	526,526	166,287

* $500 thousand, or less.

[1] Reflects proposed abolishment of the Small Business Administration in 1985 and transfer of activities to the Departments of Commerce and Treasury.

[2] Includes balances of allowances for military pay raises for Department of Defense.

[3] For all years includes amounts for the National Archives and Records Administration for activities formerly included in the General Services Administration.

[4] Includes balances of allowances for contingencies.

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 1984-86, trust funds have excesses of receipts of the following amounts (in millions of dollars):

Table C-5. **PUBLIC ENTERPRISE FUND TRANSACTIONS**

(In millions of dollars)

Description	Applicable collections			Gross outlays		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Funds appropriated to the President:						
Foreign assistance	365	444	....	613	683	....
Agriculture:						
Commodity Credit Corporation	24,421	11,946	12,655	31,736	26,977	23,177
Farmers Home Administration:						
Rural housing insurance fund	7,708	7,380	3,095	10,048	9,607	5,586
Agricultural credit insurance fund	11,240	9,243	5,458	13,717	10,852	6,657
Rural development insurance fund	1,886	1,849	1,070	2,639	2,558	1,817
Federal Crop Insurance Corporation	231	322	495	680	544	579
Rural Electrification Administration	1,198	1,638	1,247	1,217	1,718	1,347
Commerce	108	121	115	45	76	59
Education	387	306	198	149	171	162
Energy	2,767	2,882	4,105	2,538	2,848	3,451
Health and Human Services	42	60	57	74	83	85
Housing and Urban Development:						
Public and Indian Housing Program	423	....	....	1,534	14,447	1,964
Federal Housing Administration fund	3,329	3,743	4,119	2,963	2,941	2,789
Other	2,775	2,420	2,068	4,034	2,314	1,865
Interior	458	437	422	405	450	433
Transportation	294	395	342	362	518	340
Treasury	895	284	292	649	3	3,358
General Services Administration	56	132	8	126	187	8
Small Business Administration [1]	1,433	1,413	....	1,430	1,837	....
Veterans Administration	2,500	2,404	2,650	2,776	2,753	2,443
Other independent agencies:						
Export-Import Bank	2,560	2,784	3,475	3,627	4,143	4,078
Federal Emergency Management Agency	377	422	557	536	499	646
Federal Savings and Loan Insurance Corporation fund	2,038	1,966	2,089	1,477	2,316	2,146
Federal Home Loan Bank Board	71	72	76	72	72	76
National Credit Union Administration	418	1,415	754	611	593	658
Tennessee Valley Authority	4,619	4,797	4,952	4,970	5,476	5,157
All other not included above	27,678	30,139	31,598	27,842	30,229	32,583
Total	100,278	89,012	81,894	116,872	124,896	101,464
Offsetting collections from the public	(79,070)	(69,082)	(73,992)	....	....	....
Offsetting collections from other accounts	(21,208)	(19,931)	(7,902)	....	....	....

[1] Reflects proposed abolishment of the Small Business Administration in 1985 and transfer of activities to the Departments of Commerce and Treasury.

	1984 actual	*1985 estimate*	*1986 estimate*
Total receipts, trust funds	338,103	396,495	421,302
Total outlays, trust funds	305,198	346,405	359,901
Excess of receipts or outlays (—), trust funds	32,905	50,090	61,401

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.

The type and amount of receipts for the new military retirement trust fund is shown in this table on three separate lines for 1985 and 1986 as follows:

- *Federal payment as employer for employee retirement.*—The agency responsible for paying the current salary of military personnel is responsible for paying out of its appropriations for the major portion of the anticipated future retirement benefits. The amount is also known as the accrual charges.

  The amounts on this line are the amounts received by the trust fund from the agencies, primarily the Department of Defense.
- *Federal contribution.*—Prior to the establishment of the military retirement trust fund, military retirement benefits were not funded. The current value of military retirement benefits that had been earned and will have to be paid out in subsequent periods is the "unfunded liability." The Federal contribution, to pay off the unfunded liability gradually over a period of decades, is in the form of appropriations that are provided to the general fund, which, in turn are paid to the trust fund.

  The amounts on this line represent the receipt by the trust fund of the Federal contribution.
- *Interest on Federal securities.*—Virtually all of the unobligated balances—income to the trust fund minus the cost of current retirement benefits paid by the fund—are to be invested in public debt securities that pay interest.

For 1984, receipts are reconstructed as follows:

- *Federal payment as employer for employee retirement.*—The 1986 Budget presents 1984 data on a comparable basis to 1985 and 1986 by imputing amounts to 1984. The imputed accrual of $16,503 million for 1984 is included in the Defense—Military line in Table C-2, Federal Fund Receipts and Outlays.
- *Federal contribution and interest on Federal Securities.*—There are no 1984 comparable values for these sources of funding.

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 by the following figures:

	1983 actual	1984 actual	1985 estimate	1986 estimate
Open book balances	11,674	23,825	13,624	12,764
Investments in U.S. securities:				
Public debt	215,994	236,685	296,944	359,203
Agency debt	765	765	765	765
Total	228,433	261,275	311,333	372,732

A summary of the balances by fund is presented in table C–9. Included are 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 1986, the largest net investments are expected to be those of the Federal employees retirement fund.

Table C–6. **OUTLAYS AND RECEIPTS OF TRUST FUNDS**

(In millions of dollars)

Description	Outlays			Receipts		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Federal old-age, survivors, and disability insurance trust funds	180,866	193,607	204,178	181,128	199,818	217,240
Railroad retirement trust funds	5,728	7,916	8,090	8,442	9,502	9,966
Black lung disability trust fund	865	944	972	865	941	972
Veterans life insurance trust funds	974	1,031	1,088	1,272	1,270	1,316
Federal employees retirement funds	22,105	23,331	24,250	36,761	40,016	41,684
Military retirement fund [1]	....	15,838	17,796	....	27,146	30,031
Unemployment trust fund	26,089	22,787	22,139	29,892	28,300	27,146
Health insurance trust funds	62,669	71,803	73,279	68,257	75,672	83,019
Highway trust funds	10,617	13,401	14,353	12,858	14,589	15,036
Airport and airway trust fund	1,392	2,694	3,884	3,045	3,733	3,196
State and local government fiscal assistance trust fund	4,567	4,610	1,162	4,567	4,567	....
Foreign military sales trust fund	10,936	11,900	12,500	11,237	12,100	12,400
Other trust funds (nonrevolving)	1,539	1,863	2,558	1,804	2,053	3,208
Trust revolving funds	−1,124	−2,108	−2,437	....	....	....
Subtotal	327,223	369,617	383,813	360,128	419,707	445,214
Intrafund transactions	−4,382	−4,149	−3,576	−4,382	−4,149	−3,576
Proprietary receipts from the public	−17,644	−19,063	−20,337	−17,644	−19,063	−20,337
Total	305,198	346,405	359,901	338,103	396,495	421,302

[1] Beginning in 1985 a new military retirement trust fund was established. A comparable value for 1984 is reflected in an imputed accrual account and is included in table C–2.

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.

Trust fund obligations.—The obligations (net) for trust funds are estimated at $363 billion for 1986, as set forth in table C–11.

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

[Amounts under proposed legislation are shown separately]

Description	1984 actual	1985 estimate	1986 estimate
Federal old-age, survivors, and disability insurance trust funds:			
Social insurance taxes and contributions	168,350	189,262	204,027
Interest on Federal securities	3,310	3,934	4,238
Federal payment as employer for employee retirement	2,044	2,478	2,692
Other (mainly receipts of special Federal payments)	7,424	4,144	2,485
Proposed legislation			298
Supplemental now requested			3,500
Subtotal, Federal old-age, survivors, and disability insurance trust funds	181,128	199,818	217,240
Railroad retirement trust funds:			
Social insurance taxes and contributions	3,321	3,727	3,840
Interest on Federal securities	127	373	514
Receipts from other trust funds	2,426	2,401	2,434
Other (mainly receipts of advances and Federal payments)	2,568	3,001	3,053
Proposed legislation			125
Subtotal, railroad retirement trust funds	8,442	9,502	9,966
Black lung disability trust fund:			
Excise taxes	518	576	599
Advances from general fund	346	365	365
Other receipts	*	*	*
Proposed legislation			8
Subtotal, black lung disability trust fund	865	941	972
Veterans life insurance trust funds:			
Interest on Federal securities	829	875	901
Other receipts	443	395	415
Subtotal, veterans life insurance trust funds	1,272	1,270	1,316
Federal employees retirement funds:			
Social insurance taxes and contributions	4,580	4,723	4,784
Interest on Federal securities	10,998	13,256	14,575
Federal payment as employer for employee retirement (including payment on prior year liabilities):			
Under current law	19,351	19,667	19,756
From entities that are off-budget under current law [1]	1,829	2,321	2,409
Other receipts	3	3	3
Proposed legislation			157

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

[Amounts under proposed legislation are shown separately]

Description	1984 actual	1985 estimate	1986 estimate
Supplemental now requested		48	
Subtotal Federal employees retirement funds	36,761	40,016	41,684
Military retirement fund:			
Federal payment as employer for employee retirement		17,017	18,232
Federal contribution		9,500	10,000
Interest on Federal securities		578	1,745
Proposed legislation		51	54
Subtotal, military retirement fund		27,146	30,031
Unemployment trust fund:			
Social insurance taxes and contributions	25,138	25,586	25,163
Interest on Federal securities	781	1,197	1,510
Advances from the general fund	3,973	1,517	327
Proposed legislation			146
Subtotal, unemployment trust fund	29,892	28,300	27,146
Health insurance trust funds:			
Social insurance taxes and contributions	40,262	45,069	51,104
Premiums and other charges	4,942	5,547	5,927
Interest on Federal securities	2,493	3,123	3,919
Federal payment as employer for employee retirement:			
Under current law	1,138	1,245	1,331
From entities that are off-budget under current law [1]	168	180	201
Other (mainly receipts of special Federal payments)	19,254	20,506	20,937
Proposed legislation		2	−400
Subtotal, health insurance trust funds	68,257	75,672	83,019
Highway trust funds:			
Excise taxes	11,743	13,318	13,621
Interest on Federal securities	1,116	1,271	1,415
Subtotal, highway trust funds	12,858	14,589	15,036
Airport and airway trust fund:			
Excise taxes	2,499	2,942	3,196
Interest on Federal securities	546	790	790
Proposed legislation			−790
Subtotal, airport and airway trust fund	3,045	3,733	3,196
State and local government fiscal assistance trust fund: Deposits for general revenue sharing:			
Current law	4,567	4,567	4,567
Proposed legislation			−4,567
Subtotal, state and local government fiscal assistance trust fund	4,567	4,567	
Foreign military sales trust fund	11,237	12,100	12,400
Other trust funds (nonrevolving)	1,804	2,053	3,208
Subtotal	360,128	419,707	445,214
Intrafund transactions	−4,382	−4,149	−3,576

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

[Amounts under proposed legislation are shown separately]

Description	1984 actual	1985 estimate	1986 estimate
Proprietary receipts from the public	−17,644	−19,063	−20,337
Total receipts	338,103	396,495	421,302

*$500 thousand or less.
[1] Proposed to be included on-budget.

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

[Amounts under proposed legislation are shown separately]

Description	1984 actual	1985 estimate	1986 estimate
Federal old-age, survivors, and disability insurance trust funds:			
Benefit payments	173,581	186,150	197,444
Payments to other trust funds	4,308	4,040	3,500
Administrative expenses and other	2,977	3,417	3,234
Subtotal, Federal old-age, survivors, and disability insurance trust funds	180,866	193,607	204,178
Railroad retirement trust funds:			
Benefit payments and claims	5,680	5,836	6,044
Repayment of benefit advances		2,024	2,025
Administrative expenses and other	48	56	55
Proposed legislation			−34
Subtotal, railroad retirement trust funds	5,728	7,916	8,090
Black lung disability trust fund:			
Benefit payments	594	631	633
Federal administrative expenses	37	39	41
Interest on advances	235	273	310
Proposed legislation			−12
Subtotal, black lung disability trust fund	865	944	972
Veterans life insurance trust funds	974	1,031	1,088
Federal employees retirement:			
Benefit payments and claims	21,547	22,696	24,255
Refunds to former employees	515	592	692
Administrative expenses and other	43	43	44
Proposed legislation			−741
Subtotal, Federal employees retirement	22,105	23,331	24,250
Military retirement fund:			
Payments to beneficiaries [1]		15,787	18,287
Proposed legislation		51	−491
Subtotal, military retirement fund		15,838	17,796
Unemployment trust fund:			
Withdrawals for benefit payments	16,897	15,222	14,767
Repayment of advances from general fund	6,704	4,870	4,650
Administrative expenses and other	2,488	2,708	2,683

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

[Amounts under proposed legislation are shown separately]

Description	1984 actual	1985 estimate	1986 estimate
Proposed legislation			67
Supplemental now requested		−13	−28
Subtotal, unemployment trust fund	26,089	22,787	22,139
Health insurance trust funds:			
Benefit payments	60,936	70,005	73,237
Administrative expenses and other	1,733	1,810	1,865
Proposed legislation		−10	−1,820
Supplemental now requested		−2	−2
Subtotal, health insurance trust funds	62,669	71,803	73,279
Highway trust funds (mainly grants to States):			
Current	10,617	13,376	14,353
Supplemental now requested		25	
Rescission proposal		−*	−*
Subtotal, highway trust funds	10,617	13,401	14,353
Airport and airway trust fund:			
Current	1,392	2,697	3,888
Rescission proposal		−3	−4
Subtotal, airport and airway trust fund	1,392	2,694	3,884
State and local government fiscal assistance trust fund: Payments for general revenue sharing:			
Current	4,567	4,610	4,576
Proposed legislation			−3,414
Subtotal, State and local government fiscal assistance trust fund	4,567	4,610	1,162
Foreign military sales trust fund	10,936	11,900	12,500
Other trust funds (nonrevolving)	1,539	1,863	2,558
Trust revolving funds	−1,124	−2,108	−2,437
Subtotal	327,223	369,617	383,813
Intrafund transactions	−4,382	−4,149	−3,576
Proprietary receipts from the public	−17,644	−19,063	−20,337
Total outlays	305,198	346,405	359,901

*$500 thousand or less.

[1] Beginning in 1985 a new military retirement trust fund was established. Comparable values for payment to beneficiaries for 1984 is reflected in the Retired pay, Defense account and is included on the Defense-Civil line in table C–2.

Table C–9. **TRUST FUND BALANCES**

(In millions of dollars)

Description	As of Sept. 30			
	1983 actual	1984 actual	1985 estimate	1986 estimate
Federal old-age, survivors, and disability insurance trust funds	31,951	32,213	37,024	45,286
Railroad retirement trust funds	459	3,077	4,594	6,577
Black lung disability trust fund	2	2		
Veterans life insurance funds	9,095	9,393	9,632	9,859
Federal employees retirement funds	111,222	125,878	142,563	159,996
Military retirement fund			11,308	23,543
Unemployment trust fund	9,999	13,899	19,481	24,381
Health insurance trust funds	20,448	26,036	31,306	45,845
Highway trust funds	9,581	11,822	13,009	13,692
Airport and airway trust fund	4,787	6,441	7,479	6,792
State and local government fiscal assistance trust fund	1,205	1,205	1,162	
Foreign military sales trust fund	5,333	5,634	5,834	5,734
Other trust funds (nonrevolving)	3,299	3,501	3,659	4,308
Trust revolving funds	21,050	22,174	24,282	26,719
Total	228,433	261,275	311,333	372,732

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

	1983	*1984*	*1985*	*1986*
Balance available on an authorization basis	252,687	286,137	338,638	403,435
Unfinanced contract authority:				
Airport and airway trust fund	−1,312	−1,555	−1,732	−2,056
Highway trust funds	−23,605	−26,826	−29,571	−31,255
Foreign military sales trust fund	−12,527	−11,726	−12,460	−13,438
Other	−1	−22	−81	−69
Unappropriated receipts:				
Available as needed, on an indefinite basis	5	1		
Available for appropriation by Congress:				
Soldiers' Home permanent fund	139	152	161	176
Airport and airway trust fund	3,304	4,565	4,726	3,815
Highway trust funds	9,262	10,089	11,211	11,430
Hazardous substance response trust fund	351	277	69	175
Inland waterways trust fund	92	133	192	268
Aquatic resources trust fund	32	32	154	225
Other	2	11	19	21
Retained as permanent endowment	5	5	5	5
Balance available on a cash basis	228,433	261,275	311,333	372,732

Table C–10. **TRUST REVOLVING FUND TRANSACTIONS**

(In millions of dollars)

Description	Offsetting collections			Gross outlays		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Office of Personnel Management (employees' life insurance and health benefits)	8,196	8,599	9,264	7,442	7,548	8,372
Federal Deposit Insurance Corporation	7,090	4,167	4,428	6,842	3,167	2,928
All other trust revolving funds	674	727	755	551	669	710
Total trust revolving funds [1]	15,960	13,492	14,447	14,835	11,384	12,010
Receipts from the public	(9,335)	(6,563)	(7,056)			
Receipts from other accounts	(6,625)	(6,929)	(7,391)			

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

Table C–11. **OBLIGATIONS INCURRED, NET, IN TRUST FUNDS**

(In millions of dollars)

Department or other unit	1984 actual	1985 estimate	1986 estimate
Legislative Branch	1	3	2
The Judiciary	3	4	4
Funds appropriated to the President	−802	748	979
Agriculture	61	101	14
Commerce	35	33	33
Defense—Military [1]	48	91	9
Defense—Civil	30	17,390	17,910
Education Activities	*		
Energy Activities	29	*	*
Health and Human Services	237,458	259,023	271,366
Housing and Urban Development	*	*	*
Interior	145	212	221
Justice	*	*	
Labor	27,152	23,782	23,174
State	214	214	245
Transportation	15,927	19,249	19,984
Treasury	4,579	4,618	14
Environmental Protection Agency	462	623	868
National Aeronautics and Space Administration		*	
Office of Personnel Management	21,152	22,205	23,261
Veterans Administration	494	634	753
Federal Deposit Insurance Corporation	4,470	−1,000	−1,500
Railroad Retirement Board	3,268	5,416	5,607
All Other Independent Agencies	17	20	15
Total	314,742	353,364	362,958

* 500 thousand or less.

[1] Includes allowances for military pay raises for Department of Defense.

SPECIAL ANALYSIS D

FEDERAL INVESTMENT AND OPERATING OUTLAYS [1]

This analysis classifies Federal spending into two categories: outlays for investment, which yield long-term benefits; and outlays for operating and other purposes, which yield current benefits. In response to a growing interest in public expenditures for physical capital facilities, data on historical trends in Federal physical capital investment are provided in this analysis and are shown more extensively in the new budget volume entitled *Historical Tables, Budget of the United States Government, FY 1986.* In accordance with the requirements of the Federal Capital Investment Program Information Act of 1984 (Title II of Public Law 98–501), a supplement to this special analysis is being prepared for separate transmittal to the Congress. This supplement will present 10-year projections of Federal physical investment spending and assessments of civilian investment needs for selected purposes during the 1984–1994 period.[2]

The focus of this special analysis is on Federal outlays of an investment nature, particularly for the years 1984 through 1986. Federal investment-type outlays are made for myriad purposes. They range from lending, which yields a monetary return; to the acquisition of physical assets, which yield a stream of services over a period of years; to expenditures for human capital in the form of research, education, and training, which provide less tangible long-term benefits. This analysis also presents data on public physical capital investments in historical perspective.

While the data in this analysis are shown in considerable detail, classification problems are so complex that often these data are only approximate. One reason for this imprecision is that for some grants to State and local governments the recipient jurisdiction, not the Federal Government, ultimately determines whether the money is used to finance investment-type or current account pro-

[1] Legislation is proposed in the 1986 budget to shift the off-budget Federal entities onto the budget. The data in this analysis include currently off-budget outlays within on-budget totals. The principal off-budget programs are for lending—especially by the Federal Financing Bank. Examples of other types of off-budget spending include: purchases of commodity inventories for the strategic petroleum reserve, and the Postal Service Fund. The main impact of Postal Service outlays on Special Analysis D is the investment in new plant and equipment for the Postal Service.

[2] The "Supplement to Special Analysis D" can be obtained from Government Printing Office bookstores.

grams. In such cases (e.g., general revenue sharing and community development block grants), this analysis classifies all of the outlays in the category where the recipient jurisdictions normally spend most of the money. Hence, all of general revenue sharing is classified as "current" spending although some may be spent by recipient jurisdictions on physical capital investments, whereas all of community development block grants are classified as investment.

Another classification difficulty arises because of the necessity to avoid double counting. In some cases spending could be classified into more than one subcategory. For example, grants for construction of education facilities finance the acquisition of physical assets, but they also contribute to the provision of education and training. In cases such as this, the outlays are classified in the subcategory that is considered most "capital-like". Consequently the conduct of education and training does not include the cost of education facilities, because these facilities are included in construction and rehabilitation of physical assets.

The focus of this analysis is physical capital investment. Therefore, the order of precedence for the classification of outlays begins with the identification of outlays for loans and is followed by construction and rehabilitation, acquisition of major equipment, conduct of research and development, and conduct of education and training.

Table D-1 summarizes Federal outlays that are classified as being of an investment nature.

Composition of Federal Investment

Lending and financial investments.—The Federal Government conducts a wide variety of credit activities including both direct loans and loan guarantees. Federal direct loans are a form of investment, even though most of them are not intended to be profitable, because the Government acquires an income-yielding asset. Direct loans are discussed in detail in both the Budget and in Special Analysis F, "Federal Credit Programs".

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 is in the form of grants to State and local governments to finance construction or rehabilitation of physical assets, such as highways and mass transportation facilities, rather than being for assets acquired by the Federal Government itself. Special Analysis H ("Federal Aid to State and Local Governments") contains a detailed analysis of all Federal grants.

Acquisition of major equipment is composed almost entirely of investment in national defense weapons systems. National defense

Table D-1. **SUMMARY OF TOTAL FEDERAL INVESTMENT-TYPE OUTLAYS, 1983–86**

(In billions of dollars)

	1983	1984	1985 estimate	1986 estimate
Loans and financial investments:				
On-budget under current law	5.3	−2.1	20.3	3.9
Off-budget under current law [1]	10.4	7.3	10.4	0.1
Subtotal	15.7	5.2	30.7	4.0
Construction and rehabilitation:				
National defense	4.2	4.7	5.6	6.8
Nondefense:				
Grants to State and local governments	20.1	22.7	25.8	25.5
Other	7.5	6.8	8.5	8.5
Subtotal	31.9	34.1	39.8	40.7
Acquisition of major equipment:				
National defense	55.0	63.8	71.9	85.5
Nondefense	1.0	2.6	2.9	2.8
Subtotal	56.0	66.5	74.8	88.4
Conduct of research and development:				
National defense	22.3	25.8	31.0	37.4
Nondefense	13.6	15.2	15.9	16.0
Subtotal	35.9	41.0	46.9	53.4
Conduct of education and training:				
Grants to State and local governments	10.7	10.6	12.0	11.8
Other	11.5	11.5	12.4	11.5
Subtotal	22.2	22.1	24.4	23.3
Other (including commodity inventories):				
National defense	1.1	1.1	1.4	1.5
Nondefense	11.9	6.0	7.6	8.1
Subtotal	12.8	7.2	9.0	9.6
Total	174.5	176.1	225.7	219.3

*Less than $50 million.
[1] Proposed to be included on-budget.

spending is discussed in greater detail in the national defense section in 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 related Federal needs. These outlays are designed to increase our national security, to improve the marginal productivity of capital and labor for both public and private purposes, and to improve the quality of life. In recent years, the defense share of these outlays has been increasing. The national defense component is estimated to rise to 70% of the total by 1986. Over the past two decades development of space-related technology has been the largest component of nondefense outlays for the conduct of research and development, but in 1982 it was overtaken by health research. The decline in outlays for space research is largely due to the conclusion of the major research and development 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 ("Research and Development") discusses Federal research and development in its entirety.

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 either grants to State and local governments to assist in the operation of education 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 (e.g. for the farm price support program and the strategic petroleum reserve) and programs such as Census Bureau activities designed to improve our national information base.

Federal Investment in Public Works and Related Assets

The budget documents have traditionally 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 published in Special Analysis K.

Two years ago, the Office of Management and Budget developed a historical data base on Federal outlays for public physical capital investment, using Special Analysis D data. Table D–2 shows Federal outlay data for public physical investment at 5-year intervals from 1955 to 1980 and annually from 1982 to 1986; Table D–3 summarizes the same data in constant prices and as a percent of the gross national product (GNP). These tables include almost all Federal outlays for construction and rehabilitation and for acquisition of major equipment. However, they are limited to providing data on public physical capital acquisition. Therefore, they exclude investment in commodity inventories and the relatively small amount of outlays (such as ship construction subsidies) used for private physical investment.

The data in these tables indicate that:

- National defense physical capital investment is currently increasing not only in current dollars but in real terms (constant price) 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 during the post-Korean War period.

- Direct Federal investment in nondefense physical assets has generally moved in an opposite pattern to that of defense investment. At times of defense buildup—such as the Vietnam War and the current period—these investments have been relatively constrained. In turn, during periods of defense reduction these investments have grown.
- Grants for physical capital investment grew rapidly in real terms (constant dollar) and as a percent of GNP between 1955 and 1965. Between 1965 and 1980 grants for this purpose grew overall in real terms and were roughly level as a percentage of GNP. However, the composition shifted significantly. Transportation grants declined in real terms and as a percent of GNP while non-transportation grants grew rapidly. Starting in 1983 there was an increase in transportation grants due to enactment of the Surface Transportation Assistance Act.

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

(In billions of dollars)

	1955	1960	1965	1970	1975	1980	1981	1982	1983	1984	1985 estimate	1986 estimate
Assets acquired by the Federal Government:												
National defense:												
Military procurement	12.8	13.3	11.8	21.6	16.0	29.0	35.2	43.3	53.5	61.9	69.7	83.0
Military construction and family housing	1.7	2.1	1.3	1.3	1.8	2.4	2.4	2.9	3.5	3.8	3.3	5.4
Atomic energy defense	1.5	1.7	1.1	0.7	0.9	1.5	2.0	2.6	3.1	3.9	4.5	5.1
Subtotal, national defense	16.1	17.2	14.2	23.6	18.7	33.0	39.6	48.8	60.1	69.4	78.5	93.5
Nondefense:												
Construction and rehabilitation:												
Water and power projects	0.8	1.0	1.4	1.5	3.0	4.6	4.9	4.4	4.6	3.9	4.8	4.3
Other	0.3	0.8	1.4	0.8	1.4	2.7	2.8	2.8	2.5	3.3	4.1	4.5
Acquisition of major equipment	*	0.1	0.2	0.2	0.4	0.7	1.0	1.3	0.8	2.6	2.9	2.8
Subtotal, nondefense	1.1	1.9	3.0	2.5	4.8	8.1	8.8	8.5	8.0	7.8	11.7	11.7
Total Federal assets	17.2	19.1	17.3	26.1	23.5	41.1	48.3	57.2	68.1	77.2	90.3	105.2
Grants to State and local governments for physical capital investment:												
Transportation:												
Highways	0.6	2.9	4.0	4.3	4.6	9.0	8.8	7.7	8.8	10.4	12.9	13.5
Urban mass transportation and airports	*	0.1	0.1	0.2	1.0	2.6	3.1	2.9	3.2	3.8	4.0	3.7
Community and regional development	*	0.1	0.6	1.6	2.5	5.8	5.6	5.2	4.7	4.9	5.1	4.8
Natural resources and environment:												
Pollution control facilities	....	*	0.1	0.2	1.9	4.3	3.9	3.8	3.0	2.6	2.7	2.6
Other	*	*	0.1	0.2	0.3	0.6	0.6	0.3	0.6	0.7	0.7	0.5
All other [2]	0.2	0.1	0.2	0.6	0.5	0.2	0.2	0.3	0.2	0.3	0.4	0.3
Total grants for physical capital investment [2]	0.8	3.3	5.0	7.1	10.9	22.5	22.1	20.2	20.5	22.6	25.8	25.5
Total public assets financed by the Federal Government	18.0	22.4	22.3	33.2	34.4	63.5	70.5	77.4	88.6	99.9	116.1	130.7

Memorandum												
National defense	16.1	17.2	14.2	23.6	18.7	33.1	39.6	48.8	60.2	69.4	78.6	93.6
Nondefense	1.9	5.2	8.0	9.6	15.7	30.5	30.9	28.6	28.5	30.5	37.5	37.2

[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**

	1955	1960	1965	1970	1975	1980	1981	1982	1983	1984	1985 estimate	1986 estimate
	In billions of constant (fiscal year 1972=100) dollars											
Assets acquired by the Federal Government:												
National defense	26.7	23.4	18.4	25.9	16.5	18.1	19.4	21.7	25.0	27.2	29.6	33.9
Nondefense	1.8	2.6	3.9	2.8	3.7	4.2	4.2	3.7	3.7	4.0	4.7	4.5
Subtotal	28.5	26.0	22.3	28.7	20.2	22.4	23.6	25.4	28.7	31.2	34.4	38.4
Grants to State and local governments for physical capital investment:												
Transportation	1.0	4.6	6.0	5.2	4.0	5.5	5.3	4.6	5.1	6.1	6.8	6.6
Community development and housing	0.1	0.2	0.9	1.9	1.8	2.7	2.5	2.2	2.0	2.1	2.1	1.9
Natural resources and environment	*	0.1	0.2	0.4	1.7	2.3	2.0	1.8	1.5	2.7	1.4	1.2
All other	0.3	0.2	0.2	0.6	0.4	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Subtotal grants	1.4	5.2	7.3	8.2	7.9	10.6	9.8	8.7	8.8	9.5	10.4	9.8
Total	30.0	31.2	29.6	36.9	28.2	33.0	33.4	34.1	37.5	40.7	44.8	48.2
	As a percent of Gross National Product											
Assets acquired by the Federal Government:												
National defense	4.23	3.45	2.16	2.43	1.26	1.28	1.37	1.60	1.87	1.94	2.03	2.23
Nondefense	0.29	0.39	0.46	0.26	0.33	0.31	0.30	0.28	0.26	0.26	0.29	0.27

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

	1955	1960	1965	1970	1975	1980	1981	1982	1983	1984	1985 estimate	1986 estimate
Subtotal	4.51	3.83	2.62	2.70	1.59	1.59	1.68	1.88	2.13	2.20	2.32	2.50
Grants to State and local governments for physical capital investment:												
Transportation	0.16	0.60	0.62	0.47	0.37	0.45	0.41	0.35	0.37	0.40	0.44	0.41
Community and regional development	0.01	0.02	0.09	0.17	0.17	0.22	0.19	0.17	0.15	0.14	0.13	0.12
Natural resources and environment	0.01	0.02	0.02	0.04	0.15	0.19	0.16	0.13	0.11	0.09	0.09	0.08
All other	0.04	0.03	0.02	0.06	0.04	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Subtotal	0.22	0.67	0.76	0.73	0.74	0.87	0.77	0.66	0.64	0.63	0.67	0.61
Total	4.73	4.50	3.38	3.43	2.32	2.47	2.44	2.54	2.77	2.84	2.99	3.10

[1] 0.005 percent or less.
* $50 million or less.

Capital Budgeting

The Federal Government has never had a capital budget, or a separate plan to finance capital or investment-type programs independently from its financing of current expenditures. From time to time, proposals have been made that the Federal Government adopt a capital budget, but such a change would not improve the process of setting Federal financial priorities. An analysis of the applicability of capital budgeting to the Federal budget—and the reasons why the Federal Government does not use a capital budget—was published in the 1984 Budget.[3] That analysis emphasized the fundamental difference between capital *planning* and capital *budgeting.*

Under a capital budget the basic system of accounting for Federal capital investments would be changed. Outlays for new capital would be recorded in a capital budget, while all other spending would be reflected in an operating budget. Depreciation of existing capital would be included in the operating budget, which alone would be charged against taxes to determine the budget surplus or deficit. Thus, capital outlays in excess of depreciation would not be counted when computing the budget surplus or deficit. While this form of accounting is appropriate for private businesses and in many cases for State and local governments, it is inappropriate for the Federal Government for several reasons:

- For a capital budget to be meaningful, it would be necessary to compute valid depreciation data on the capital stock. There are no adequate depreciation guidelines for most Federal physical capital investment. In fact, most direct Federal physical capital investment is for military weapons systems. During a war, the very time when the greatest losses occur, the depreciation estimates would be the least valid. If some form of depreciation were used in the budget, it would be extremely imprecise and subject to manipulation.
- The bulk of Federal nondefense physical capital investment is in the form of grants to State and local governments for capital investment. While these constitute capital assets owned by the recipient jurisdiction, they are current costs to the Federal Government since it does not own the facilities and equipment purchased by the State or local government.
- The dividing line between operating outlays and capital investment is very uncertain. For example, this special analysis defines the conduct of research and development and of education and training to be investment-type outlays. Nevertheless, many capital budget proposals omit these categories due to uncertainty about depreciation rates and due to the fact

[3] 1984 Budget, Part 6, pp. 6–21 to 6–28.

that the Federal Government does not usually own the asset created by these outlays.

Capital planning, in contrast with capital budgeting, involves systematic analysis of the optimum use of capital resources in combination with other resources to meet public 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 an established 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 activities 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 estimate future demands and to match the available resources and needs.

Hence, the Government's capital planning processes are integrated into agency budget planning processes, where they are used in the context of program goals and studying alternative means of achieving those goals. The estimates reflected in this analysis are the product of agency capital planning but not of a capital budget. The new supplement to this analysis provides substantive information about relating Federal capital planning to capital investment. It also provides information about some of the limitations that constrain our ability to plan and to forecast accurately.

Net Federal and Federally Financed Nondefense Public Physical Capital Investment

Special Analysis D for the 1985 budget included a new section entitled "Calculations of Net Federal and Federally Financed Nondefense Public Physical Capital Investment." For that section the data bases on Federal nondefense physical capital investment and grants to State and local governments for physical capital investment were extended back to 1915 by broad category. These data were converted to constant prices to estimate replacement costs and then depreciated on a straight-line basis. The end product was an estimate of federally financed public net investment in constant prices. Because the effect of adding 1 year of new activity to this data base is relatively small, the historical data have not been updated and are merely republished in Table D-4 below.

Table D-4. **COMPOSITION OF NEW AND NET FEDERAL AND FEDERALLY FINANCED INVESTMENT IN NONDEFENSE PUBLIC PHYSICAL CAPITAL IN CONSTANT (1982) PRICES**

(In billions of dollars)

Year	Total investment			Net direct Federal investment			Investment financed from Federal grants-in-aid						
										Composition of net investment			
	New	Depreciation	Net	Total	Water and power	Other	New	Depreciation	Net	Transportation (mainly highways)	Community and regional development	Natural resources and environment	Other
1970	23.4	−11.1	12.4	1.4	1.1	0.3	17.2	−6.2	11.0	6.9	3.0	0.2	0.9
1971	24.9	−11.6	13.3	1.9	1.6	0.3	18.1	−6.6	11.4	6.7	3.3	0.8	0.7
1972	26.6	−12.1	14.5	2.9	1.9	1.0	18.7	−7.1	11.6	6.4	3.9	0.7	0.6
1973	27.4	−12.7	14.6	2.8	1.5	1.3	19.3	−7.5	11.8	6.5	3.6	1.2	0.4
1974	28.6	−13.4	15.2	2.8	1.8	1.0	20.4	−7.9	12.5	5.5	3.5	3.0	0.4
1975	26.8	−13.9	12.9	2.6	2.2	0.5	18.5	−8.3	10.3	4.2	2.7	3.0	0.4
1976	29.1	−14.4	14.7	2.4	2.0	0.3	21.0	−8.6	12.4	5.9	2,8	3.4	0.3
TQ	8.3	−3.7	4.6	0.7	0.6	0.1	6.1	−2.2	3.9	1.5	1.0	1.3	0.1
1977	32.9	−14.9	17.9	2.7	2.5	0.2	24.2	−9.0	15.2	5.5	4.6	4.9	0.2
1978	36.1	−15.5	20.6	3.6	2.8	0.8	26.4	−9.4	17.0	5.3	7.7	4.1	−0.1
1979	36.3	−16.2	20.2	3.8	2.9	0.9	26.2	−9.8	16.4	6.0	6.1	4.5	−0.2
1980	35.6	−16.8	18.8	2.9	1.9	1.0	26.2	−10.3	15.9	6.9	4.8	4.6	−0.4
1981	32.4	−17.5	14.9	2.5	1.5	1.0	23.2	−10.8	12.4	5.6	3.7	3.4	−0.4
1982	28.6	−18.2	10.4	1.6	0.7	0.9	20.1	−11.3	8.8	3.5	2.9	2.7	−0.4
1983	28.2	−18.5	9.5	1.0	0.9	0.1	20.3	−11.8	8.5	4.5	2.4	2.1	−0.4

The data for nondefense public investment spending fall into two categories: direct Federal investment and investment financed by grants to State and local governments. Direct investment results in Federal ownership of real property, while most investment made through Federal grants is owned by the State or local governments receiving the grants.

The historical data were adjusted to constant fiscal year 1982 dollars using price deflators for Federal nondefense capital purchases in order to develop a data series for replacement costs. The 1970–83 portion of the resulting constant dollar series is shown as new investment in Table D-4. These constant dollar historical data were then depreciated on a straight-line basis over the following assumed useful lives: 40 years for investments financed by grants; 46 years for direct investment in water and power projects; 30 years for all other nondefense construction and rehabilitation; and 16 years for major equipment.

Table D–4 shows the capital depreciation that results from these life-spans. The difference between new investment and depreciation is shown as net investment. Because of space constraints, only net figures are shown for direct nondefense Federal investment.

The data shown in table D–4 have a substantial margin of estimating error. The sources of error include:

- *The extended historical outlay series.*—The historical data series was extended back from 1940 to 1915 using data from published budget documents. There are no specific outlay data on nondefense physical capital investment and estimates were made on the basis of program authorizations.
- *Replacement cost estimates.*—The replacement cost of the Federal stock of nondefense physical capital has increased through time. Unfortunately, the rate of increase is not known exactly. For this presentation, an estimate of replacement costs in 1982 prices was made through the application of a deflator series for Federal purchases of durables and structures adjusted to 1982 prices. There are no specific price indexes for Federal purchases of durables and structures for 1915 through 1929 and estimates were made on the basis of Census Bureau historical statistics on public capital formation in current and constant prices.
- *Depreciation estimates.*—The assumed useful lives for each of the categories of nondefense physical capital investment are necessarily very uncertain. Since they are for broad classes of investment, they do not apply to specific cases. Also, straight-line depreciation may not be the most accurate method to apply to the different categories of Federal nondefense physical capital investment.

The data in Table D–4 show that net investment in constant prices rose between 1970 and 1978 and then declined. It also shows that the decline in net investment between 1978 and 1983 greatly exceeds the decline in new investment. This difference is explained by the pattern of depreciation. With the passage of time, an increasing proportion of the depreciation is from the relatively high investment years of the 1970's and early 1980's. This displaces the depreciation connected with the relatively low investments of the 1940's and 1950's. In 1983, for example, while new investment in constant prices was 21% higher than the 1970 total, net investment was 23% lower.

The composition of Federal physical capital investment—both on a gross and net basis—has changed substantially over time. Before the mid-1950's, direct nondefense investment exceeded grants for investment, but by the decade between 1970 and 1980, grants-in-aid for investment exceeded nondefense investment by a ratio of 2½ to 1. As a consequence of the much slower rate of growth of direct investments, for the period during 1970 to 1983, the net capital formation (new investments less depreciation) financed by grants-in-aid was about five times greater than the net capital formation for stocks directly owned by the Federal Government.

Federal grants for transportation facilities and equipment—predominantly for highways but also for mass transit and airports—were the most prevalent form of Federal grants-in-aid for physical facilities. Indeed, over the period from 1970 to 1981, transportation grants were 53% of total new investment. However, because of depreciation on the large stock of federally financed transportation facilities, transportation grants added only 45% to total net capital stock.

Detailed Data Presentation

The succeeding tables in this analysis distribute total Federal Government outlays into a number of different classifications, focused on the size and composition of investment-type spending, but also showing the composition of non-investment outlays. They provide two basic displays of Federal spending. Table D–5 is a summary table showing the split between national defense and civil (i.e., nondefense) spending (Table D–7 provides detailed data for the same categories). Table D–6 is a summary table distinguishing the grants to State and local governments separately from direct Federal programs (Table D–8 providing additional details).

The classification structure used in compiling this information is designed primarily to distinguish investment-type outlays from current outlays and to disaggregate the investment-type spending. Consequently, it does not provide a ready source of information for other purposes, such as 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 they are not quantified in this analysis, loan guarantees, tax expenditures, and other provisions of the tax code are methods by which the Federal Government also affects the type and amount of public and private investment. Federally guaranteed loans, for example, are substitutes for direct loans and can result in the creation of certain assets in place of others.[4]

Current Program Trends

Investment-type programs.—Investment-type outlays are estimated to increase from $176.1 billion in 1984 to $225.7 billion in 1985 and decline to $219.3 billion in 1986. A total of $30.7 billion in 1985 outlays are for loans and financial investments, of which almost half are for low rent public housing note purchases. By 1986, outlays for loans and financial investments are $3.9 billion, $129.1 billion are for the acquisition, construction, or rehabilitation of physical assets, and $86.2 billion are for the conduct of education, training, research, and development and for other investment-type programs. Defense investment-type outlays, which account for 59.1% of total investment-type outlays in 1986, 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 training, and the conduct of research and development.

Loans and financial investments.—A loan involves a disbursement of cash or an increase in liabilities in exchange for financial assets. If the loans are made at competitive market rates, the market value of the assets is equal to the outlays. Most Federal loans are made at lower rates than comparable private lending, although the budget proposes to narrow this gap for some programs. Therefore, the borrowing by non-Federal entities is subsidized and the outlay exceeds the value of the asset created. See Special Analysis F ("Federal Credit Programs") for a discussion of Federal credit subsidies. 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

[4] 1986 Budget, Special Analysis F, "Federal Credit Programs".

Table D–5. **SUMMARY OF INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
National defense:			
Investment-type programs:			
Construction and rehabilitation	4,691	5,570	6,795
Acquisition of major equipment and other physical assets	64,798	73,051	86,775
Conduct of research and development	25,765	30,994	37,369
Other investment-type programs	174	228	263
Subtotal, investment-type programs	95,429	109,842	131,202
Current programs:			
Provision of benefits	86	99	101
Repair, maintenance, and operation of physical assets	69,686	77,026	82,195
Other current programs	62,415	66,969	72,290
Subtotal, current programs	132,187	144,094	154,586
Unclassified	−203	−107	−119
Total, national defense	227,413	253,830	285,669
Civil:			
Investment-type programs:			
Loans and financial investments	5,208	30,746	3,949
Construction and rehabilitation	29,456	34,265	33,923
Acquisition of major equipment	2,633	2,909	2,846
Conduct of research and development	15,221	15,942	16,017
Conduct of education and training	22,080	24,388	23,277
Commodity inventories and other physical assets	2,230	3,199	3,818
Other investment-type programs	3,801	4,413	4,258
Subtotal, investment-type programs	80,628	115,864	88,083
Current programs:			
Provision of benefits	403,096	432,789	447,280
Social services and related programs	8,283	8,529	8,078
Aids to agriculture, commerce, and transportation	30,056	24,550	19,410
Repair, maintenance, and operation of physical assets	1,687	1,959	2,198
General purpose fiscal assistance	6,857	6,778	3,001
Regulation, control, and law enforcement	10,602	10,792	10,282
Net interest	111,058	130,426	142,550
Other current programs	10,695	13,617	12,915
Subtotal, current programs	582,334	629,439	645,714
Unclassified	−38,594	−40,047	−45,741
Total, civil	624,368	705,255	668,057
Budget total	**851,781**	**959,085**	**973,725**

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, capital goods, and farm commodities. In 1985, loans are enlarged by a one-time changeover of financing for low-rent public housing that converts large-scale loan guarantees into direct loans. Other financial

Table D-6. **SUMMARY OF FEDERAL OUTLAYS FOR GRANTS-IN-AID AND DIRECT FEDERAL PROGRAMS**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Grants-in-aid:			
Investment-type programs:			
Construction, rehabilitation, and acquisition of physical assets	22,685	25,856	25,513
Conduct of education and training	10,589	11,990	11,781
Other investment-type programs	257	239	193
Subtotal, investment-type programs	33,531	38,086	37,486
Current programs:			
Provision of benefits	47,971	52,134	51,122
Social services and related programs	7,212	7,545	7,102
Aids to agriculture, commerce, and transportation	750	1,068	573
General purpose fiscal assistance	6,906	6,839	3,075
Regulation, control, and law enforcement	458	588	663
Other current programs	750	757	645
Subtotal, current programs	64,046	68,932	63,181
Total, grants-in-aid	97,577	107,017	100,668
Direct Federal programs:			
Investment-type programs:			
Loans and financial investments	5,210	30,751	3,954
Construction and rehabilitation	11,839	14,362	15,580
Acquisition of major equipment	66,460	74,786	88,378
Acquisition of commodity inventories and other physical assets	2,824	3,990	4,686
Conduct of research and development	40,763	46,715	53,194
Conduct of education and training	11,503	12,412	11,500
Other investment-type programs	3,928	4,604	4,506
Subtotal, investment-type programs	142,526	187,620	181,798
Current programs:			
Provision of benefits	355,211	380,754	396,259
Social services and related programs	1,071	984	976
Aids to agriculture, commerce, and transportation	29,306	23,482	18,837
Repair, maintenance, and operation of physical assets	70,800	78,420	84,031
Regulation, control, and law enforcement	10,144	10,204	9,619
Net interest	111,058	130,426	142,550
Other current programs	72,884	80,332	84,848
Subtotal, current programs	650,474	704,602	737,119
Unclassified	−38,797	−40,154	−45,860
Total, direct Federal programs	754,204	852,068	873,058
Budget total	**851,781**	**959,085**	**973,725**

investments include an estimated collection of $1.2 billion in proceeds from the sale of Conrail in 1986.

Physical assets.—The benefits provided by the *construction and rehabilitation of physical assets* and by the *acquisition of major equipment* are of a long-term nature, while *commodity inventories* are for reserves or stockpiles rather than direct current 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. Total outlays for physical assets—including acquisition of major commodity inventories—are estimated at $134.2 billion in 1986; of that amount $93.6 billion is for national defense. Most national defense outlays for physical assets are for the procurement of military equipment. About 62.9% of Federal outlays for nondefense physical assets are 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.

Since the purpose of Tables D-2 and D-3 is to provide information about outlays for investment in public physical assets, to the extent feasible the data on investment in private physical assets were excluded from these tables. Commodity inventories include costs of agricultural commodities acquired or proceeds from the sale of these commodities as part of the farm price support program and also oil purchases for the strategic petroleum reserve. As noted above, these inventories were excluded from the investment data in Tables D-2 and D-3.

Conduct of research and development.—Research and development increases the Nation's base of information and knowledge. Outlays are estimated at $53.4 billion in 1986. Most of the increase in 1986 over 1985 is for national defense, reflecting the Administration's commitment to strengthening the Nation's defense. Nondefense outlays for the conduct of research and development account for 30.0% of all research and development outlays in 1986. Within the total spending for research and development there is a continuing increase in 1986 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 $23.3 billion in 1986, of which $11.8 billion are grants to State and local governments.

Collection of information.—This category includes outlays for collection of information, such as censuses and topographic or other natural resource surveys. Outlays are estimated at $1.6 billion in 1986.

International development.—Foreign assistance for general international economic developments, other than loans, 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 $2.9 billion in 1986.

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—such as unemployment compensation and retirement payments—is to provide benefits that will be used for current purposes such as consumption and for operating expenses rather than for future benefit purposes. Total outlays for current programs are 82.2% of 1986 estimated outlays with $154.6 for defense programs and $645.7 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 $432.9 billion in 1985 to $447.4 billion in 1986. Social security and other disability and retirement benefits constitute the largest element in this category; they are estimated to total $198.5 billion in 1986. Other major outlays in this category include medicaid, medicare, unemployment compensation, 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 1986 are estimated to be $8.1 billion, of which $7.8 billion are for 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 decrease from $30.1 billion in 1984 to $24.6 billion in 1985 and then decline further to $19.4 billion in 1986.

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. These outlays are $325.4 billion or an estimated 33.4% of budget outlays in 1986. 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, net outlays are negative in some cases.

Unclassified.—The unclassified category includes the undistributed offsetting receipts, most payments from the Government to itself, and the associated offsetting collections. Outlays for this category are estimated to be −$45.9 billion in 1986.

Table D-7. **INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
National defense investment-type programs			
Construction and rehabilitation of physical assets:			
Military construction	3,564	4,029	5,076
Family housing	233	342	391
Atomic energy defense activities	894	1,200	1,327
Subtotal, construction and rehabilitation of physical assets	4,691	5,570	6,795
Acquisition of major equipment:			
Procurement	61,761	69,706	83,045
Atomic energy defense activities and other	2,066	2,171	2,487
Subtotal, acquisition of major equipment	63,827	71,877	85,532
Other physical assets	972	1,174	1,243
Conduct of research and development:			
Defense military	23,850	28,855	35,104
Atomic energy and other	1,915	2,139	2,265
Subtotal, research and development	25,765	30,994	37,369
Other investment-type programs	174	228	263
Subtotal, investment-type programs	95,429	109,842	131,202
National defense current programs			
Provision of benefits	86	99	101
Repair, maintenance, and operation of physical assets:			
Department of Defense, Military	69,422	76,743	81,901
Other	263	283	293
Subtotal, repair, maintenance, and operation of physical assets	69,686	77,026	82,195
Other current programs:			
Military personnel	63,426	66,479	71,685
Other national defense	−1,011	491	605
Subtotal, other current programs	62,415	66,969	72,290
Subtotal, current programs	132,187	144,094	154,586
Unclassified	−203	−107	−119
Total, national defense	227,413	253,830	285,669
Civil investment-type programs			
Loans:			
International affairs	4,338	4,960	3,620
Agriculture	−5,211	2,253	−3,801
Mortgage credit and deposit insurance	1,230	2,259	337
Aids to commerce	368	626	−515
Transportation	−821	217	72
Disaster relief	−525	−157	−1,300
Other community and regional development	311	760	412
Education	371	526	442
Other	3,143	17,740	4,174
Subtotal, loans	3,204	29,184	3,441

Table D–7. **INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Other financial investments:			
International development	1,957	1,404	1,387
Other	46	159	−879
Subtotal, other financial investments	2,003	1,563	508
Construction and rehabilitation of physical assets:			
Highways	10,373	12,910	13,508
Mass transportation	3,113	3,215	2,873
Rail transportation	240	255	160
Air transportation	1,013	1,320	1,641
Water transportation	269	283	236
Community development block grants	4,273	4,400	4,042
Other community and regional development	802	929	909
Pollution control and abatement	2,622	2,741	2,651
Water resources	2,224	2,352	2,164
Other natural resources and environment	992	1,027	906
Energy	1,827	2,616	2,253
Veterans hospitals and other health facilities	624	732	894
Other	1,083	1,488	1,686
Subtotal, construction and rehabilitation of physical assets	29,456	34,265	33,923
Acquisition of major equipment:			
Transportation	374	388	495
Space flight, control and data communications	1,491	1,636	1,226
General science and basic research	181	218	219
Postal Service	183	225	427
Other	404	443	480
Subtotal, acquisition of major equipment	2,633	2,909	2,846
Commodity inventories and other physical assets:			
Commodity inventories:			
Agriculture	−2,869	−1,075	2,010
Other	2,344	1,658	164
Subtotal, commodity inventories	−525	583	2,173
Other physical assets	2,755	2,616	1,644
Subtotal, commodity inventories and other physical assets	2,230	3,199	3,818
Conduct of research and development:			
General science, space and technology:			
NASA	3,023	2,710	3,020
NSF	1,127	1,307	1,376
Other general science	505	522	546
Subtotal, general science, space, technology	4,656	4,540	4,943
Department of Energy	2,762	2,711	2,378
Transportation:			
Department of Transportation	342	524	403
NASA	515	549	543
Subtotal, transportation	857	1,073	946
Health:			
NIH	3,942	4,405	4,654

Table D–7. **INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
All other health	617	773	736
Subtotal, health	4,560	5,178	5,390
Agriculture	754	780	775
Natural resources and environment	846	864	795
All other research and development	787	796	792
Subtotal, conduct of research and development	15,221	15,942	16,017
Conduct of education and training:			
Department of Education:			
Higher education	6,995	7,969	7,532
Elementary, secondary, and vocational education	6,175	7,272	7,299
Other	260	226	191
Subtotal, Department of Education	13,430	15,467	15,022
Veterans readjustment benefits	1,382	1,221	1,010
Training and employment programs	3,247	3,703	3,607
Health training	832	928	924
Other education and training	3,190	3,068	2,710
Subtotal, conduct of education and training	22,080	24,388	23,272
Other investment-type programs:			
Collection of information	1,588	1,598	1,560
International development	2,213	2,815	2,697
Subtotal, other investment-type programs	3,801	4,413	4,258
Subtotal, investment-type programs	80,628	115,864	88,083
Civil current programs			
Provision of benefits:			
Retirement, survivor, and disability benefits:			
Social Security:			
Retirement and survivor benefits	157,728	168,759	179,004
Disability benefits	17,735	19,030	19,506
Subtotal, Social Security	175,463	187,789	198,510
Civil Service:			
Retirement and survivor benefits	17,440	18,376	18,886
Disability benefits	3,828	4,033	4,305
Subtotal, Civil Service	21,268	22,410	23,191
Military retirement [1]	16,471	15,860	17,800
Railroad retirement including social security equivalent benefits	3,490	5,249	5,286
Veterans disability benefits	10,122	10,383	10,651
Other retirement and disability benefits	1,731	1,805	1,940
Subtotal, retirement, survivor, and disability benefits	228,545	243,497	257,379
Other provisions of benefits:			
Veterans pension benefits	3,874	3,847	3,833
Medicare	60,936	69,995	71,417

Table D–7. **INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Medicaid	18,992	21,779	22,443
Other health benefits	1,043	1,058	1,034
Unemployment compensation	17,066	15,434	14,867
Housing programs	9,927	10,861	10,244
Food and nutrition programs	18,051	18,846	18,166
Supplemental security income	7,548	8,605	8,964
Assistance payments program	7,452	7,391	7,038
Other	9,125	9,339	9,237
Subtotal, other provisions of benefits	154,013	167,154	167,243
Direct provision of services:			
Hospital and medical care for veterans	7,624	8,199	8,502
Other health services	1,083	1,075	1,057
Other	64	81	116
Subtotal, direct provision of services	8,770	9,355	9,675
Administrative expenses:			
Social Security retirement and disability	2,164	2,504	2,475
Medicare	1,531	1,643	1,690
Unemployment compensation, assistance payments, and other	8,072	8,624	8,814
Subtotal, administrative expenses	11,768	12,771	12,980
Subtotal, provision of benefits	403,096	432,777	447,277
Social services and related programs:			
Human development services	1,753	1,822	1,905
Employment programs	1,392	1,591	1,320
Social services block grant	2,789	2,750	2,702
Other	2,349	2,378	2,154
Subtotal, social services and related programs	8,283	8,541	8,081
Aids to agriculture, commerce, and transportation:			
Agriculture	18,851	15,742	11,672
Postal Service	563	533	36
Small business assistance	595	686	954
Mortgage credit and thrift insurance	941	−361	−401
Ground transportation	2,768	1,772	594
Air transportation	2,483	2,545	2,525
Water transportation and waterways	1,985	2,010	1,243
Other	1,870	1,623	2,788
Subtotal, aids to agriculture, commerce, and transportation	30,056	24,550	19,410
Repair, maintenance, and operation of physical assets:			
Natural resources:			
Water resources	789	737	772
Conservation and land management	−1,022	−1,413	−1,429
Recreation resources and other	1,070	1,192	1,345
Subtotal, natural resources	838	516	688
Energy (net of offsetting receipts)	−3,502	−3,892	−4,334
Other (net)	4,352	5,335	5,844
Subtotal, repair, maintenance, and operation of physical assets	1,687	1,959	2,198

Table D–7. **INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
General purpose fiscal assistance:			
General revenue sharing	4,567	4,610	1,162
Other general purpose grants-in-aid	612	661	658
Shared revenues	1,678	1,507	1,181
Subtotal, general purpose fiscal assistance	6,857	6,778	3,001
Regulation, control, and law enforcement:			
Regulatory and inspection activities:			
Natural resources and environment	1,109	1,198	1,206
Transportation	972	1,008	1,019
Health	1,032	1,097	957
Energy	546	538	492
Agriculture	318	304	250
Savings institutions	−646	−1,670	−1,794
Tax collections	1,022	1,069	1,036
Other	742	843	834
Subtotal, regulatory and inspection activities	5,095	4,386	4,000
Law enforcement activities:			
Federal law enforcement	3,181	3,582	3,506
Federal litigative and judicial activities	1,808	2,166	2,039
Federal correctional activities	440	511	530
Other law enforcement assistance	76	147	206
Subtotal, law enforcement activities	5,506	6,405	6,281
Subtotal, regulation, control, and law enforcement	10,602	10,792	10,282
Net interest:			
Interest on the public debt	153,822	180,295	198,805
Interest received by trust funds	−20,354	−25,554	−29,149
Other interest	−22,410	−24,315	−27,106
Subtotal, net interest	111,058	130,426	142,550
General Administration:			
International affairs	2,026	2,567	3,255
Legislative branch	1,401	1,507	1,642
Other general government	2,969	3,390	2,802
Other	681	561	675
Subtotal, general administration	7,078	8,024	8,375
Other current programs:			
International security assistance	4,556	6,933	6,379
Other	−939	−1,340	−1,838
Subtotal, other current programs	3,617	5,593	4,540
Subtotal, current programs	582,334	629,439	645,714
Unclassified:			
Employer share, employee retirement	−25,263	−26,994	−28,961
Offshore oil receipts	−6,694	−5,302	−7,317
Other unclassified	−6,637	−7,751	−9,462
Subtotal, unclassified	−38,594	−40,047	−45,741

Table D–7. **INVESTMENT, OPERATING, AND OTHER FEDERAL OUTLAYS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Total, civil	624,368	705,255	688,057
Budget total	**851,781**	**959,085**	**973,725**

*$500 thousand or less.

Table D–8. **TOTAL OUTLAYS FOR GRANTS-IN-AID AND DIRECT FEDERAL PROGRAMS**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Grants-in-aid			
Investment-type programs:			
Construction and rehabilitation of physical assets:			
Highways	10,372	12,878	13,507
Mass transportation	3,113	3,215	2,873
Rail transportation	26	32	21
Air transportation	694	760	775
Pollution control and abatement	2,619	2,736	2,646
Other natural resources and environment	304	324	185
Community development block grants	4,273	4,400	4,042
Other community and regional development	619	737	803
Other construction	288	391	287
Subtotal, construction and rehabilitation of physical assets	22,308	25,473	25,138
Acquisition of equipment and other physical assets	378	383	375
Conduct of research and development	223	221	192
Conduct of education and training:			
Employment and training assistance	2,539	2,975	2,958
Elementary and secondary education	5,864	7,043	7,021
Other	2,186	1,972	1,807
Subtotal, conduct of education and training	10,589	11,990	11,786
Collection of information	34	19	*
Subtotal, investment-type programs	33,531	38,086	37,492
Current programs:			
Provision of benefits:			
Medicaid	18,992	21,779	22,443
Nutrition and food programs	7,181	7,896	7,194
Assistance payments	7,452	7,391	7,038
Housing payments and subsidies	7,782	8,188	7,299
Other	1,484	1,328	1,254
Administrative expenses:			
Unemployment compensation	1,548	1,549	1,660
Medicaid	1,069	1,206	1,248
Other administrative expenses	1,976	2,217	2,336
Subtotal, provision of benefits	47,484	51,554	50,471
Social services and related programs:			
Employment programs	1,097	1,302	1,036
Human development services	1,679	1,748	1,836
Social services and child welfare services	3,434	3,480	3,435
Other	1,490	1,594	1,447
Subtotal, social services and related programs	7,700	8,124	7,754
Aids to agriculture, commerce, and transportation:			
Transportation	748	1,066	572
Other	2	2	2

Table D–8. **TOTAL OUTLAYS FOR GRANTS-IN-AID AND DIRECT FEDERAL PROGRAMS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Subtotal, aids to agriculture, commerce, and transportation	750	1,068	573
Repair, maintenance, and operation of physical assets	573	564	361
General purpose fiscal assistance:			
General revenue sharing	4,567	4,610	1,162
Shared revenues	1,678	1,507	1,181
Other	661	722	732
Subtotal, general purpose fiscal assistance	6,906	6,839	3,075
Regulation, control, and law enforcement	458	588	663
Other current programs	177	193	284
Subtotal, current programs	64,046	68,932	63,181
Total, grants-in-aid	97,577	107,017	100,668
Direct Federal Programs			
Loans and financial investments:			
International affairs	4,338	4,960	3,620
Energy supply	2,222	3,595	2,595
Agriculture	−5,211	2,253	−3,801
Commerce and housing credit	368	626	−515
Mortgage credit and deposit insurance	1,230	2,259	337
Transportation	−821	217	72
SBA disaster loan fund	−525	−157	−1,300
Education	371	526	442
Veterans	−306	−82	−121
Other	1,540	14,991	2,117
Subtotal, loans	3,206	29,188	3,446
Financial investments	2,003	1,563	508
Subtotal, loans and financial investments	5,210	30,751	3,954
Investment-type programs:			
Construction and rehabilitation of physical assets:			
National defense	4,645	5,521	6,747
Water resource projects	2,072	2,153	2,050
Other natural resources and environment	843	906	840
Energy	1,827	2,616	2,253
Transportation	803	1,097	1,243
Veterans hospitals and other health facilities	619	713	870
Postal Service	478	584	736
Other construction	553	772	841
Subtotal, construction and rehabilitation of physical assets	11,839	14,362	15,580
Acquisition of major equipment:			
National defense	63,827	71,877	85,532
NASA, nondefense	1,491	1,636	1,226
Postal Service	183	225	427

Table D–8. **TOTAL OUTLAYS FOR GRANTS-IN-AID AND DIRECT FEDERAL PROGRAMS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Other	959	1,048	1,194
Subtotal, acquisition of major equipment	66,460	74,786	88,378
Commodity inventories:			
Atomic energy defense activities	902	1,120	1,243
Strategic Petroleum Reserve	2,349	1,648	164
Commodity Credit Corporation	−2,869	−1,075	2,010
Other commodity inventories	65	64	
Subtotal, commodity inventories	447	1,757	3,417
Other physical assets	2,377	2,233	1,270
Conduct of research and development	40,763	46,715	53,194
Conduct of education and training:			
Assistance to veterans	1,400	1,310	1,053
Higher education	6,927	7,878	7,477
Elementary and secondary education	564	494	527
Employment and training assistance	638	661	590
Health training	818	923	923
Other	1,157	1,146	930
Subtotal, conduct of education and training	11,503	12,412	11,500
Collection of information	1,573	1,609	1,589
International development	2,355	2,995	2,917
Subtotal, investment-type programs	142,526	187,620	181,798
Current programs:			
Provision of benefits:			
Social Security retirement and disability	175,463	187,789	198,510
Other retirement and disability benefits	57,042	59,654	62,803
Medicare	60,936	69,995	71,417
Medical care for veterans	7,624	8,199	8,502
Other health	1,091	1,083	1,066
Unemployment compensation	17,066	15,434	14,867
Food and nutrition programs	10,927	11,020	10,972
Housing payments and subsidies	6,844	7,742	7,688
Supplemental security income	7,541	8,605	8,964
Earned income tax credit	1,193	1,054	1,255
Other	2,797	2,948	3,128
Administrative expenses:			
Social Security retirement and disability	2,164	2,504	2,475
Medicare	1,531	1,643	1,690
Unemployment compensation, assistance payments and other	2,991	3,073	2,919
Subtotal, administrative expenses	6,687	7,220	7,085
Subtotal, provision of benefits	355,211	380,742	396,256
Social services and related programs	1,071	996	979

Table D–8. **TOTAL OUTLAYS FOR GRANTS-IN-AID AND DIRECT FEDERAL PROGRAMS—Continued**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Aids to agriculture, commerce, and transportation:			
Agriculture	18,851	15,742	11,672
Postal Service	563	533	36
Small business assistance	595	686	954
Mortgage credit and thrift insurance	941	−361	−401
Ground transportation	2,024	711	26
Air transportation	2,483	2,545	2,525
Water transportation and waterways	1,985	2,010	1,243
Other	1,864	1,616	2,782
Subtotal, aids to agriculture, commerce, and transportation	29,306	23,482	18,837
Repair, maintenance, and operation of physical assets:			
National defense	69,686	77,026	82,195
Other (includes offsetting collections)	1,115	1,395	1,837
Subtotal, repair, maintenance, and operation of physical assets	70,800	78,420	84,031
Regulation, control, and law enforcement	10,144	10,204	9,619
Net interest	111,058	130,426	142,550
Other current programs:			
Military personnel	63,426	66,479	71,685
Allowance for Department of Defense pay raises		446	7
Other national defense	−1,059	−17	524
Allowance for civilian agency pay raises		6	24
Other	10,518	13,418	12,607
Subtotal, other current programs	72,884	80,332	84,848
Subtotal, current programs	650,474	704,602	737,119
Unclassified:			
Employer share, employee retirement	−25,263	−26,994	−28,961
Offshore oil receipts	−6,694	−5,302	−7,317
Other unclassified	−6,840	−7,858	−9,581
Subtotal, unclassified	−38,797	−40,154	−45,860
Total, direct Federal programs	754,204	852,068	873,058
Budget total	**851,781**	**959,085**	**973,725**

*$500 thousand or less.

SPECIAL ANALYSIS E

BORROWING AND DEBT

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

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

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] Supplementary data on debt since 1940 are published in a separate volume, *Historical Tables, Budget of the United States Government, FY 1986.*

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 1986 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 those Government ac-

[1] Information on many of these liabilities is contained in "Statement of Liabilities and Other Financial Commitments of the United States Government," an annual report prepared by the Financial Management Service of the Department of the Treasury and published in the *Treasury Bulletin.*

counts, primarily trust funds, that accumulate surpluses that are required by law to be invested in Federal securities. Nearly all of the 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 1984 through 1988. In 1984 the total Federal borrowing (net of the refunding of securities that matured)—i.e., the rise in gross Federal debt—was \$194.9 billion. The issue of debt to Government agencies was \$24.0 billion, and the sale of debt to the public was \$170.8 billion. The

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

Federal Reserve Banks reduced their holdings of Federal debt by $0.4 billion, so the increase in debt held by the rest of the public was $171.2 billion. As a result of this borrowing, Federal debt held by the public increased to $1,312.6 billion at the end of 1984. Gross Federal debt was $1,576.7 billion.

Table E–1. **FEDERAL BORROWING**

(In billions of dollars)

Description	Borrowing or repayment (—) of debt					Debt outstanding, end of year	
	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate	1986 estimate	1988 estimate
Gross Federal debt:							
Treasury debt	195.1	264.5	233.3	234.3	240.1	2,070.0	2,544.4
Agency debt	−0.2	−.1	−.2	−.2	−2.0	4.2	2.0
Gross Federal debt	194.9	264.3	233.2	234.0	238.1	2,074.2	2,546.4
Less debt held by Gov. agencies:							
Treasury debt	24.1	63.0	60.5	NA	NA	386.6	NA
Agency debt	—*	—*	*	NA	NA	1.0	NA
Debt held by Gov. agencies [1]	24.0	63.0	60.5	69.8	94.5	387.6	552.0
Total, debt held by public	170.8	201.4	172.6	164.2	143.6	1,686.6	1,994.4
Composed of:							
Debt held by the Federal Reserve Banks	−0.4	NA	NA	NA	NA	NA	NA
Debt held by others	171.2	NA	NA	NA	NA	NA	NA

* $50 million or less.
[1] Agency investment in 1987 and 1988 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 more than doubled in 1980 as the economy experienced further recession. In 1982 and 1983 borrowing from the public increased greatly again: from $79.3 billion in 1981 to $212.3 billion in 1983. This was due to both the temporary effects of recession and disinflation and a more fundamental imbalance between receipts and outlays. In 1984 the rapid recovery helped to reduce the level of borrowing to $170.8 billion.

The decline in real gross national product (GNP) during the recession of 1981–82 reduced money incomes, which reduced income and social security tax receipts almost immediately; the associated rise in unemployment raised outlays for unemployment compensation and certain other programs. The decrease in the rate of inflation, which was unusually sharp, reduced both receipts and outlays, but receipts fell more quickly. Tax collections fell almost immediately below what they otherwise would have been, because the lower inflation reduced the money incomes on which most taxes are based. In contrast, for example, cost-of-living adjustments to benefit programs occur at fixed intervals and are not made until several months after the price changes that determine them; and lower interest rates in response to lower inflation do not reduce interest outlays on existing debt securities. Therefore, the lower real GNP and the disinflation both widened the Federal deficit. With strong economic recovery starting in early 1983 and with a more stable rate of inflation, these factors ceased to widen the Federal deficit and borrowing. Instead, the rapid expansion of real GNP and the sharp decline in the unemployment rate increased receipts, reduced outlays, and thus decreased the Federal deficit and borrowing. However, the effects of the still remaining unemployed resources continue to keep the deficit and borrowing at greater levels than they would be at high employment.

The present large deficit and borrowing are also due to causes that do not go away with the steady and strong economic expansion assumed in this budget. Although the estimated total unemployment rate falls to 5.8% by 1990, a very large deficit nevertheless remains under these conditions of high employment unless policy actions are taken to diminish it. This is shown below by the estimated borrowing from the public based on the current services estimates of the budget deficit (in billions of dollars):

	1985 estimate	1986 estimate	1987 estimate	1988 estimate	1989 estimate	1990 estimate
Current services	203	223	245	247	232	223
Budget policy	201	173	164	144	107	81

The current services estimates of the budget, as explained in Special Analysis A, "Current Services Estimates," show the receipts, outlays, and deficit that would be realized under existing polices with regard to spending programs and taxes (and under the same economic assumptions as used for the budget). As shown above, they imply continued borrowing of over $200 billion per year through 1990, with no downward trend, despite the continual improvement in economic conditions. In contrast, the policies proposed in this budget are estimated to reduce the deficit and borrowing substantially. As shown in table E–1 and above, borrowing from the public under these policies is estimated to decrease steadily from its 1985 level of $201 billion, falling to $173 billion in 1986 and $81 billion in 1990. Part 2 of the *Budget* compares the policy proposals for spending programs with the current services estimates; Part 3 discusses the sensitivity of the budget to economic assumptions and the effect of deficits on capital formation.

The economic assumptions behind these estimates are presented in Part 3 of the *Budget*. The assumptions for 1985 and 1986 are a forecast of the economy. In contrast, the assumptions for later years are not forecasts of future economic conditions. Instead, they are projections of trends, based on the assumption that the fiscal policy proposed in this budget will be enacted and that the Federal Reserve will continue to pursue a policy of reducing the growth of the monetary aggregates. Thus, they assume steady progress in sustaining economic growth and in reducing inflation, interest rates, and unemployment. The receipts and outlay estimates also assume that the taxation and expenditure proposals in this budget are enacted and implemented.

Borrowing and Government Deficits

Table E–2 shows the relationship between borrowing from the public and the Federal deficit. Under provisions of current law, the budget deficit does not include the effects of the off-budget Federal entities, such as the Federal Financing Bank and the Postal Service. They are excluded from the budget totals even though they are federally owned and controlled and therefore are part of the Federal Government. Their deficit requires financing in just the same way as the deficit of the on-budget entities. Therefore, in past years, the off-budget deficit had to be added to the budget deficit in order to derive the total Federal deficit. However, the Administration proposes to put the off-budget entities into the budget, so that they will no longer be exceptions to the principle of a unified budget.[3] In order to be consistent with this legislative proposal, this budget treats the entities that are off-budget under current law as though they were on-budget. Thus, the budget deficits shown in table E–2 and discussed throughout this special analysis include the entities that are off-budget under current law. This treatment extends to all schedules and other presentations; it includes revisions of the actual budget data for 1984 and earlier years, so that the year-to-year comparisons can be as accurate and consistent as possible.

The Federal 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 balance;
- an increase in monetary liabilities for checks outstanding, accrued interest payable on debt held by the public, etc.;
- an increase in deposit fund balances, which are discussed on pages E–22 to E–24, 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.

[3] The reasons for this proposal, and the activities and background of the entities that are off-budget under current law, are discussed in the *Budget of the United States Government, Fiscal Year 1986*, Part 6.

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

(In millions of dollars)

Description	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Budget surplus or deficit (−)	−185,324	−222,226	−179,996	−164,949	−144,385
(On-budget under current law)	*(−175,358)*	*(−209,767)*	*(−178,495)*	*(−168,189)*	*(−148,719)*
(Off-budget under current law; proposed to be included on-budget[2]*)*	*(−9,966)*	*(−12,459)*	*(−1,501)*	*(3,240)*	*(4,334)*
Means of financing other than borrowing from the public:					
Decrease or increase (−) in Treasury operating cash balance	6,631	10,426			
Increase or decrease (−) in:					
Checks outstanding, etc.[3]	5,447	9,410	9,406		
Deposit fund balances[4]	1,930	453	−2,503		
Seigniorage on coins	498	559	471	728	813
Total, means of financing other than borrowing from the public	14,507	20,848	7,374	728	813
Total, requirements for borrowing from the public	−170,817	−201,378	−172,622	−164,221	−143,572
Change in debt held by the public	170,817	201,378	172,622	164,221	143,572

[1] Several amounts have been assumed to be zero during 1986–88 because they are usually small and cannot be estimated accurately.

[2] The off-budget Federal entities under current law consist of the Rural Electrification and Telephone revolving fund, Rural Telephone Bank, Strategic Petroleum Reserve account, Federal Financing Bank, Postal Service fund, one program of the U.S. Railway Association, and Synthetic Fuels Corporation.

[3] Besides checks outstanding, includes accrual of interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] Does not include investment in Federal debt by deposit funds classified as part of the public.

All of these other means of financing except seigniorage are changes in the Government's balance sheet—either its asset or its 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 1984 the Federal budget deficit was $185.3 billion. The greater part of this amount, $170.8 billion, was borrowed from the public, and the remaining $14.5 billion was financed by other means.

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, as a whole, these other accounts did finance an unusually large amount of the deficit in 1984. One major factor was the $9.1 billion increase in accrued interest payable to the public, which is classified in the category "checks outstanding, etc." This was an outlay but did not require a cash disbursement during the year. A second major factor was the decrease in the Treasury operating cash balance. It had built up to $37.1 billion at the end of 1983, primarily because the Government's outlays were less than had been forecast shortly before the end of the year. At the end of 1984 the cash balance was $30.4 billion, a decrease of $6.6 billion, which provided a means of financing Federal outlays. Since this was still $10.4 billion above the normal end-of-year target, a further decrease of $10.4 billion is estimated for 1985. This is half of the means of financing other than borrowing that is estimated for that year.

The structure of table E–2 demonstrates that the off-budget Federal entities (as defined under current law) affect borrowing from the public in exactly the same way as the on-budget entities. Thus, balancing the budget as defined under current law is not enough to prevent an increase in the Federal debt held by the public, so long as the off-budget entities have a deficit. Even if the budget as defined under current law were balanced, the off-budget deficit would have to be financed by borrowing. The outlays of the entire Government must be in balance with receipts in order for the Government not to have to borrow from the public, regardless of whether particular Federal entities are defined as being included in the budget totals (aside from the relatively small effect 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 nine-tenths of the Federal debt held by Government agencies. Agency investment in Federal securities and the total trust fund surplus during 1983–86 are compared in the table below (in billions of dollars):

	1983 actual	*1984 actual*	*1985 estimate*	*1986 estimate*
Agency investment in Federal debt	22.6	24.0	63.0	60.5
Total trust fund surplus	23.1	32.9	50.1	61.4

The agency investment in Federal securities is generally 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 change the amount of their cash assets not currently invested in debt.[4] This relationship is less close than normal in 1984 and 1985, due to the effect of the debt limit on the investment of the civil service retirement and disability trust fund (as explained below on pages E-20 and E-28 to E-29). The effects in these two years, however, are offsetting.

Size and Growth of Federal Debt

Gross Federal debt has risen substantially over the past half century, from $16.9 billion in 1929 to $1,576.7 billion at the end of 1984. 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 by nearly six times, and the amount of debt held in Federal Government accounts (primarily trust funds) rose by a similar proportion. The average annual growth rates of gross Federal debt, debt held by the public, and debt held by the public apart from the Federal Reserve Banks were all about the same: around 6.0%. In the latter part of the period, the growth of debt accelerated. Whereas the debt held by the public increased at an average annual rate of 2.2% from 1954 to 1974, it grew at a rate of 12.6% from 1974 to 1979 and at a rate of 15.3% from 1979 to 1984.

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

Table E–3. **TRENDS IN FEDERAL DEBT** [1]

(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 Banks	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 [2]	367.1	87.7	279.5	54.1	225.4	910.6	30.7
1970 [3]	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 [4]	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 [5]	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	2,575.8	27.8
1981	1,003.9	209.5	794.4	124.5	670.0	2,885.9	27.5
1982	1,147.0	217.6	929.4	134.5	794.9	3,046.0	30.5
1983	1,381.9	240.1	1,141.8	155.5	986.2	3,221.4	35.4
1984	1,576.7	264.2	1,312.6	155.1	1,157.5	3,581.1	36.7
1985 estimate	1,841.1	327.1	1,514.0	NA	NA	3,868.5	39.1
1986 estimate	2,074.2	387.6	1,686.6	NA	NA	4,198.5	40.2
1987 estimate	2,308.3	457.5	1,850.8	NA	NA	4,550.9	40.7
1988 estimate	2,546.4	552.0	1,994.4	NA	NA	4,921.7	40.5
1989 estimate	2,763.8	662.8	2,101.0	NA	NA	5,304.0	39.6
1990 estimate	2,975.2	792.8	2,182.4	NA	NA	5,684.1	38.4

[1] Data from 1940 to 1990 in millions of dollars are published in *Historical Tables, Budget of the United States Government, FY 1986,* section 7. Earlier historical data are presented on a different basis in *Statistical Appendix to Annual Report of the Secretary of the Treasury on the State of the Finances, Fiscal Year 1980,* table 19.

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

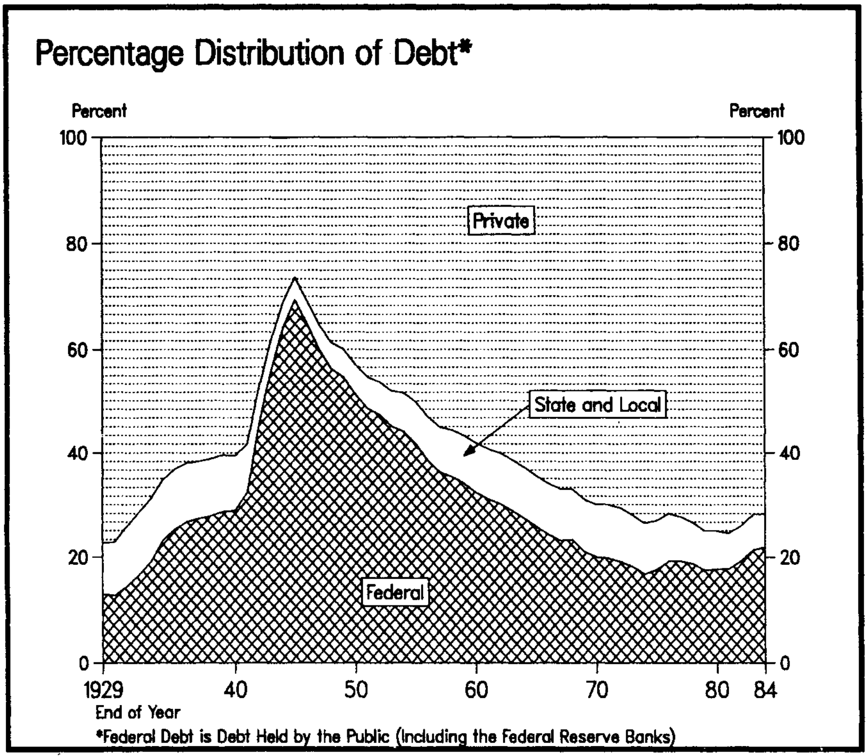
[3] Gross Federal debt and debt held by the public increased $1.6 billion due to a reclassification of the Commodity Credit Corporation certificates of interest from loan assets to debt.

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

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

NA=Not available.

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.[5] Whereas Federal debt held by the public was only 13% of total debt at the end of calendar year 1929, it had risen to 69% 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, in every single year but one, private debt increased as a proportion of total credit market debt and Federal debt held by the public decreased as a proportion. 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 16.7% of total credit market debt, and

[5] The 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 incurred in U.S. credit markets.

private debt had risen to 73.6% of the total. As a result of these trends, Federal debt, though still important, became a relatively much smaller part of the financial markets than it had been at the end of World War II.

This trend ended in 1975. A recession caused large Federal deficits in 1975 and 1976, and as a result the Federal debt held by the public rose as a percentage of total credit market debt in both years. After a brief relative decline and a short period of stability, Federal debt held by the public increased from 17.8% of credit market debt in 1981 to 21.9% in 1984. This is the highest percentage since 1968. The counterpart to a higher proportion of Federal debt in the last 3 years has been a lower proportion of private debt.

During the same period following World War II, Federal debt decreased relative to GNP. Debt held by the public was 108.4% of GNP at the end of 1945 but, as shown in table E–3, declined to 61.6% of GNP by the end of 1954 and 25.1% by the end of 1974. For several years thereafter debt held by the public fluctuated as a percentage of GNP at the same time and in the same direction as it fluctuated as a percentage of total credit market debt. In 1982, however, debt held by the public rose sharply from 27.5% of GNP to 30.5%, and by 1984 it had risen to 36.7%. This percentage is higher than in any other year since 1965.

Because of the reasons outlined in a preceding section, Federal borrowing is estimated to be very large in 1985 and the following years. As a result, debt held by the public is estimated to rise further to 40.2% of GNP in 1986 and 40.7% in 1987 before gradually declining to 38.4% in 1990. This decline could not occur, however, without policy measures to cut the deficit very greatly. Under the current services estimates for the budget, as explained on page E–4, Federal borrowing from the public would be much larger. Debt held by the public as a percentage of GNP would rise continually and would reach 47.2% of GNP by 1990, instead of peaking at a much lower percentage and then starting to decline.

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 payments on the debt must be financed by either higher taxes or more borrowing, and more borrowing raises still further the debt and therefore the amount of interest that must be paid in the future. The 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 2.0% in the 1950's, 4.0% in the 1960's, and 6.3% in the 1970's. It then averaged 12.1% in calendar years 1980–82 before falling to 8.6% in 1983 and 9.6% in 1984. Consequently, whereas the Federal debt held by the public increased by six times between 1954 and 1984, table E–4 shows that the interest paid on this debt increased by twenty-one times.

Table E–4. **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					
		Federal Government accounts	The public				
			Total	Federal Reserve Banks [2]	Other	GNP	Budget outlays [3]
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	2.73	11.63
1982	117.5	19.9	97.7	15.4	82.4	3.21	13.10
1983	128.9	21.2	107.7	15.3	92.3	3.34	13.32
1984	133.8	25.0	108.8	16.5	92.3	3.04	12.77
1985 estimate	155.0	30.5	124.5	NA	NA	3.22	12.98
1986 estimate	169.9	34.5	135.5	NA	NA	3.23	13.91

[1] Total interest on gross Federal debt significantly exceeds the outlays for the net interest function in the budget, because the net interest function includes as deductions the interest paid to trust funds and Government collections of interest.

[2] These figures are approximate. They are estimated as the average of calendar year amounts or as an adjustment to deposits of earnings. The 1984 estimate is preliminary.

[3] A historical series of outlays is published in the *Budget*, Part 9, table 24.

NA=Not available.

As a result, interest payments to the public have tended to grow faster than GNP over this entire period, despite the decline of debt as a percentage of GNP until the middle 1970's. In the middle and 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 1980 to 2.3%. By 1983, interest paid on debt held by the public had risen to 3.3% of GNP, a much higher proportion even than in 1980. This was due in very large part to the rapid expansion of debt, which increased sharply the ratio of debt to GNP. Interest as a percentage of GNP fell to a small extent in 1984. However, it is estimated to return to nearly the 1983 percentage in 1985 and 1986 despite decreases in market interest rates, because of the large borrowing necessary to finance the Federal deficit.

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. From 1954 to the middle 1970's, interest averaged 7.7% of total outlays and tended neither to increase nor to decrease. The percentage of outlays paid in interest then began to increase, however, both steadily and substantially. It rose to 10.2% in 1980 and 13.3% in 1983. Although less in 1984, it is estimated to rise to a new high of 13.9% in 1986. Thus, the importance of interest on the debt relative to either GNP or Federal outlays is now both high and either stable and rising. Under the current services estimates of the budget, as explained on page E–4, it would be still more.

Since the end of World War II the composition of the Federal debt has changed. Until some 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, 1984, the amount of notes outstanding with an original maturity over 5 years was $301.8 billion, of which $189.7 billion had an original maturity over 7 years.

The other method of relaxing the restriction has been to allow limited amounts of bonds to be sold at interest rates above the ceiling. In 1971 the Treasury was allowed by law to issue up to $10 billion of bonds at interest rates above 4¼%. In 1973 those bonds held by Government accounts and the Federal Reserve Banks were exempted from the interest rate limit, and since 1976 the amount of the exemption for other bonds has been raised in 10 steps. The last increase to the exemption was from $150 to $200 billion, enacted in May 1984. As of December 31, 1984, $162.9 billion of the bonds outstanding had been sold since the change of law in 1971, whereas only $5.1 billion of bonds issued in earlier years were still outstanding. The public exclusive of the Federal Reserve Banks held $137.3 billion of the bonds issued since 1971. The effective interest rates on bonds issued since 1971 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 about 5 years at the end of 1967 to about 2½ years at the end of 1975. Since then, however, as the restriction has been relaxed further, the average maturity has gradually lengthened to about 4½ 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.

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, particularly the OPEC nations, beginning in 1974. The counterpart to their surpluses was their 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 were subsequently reversed. Many foreign countries have drawn down their dollar reserves from time to time to finance intervention in the foreign exchange market, and the aggregate OPEC current account surplus shifted into a deficit.

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 [4]	644.6	120.3	33.6	−.7	48.3	10.7
1980	715.1	121.7	70.5	1.4	60.4	11.9
1981	794.4	130.7	79.3	9.0	78.9	16.0
1982	929.4	140.6	135.0	9.9	97.7	17.7
1983	1,141.8	160.1	212.3	19.5	107.7	17.8
1984	1,312.6	175.5	170.8	15.4	108.8	19.0

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

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

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

[4] A benchmark revision as of December 1978 reduced the estimated foreign holdings of Federal debt. As a result, the data on foreign holdings for 1965–78 are not fully comparable with the data for later years, and the estimated "borrowing" from foreign residents in 1979 reflects the benchmark revision as well as transactions in Federal debt securities.

However, these reversals were more than offset by the large amount of private capital inflow that has accompanied the appreciation of the dollar and the growing deficit in the U.S. current account. The net result has been a large increase in holdings of dollar assets by foreigners, and this is reflected in the further increase in the Federal debt held by foreigners.

The increase in foreign holdings of U.S. Government securities since 1970 has therefore been primarily the product of foreign decisions rather than the direct marketing of these securities to foreign residents. By the end of fiscal year 1984 foreign holdings of Treasury debt had reached $175.5 billion, which was 13% of the total debt held by the public. Because of the rising interest rates until recent years, the interest paid on foreign holdings of debt grew faster than did the foreign holdings themselves over the period as a whole. The proportion of total interest paid to foreign residents changed 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. For the period since 1970 as a whole, borrowing from foreign residents has been 16% of borrowing from the public. Since the beginning of 1980, however, borrowing from foreign residents has been only 8% of borrowing from the public. In 1984, despite the sizable $15.4 billion of purchases by foreign residents, the total Federal borrowing was so large that foreign purchases equalled only 9% of borrowing from the public. This does not measure the full impact of the capital inflow on the market for Federal debt securities, however, since the capital inflow supplied additional funds to the securities market generally and included deposits in U.S. financial intermediaries that themselves buy Federal debt.

About four-fifths of the Federal debt held by foreign residents is owned by foreign central banks or other official institutions, and all of it is currently denominated in dollars. During 1978-80, 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. The last issue of this type matured in 1983.

During 1984 two related steps were taken that made Treasury securities more attractive to foreign investors. In July the Deficit Reduction Act repealed the 30% withholding tax on interest paid to non-resident aliens on portfolio debt, whether this was the debt of the Treasury or of corporate borrowers. Repeal of this tax increased the after-tax rate of return on regular Treasury securities held by foreign investors. In October and December, after evaluating whether further advantage could be obtained from the repeal of this tax, the Treasury sold a total of $2.0 billion of dollar-denominated notes that were targeted to foreign private investors. These notes can be held by foreign financial institutions without telling the Treasury the identity of the ultimate holder, provided the institution certifies that the initial purchaser and any subsequent recipient of interest is not a U.S. person. These foreign targeted notes are being sold in order to reduce the Government's cost of borrowing.

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 Federal entities that are off-budget under current law was treated in the same manner as any other agency borrowing in previous years' budgets as well as the present one.

Agency borrowing was shown in total in table E–1 and is shown by agency in table E–6 for 1984–86. In all 3 years more debt is repaid than is newly borrowed, and over the period as a whole total agency debt decreases by $0.5 billion. The agency debt outstanding at the end of each year is less than 1.0% of gross Federal debt.

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

As a result of the FFB, several agencies that would otherwise borrow mostly in the investment securities market borrowed $1.5 billion from the FFB in 1984 and are estimated to borrow $1.6 billion in 1985 and $1.0 billion in 1986. Because these agencies now borrow almost exclusively from the FFB instead of the public, almost no new agency borrowing in the market took place in the last 10 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

[6] The operations of the FFB are discussed in some detail in Special Analysis F and in the *Budget*, Part 6.

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

Table E-6. **AGENCY BORROWING** [1]

(In millions of dollars)

Description	Borrowing or repayment (−) of debt: 1984 actual	1985 estimate	1986 estimate	Debt end 1986 estimate
Borrowing from the public:				
Agriculture: Farmers Home Administration [2]				141
Defense	−104	−75	−46	36
Education:				
College housing loans [2]				242
Higher education facilities [2]				61
Health and Human Services [2]				5
Housing and Urban Development:				
Federal Housing Administration	−55	7	−9	37
Housing for elderly or handicapped [2]				52
Government National Mortgage Assoc. [2]				240
Revolving fund (liquidating programs) [2]				44
Interior	14	*		14
Transportation: Coast Guard	−*	−*		
Small Business Administration [2]				93
Veterans Administration [2]				309
Export-Import Bank	−31	−34		
Postal Service				250
Tennessee Valley Authority			−100	1,625
Total, borrowing from the public	−176	−101	−155	3,150
Borrowing from other funds:				
Agriculture: Farmers Home Administration [2]				118
Defense	−1	−1	−*	
Education:				
College housing loans [2]				209
Higher education facilities [2]				47
Health and Human Services [2]				5
Housing and Urban Development:				
Federal Housing Administration	−16	−27	1	69
Housing for elderly or handicapped [2]				45
Government National Mortgage Assoc. [2]				188
Revolving fund (liquidating programs) [2]				34
Small Business Administration [2]				63
Veterans Administration [2]				269
Total, borrowing from other funds	−17	−28	1	1,047
Total, agency borrowing included in gross Federal debt	−194	−130	−154	4,197
ADDENDUM				
Borrowing from Federal Financing Bank:				
Export-Import Bank	1,014	1,277	618	17,584
National Credit Union Central Liquidity Facility	225	31	20	320
Postal Service	−67	−367	−47	673
Tennessee Valley Authority	370	650	375	14,510
United States Railway Association	−73	−4		48
Total, agency borrowing from Federal Financing Bank	1,468	1,587	966	33,135

* $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.

component of gross Federal debt would be very much greater than it is now. The Treasury component would be correspondingly less.

By the end of 1986, $1.9 billion of agency debt, or over two-fifths of the total, will be obligations of two of the five agencies listed in table E–6 that in recent years have borrowed almost exclusively from the FFB: the Postal Service and Tennessee Valley Authority. In contrast, $32.8 billion in debt will be owed to the FFB by these two agencies together with the Export-Import Bank, which is estimated to have repaid all its borrowings from the public before that date. A total of $2.2 billion, or 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, and those still outstanding will all mature in 1987 and 1988. A further $36 million of agency debt will be family housing mortgages assumed by the Department of Defense under two programs, much the larger of which was terminated about two decades ago.

The remaining agency debt will have been issued by two agencies whose borrowing from the public is inherent in the way they operate certain programs. Both agencies may issue special instruments in lieu of cash as a means of paying specified bills. As a rule, budget outlays are recorded when cash is used to pay the Government's bills for wages and salaries, equipment, social security benefits, etc. In these two cases, where the payments are instead in the form of special instruments, budget outlays are likewise recorded because the payments likewise pay the Government's bills.[8] The instruments themselves are classified as agency debt. Neither agency has any occasion to sell these debt instruments to the FFB.

One of these agencies, the Federal Housing Administration (FHA), may issue either checks or debentures in paying claims to the public that arise from defaults on FHA-insured mortgages. The FHA will have $106 million of debentures outstanding at the end of 1986 (3% of total agency debt). The other agency is the Interior Department. Under two recently enacted statutes, it is authorized to acquire certain lands and mineral rights from the public in exchange for a type of instrument generically termed "monetary credits." The recipients of monetary credits can use them for specified purposes such as payments for Federal coal or mineral leases. An estimated $14 million of monetary credits will be outstanding at the end of 1986.

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

[8] The definition of outlays and its relationship to obligations and budget authority are discussed in Part 7 of the *Budget*.

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 (revolving funds) accumulate cash in excess of current requirements in order to meet future claims and demands. These cash surpluses are invested mostly in Treasury debt and, to a very small extent, in agency debt. Since this investment is a debt transaction, purchases are not counted as outlays for the account or for the budget, and redemptions are not counted as receipts.

Net investment by trust funds and other Federal agencies reached a high of $19.7 billion in 1979. In the next three years, however, due to recessions and structural problems in social security financing, agency investment declined to a range of $8 to $10 billion per year. In 1983, as the result of the Social Security Amendments of 1983, agency investment increased to $22.6 billion, the largest amount ever reached as of that time; and in 1984 it rose to $24.0 billion. As shown in table E–7, it is estimated to increase to $63.0 billion in 1985 and then fall to $60.5 billion in 1986. The year-to-year change in agency investment is thus $1.5 billion in 1984, $38.9 billion in 1985, and −$2.4 billion in 1986.

This unusual pattern of agency investment—an extraordinary increase in 1985 followed by a small decrease in 1986—is primarily accounted for by the effect of the debt limit on the investment of the civil service retirement and disability trust fund. The general fund paid $15.4 billion to this trust fund on the last day of September 1984 as the annual payment to finance the current year's costs of unfunded liability. This amount would ordinarily have been invested in Federal securities immediately. However, as explained on pages E–28 and E–29, the Federal debt was nearly at the statutory limit. As a result, about $11.8 billion of this amount could not be invested on the same day without exceeding the limit, and, indeed, was not fully invested until the limit was raised by Congress on October 13. Since the end of September was also the end of the fiscal year, investment by the civil service retirement and disability trust fund in 1984 was about $11.8 billion less than it would otherwise have been. The counterpart to this is an equal increase in investment during 1985 above the amount that would be normal. This year-to-year pattern of the fund is apparent in table E–7. Thus, the debt limit made the year-to-year change in total agency investment very uneven and temporarily loosened the normally tight relationship between trust fund surpluses and trust fund investment.

Table E–7. **AGENCY INVESTMENT IN FEDERAL SECURITIES**

(In millions of dollars)

Description	Investment or disinvestment (−)			Holdings end of 1986 estimate
	1984 actual	1985 estimate	1986 estimate	
Investment in Treasury debt:				
Defense—Civil: Military retirement trust fund	....	9,802	12,161	21,963
Health and Human Services:				
Federal old-age and survivors insurance trust fund	1,721	4,572	7,905	39,701
Federal disability insurance trust fund	−633	−28	357	4,984
Federal hospital insurance trust fund	3,468	4,187	14,436	35,150
Federal supplementary medical insurance trust fund	2,159	1,017	104	10,238
Housing and Urban Development:				
Federal Housing Administration	442	984	1,316	5,365
Government National Mortgage Association	433	288	131	2,195
Other	254	754	−56	1,498
Interior: Outer Continental Shelf deposit funds	821	453	−2,503	4,476
Labor: Unemployment trust fund	4,001	5,157	4,557	22,111
Transportation:				
Highway trust fund	1,359	2,169	683	13,692
Airport and airway trust fund	1,640	1,036	−687	6,782
Treasury: Exchange stabilization fund [1]	729	280	289	3,812
Office of Personnel Management:				
Civil Service retirement and disability trust fund	2,468	27,988	17,080	156,897
Other trust funds	766	1,050	892	8,821
Veterans Administration:				
National service life insurance trust fund	330	267	254	9,482
Other trust funds	34	38	38	1,253
Other Federal funds	42	19	−66	585
Federal Deposit Insurance Corp.: Trust fund	243	1,005	1,500	16,700
Federal Home Loan Bank Board: FSLIC	562	−350	−57	5,765
Postal Service fund	47	−747	−1,250	280
Railroad Retirement Board trust funds:				
Railroad social security equivalent benefit account	....	456	152	608
Rail Industry Pension Fund	2,768	1,032	1,830	5,959
Other Federal funds	35	1,040	469	3,394
Other trust funds	366	510	998	4,862
Other deposit funds [3]	6	....	....	23
Total, investment in Treasury debt	24,062	62,979	60,531	386,595
Investment in agency debt:				
Health and Human Services:				
Federal hospital insurance trust fund	....	....	....	455
Housing and Urban Development:				
Federal Housing Administration	−5	−6	−*	134
Government National Mortgage Association	−13	−22	1	81
Office of Personnel Management: Civil Service retirement and disability trust fund	....	....	....	175
Veterans Administration: National service life insurance trust fund	....	....	....	135
Federal Home Loan Bank Board: FSLIC	....	....	....	67
Total, investment in agency debt	−17	−28	1	1,047
Total, investment in Federal debt	24,045	62,951	60,532	387,642
MEMORANDUM				
Investment by Federal funds [2]	2,528	2,239	775	23,175
Investment by trust funds	20,691	60,259	62,260	359,968
Investment by deposit funds [3]	826	453	−2,503	4,499

* $500 thousand or less.

[1] Investment in 1985 and 1986 is estimated as equal to interest collections on Federal securities.

[2] The off-budget Federal entities, which have been excluded from the budget under current law but are proposed to be included on-budget, are classified as Federal funds. In previous years they were shown as a grouping separate from Federal funds or trust funds.

[3] Only those deposit funds classified as Government accounts.

The civil service retirement and disability trust fund accounts for one-third of the estimated agency investment during 1984-86, which is substantially more than any other Government agency. Among the other agencies, the most important sources of investment are the military retirement trust fund, the trust funds financed by the social security payroll tax, and the unemployment trust fund. These trust funds altogether account for 81% of the total estimated investment.

The military retirement trust fund was established in 1985 in accordance with the defense authorization bill for 1984. The cash benefits for military retirees will be paid out of the trust fund, while the costs of the benefits that are currently accruing will be paid out of the defense budget. The new trust fund has put the funding of military pensions on a basis roughly akin to the funding of Federal pensions for civilian employees. As table E-7 shows, this adds considerably to agency investment beginning in 1985.[9]

The three trust funds financed by the social security payroll tax—old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI)—invested $4.8 billion in 1983. This was the first year since 1975 that the three funds as a whole had positive net investment, and it was due to the cash resources provided by the Social Security Amendments of 1983. As a result of this act and the improving economy, these trust funds as a whole continue to run large surpluses and to invest increasing amounts—a total of $36.0 billion during 1984, 1985, and 1986. During 1985 and 1986 OASI is estimated to repay $9.7 billion that it had borrowed from DI and HI in 1983. Consequently, 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.

As a result of the large investment by these trust funds and the effect of the lower unemployment rate on the finances of the unemployment trust fund, total agency holdings of Federal securities will reach an estimated $387.6 billion by the end of 1986. This will comprise 19% of the gross Federal debt. One major trust fund—the civil service retirement and disability trust fund—will account for two-fifths of total agency holdings All the trust funds together will account for 93% of the agency holdings at the end of 1986. 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.

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

[9] The military retirement trust fund is explained further in Part 6 of the 1986 *Budget*.

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. Therefore, changes in balances are not included in the budget totals and do not affect the Federal deficit.

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. 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. They have continued to acquire funds, and, as shown in table E–7, they are estimated to hold $4.5 billion at the end of 1986. 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.

Since increases in deposit funds raise Treasury cash balances, they are a means of financing the Government deficit. When the deposit funds are not invested in Federal debt, an increase in deposit fund balances appears as one of the "means of financing other than borrowing from the public" in table E–2. The increase in deposit fund balances thus enables Treasury to reduce its borrowing from the public.

When the deposit funds are invested in Federal debt, their treatment depends on whether they are classified as part of the public or as Government accounts. Under the normal rule, according to which they are treated as part of the public, deposit fund investment in Federal debt is defined to be borrowing from the public. The counterpart to the increase in Federal debt held by the public is a decrease in the deposit fund balances available to finance the deficit by means other than borrowing from the public. This is shown as a decrease in the liabilities of the Government for deposit fund balances in table E–2. The ultimate effect of the increase in the deposit funds is thus for the Treasury borrowing from the public to come from the deposit funds rather than from some other sector of the public, with no net change in the means of financing other than borrowing from the public.

On the other hand, when deposit funds are classified as Government accounts, the investment of deposit fund balances in Federal debt is defined to be an increase in debt held by Federal agencies rather than an increase in debt held by the public. Since the debt held by the public does not increase, this investment does not reduce the amount of balances (as shown in table E–2) that are available to finance the deficit by means other than borrowing from the public. This agency investment 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.[10] 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 [11] includes virtually all Treasury debt. The small amount of Treasury debt not subject to limit is shown in table E–8. It consists almost entirely of currencies no 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

[10] The legislation on the level of the statutory limit since 1940 and the amount of debt subject to statutory limitation are shown in *Historical Tables, Budget of the United States Government, FY 1986*, section 7. The legislation beginning in 1917 is shown in *Statistical Appendix to Annual Report of the Secretary of the Treasury on the State of the Finances, Fiscal Year 1980*, table 32.

[11] The 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.

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.

Table E–8. **DEBT SUBJECT TO STATUTORY LIMIT**

(In millions of dollars)

Descriptions	End of year		
	1984 actual	1985 estimate	1986 estimate
Federal debt held by the public	1,312,589	1,513,967	1,686,589
Federal debt held by Government agencies	264,159	327,110	387,642
Total, gross Federal debt	1,576,748	1,841,077	2,074,231
Deduct:			
Treasury debt not subject to limit	603	603	603
Agency debt not subject to the general limit:			
Department of Defense	158	82	36
Department of Interior	14	14	14
Export-Import Bank	34		
Postal Service	250	250	250
Tennessee Valley Authority	1,725	1,725	1,625
Participation certificates [1]	1,030	1,030	1,030
Coast Guard	*		
Total, Federal debt not subject to limit	3,814	3,704	3,559
Gross Federal debt subject to statutory limit	1,572,933	1,837,373	2,070,672
Other debt subject to limit, and adjustments	42	42	42
Total, debt subject to limit	1,572,975	1,837,414	2,070,714

* $500 thousand or less.

[1] Certificates of participation in loans issued by the Government National Mortgage Association on behalf of several agencies (these amounts exclude the certificates issued during 1968, which are subject to the debt limitation).

The only other debt subject to the general statutory limit is a very small amount of matured principal and interest. This is not classified 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 $1,573.0 billion at the end of 1984 and is estimated to rise to $2,070.7 billion by the end of 1986. 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. During 1980–84 Congress passed two to four such acts each year.

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. From 1971 to 1983 the statutory debt limit 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 was more than $400 billion, new legislation was 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 created uncertainty in the securities market and forced the Treasury to take costly administrative actions.

In May 1983 Congress changed the nature of the debt limitation. The permanent limit of $400 billion and the temporary increment to that limit were combined into a single, higher limit without an expiration date. This prevents the Federal debt from exceeding the statutory limit, since Treasury would stop issuing new securities before that event would occur. The new type of limitation does not, however, avoid the costs of market uncertainty and administrative actions that formerly arose whenever the debt limit fell to below the actual level of debt. The same costs arise when the amount of debt approaches close to the limit and the timing of congressional action to raise the limit is uncertain. Treasury then has to take steps to avoid exceeding the limit, and the market is uncertain what will happen. The principal difference is that under the new type of limitation Treasury can continue to raise cash by refunding existing securities that mature, except to the extent that it is required to increase the investments of Government accounts. In the short time that the new procedure has operated the debt limit has usually been set at amounts expected to be reached within a few months, so frequent increases in the limit still have been needed.

The statutory debt limit was formerly raised only by normal legislative procedures. In September 1979, however, an alternative method of enacting 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 congressional budget resolutions 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 about half the time 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, having been deemed to have passed the House, is transmitted to the Senate for further legislative action.[12] 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 to $1,389 billion on May 26, 1983. At the time when an increase in the limit became required in order to pay the Government's bills, Congress had not yet passed a new budget resolution. The House passed a bill with a limit of $1,389 billion for the rest of the fiscal year, which was virtually the same limit as recommended by the budget resolution passed previously by the House. This bill included the provision that changed the nature of the debt limitation by making the entire limit without an expiration date rather than partly permanent and partly temporary. The Senate passed the same bill a few days later. By the time this bill was passed, the debt was so close to the limit that Treasury had reduced the amount of bills being auctioned and had postponed two auctions of notes.

The congressional budget resolution for 1984, passed on June 20, 1983, declared that the appropriate level of debt for fiscal year 1984 was $1,614.6 billion. This provision was deemed to have passed the House as a joint resolution, but the amount of debt at the time was considerably under the limit and the Senate waited before taking further action. By the end of October 1983 the debt was coming very close to the limit, so Treasury had to take several steps to avoid going over the limit: the sales of savings bonds to individuals were suspended; the sales of special issues of securities sold to State and local governments were suspended, and the sales of $600 million of these securities scheduled for early November were can-

[12] The Senate has not adopted the same procedure as the House, so the Senate must approve changes in the debt limit separately from its approval of the congressional budget resolution.

celled; the amounts of Treasury bills sold at auction were reduced; the auctions of notes and bonds were postponed and then rescheduled; and Treasury was only able to invest $4 billion of the $13 billion of social security trust fund receipts supposed to be invested on November 1, with the remaining investment being delayed a few days. These actions inconvenienced individuals and State and local governments and incurred administrative costs for the Government. Together with the uncertainty about when the debt limit would be increased, they generated uncertainty in the securities market. The unsettled conditions lasted for much of November. The Senate voted to raise the debt limit to $1,450 billion on November 17 in a bill also containing unrelated amendments, and a conference committee consisting of members of both Houses agreed to set the limit at $1,490 billion and to delete the amendments. After passage by both Houses, this bill was signed into law on November 21, 1983.

This limit was only intended to be sufficient for a portion of the fiscal year, and the amount of the limit was raised two times by normal legislative procedures in the spring and summer of 1984. On May 25 it was increased to $1,520 billion, and on July 6 it was increased to $1,573 billion. Prior to both increases, Treasury took similar steps to ensure that the debt ceiling would not be exceeded. It reduced the amount of its weekly bill auctions, the initial reductions taking place in April; it did not fully invest the receipts of the social security trust funds on the first day of the month in May, June, or July; it disinvested the Exchange Stabilization Fund; and, before the second increase in the debt limit, it postponed two auctions of notes and bonds.

These increases in the debt limit were sufficient for fiscal year 1984, but the Congress did not enact any higher level of debt limit until after it had completed action on the congressional budget resolution for 1985. This resolution, which was passed on September 26, 1984, declared that the appropriate level of debt for fiscal year 1985 was $1,823.8 billion. This provision was deemed to have passed the House as a joint resolution as of October 1 but was not finally enacted until October 13. By the time the congressional budget resolution was passed, Treasury had again been unable to fully invest all trust funds on the intended date. At the beginning of September the social security trust funds were not invested for several days. On the last day of September $15.4 billion was supposed to have been invested for the civil service retirement and disability trust fund; during the first days of October investment was supposed to have been made for the military retirement trust fund, the social security trust funds, and the supplementary medical insurance trust fund. The total of all these amounts was $38.5 billion, but because of the debt limit most of the investment had to be delayed. The funds were not fully invested until the debt limit was increased, and all of them but social security lost interest. During early October the Treasury also made small changes in its weekly bill auctions because of the debt limit problem, and two auctions of notes and bonds were postponed.

The new limit of $1,823.8 billion is under the $1,837.4 billion of debt subject to statutory limit that is estimated to be outstanding at the end of 1985. Therefore, a further increase will be necessary before September 30, 1985, 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 budget deficit of the Federal Government. This is because 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. The reason 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.[13] 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 tax receipts and borrowing and are used for the general purposes of the Government.

Under current law the off-budget Federal entities make up a third group of funds. As explained on page E–5, the Administration proposes to put the off-budget entities into the budget, and therefore the data for these entities have been added to the budget totals throughout all schedules and presentations. The outlays that are off-budget under current law are classified as Federal funds when included in the budget and are consequently shown as Federal fund outlays in the following table. The off-budget deficit (as defined under current law) has the same effect on debt subject to limit as does the Federal funds deficit. Therefore, when the following discussion refers to "Federal funds," it should be understood as applying also to the entities that are off-budget under current law.

When the Federal funds have a deficit, it must generally be financed by borrowing. The borrowing is necessary regardless of whether the trust funds have a surplus. This is because the trust

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

fund surpluses are mostly invested in securities issued by Federal funds, and these securities are classified as Federal debt. For instance, if the trust funds receive $1 billion more of tax receipts, the Treasury needs to sell $1 billion less of debt to the public; but it also needs to issue $1 billion more of debt to the trust funds. Therefore, total Federal debt is not affected. The trust fund surplus thus 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, almost all of the debt that is used to finance the Federal funds deficit is subject to the statutory limit. While most of this debt is sold to the public or issued to trust funds, a comparatively small amount is issued to certain Federal revolving funds and deposit funds.

Table E-9 shows in detail the relationship of the change in debt subject to limit to the Federal funds deficit. This deficit 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 cash held by Federal funds (however, if the sum of these other means of financing is negative, then these other means are a further amount that has to be financed.)[14] A small portion may be financed by certain Federal funds (or certain deposit funds [15]) selling their investments in Federal debt. Another small portion may be financed by certain Federal funds 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 Federal funds deficit approximately determines the increase in debt subject to statutory limit.

In 1984, for example, the total Federal funds deficit to be financed was $218.2 billion. The "means of financing other than borrowing" financed $26.7 billion of this amount, primarily, as discussed earlier, because of the decrease in Treasury cash balances, the accrual of interest payable on the Treasury debt, and the temporary inability to invest one of the trust funds as explained below. Certain Federal funds and deposit funds increased their holdings of Federal debt by $3.4 billion, which had to be financed by still further borrowing; and they decreased their debt outstanding that was not subject to limit by $0.1 billion, which had to be replaced by an equal amount of debt that was subject to limit.

[14] The amounts for means of financing other than borrowing exclude the amounts attributable to trust funds. It is not known how the trust fund open book balances (cash assets not currently invested) are divided between cash and the grouping labeled "checks outstanding, etc." In table E-9 they are all assumed to be in checks outstanding, etc.

[15] Only those deposit funds classified as Government accounts.

Table E–9. **FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT**[1]

(In millions of dollars)

Description	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Federal funds surplus or deficit (–)	–218,229	–272,316	–241,397	–234,775	–238,923
(On-budget under current law)	*(–208,263)*	*(–259,857)*	*(–239,896)*	*(–238,015)*	*(–243,257)*
(Off-budget under current law; proposed to be included on-budget)	*(–9,966)*	*(–12,459)*	*(–1,501)*	*(3,240)*	*(4,344)*
Means of financing other than borrowing:					
Decrease or increase (–) in Treasury operating cash balance	6,631	10,426	....	....	....
Increase or decrease (–) in:					
Checks outstanding, etc [2]	17,662	–759	8,547	....	....
Deposit fund balances [3]	1,930	453	–2,503	....	....
Seigniorage on coins	498	559	471	728	813
Total, means of financing other than borrowing	**26,721**	**10,679**	**6,515**	**728**	**813**
Decrease or increase (–) in investments in Federal debt by Federal funds and deposit funds [4]	–3,354	–2,693	1,728	....	....
Increase or decrease (–) in Federal funds debt not subject to limit	–122	–110	–146	–245	–830
Total, requirements for borrowing subject to debt limit	**–194,987**	**–264,439**	**–233,300**	**–234,292**	**–238,940**
Change in debt subject to limit but not part of Federal debt, and in adjustment	36	....	....	....	....
Change in debt subject to limit	**195,023**	**264,439**	**233,300**	**234,292**	**238,940**

* $500,000 or less.

[1] Several amounts have been assumed to be zero during 1986–88 because they are usually small and cannot be estimated accurately.

[2] Besides checks outstanding, includes accrual of interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[3] Does not include investment in Federal debt securities by deposit funds treated as part of the public.

[4] Only those deposit funds classified as Government accounts.

Therefore, a total of $195.0 billion had to be borrowed subject to the debt limit.

The trust fund surplus does not have an explicit effect in table E–9. If the trust fund surplus were exactly invested in Federal debt securities subject to the statutory limit, it would have no effect at all on the amount of debt subject to limit. However, to the extent that trust fund surpluses are uninvested—i.e., used to increase the trust fund holdings of cash assets—the debt subject to limit is reduced. This is because the the uninvested balances provide cash that can be used to finance Federal funds outlays without recording an increase in Federal debt. The increase in uninvested cash assets of the trust funds is recorded in table E-9 as an increase in the liabilities of the Federal funds for checks outstanding, etc. (i.e., an increase in the liabilities of Federal funds to trust funds). This increases the "means of financing other than borrowing" for the Federal funds, which in turn reduces the requirement for borrowing subject to the statutory limit. The uninvested cash assets of the trust funds do not usually change a great deal from year to year, and by law the trust fund surpluses must generally be invested in Federal debt. Consequently, the effect of the trust fund surplus on debt subject to limit is normally minor.

As discussed on pages E-20 and E-28 to E-29, however, the statutory debt limit prevented Treasury from fully investing the civil service retirement and disability trust fund on the last day of fiscal year 1984. On that day this trust fund's cash balance was abnormally high by about $11.8 billion. This provided about $11.8 billion to finance the 1984 Federal funds deficit by means other than borrowing; it appears in table E-9 as an increase of about $11.8 billion in the grouping of various accounts labeled "checks outstanding, etc." As a result, the debt subject to limit at the end of 1984 was correspondingly lower. The full investment occurred by mid-October and required financing by the issuance of securities subject to the debt limit. For 1985, this reduces the estimated means of financing other than borrowing by about $11.8 billion from the level that it would otherwise have been.

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 much 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 1985 and 1986 the debt subject to limit is estimated to increase by $497.7 billion, whereas the debt held by the public is estimated to increase by $374.0 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 as defined under current law were exactly balanced, because it would have to finance the deficit of the off-budget Federal entities (as an approximation, aside from the relatively small effect of the means of financing other than borrowing). Table E-9 implies (as a similar approximation) that the debt subject to statutory limit would continue to rise even if the total Government deficit were exactly zero and, as a result, the debt held by the public remained constant. In order for the debt subject to limit to remain constant, table E–9 shows that (as an approximation) the Federal funds portion of the budget must be in balance. If this condition were 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.

However, the trust funds almost always have a surplus. Therefore, a balance in the budget would imply that there would still be a deficit in the Federal funds. As a result, it is more difficult to have a balance in the Federal funds than it is to have a balance in the budget; 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 1984 to 1988, borrowing from the public decreases by $27.2 billion, in line with the decline in the total Government deficit. Table E–9 shows, however, that borrowing subject to the debt limit increases instead of decreases, by an amount of $43.9 billion. This difference of $71.2 billion is mostly because of a $61.6 billion increase in the trust fund surplus.[16] The rise in the trust fund surplus 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, in order to prevent a continual rise in gross Federal debt, the Federal funds portion of the budget must be in balance (as an approximation).

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 institution-

[16] The remainder of $9.5 billion is mostly due to the inability to fully invest the civil service retirement and disability trust fund at the end of 1984. If the investment of about $11.8 billion had taken place in 1984, the increase in borrowing subject to the debt limit from 1984 to 1988 would have been less by that amount.

al 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. Sales thus reduce the size of an agency's outlays immediately rather than over the normal course of time during which the loans that are sold would be repaid. Therefore, if the selling agency is in the budget, the budget outlays caused by its direct loans are offset by the amount of its 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 and the Rural Electrification and Telephone revolving fund would be classified as Federal debt according to the recommendations of the President's Commission on Budget Concepts.[17] The Commission concluded that, as a means of financing outlays, there is little 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 1983–86 (in millions of dollars):

	1983 actual	*1984 actual*	*1985 estimate*	*1986 estimate*
Farmers Home Administration	2,955	2,820	4,099	−904
Rural Electrification and Telephone revolving fund	344	69	447	253

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

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

major use of loan guarantees is to support housing, but they are also used for many other purposes. As shown subsequently in table E–11, primary guaranteed borrowing (which excludes double counting) was $20.1 billion in 1984 and is estimated to be $20.2 billion in 1985 and $31.9 billion in 1986. Special Analysis F, "Federal Credit Programs," presents detailed data on guaranteed loans and loan asset sales and makes rough estimates of the subsidies that are provided by loan guarantees.

The other type of federally assisted borrowing is borrowing by Government-sponsored enterprises, which are discussed in more detail in Special Analysis F. 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.[18] 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 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.[19] SLMA now finances its new borrowing from the public, without any guarantee. The three enterprises regulated by the Farm Credit Administration—the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks—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. In most

[18] *Ibid.*, pp. 29–30.

[19] SLMA was the only Government-sponsored enterprise whose new securities could be guaranteed by the Government and therefore bought by the FFB. The Secretary of Education had authority to guarantee SLMA securities issued prior to October 1, 1984.

cases, but not all, they include such advantages as the following: their 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; they are exempt from Federal, State, and local income taxation; the interest on their debt securities is exempt from State and local income taxation; and some of them have lines of credit with the Federal Government that range up to $4 billion. Because of these specific advantages and the overall Federal sponsorship, the enterprises are perceived by the securities market to have a special relationship with the Federal Government. As a result, and despite the absence of Federal guarantees, the Government-sponsored enterprises can borrow at interest rates only slightly higher than the interest rates paid by Treasury on comparable issues of Federal debt.

In consequence of these privileges, the budget proposes that fees be imposed on all new borrowings of the Government-sponsored enterprises. The fee is to apply annually to the average amount outstanding of all securities issued after 1985. Its rate is to be 0.05% on the outstanding amount of securities issued in 1986; and, except for mortgage-backed securities, the rate is to rise to 0.083% on the outstanding amount of securities issued in 1987 and later years.

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 1985–86 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 repaying its debt to the Federal Home Loan Banks.

Borrowing by Government-sponsored enterprises has risen to much higher levels in the last few years than it was 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 to $27 billion during 1978–80, however, and then expanded to $38.6 billion in 1981 and $47.9 billion in 1982. Borrowing was considerably smaller in 1983, at $31.2 billion, as shown in table E–10, but it rebounded in 1984. The Government-sponsored enterprises estimate that it will be $44 billion during 1985–86.

The major Government-sponsored borrowers during 1983–86 are the two enterprises that borrow in order to support housing through the purchase of mortgages: the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corpo-

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

(In millions of dollars)

Description	Borrowing or repayment (−) 1983 actual	1984 actual	1985 estimate	1986 estimate	Debt outstanding end 1986 estimate
Education: Student Loan Marketing Association	1,332	1,774	1,211	1,377	12,586
Housing and Urban Development: Federal National Mortgage Association	19,105	17,934	20,566	20,967	154,544
Farm Credit Administration: [1]					
Banks for cooperatives	316	263	1,147	1,150	10,726
Federal intermediate credit banks	−1,908	−761	455	938	19,588
Federal land banks	451	733	1,232	1,827	50,684
Federal Home Loan Bank Board:					
Federal home loan banks	−9,071	15,633	8,594	6,000	82,000
Federal Home Loan Mortgage Corporation	20,192	13,269	10,291	11,848	96,373
Total	**30,416**	**48,845**	**43,496**	**44,107**	**426,501**
Less increase in holdings of debt issued by Government-sponsored enterprises	−755	−845	−600	−240	1,241
Total, borrowing by Government-sponsored enterprises	**31,171**	**49,690**	**44,096**	**44,347**	**425,260**

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

ration (FHLMC). In 1983 they borrowed $39.3 billion altogether; during 1984–86 they borrowed or are estimated to borrow a remarkably steady $31 to $33 billion each year. This is signficantly less than in 1983, due to much less borrowing by FHLMC, but it is still over two-thirds of total Government-sponsored borrowing. During these 3 years, moreover, their respective shares are relatively stable. These high levels of borrowing and lending are primarily being carried out through FHLMC's program of mortgage-backed participation certificates and FNMA's program of mortgage-backed securities. Both of these programs purchase conventional mortgages and finance the purchases by packaging the mortgages into pools and selling participation certificates in the pools to the public. By the end of 1986, FNMA and FHLMC are estimated to have raised their combined share of total Government-sponsored debt from 42% in 1980 to 59%.

Because the borrowing by FNMA and FHLMC is so stable except between 1983 and 1984, these enterprises do not account for most of the year-to-year changes in Government-sponsored borrowing. Borrowing by the sector as a whole increased by $18.4 billion from 1983 to 1984. This was primarily due to the Federal Home Loan Banks (FHLB). They substantially increased their new advances to savings and loan associations and other savings institutions, and the repayments of earlier advances fell. As a result, FHLB advances outstanding rose by $24.7 billion, and FHLB borrowing rose correspondingly. The decline in FHLMC borrowing offset this to a significant but limited extent.

The Federal Home Loan Banks are also the main source of the moderate decrease estimated in sector borrowing from 1984 to 1985. The increase in FHLB advances in 1985 is less than the increase in repayments, so the estimated borrowing is less than in 1984. This approximately accounts for the moderate decrease in sector borrowing. From 1985 to 1986 the estimated sector borrowing is very stable, with small increases for some Government-sponsored enterprises roughly offset by small decreases for others.

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 over half of all new long-term, tax-exempt issues. In 1984 the total tax-exempt borrowing (net of repayments) estimated in the Federal Reserve flow-of-funds accounts was $46.0 billion. 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 contain adjustments that were made 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.

Federal borrowing from the public to finance the deficit dominates the total of Federal and federally assisted borrowing each year during 1984-86. Federal borrowing comprises 72% of the total for the whole period and about the same each year; Federal debt held by the public at the end of 1986 is 67% of the total Federal and federally assisted debt outstanding. While guaranteed and Government-sponored borrowing change from year-to-year, the movements are not large enough to substantially affect the totals.

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

(In billions of dollars)

Description	Borrowing or repayment (−) 1984 actual	1985 estimate	1986 estimate	Debt outstanding end 1986 estimate
Federal borrowing from the public [1]	**170.8**	**201.4**	**172.6**	**1,686.6**
Guaranteed borrowing (net) [2] [3]	19.0	19.4	31.2	439.6
Less increase in guaranteed loans held by Federal agencies: [3]				
Government National Mortgage Association	−1.1	−.9	−.7	.8
Primary guaranteed borrowing [4]	**20.1**	**20.2**	**31.9**	**438.8**
Borrowing by Government-sponsored enterprises [5]	49.7	44.1	44.3	425.3
Less increase in holdings of Federal debt	−1.1	.3	−.1	2.4
Less increase in Government-sponsored debt held by Federal agencies:				
Federal Financing Bank	....	....	....	5.0
Tennessee Valley Authority	....	....	....	.1
Less increase in holdings of guaranteed loans:				
Federal National Mortgage Association	−6.5	.3	−2.9	26.6
Federal Home Loan Banks	*	−*	−*	.1
Federal Home Loan Mortgage Corporation	−.1	−.1	−.1	.8
Farm Credit Banks	*	....	....	.1
Student Loan Marketing Association [6]	1.8	1.3	1.1	6.8
Net Government-sponsored borrowing	**55.5**	**42.2**	**46.4**	**383.4**
Total, Federal and federally assisted borrowing	**246.4**	**263.8**	**250.9**	**2,508.8**

* $50 million or less.

[1] See table E-1.

[2] "Guaranteed-borrowing (net)" is the same as "guaranteed loans (net)" in table F-20 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] Until the 1985 budget, the increase in guaranteed loans held by the FFB was included in guaranteed borrowing (net) and subtracted out in deriving primary guaranteed borrowing. In the 1985 budget and this budget, following a revision of the presentation in Special Analysis F, the increase in guaranteed loans held by the FFB is netted out in deriving guaranteed borrowing (net). Primary guaranteed borrowing is not affected.

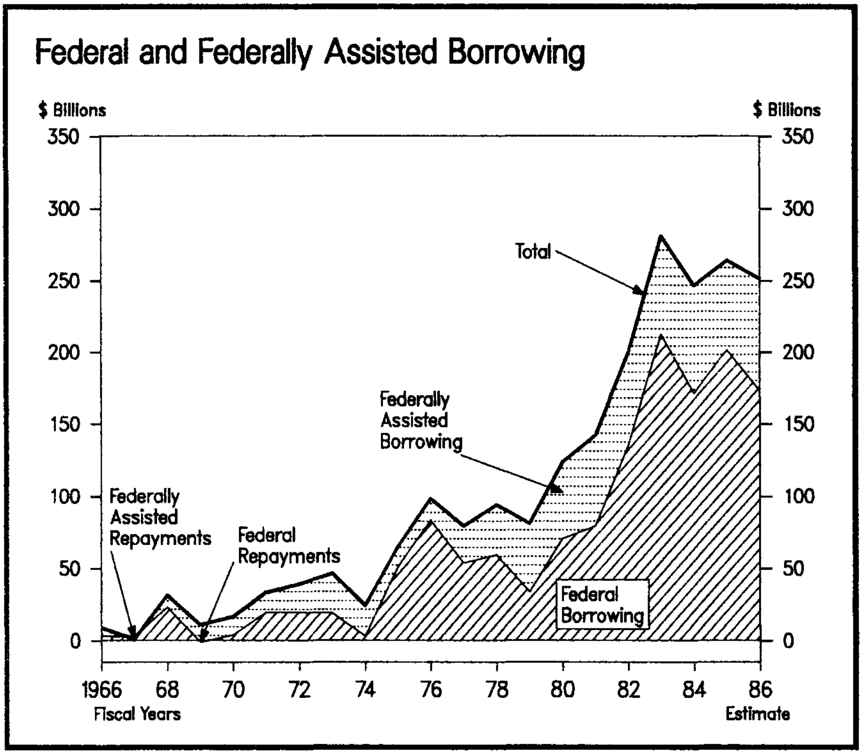
[4] "Primary guaranteed borrowing" in this table is the same as "primary guaranteed loans" in table F-20.

[5] From table E-10.

[6] 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.

The chart on the next page depicts the trends in Federal and federally assisted borrowing from 1966 to 1986. 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 $280.5 billion in 1983. With a subsequent reduction in the deficit and with federally assisted borrowing not rising very much, the total was lower in 1984 and is estimated to remain below the peak in 1985 and 1986.

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 bor-



rowed by the non-financial sector in the credit market. However, total Federal and federally assisted borrowing has increased as a proportion of the total funds borrowed. This proportion increased from 17% during 1960–69 to 21% during the first half of the 1970's and 27% during the second half. During 1980–84 the proportion was higher still, averaging 42%. Thus, Government programs have recently been a larger proportion of funds borrowed in credit markets than they were in the preceding years. However, in 1984 the proportion (37%) was down sharply from the proportions in 1982 (50%) and 1983 (56%). This result, and the relative stability of estimated Federal and federally assisted borrowing in 1985 and 1986, suggest that the upward trend of relative Federal participation in the credit market may no longer be continuing.

Table E–12. **BUDGET FINANCING AND DEBT**

(In millions of dollars)

BUDGET FINANCING

	1984 actual	1985 estimate	1986 estimate
Budget surplus or deficit (−)	−185,324	−222,226	−179,996
(On-budget deficit under current law)	*(−175,358)*	*(−209,767)*	*(−178,495)*
(Off-budget deficit under current law) [1]	*(−9,966)*	*(−12,459)*	*(−1,501)*
Means of financing other than borrowing from the public:			
Decrease or increase (−) in Treasury operating cash balance	6,631	10,426	....
Increase or decrease (−) in:			
Checks outstanding, etc.[2]	5,447	9,410	9,406
Deposit fund balances	1,930	453	−2,503
Seigniorage on coins	498	559	471
Total, means of financing other than borrowing from the public	14,507	20,848	7,374
Total requirements for borrowing from the public	−170,817	−201,378	−172,622
Change in debt held by the public	**170,817**	**201,378**	**172,622**
Nonbank investors	164,822		
Commercial banks	6,400		
Federal Reserve System	−405		

DEBT, END OF YEAR

	1983 actual			
Gross Federal debt:				
Debt issued by Treasury	1,377,211	1,572,267	1,836,725	2,070,034
Debt issued by other agencies	4,675	4,481	4,352	4,197
Total gross Federal debt	1,381,886	1,576,748	1,841,077	2,074,231
Held by:				
Government agencies	240,114	264,159	327,110	387,642
The public	1,141,771	1,312,589	1,513,967	1,686,589
Federal Reserve System	155,527	155,122		
Others	986,244	1,157,467		

DEBT SUBJECT TO STATUTORY LIMITATION, END OF YEAR

Debt issued by Treasury	1,377,211	1,572,267	1,836,725	2,070,034
Treasury debt not subject to limitation	−605	−603	−603	−603
Agency debt subject to limitation	1,347	1,312	1,292	1,283
Total debt subject to statutory limitation [3]	**1,377,953**	**1,572,975**	**1,837,414**	**2,070,714**

[1] Proposed to be included on-budget

[2] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[3] The statutory debt limit is established at $1,823.8 billion (Public Law 98–475).

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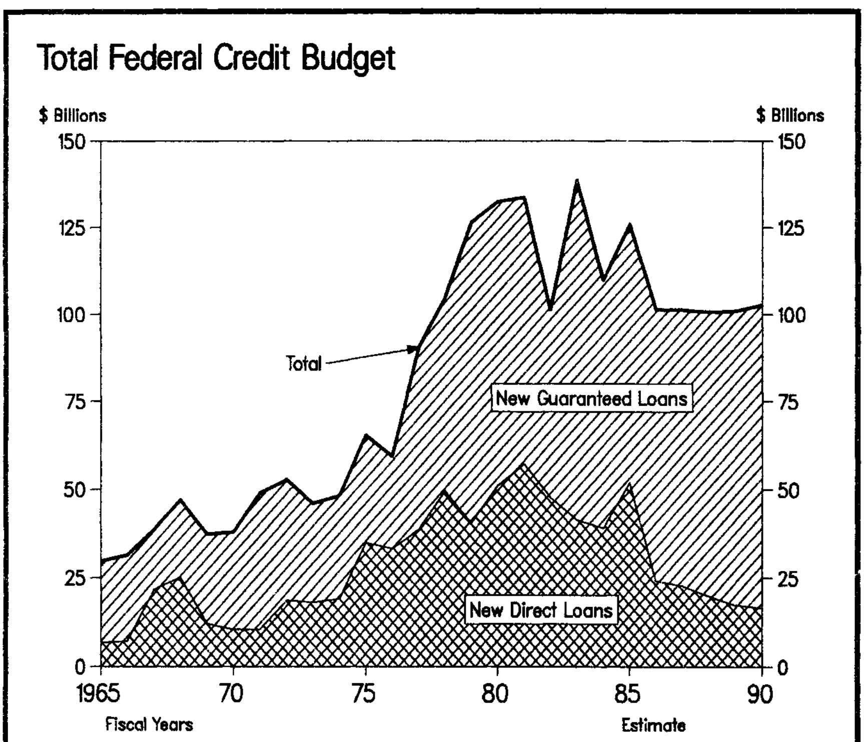
SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

I. Introduction

The Federal Government is the Nation's largest financial intermediary. At the end of 1984, it held $229 billion in its loan portfolio, which was about 29% larger than the loan assets of the two largest U.S. commercial banks combined. The Federal Government also had guaranteed loans with an outstanding balance of $387 billion at the end of 1984. Through direct loans and loan guarantees, the Federal Government allocates credit to farmers, homeowners, small businesses, exporters, utilities, shipbuilders, and State, local, and foreign governments. Until this administration, the volume of new credit offered by the Government had grown substantially for 15 years. The following chart shows the pattern of growth over that period:



Federal credit is designed to meet various social or economic goals that, for whatever reason, the private sector does not meet. Meeting these goals may entail the correction of a perceived capital market imperfection or the provision of a subsidy to a favored borrower. The problems in directing or controlling Federal credit are enormous and systemic. The discipline that the private market would impose on private financial intermediaries is absent. The discipline that the budget process imposes on most Federal agencies is not fully effective in controlling Federal credit programs. The Federal credit budget, while an improvement over sole reliance on the unified budget for credit programs, does not capture explicitly the most important aspect of Federal credit—the economic subsidy offered to favored borrowers.

This special analysis presents basic information on the broad spectrum of Government credit programs and policies from 1984 to 1990. It describes recent credit policy, and explains the credit budget and its relationship to appropriation act limitations on direct loan obligations and guaranteed loan commitments. It describes the credit activity of Government-sponsored enterprises (GSE's), and presents in detail the direct loans and guaranteed loans of the Federal Government. It also discusses trends in Federal credit, Federal credit subsidies, loan defaults and write-offs, the Federal Financing Bank (FFB), loan asset sales, Federal deposit insurance, and tax-exempt credit. This special analysis supplements the credit data and discussions found elsewhere in the budget documents (see Section XIII of this analysis).

II. Controlling Federal Credit Programs

Comparisons with private financial intermediaries.—The objectives of Federal credit programs are far different from those of private financial institutions. The purpose is to offer terms and conditions to selected borrowers that are more favorable than those otherwise available from private lenders. Compared to fully private loans, these terms and conditions may include lower interest rates or loan guarantee fees, less stringent credit risk thresholds in making credit available, or more generous grace periods or repayment schedules. Legislation frequently defines the eligible pool of applicants, specifies the lending terms that an agency or program may offer, and otherwise restricts the discretion of Federal program managers in a manner that never occurs for private lenders.

In addition to these differences in purpose, there are also differences in procedures between public and private financial intermediaries. Unlike a private financial intermediary, a Federal direct loan or loan guarantee program has no standard measure of performance, such as profit, for assessing its success. Federal credit programs were created to subsidize favored borrowers to varying degrees. Therefore, income does not measure success. In many cases, income is not even measured correctly since there is no well-defined cost of capital for credit programs. The lack of a measurement tool creates large difficulties in efficiently allocating resources to Federal credit (and noncredit) programs.

Moreover, the norms of the marketplace that restrict the growth and size of private lenders do not apply to Federal credit programs. Unlike commercial banks, Federal agencies need not worry about constraints on the volume or quality of new lending imposed by the inadequacy of primary capital. Federal lending agencies need not be concerned with the standards imposed on private banks by Federal regulatory agencies for assessing and reporting on the quality of loan portfolios. This makes alternative forms of discipline all the more important.

The unified budget.—The unified budget, with its focus on budget authority, outlays, and receipts, is an incomplete mechanism for controlling Federal credit programs. First, it was not designed to measure the full volume of new credit extended for direct loans. The largest direct loan programs are financed by revolving funds in which repayments on existing loans offset disbursements for new direct loans. Congressional appropriations of budget authority for these revolving funds are generally only necessary when new disbursements exceed repayments. Thus, the unified budget cannot directly control the amount of new direct loans extended.

Second, guaranteed loan commitments were excluded when the unified budget was established in 1967 and are specifically excluded from the definition of budget authority by the Congressional Budget Act of 1974. The reason for the exclusion is that the guaranteed loan commitment, by itself, does not affect budget outlays and the deficit. The loan guarantee is only a contingent liability of the Government. However, by assuming that contingent liability, the Government induces lenders to invest in loans, and thereby allocates capital for federally determined purposes. In this manner, a guaranteed loan commitment may provide as large a subsidy and redirect capital as effectively as a direct loan obligation.

A third important deficiency of the unified budget is that it neither reflects nor controls the most salient aspect of Federal credit—the size of the subsidy offered the borrower. Since a primary purpose of Federal credit programs is to provide borrowers with a subsidy, this is a serious omission in effective budgetary control. Without some means of measuring and controlling this subsidy, neither the executive branch nor the Congress can make informed decisions about Federal credit programs, either in comparing one with the other, or in comparing them with noncredit expenditure programs.

The Federal credit budget.—In January 1980, a significant step in redressing some of the inadequacies of the unified budget was made with the introduction of the Federal credit budget. The Federal credit budget includes direct loan obligations and guaranteed loan commitments, and, through the use of language in appropriation acts, limits these credit activities. Although it is a step forward, the credit budget does not restrain the total volume of Federal credit effectively because many loans are, in effect, mandatory under law or existing contracts. Only about 38% of the credit budget totals for 1984 were capped by appropriation act limitations, and the credit budget does not place any direct restriction on the level of subsidy that a program offers the borrower.

This analysis provides estimates of the subsidies provided by direct loan and loan guarantee programs in Tables F-11 and F-12. These estimates compare the interest rates, loan fees, maturities, and repayment schedules of Federal direct and guaranteed loans to the terms of an alternative private loan in order to estimate the Federal subsidy. This information will allow the Congress and Federal agencies to make better decisions about credit programs. These estimates, which are conservative, show that direct loan subsidies for selected loans obligated in 1984 were $8.3 billion and subsidies for selected guaranteed loan commitments in 1984 were $7.4 billion.

OMB Circular No. A-70.—One means of controlling Federal credit more effectively is to control the price at which it is offered to the public. As a step toward this goal, the Office of Management and Budget (OMB) reissued Circular No. A-70, "Policies and Guidelines for Federal Credit Programs" on August 24, 1984. OMB circulars are directives issued under Presidential authority delegated to the Director of OMB and addressed to the heads of Federal departments and agencies. OMB circulars are binding upon the executive agencies as a matter of Presidential policy and are generally enforceable through administrative procedures. Circular A-70 was approved by the President prior to its release.

The A-70 guidelines apply to proposed and existing Federal direct loan and loan guarantee programs. The guidelines place two sets of requirements on agencies. The first is to provide information on the costs and benefits of Federal credit programs. This includes, for example, estimates of the credit available from relevant private financial institutions, subsidies, and net default costs.

The second is to require agencies to propose new legislation or policies for credit programs that are consistent with sound credit policies. These policy norms include changing interest rates and loan guarantee fees to reflect movements in private market rates;

risk-sharing between Federal guarantee programs and private lenders (coinsurance); and avoiding subordination of Federal and federally guaranteed loans to private claims. Should current legislation not permit this, agencies are generally required to prepare proposals to change that legislation so the programs will conform to A–70 guidelines. When an agency believes that full conformity is undesirable, it must provide a justification for retaining the nonconforming legislation.

III. The Credit Budget

A. Credit Budget Concepts

The credit budget is based on four concepts.

First, it measures the total volume of direct loan obligations and guaranteed loan commitments. Direct loan obligations are Government contracts to provide a loan. Guaranteed loan commitments result from agreements in which the Government guarantees the repayment of a loan offered by a lender in the event of default. Both obligations and commitments define the point at which the Government becomes legally bound to extend credit assistance.

Second, it reflects gross levels of credit activity, without offsets for repayments. This is because subsidies are provided to all new recipients of direct loans and loan guarantees, regardless of the extent to which borrowers are repaying other loans previously made.

Third, the credit budget includes all direct loan and guaranteed loan programs of the Federal Government. This includes both the programs that are on-budget under current law and those that are off-budget under current law, which the administration is proposing to be on-budget. The credit budget does not include the lending of Government-sponsored enterprises. They are excluded from the credit budget as well as the unified budget because of their private ownership, although they are discussed both in this special analysis and elsewhere in the budget documents.

Fourth, guaranteed loan commitments are measured as the full principal of the loan, even if the Government's contingent liability is less than the full loan principal. This is because the entire loan, even if only partially guaranteed, is assisted by the guarantee. Moreover, in some programs that offer partial guarantees, the private lender is at risk only when the value of the collateral and the guarantee combined are less than the full loan principal. For these reasons, the administration proposes appropriations bill limitations to control the amount of guaranteed loan commitments based on the full loan principal.

There are a number of programs in which less than the full principal of the loan is guaranteed. The major agency that offers guarantees significantly—and nominally—below full loan principal is the Veterans Administration.[1] In the aggregate, of the $566 billion of gross guaranteed loans outstanding in 1984, the Government's contingent liability was $491 billion or 87%.

The contingent liability and full principal of all guaranteed loan programs are shown in Table F-1:

Table F-1. **CONTINGENT LIABILITY FOR GUARANTEED LOANS OUTSTANDING**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Veterans Administration mortgage guarantees:			
Contingent liability	57,502	61,604	65,718
Full principal	125,383	134,934	144,338
All other loan guarantee programs:			
Contingent liability	433,977	473,378	523,338
Full principal	440,144	479,640	529,236
Total outstanding: [1]			
Contingent liability	491,479	534,982	589,056
Full principal	565,528	614,574	673,574

[1] This table reflects total gross outstanding guaranteed loans, including secondary guarantees and guaranteed loans of one Federal agency held as direct loans by another Federal agency.

The credit budget totals.—Table F-2 provides the credit budget totals for 1983 through 1988. It also shows the six largest direct loan programs and guaranteed loan programs.

The 1985 credit budget was greater than the 1984 credit budget by $16 billion, primarily because of an increase in Federal Housing Administration (FHA) mortgage insurance, from $17.1 billion to $30.3 billion in guaranteed loan commitments. The reason for this increase is described in Section III D below. For 1986, the administration is proposing that the credit budget decrease by $25 billion, or 20% below the 1985 totals. In many cases, the proposed program levels are significantly below the levels that would have been expected on a current services basis. For example, the 1986 current services level of direct loan obligations of discretionary loan programs is estimated to be $20.4 billion. The 1986 budget instead proposes a level of $2.4 billion for these programs, or a decrease of $18.0 billion. The outlay savings associated with the proposed lower level of direct loan obligations are $6.2 billion in 1986. The programmatic reasons for the changes in the credit budget totals since 1985 are discussed below in the sections on direct loans and guaranteed loans.

[1] The contingent liability for VA guarantees is 60% of the mortgage amount, to a maximum of $27,500. However, the manner in which legislation requires the agency to handle foreclosures on houses with guaranteed mortgages, in effect, turns the guarantee into a 100% guarantee in most cases.

Table F-2. **THE CREDIT BUDGET TOTALS**

(In billions of dollars)

	1983 actual	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Direct loan obligations:						
Commodity Credit Corporation	13.9	5.5	9.2	8.5	7.9	5.3
Farmers Home Administration	6.7	7.2	7.7	0.7	0.4	0.7
Rural Electrification Administration	4.5	2.1	2.4	0.9	0.7	0.4
Foreign military sales credit	5.1	5.7	4.9	5.7	5.8	5.9
Export-Import Bank	0.8	1.5	3.9	....	....	....
Low-rent public housing	0.2	1.4	14.3	1.8	1.4	0.6
All other	10.2	15.7	9.5	6.6	6.5	7.0
Total obligations [1]	41.4	39.1	51.9	24.2	22.7	19.9
Guaranteed loan commitments:						
Federal Housing Administration	44.6	17.1	30.3	32.7	34.8	36.7
Low-rent public housing	14.3	13.7	....	....	....	....
Guaranteed student loans	7.3	7.6	7.9	7.5	7.0	7.7
Veterans Administration housing	14.7	16.5	15.2	15.4	15.4	15.4
Export-Import Bank	8.5	7.1	10.0	12.0	12.0	12.0
Commodity Credit Corporation	4.7	4.2	5.0	5.0	5.0	5.0
All other	3.1	4.6	5.6	4.6	4.3	4.1
Total commitments [2]	97.2	70.8	74.0	77.2	78.5	80.9
Total credit budget	138.6	109.9	125.9	101.4	101.3	100.8
ADDENDUM						
Secondary guaranteed loan commitments	64.2	39.7	53.5	51.1	51.8	52.1

[1] Includes loans with an agency guarantee that are disbursed by the Federal Financing Bank.

[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. Totals for the former are shown in the addendum. Totals for the latter are included as direct loans.

B. Appropriation Act Limitations

One of the key features of the credit budget is the enforcement mechanism provided through the enactment of limitations on credit activity in annual appropriation acts. The administration proposes limitations annually on direct loan obligations and guaranteed loan commitments for most credit programs. The limitation is specified in the appropriation language for individual budget accounts that include credit activity.

The President's 1986 budget proposes limitations for programs amounting to 56% of the credit budget totals. Approximately 33% of direct loan obligations and 63% of guaranteed loans are proposed for limitation. The remainder are programs controlled through other mechanisms. Table F-3 indicates the breakdown of loans subject to and exempt from limitation.

Table F-3. **CREDIT BUDGET PROGRAMS SUBJECT TO AND EXEMPT FROM APPROPRIATION ACT LIMITATION**

(In billions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Limitations enacted	23.2	20.8	8.1	62.1	62.1	67.1
Less: Unused balance of limitation, expiring	−6.7	−1.5	−0.1	−37.0	−20.6	−18.8
Loans subject to limitation	16.5	19.3	8.0	25.1	41.5	48.4
Loans exempt from limitation	22.6	32.6	16.2	45.7	32.5	28.9
Total	39.1	51.9	24.2	70.8	74.0	77.2
ADDENDUM						
Secondary guarantees subject to limitation	....	....	....	39.7	53.5	51.1

The first stage of congressional action on the credit budget is the budget resolution. Although it is not required by the Congressional Budget Act, recent budget resolutions have generally included guideline levels for credit programs. The budget resolution for 1985 included credit targets by function for 1984 through 1987. The functional allocations specified direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments. At present, these targets are not binding in any way. The administration continues to support reform in the congressional budget process that will place increased emphasis on binding allocations and that will establish meaningful enforcement mechanisms for credit.

After the budget is submitted to the Congress, the House and Senate Appropriations Committees begin working on the 13 appropriation bills. Four bills contain 20 of the 28 requested limitations: Agriculture, Commerce/Justice/State, Foreign Assistance, and Housing and Urban Development/Independent Agencies. Over the past several years, Congress has enacted limitations in most of the programs for which limitations were requested. The major programs for which the Congress has failed to enact a limitation, where it was requested, have been the Small Business Administration and the Maritime Administration.

In general, limitation language in appropriation acts:

- is a *one-year* limitation;
- sets a *ceiling* on direct loan obligations and/or guaranteed loan commitments; and
- applies to an individual account, although limitations on specific programs within an account may also be provided.

Table F–4 identifies the enacted and proposed limitations for credit programs between 1984 and 1986.

Table F-4. **CREDIT LIMITATIONS**

(In millions of dollars)

	1984 actual	1985 [1] estimate	1986 estimate
Direct loan obligations:			
Foreign military sales credit	1,315	4,940	5,655
FFB direct loans [2]	4,401		
AID, Private sector revolving fund		20	20
Overseas Private Investment Corporation	10	15	15
Agricultural credit insurance fund	2,987	2,612	400
Rural housing insurance fund	3,135	3,238	30
Rural development insurance fund	400	455	50
Rural electrification and telephone revolving fund	1,425	1,425	575
FFB direct loans [2]	4,145	2,345	300
Rural telephone bank	220	220	185
Self-help housing land development fund		3	0
International Trade Administration, Operations and administration	8	*	0
College housing loans	40	0	0
Bonneville Power Administration fund	40	40	20
Health resources and services	1	1	1
HMO loan and guarantee fund	12	3	1
Nonprofit sponsor assistance	3	2	*
Federal Housing Administration fund	56	65	89
Housing for the elderly or handicapped fund	666	600	50
Community development grants: FFB direct loans [2]	225	225	0
Bureau of Reclamation, Loan program	52	68	40
Bureau of Indian Affairs, Revolving fund for loans	13	19	16
Federal Highway Administration, Right-of-way revolving fund	30	50	50
Railroad rehabilitation and improvement financing funds: FFB direct loans [2]	20	2	0
VA, Direct loan revolving fund	1	1	
Loans to the District of Columbia	115		
Export-Import Bank	3,865	3,865	0
National Credit Union Administration, Central liquidity fund		600	600
Total, direct loan obligations	23,185	20,814	8,098
Guaranteed loan commitments:			
AID, Housing and other credit guaranty programs	150	160	45
Overseas Private Investment Corporation	100	150	150
Agricultural credit insurance fund	546	706	3,000
Rural development insurance fund	200	150	0
Economic development assistance [3]	167	0	0
International Trade Administration, Operations and administration [3]	17	7	0
Health professions graduate student loan insurance fund			100
Federal Housing Administration fund	50,900	50,900	50,900
Bureau of Indian Affairs, Indian loan guaranty and insurance fund	19		20
Maritime Administration, Federal ship financing fund			900
Export-Import Bank	10,000	10,000	12,000
Total, guaranteed loan commitments	62,098	62,073	67,115
ADDENDUM			
Secondary guaranteed loan commitments:			
GNMA, Guarantees of mortgage-backed securities	68,250	68,250	68,250

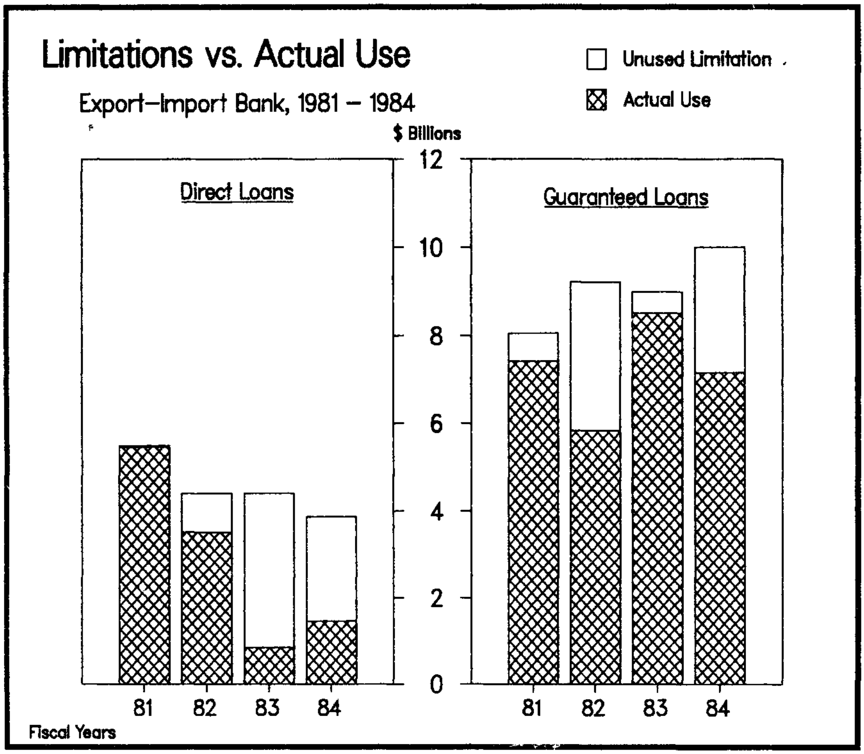
*$500,000 or less.

[1] Includes President's budget proposals for changes in enacted limitations.

[2] In this table, loans disbursed by the FFB are shown as direct loans. The limitation applies to the guaranteed loan commitments of the originating agency.

[3] These limitations were enacted on the basis of contingent liability. The full principal amount is reflected here.

While the appropriation act limitation is an effective control mechanism for new lending by some programs, there are many programs in which the actual demand for Federal credit assistance has been consistently less than the level enacted in annual appropriation bills. For example, the enacted limitations on direct and guaranteed loans for the Export-Import Bank (Eximbank) have consistently exceeded the actual demand for loans since 1982. Figure F–2 illustrates the used and unused portions of the enacted limitations for 1981–1984.



There are a variety of programs, in addition to Eximbank, for which demand is often below the enacted limitation. Table F–5 compares the proposed and enacted limitations to the actual level of direct loan obligations and guaranteed loan commitments in 1984 for the largest credit programs with shortfalls from limitations.

After enactment of appropriation bills, direct and guaranteed loan activity subject to limitation is controlled through the apportionment process. This is the mechanism by which the executive branch controls the rate at which new loans are obligated or guaranteed. While limitations are generally apportioned quarterly, a few are apportioned on an annual or project basis.

Table F–5. **COMPARISON OF REQUESTED AND ENACTED LIMITATIONS WITH ACTUAL LOAN LEVELS FOR SELECTED PROGRAMS IN 1984**

(In millions of dollars)

	Proposed limitation	Enacted limitation	Actual loan level	Unused balance of limitation
Direct loan obligations:				
Rural housing insurance fund	300	3,135	2,747	388
Rural electrification and telephone revolving fund	575	1,425	1,079	347
Rural telephone bank	185	220	143	77
Export-Import Bank	3,830	3,865	1,467	2,398
Guaranteed loan commitments:				
Agricultural credit insurance fund	106	546	443	103
Rural electrification and telephone revolving fund	3,360	4,145	1,002	3,143
Economic development assistance	....	167	11	156
Federal Housing Administration fund	39,800	50,900	17,071	33,829
GNMA, Guarantees of mortgage-backed securities	58,650	68,250	39,665	28,585
Export-Import Bank	10,000	10,000	7,149	2,851

For some programs, a limitation on annual activity is deemed unsuitable for any of several reasons, and control is provided through other mechanisms. First, limitations are not proposed for programs in which the authorizing legislation provides a clear entitlement to qualified applicants, such as farm price support loans and credit assistance to veterans. These programs are similar to those expenditure programs considered relatively uncontrollable and are determined solely by substantive law.

Second, direct loans that arise from payment of claims on defaulted guaranteed loans are exempt from limitation. Payment of these default claims is mandatory, as in the FHA mortgage insurance and the guaranteed student loan program. Therefore, the effective point of control is earlier, at the time of the original guaranteed loan commitment.

Third, limitations are not useful for intragovernmental financing transactions such as Federal Financing Bank loans and the guarantees of certificates of beneficial ownership issued by the Farmers Home Administration. Since the original loans by the agency are controlled through annual appropriation act limitations, they need not be limited a second time at the intragovernmental financing stage.

Fourth, some programs are exempt from limitation when additional control through appropriation act limitations would inhibit the effective operation of a program. For example, in several foreign assistance programs, such as the economic support fund, AID development assistance, and Public Law 480 food assistance, appropriated budget authority governs both the loan and the grant activity. A specific direct loan limitation is therefore an unnecessary duplication of existing congressional controls.

C. Direct Loans

Direct loans are financed from a variety of sources including taxation, borrowing, and repayments of previous loans.

Direct loan programs are designed to redirect economic resources to particular uses by providing credit on more favorable terms than would otherwise be available from private sources. A direct loan is best justified when the Federal objective could not be met with financing from private sources, even with a Government guarantee. The objectives of a direct loan program, for example, may require financing at interest rates that are lower than those available from private lenders, or loan maturities that are longer than otherwise available. Direct loans are made available to individuals, businesses, and State, local, and foreign governments. In this special analysis, direct loan tables attribute loans that are made by the FFB and guaranteed by an agency, to the agency responsible for guaranteeing the loans. The credit activity between the Federal Government and the public in these transactions is a direct loan, not a guarantee.

Table F–6. **SUMMARY OF DIRECT LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimate					
	1983	1984	1985	1986	1987	1988	1989	1990
Obligations	41.4	39.1	51.9	24.2	22.7	19.9	17.3	16.6
Loan disbursements	43.8	41.4	54.7	33.5	28.0	22.8	19.3	18.4
Change in outstandings	15.3	6.3	15.2	−0.3	−3.7	−5.5	−5.0	−4.1
Outstandings	223.0	229.3	244.5	244.3	240.5	235.0	230.1	226.0

Direct loan obligations in a given year will not always result in an equal volume of new direct loan disbursements in the same year for several reasons. First, there is often a lag between the time of obligation and the actual disbursement of the loan. For example, prospective borrowers may seek financing for a project when it is in the design stage, but the financing will not be needed until the next year or even several years. As a result, some agencies, such as the Export-Import Bank and the Rural Electrification Administration, disburse loans two years or more after the time of the direct loan obligation. Second, some prospective borrowers will never convert the direct loan obligations into borrowing when projects for which financing had been sought are subsequently cancelled or postponed.

Loan disbursements are payments of loans to the public. They are mostly to make new loans, but they also include some loan guarantee claims. The change in loans outstanding equals new loan disbursements less repayments of loans, loan write-offs, and other adjustments.

As shown in Table F-6, direct loan obligations are proposed to decline between 1984 and 1986 from $39.1 billion to $24.2 billion. The composition of the direct loan portion of the credit budget is proposed to change as well: the agricultural and business sectors will receive 41% and 15% of the 1986 credit budget, respectively, compared with the one-third apiece they received from 1982 through 1985. The major changes from 1984 to 1986 in direct loan obligations are discussed below.

The Commodity Credit Corporation (CCC) provides price supports to producers of agricultural commodities. Demand for CCC price support loans dropped by $8.5 billion to $5.1 billion between 1983 and 1984, mainly due to a drop in agricultural production that resulted in higher crop prices, which in turn led to reduced need for Government price supports.

The administration proposes to restructure the price support system so that commodity prices will more closely reflect market prices and be more competitive on world markets. This will reduce the need for Government price supports in the future; however, continued Federal credit support for farmers will be needed as they adjust to a market-based system. CCC price support loans are expected to rise to an estimated $8.9 billion in 1985, fall to $8.5 billion in 1986, and then continue to decline throughout the remainder of the 1980's.

The Farmers Home Administration (FmHA) makes loans for purchasing and operating farms, improving rural housing, and developing rural community facilities. Its direct lending rose by $0.5 billion from 1983 to 1984, due mainly to increases in agricultural lending ($1.0 billion), largely disaster loans, partially offset by reductions in housing and rural development loans.

Total FmHA direct loan obligations are estimated to decline significantly in 1986, to a level of $0.7 billion. This drop reflects a shift in Federal loan activity from direct loans to guarantees of private loans in the Agricultural Credit Insurance Fund, and the administration's proposals to terminate FmHA housing programs in favor of providing such assistance through the Department of Housing and Urban Development. It also reflects the termination of most rural development lending.

The Rural Electrification Administration (REA) was designed to be a lending agency responsible for rural electrification and for furnishing electricity and telephone service to rural areas not receiving central station service. REA decreased its direct loan obligations by $2.5 billion between 1983 and 1984. This reflects a continuing fall in lending for power plant construction that would have been supported by the part of this program that provides loans at Treasury interest rates. The decline in construction was caused by lower demand for electricity and the related surplus of electric generating capacity. The part of the REA program that makes loans at interest rates of 5% maintained stable levels of direct loan obligations of $1.1 billion in both years.

REA direct loan activity is estimated to drop to $0.9 billion in 1986. This decrease is due to the continued fall in demand for electricity and generating capacity, and the administration's plan to encourage rural electric systems to rely more on private financing for needed credit. Over the next 5 years, as the private share of rural electric and telephone financing increases, the Federal share is proposed to be phased out.

Foreign Military Sales (FMS) Credit makes loans to foreign governments and international organizations so that they can procure U.S. military equipment and services. The decline from $5.7 billion in 1984 to $4.9 billion in 1985 does not reflect reduced U.S. military support to friendly and allied countries, but, rather, the substitution of concessional loans and more grants for Treasury interest rate loans. FMS Credit direct loan obligations will increase by $0.7 billion in 1986. This 14% increase will permit the Government to finance the procurement of additional military equipment and services by countries whose security is threatened by military forces hostile to U.S. interests. The bulk of the requested increase will be provided to Egypt and Israel. Turkey, Greece and Spain will also continue receiving large amounts of credit. In order to reduce the debt service burden of these countries, 52% of the program is requested as loans that will be forgiven and 12% is requested on concessional terms.

Export-Import Bank (Eximbank) direct loan obligations were $1.5 billion in 1984. While higher than the $845 million level of 1983, they are still far below the level of most recent years because of the slow recovery of demand and the high value of the U.S. dollar relative to other currencies. The administration is proposing the elimination of new Eximbank loans in 1986 and their replacement by $100 million in explicit interest rate subsidies and an increase to $12 billion in guarantees. For that reason, no direct loan obligations are shown after 1985. New disbursements that occur after 1985 are the result of loans obligated before 1986.

The Small Business Administration credit programs are proposed to be terminated in 1986. Under the budget proposal, most new direct loan obligations offered by SBA after 1985 would be the result of previously guaranteed loans that are expected to default. The existing loan portfolio would be transferred to the Treasury Department for servicing and liquidation. The Treasury Department would also sell the existing loan assets to investors, without Federal guarantee or recourse, beginning in 1986. Some of the issues involved in loan asset sales are discussed in Section IX of this analysis.

Direct loan obligations of the low-rent public housing program increased from $0.2 billion in 1983 to $1.4 billion in 1984, and will increase to an estimated $14.3 billion in 1985. Prior to the enactment of the Deficit Reduction Act of 1984 (DEFRA), housing construction was financed with tax-exempt obligations issued by the Public and Indian Housing Authorities (PHAs and IHAs) and secured by 20- to 30-year Federal commitments to repay the full principal amount. The increased direct loan activity is the result of a suspension of tax-exempt financing for these construction activities, which was necessary because of questions about the tax-exempt status of PHA and IHA obligations after the enactment of DEFRA. The major portion of the direct loans to PHAs and IHAs, $1 billion in 1984 and $13 billion in 1985, is needed to repay their maturing obligations. An estimated $1.2 billion annually from 1985 through 1987 is needed to finance ongoing construction activity.

The budget proposes to reform the unnecessarily complicated method of financing public and Indian housing construction, which has created what are effectively federally guaranteed tax-exempt securities. Legislation is being proposed to complete the transition from tax-exempt financing to direct Federal payments for capital expenditures. The direct loans (which replaced tax-exempt financing) extended by HUD to PHAs and IHAs for projects committed in 1985 and prior years would be forgiven. As a consequence, the Federal Government would be relieved of associated long-term commitments to amortize the forgiven loans. Beginning in 1986, new PHA and IHA capital expenditures would be funded annually.

These reforms would simplify the financing of public and Indian housing and reduce the related administrative burden to HUD, PHAs, and IHAs. The proposal would have no impact on the existing inventory of public and Indian housing or projects currently under construction. The proposal would not affect program levels, but it would change the way in which the Federal Government pays for public and Indian housing capital costs.

Table F-19 shows detailed data for Federal direct loan programs from 1984 to 1990.

D. Loan Guarantees

Guaranteed loan commitments are agreements in which the Government guarantees the payment of the principal and interest of the loan in whole or in part in the event of default. 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. For the purposes of the credit budget, the term "guaranteed loan" includes insured loans.

A loan guarantee transfers some or all of the risk of default from the lender to the Government. In cases where the Government guarantees the timely payment of 100% of the loan principal and interest against all risk, it transforms a private loan into a near-Government direct loan financed by a near-Government security. The guaranteed loan will have essentially the same economic effects as a Government direct loan offered at moderate premiums above Treasury yields, but it will not have all the attributes of a Government direct loan because private lenders will negotiate different financial terms and conditions (e.g., fees) than would a Government agency.

The guaranteed loan will not have all of the attributes of a U.S. Treasury security either, since it will be less liquid and will involve higher transaction costs. The great volume of Treasury securities, their regular issuance in a range of maturities, and the specialized institutions and trading facilities that deal in those securities, all constitute an efficient market that cannot be matched by the market for guaranteed loans. The Government guarantee, for example, may not be transferred from one lender to another as readily as a U.S. Treasury security may be traded. Legal counsel may be required to determine the extent to which a lender is assured of repayment and under what circumstances, which is a transaction cost not associated with a U.S. Treasury security. For these and other reasons, guaranteed loans bear interest rates above the yields on otherwise comparable U.S. Treasury securities.

Loan guarantees, like direct loans, redirect economic resources by providing credit to borrowers at more favorable terms than would otherwise be available in the private market. The degree to which the guarantee reallocates credit will depend on the degree of the subsidy.[2] At one extreme, the potential transaction being financed may be considered so risky that no financing would be available without the guarantee. In this case, the subsidy will be quite large and will have a dramatic effect on the reallocation of credit.

At the other extreme, the guarantee may result in only a small subsidy and, other conditions being equal, may not significantly change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately—without Government support—albeit at a higher cost. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased even in the absence

[2] The degree of credit reallocation will also depend on the price elasticity of demand of the good being financed. A small change in the price (i.e., the subsidy) of the good being financed may result in a considerable change in the amount of the good actually bought and sold. This special analysis does not consider demand and supply elasticity effects.

of a Federal guarantee. In such a case, the borrower benefits from a small subsidy and the guarantee does not directly alter the allocation of credit resources. In both cases, although to different degrees, 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 available to those potential borrowers who do not receive assistance, and increases the interest rates on financing available to these borrowers.

Loan guarantees are used in a wide variety of programs. Guaranteed loans may be made to individuals, to businesses, and to State, local, and foreign governments. The guaranteed loan commitment may be used for: (1) a loan made by a bank or other institutional lender; (2) an investment security sold in the capital market; or (3) a security sold to the Federal Financing Bank. Guaranteed loans, for the purposes of the credit budget, do not include contractual agreements, such as guarantees of private leases, contracts to make subsidy payments over extended periods, or debt service grants that the recipients may use as collateral for borrowing.

Data for guaranteed loans for 1983 through 1990 are summarized in Table F–7. The guaranteed loan commitments in a given year do not always result in new guaranteed loans in that year, for the same reasons that direct loan obligations in a given year do not necessarily lead to disbursements in that year. The change in outstandings is equal to the amount of new guaranteed loans less repayments and other adjustments. Guaranteed loans outstanding are the cumulative volume of new guaranteed loans, less repayments and adjustments. Table F–20 provides detailed data for guaranteed loan programs for 1984 to 1990.

Table F–7. **SUMMARY OF PRIMARY GUARANTEED LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimate					
	1983	1984	1985	1986	1987	1988	1989	1990
Commitments	97.2	70.8	74.0	77.2	78.5	80.9	83.7	86.3
New guaranteed loans	78.0	73.3	62.7	64.7	68.0	71.0	72.6	74.0
Change in outstandings	34.1	20.1	20.2	31.9	32.6	32.1	32.1	32.4
Outstandings	363.8	386.7	406.9	438.8	471.4	503.5	535.6	568.0

As noted in the previous section, direct loans disbursed by the Federal Financing Bank (FFB) that are guaranteed by a Federal agency are excluded from guaranteed loans and included in Table F–6. As shown above in Table F–7, primary guaranteed loan commitments are expected to decrease from $97.2 billion in 1983, to $77.2 billion in 1986. The composition of the guaranteed loan portion of the credit budget has also changed. Housing programs accounted for 76% of guaranteed loan commitments in 1983, and are expected to decline to 62% by 1986. The major programmatic changes from 1983 through 1986 are discussed below.

Although housing activity in the U.S. remained at high levels in 1984, new Federal Housing Administration (FHA) guaranteed loan commitments dropped by 62% from the 1983 level of $44.6 billion, to $17 billion. This was largely due to the greater attractiveness of adjustable-rate mortgages (ARMs) relative to the traditional fixed-rate mortgages insured by FHA. The FHA began insuring ARMs in 1985, and FHA commitments are expected to return to levels of over $30 billion in 1985 and beyond. The Veterans Administration (VA) offers a mortgage guarantee that is similar in effect to the FHA mortgage insurance program, but does not require veterans to make downpayments on their housing purchases. For 1985, guaranteed loan commitments by VA are estimated to be $15.2 billion, remaining fairly constant in 1986 and beyond.

The Commodity Credit Corporation provides loan guarantees for export sales that would not otherwise occur without Federal credit assistance. CCC guaranteed loan commitments for U.S. exports fell by $0.5 billion from 1983 to 1984. This decline is attributable to a drop in demand from foreign buyers for U.S. Government-subsidized credit. While recognizing that most U.S. exports occur in the open market, annual guaranteed loan commitments of $5.0 billion are estimated in 1985 and beyond for sales that require Federal support.

The guaranteed student loan program (GSL) provides guarantees of education loans to graduate and undergraduate students. New guaranteed loans for the program increased by $0.8 billion from 1983 to 1984 as participation surged by 13%; the average loan amount increased only 2%. The level of GSL commitments is estimated at $7.5 billion in 1986, a decrease of $0.4 billion from 1985, reflecting the administration's plan to slow the growing cost of the program by limiting the use of such financial assistance to needy students and capping the total amount of directly subsidized student aid under Title IV of the Higher Education Act at $4,000.

The Export-Import Bank provides guarantees to facilitate U.S. exports. Guaranteed loan commitments decreased from $8.5 billion to $7.1 billion between 1983 and 1984. In 1985, it is estimated that Eximbank commitments will be $10 billion, as risk protection continues to be important to U.S. exporters. The proposed level in 1986 and beyond is $12 billion, $1.8 billion of which will be available for the interest rate subsidy program.

Guaranteed loan commitments for public and Indian housing decreased by $0.5 billion from 1983 to 1984. No new loan guarantees are estimated for 1985 and beyond, resulting in a decrease of $13.7 billion in guaranteed loan commitments. These decreases coincide with the extension of direct loans to PHAs and IHAs that are necessary since the enactment of DEFRA and the suspension of private market financing. The direct loans thereby eliminate the need for new guarantee commitments. (The proposal to reform the financing of public and Indian housing is described in the previous section.)

The Small Business Administration credit programs, as noted in the section on direct loans, are proposed to be terminated in 1986. For that reason, no new guaranteed loan commitments are proposed after 1985. Outstanding guaranteed loans (with a balance of $9.3 billion in 1985) will be serviced by the Treasury Department.

At least two-thirds of all single-family mortgages insured by FHA or VA are sold subsequently in the secondary mortgage market using the Government National Mortgage Association (GNMA) mortgage-backed securities program. This program provides guarantees for securities issued by private mortgage originators and backed by pools of FHA-insured and VA-guaranteed mortgages. The GNMA guarantees enhance the liquidity of trading these securities. GNMA's issuance of new securities is closely tied to the amount of FHA insurance and VA mortgage guarantees. Commitments for GNMA mortgage-backed securities therefore decreased from $64.2 billion in 1983 to $39.7 billion in 1984. An increase to $51.1 billion is estimated in 1986. The 1986 budget proposes to increase the fee that GNMA charges for its guarantee, from 6 basis points (a basis point is 1/100 of a percent), to 15 basis points. This is estimated to raise $19 million in new revenue in 1986, and $439 million over the period 1986 to 1990.

IV. Government-Sponsored Enterprises

Government-sponsored enterprises (GSE's) are financial intermediaries, established and chartered by the Federal Government to facilitate the financing of home mortgages, student loans, and agricultural credit. They are:

- the Federal Home Loan Banks;
- the Federal Home Loan Mortgage Corporation;
- the Federal National Mortgage Association;
- the Farm Credit System, consisting of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks; and
- the Student Loan Marketing Association.

These enterprises are privately owned and are included neither in the unified budget nor in the credit budget. However, since they are established by the Government to carry out federally designed programs and benefit from substantial forms of Government assistance, their financial statements and a description of their operations are included in the Budget Appendix (Part V). Table F–8 shows summary lending and borrowing of these enterprises for 1984 to 1986. Table F-21 at the end of this special analysis presents additional details on their lending and borrowing.

Table F-8. **SUMMARY OF LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In billions of dollars)

	Actual 1984	Estimate	
		1985	1986
Total net lending:			
Obligations	200.6	187.9	197.1
New transactions	170.6	185.5	191.4
Net change	53.1	46.0	45.8
Outstandings	314.1	360.1	405.9
Total borrowing:			
Net change	55.5	42.2	46.4
Outstandings	294.8	337.0	383.4

Government-sponsored enterprises redirect credit by acting as financial intermediaries to stimulate greater amounts of lending to certain sectors. This is accomplished in two ways: by increasing the liquidity of other direct lenders in the housing and education sectors, and by direct lending in the agricultural sector. In both cases, GSE's make more capital available to favored borrowers in these sectors. Over the last 5 years, GSE debt outstanding (gross) grew by 150%, from $142.1 billion in 1979 to $355.7 billion in 1984. By comparison, lending to private businesses and corporations over the same period only grew by 62%. This suggests that sectors that do not benefit from the presence of a GSE will have less capital available to them; capital that is available will be more expensive since there is less of it.

Securities offered by GSE's in the financial market are not guaranteed by the U.S. Government. Nonetheless, these securities usually enjoy yields of between 50 and 300 basis points below highly rated corporate debt. In fact, GSE instruments bear only slight premiums above the yields on U.S. Treasury securities. In the past year, these premiums have ranged from roughly 20 to 40 basis points above Treasury yields. The reason for these relatively slight premiums above Treasury securities is the perceived "special relationship" between the enterprises and the Government. GSE debt instruments compete directly with U.S. Treasury securities, thus raising the Government's cost of borrowing.

The "special relationship" arises in part from the general Government sponsorship itself, but it is also manifest in the types of benefits that GSE's enjoy, which generally include:

- the eligibility of GSE securities to be held as investments of federally regulated institutions under circumstances where

other private securities or State and local government securities are not eligible;
- lines of credit at the U.S. Treasury that range up to $4 billion;
- exemption from Securities and Exchange Commission registration requirements and regulation of trading; and
- exemption from State and local taxes, except taxes on real property.

As a means of reimbursing the Federal Government for some of these privileges, an annual user fee on new borrowings and new issuances of mortgage-backed securities and participation certificates will be charged the various GSE's beginning in 1986. The fees will be phased in, with an initial level of 5 basis points on newly issued securities. The fees are analogous to the fees that commercial banks would charge for standby letters of credit to support the issuance of private debt. These fees will reduce Federal outlays by $41 million in 1986, and $957 million during 1986–1990.

Federal Home Loan Banks.—The Federal Home Loan Bank System was established in 1932 to promote home ownership through the extension of credit to savings and other home financing institutions. The Federal Home Loan Bank Board is a part of the Federal Government and supervises the Federal Home Loan Banks. All savings and loan associations and savings banks are eligible to become members; federally chartered savings and loan institutions and savings banks and all institutions insured by the Federal Savings and Loan Insurance Corporation are required to do so. The major function of the banks is to lend funds to member institutions.

Federal Home Loan Mortgage Corporation (FHLMC).—FHLMC ("Freddie Mac") was created in 1970 to increase the availability of mortgage credit and liquidity in the conventional residential mortgage market. It is a wholly owned subsidiary of the Federal Home Loan Banks described above.

Federal National Mortgage Association (FNMA).—FNMA ("Fannie Mae") was originally chartered as a part of the Federal Government. In 1968, FNMA was made a privately owned corporation.

Both FNMA and FHLMC operate in a similar manner. They generally purchase conventional and privately insured mortgages originated by mortgage bankers, savings institutions, commercial banks, and other primary lenders. These institutions sell mortgages to enhance the liquidity of their assets. The mortgage purchases are financed through the issuance of debt or through the sale of securities backed by mortgages. FNMA and FHLMC, along with the Government National Mortgage Association,[3] have long dominated the secondary market for mortgages, particularly the mortgage-backed security portion of the market. Recently, however, totally private institutions have begun to issue mortgage-backed securities, in part because of regulatory and administrative changes implemented by the administration. Many of these privately issued securities have been backed by single-family home mortgages whose values exceed the statutorily established "conforming" amount ($115,300) that restricts the mortgages FNMA and FHLMC may purchase. The administration worked to gain passage of the 1984 Secondary Mortgage Market Enhancement Act, which will enable private firms to compete more directly with FNMA and FHLMC in the "conforming" market.

Despite the possibility of increased competition from private firms, and the continued existence of restrictions that limit the mortgages eligible for FNMA and FHLMC purchase, the total of FNMA and FHLMC mortgages purchased and securities issued that are backed by mortgages, and borrowing for portfolio purchases, are expected to increase from $219.9 billion in 1985 to $253.7 billion in 1986. In addition to purchasing newly originated mortgages, FNMA and FHLMC offer primary mortgage lenders the opportunity to "swap" seasoned mortgages held in their portfolios for FNMA mortgage-backed securities or FHLMC participation certificates.

Student Loan Marketing Association (SLMA).—SLMA ("Sallie Mae") was created in 1972 to expand the amount of funds available for insured student loans. It does so by providing liquidity to lenders, which include savings and loan associations, commercial banks, mutual savings banks, educational institutions, and State and nonprofit agencies.

SLMA provides liquidity by operating a secondary market for student loans and by its "warehousing" advances. SLMA's secondary market involves the purchase of existing insured student loans from lenders. When this occurs, SLMA gets title to the loans and is repaid directly by the borrowers. Warehousing advances are SLMA loans to lenders that are secured by student loans or certain types of obligations guaranteed by the Government. In such cases, the lenders continue to hold title to the loans and pay SLMA interest on the funds borrowed. Advances are also available to State student loan agencies as a taxable source of funds for their operations. In 1986, SLMA will purchase student loans estimated at $1.8 billion, and will make warehousing advances estimated at $1.2 billion.

[3] The Government National Mortgage Association (GNMA) is part of the Department of Housing and Urban Development, and so is not a Government-sponsored enterprise.

Starting in 1974, SLMA operations were financed entirely through borrowing from the FFB. SLMA stopped borrowing from the FFB in January 1982; since then, it has done all its borrowing in private credit markets. It will borrow an estimated $1.4 billion in 1986. SLMA obligations sold to the public are not federally insured or guaranteed. However, since most of the student loans that SLMA holds as assets are federally insured, it is able to borrow at rates only slightly higher than Treasury bills. SLMA's overall cost of funds in 1984 was 35 basis points over 91-day Treasury bills. Student loans are guaranteed to yield the holder of the loan 3.5 percentage points over the Treasury bill rate, so SLMA has maintained a profitable interest rate spread on its student loan portfolio even after its expenses in servicing student loans are taken into account. SLMA's profit margin on its warehousing advances are considerably lower.

In 1981, the Congress gave SLMA powers that go beyond its original purpose of providing liquidity to lenders. SLMA was authorized to: (1) purchase or lend against uninsured loans; (2) make loans directly in specified circumstances; (3) consolidate and refinance loans; (4) advance funds to State agencies that provide loans to students; (5) purchase and underwrite student loan revenue bonds; and (6) provide any additional services determined by the SLMA Board of Directors to support student credit needs generally. Notwithstanding these additional authorities granted to SLMA, the provision of liquidity to lenders continues to be the main focus of its activities.

Farm Credit System (FCS).—The FCS is a cooperative that provides credit to farmers and ranchers, their cooperatives, farm-related businesses, commercial fishermen, and rural homeowners. The FCS is supervised by the Farm Credit Administration (FCA), an independent Federal agency. The FCS obtains its funds through the sale of securities to investors in the private credit market.

The goals of the FCS are accomplished through its component parts: Federal Land Banks (FLBs) and Federal Land Bank Associations (FLBAs); Federal Intermediate Credit Banks (FICBs) and Production Credit Associations (PCAs); and the Banks for Cooperatives (BCs).

The 12 FLBs make loans, secured by mortgages on farms or rural real estate, to borrowers who apply at one of the 469 local FLBAs. The loans are for periods that range from 5 to 40 years. Loans are made to farmers and ranchers, corporations producing agricultural products, farm-related businesses, and rural homeowners. Loans can be used to acquire farms, farmland, equipment, and livestock, as well as to refinance existing debt. FLBs will make loans valued at an estimated $5.9 billion in 1986.

The 12 FICBs provide loan funds to 414 PCAs, and can participate with the associations in making loans. In addition, FICBs can discount the notes of farmers, ranchers and commercial fishermen that are held by other financial institutions making agricultural loans. The Federal Intermediate Credit Banks will make an estimated $18.7 billion in loans in 1986. PCAs make loans of up to 7 years to farmers and ranchers, rural homeowners, and farm-related businesses, and loans of up to 15 years to commercial fishermen. Loans can be used for the production of agricultural products; the harvesting and production of aquatic products; and the purchase, repair, and maintenance of rural homes.

The 12 BCs make long- and short-term loans directly to cooperatives of farmers, ranchers, or commercial fishermen. Long-term loans are used for constructing, remodeling or expanding the cooperative's facilities, or for purchasing land, buildings, or equipment. Short-term loans that mature within 18 months are made to finance seasonal assets. In 1986, the Banks for Cooperatives will make an estimated $31.1 billion in loans.

V. Trends in Federal Credit Activity

This section discusses some of the trends and policy initiatives in Federal credit activity that cut across programs. The first part of this section discusses the general quantity of new Federal and federally assisted credit, including that of GSE's. The second part of this section discusses an administration proposal to raise the price of Federal and federally assisted credit by charging higher interest rates and fees.

Changes in quantity.—The flow-of-funds accounts measure total net lending and borrowing between various sectors of the U.S. economy. These accounts are estimated by the Federal Reserve Board, and provide one context in which to analyze the flow of Federal credit. A comparison of net Federal and federally assisted lending to total net lending in the U.S. economy allows an estimate to be made of the total amount of net lending influenced by Federal programs. It also allows a comparison to be made of changes in the degree of Federal influence over time.

Table F-9 summarizes these relationships during the last decade. Federal and federally assisted lending in a given year is the difference between the amount of direct, guaranteed and GSE loans outstanding at the beginning and at the end of that year. The net annual increase in Federal and federally assisted lending was $79.6 billion in 1984. The supply of credit is the net annual increase in the holdings of various investor groups. In 1984, this was $672.6 billion. The participation ratio of Federal and federally assisted lending to total lending, therefore, was 11.8% in 1984. This is below the peak for this decade of 22.3% in 1980 and lower than the 1983 ratio of 17.2%. By this measure, the Federal Government's role as a supplier of credit was at the lowest point since 1977.

These ratios should be used with caution for several reasons. First, and most importantly, the participation ratios do not indicate the full extent of Federal influence in allocating credit to favored borrowers. That influence is reflected in a more meaningful way by the degree of subsidy. A loan guarantee with a small degree of subsidy does not allocate capital to the same degree as a direct loan with a high degree of subsidy. Yet the lending participation ratios do not distinguish between a dollar of guaranteed loans and a dollar of direct loans; they weigh both dollars equally.

Second, the participation ratios are shown on an aggregate basis for the entire economy and so do not reveal changes in the debt owed by particular borrowing sectors, such as households, corporate businesses, or farms. This means that some sectors may be more affected by changes in Federal credit program levels than others, even when the overall lending participation ratios remain the same.

The Federal Government not only lends to various sectors of the economy, but it also borrows. The net annual increase in Federal and federally assisted borrowing in 1984 was $246.5 billion. The borrowing participation ratio, therefore, was 37% in 1984. As shown in Table F-9, the borrowing participation ratio is more volatile than the lending participation ratio, ranging from 19% to 56% of total borrowing between 1975 and 1983. The volatility is due primarily to swings in the budget deficit. As with the lending participation ratios, a cautionary note is in order. The full impact of Federal borrowing on the U.S. economy and the credit markets depends on competing demands from other borrowing sectors, as well as changes in the supply of credit available for borrowing.

Table F-10 summarizes outstanding Federal and federally assisted loans from 1983 to 1986. Total direct loans outstanding at the end of 1984 were $229.3 billion and total guaranteed loans outstanding were $386.7 billion. In 1984, Federal and federally assisted loans outstanding increased by 9.8% over 1983. Increases of 8.8% in 1985 and 7.6% in 1986 are estimated.

Table F–9. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS

(Dollar amounts in billions)

	Actual											Estimates	
	1975	1976	TQ	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total funds loaned in U.S. credit markets [1]	**178.0**	**243.3**	**64.9**	**309.8**	**385.7**	**423.5**	**357.6**	**417.2**	**401.8**	**501.8**	**672.6**	(3)	(3)
Direct loans	12.8	10.9	3.7	11.6	19.8	19.6	24.2	26.1	23.4	15.3	6.3	15.2	–0.3
Guaranteed loans	8.6	11.1	–0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	20.2	31.9
Government-sponsored enterprise loans [2]	5.6	4.9	3.1	11.7	25.2	28.1	24.1	32.4	43.3	37.1	53.1	46.0	45.8
Federal and federally assisted lending	**27.0**	**26.9**	**6.7**	**36.7**	**58.4**	**72.9**	**79.9**	**86.5**	**87.6**	**86.5**	**79.6**	**81.4**	**77.4**
Federal lending participation ratio (percent)	**15.2**	**11.1**	**10.3**	**11.8**	**15.1**	**17.2**	**22.3**	**20.7**	**21.8**	**17.2**	**11.8**	(3)	(3)
Total funds borrowed in U.S. credit markets [1]	**178.0**	**243.3**	**64.9**	**309.8**	**385.7**	**423.5**	**357.6**	**417.2**	**401.8**	**501.8**	**672.6**	(3)	(3)
Federal borrowing from public	50.9	82.9	18.0	53.5	59.1	33.6	70.5	79.3	135.0	212.3	170.8	201.4	172.6
Borrowing for guaranteed loans	8.6	11.1	–0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	20.2	31.9
Government-sponsored enterprise borrowing [2]	5.3	4.1	1.4	12.0	21.4	21.9	21.4	34.8	43.8	34.6	55.5	42.2	46.4
Federal and federally assisted borrowing	**64.8**	**98.1**	**19.3**	**79.0**	**93.9**	**80.7**	**123.5**	**142.1**	**199.7**	**281.0**	**246.5**	**263.8**	**250.9**
Federal borrowing participation ratio (percent)	**36.4**	**40.3**	**29.7**	**25.5**	**24.4**	**19.1**	**34.5**	**34.1**	**49.7**	**56.0**	**36.6**	(3)	(3)

[1] Funds loaned to and borrowed by nonfinancial sectors, excluding equities.

[2] The data in Table F–9 for total funds loaned are defined as excluding financial sectors. Nonetheless, the Government-sponsored enterprises, as well as Federal assisted lending, are properly compared with total funds loaned. Government-sponsored enterprises lending is a proxy for the lending by non-financial sectors that is intermediated by the sponsored enterprises. It assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprise.

[3] Not estimated.

Source: Federal Reserve Board Flow of Funds Accounts for total funds loaned and borrowed.

Table F-10. **SUMMARY OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT**

(In billions of dollars)

	Actual		Estimate	
	1983	1984	1985	1986
Direct loans	223.0	229.3	244.5	244.3
Primary guaranteed loans	363.8	386.7	406.9	438.8
Loans by Government-sponsored enterprises	308.1	314.1	360.1	405.9
Total, Federal and federally assisted loans	**894.9**	**931.0**	**1,011.5**	**1,089.0**
Federal debt held by the public	1,141.8	1,312.6	1,514.0	1,686.6
Primary guaranteed debt (same as guaranteed loans above)	363.8	386.7	406.9	438.8
Debt of Government-sponsored enterprises	239.3	294.8	337.0	383.4
Total, Federal and federally assisted debt	**1,744.9**	**1,994.1**	**2,257.9**	**2,508.8**

Changes in price.—The second trend in Federal credit policy is to increase interest rates and fees. Loan guarantee fees are frequently set in legislation. Neither the interest rates nor the loan guarantee fees cover all the costs to the Federal Government of many credit programs. These costs include default risks for both direct and guaranteed loans, as well as servicing and administrative costs. The 1986 budget proposes to charge borrowers from several loan programs an interest rate equal to the yield of newly issued Treasury securities of equivalent maturity to the loan, plus 1⅛%. Some direct loan programs will be charged an upfront fee of 5% of the loan amount. It is also proposed to charge guaranteed loan borrowers an upfront fee of 5% of the guaranteed loan amount, plus an annual fee of 1% of the amount of new credit outstanding.

These higher interest rates and fees are proposed to help offset the cost to the Federal Government of defaults and delayed repayments, as well as the servicing and administrative costs for Federal credit programs. The proposed higher price of Federal credit assistance will reduce the Federal deficits by an estimated $6.7 billion during 1986-1990.

These higher interest rates and fees will also reduce the subsidies provided by the affected programs. In most cases, the remaining subsidy will still be substantial. The effects of this proposal on Federal credit subsidies is discussed in Section VI of this special analysis.

In addition, as discussed in Section IV, it is proposed that Government-sponsored enterprises pay an annual fee on the gross amount of their securities issued after 1985. This fee will raise an estimated $1.0 billion over the period 1986-1990.

VI. Federal Credit Subsidies

The more favorable terms provided by Federal credit programs result in a subsidy to the borrower. The subsidy may be most obvious when the Government makes a direct loan with a relatively low interest rate. In some cases, a large interest rate subsidy may be intended, as when a direct loan program is established with an objective that explicitly requires a below-market interest rate. The Economic Support Fund, for example, extends loans at interest rates of about 3% per annum in order to meet its objective of aiding foreign countries.

In other cases, the extent of the subsidy may be unintentional, as when a direct loan program's interest rate is initially set at a level comparable to a market interest rate but is never changed to keep pace with changes in market interest rates over time. For example, Congress in 1944 set the interest rate on some loans of the Rural Electrification Administration at 2%, which was slightly higher than the cost of Treasury borrowing at that time. Last year, the cost of long-term Treasury borrowing was over 12%, but REA's lending rate had been increased to only 5%.

For guaranteed loans, the interest rate subsidy occurs because the Government guarantee removes some or all risk of default or loss facing the lender. The lender is therefore willing to lend to the guaranteed borrower at rates lower than the market rate, since no premium for default risk is required.

The terms of the direct loans or guaranteed loans result in subsidies other than below market interest rates. First, direct or guaranteed loans sometimes carry longer maturities than fully private loans. Second, the direct or guaranteed loan amount may be higher in relation to the value of the underlying enterprise than would a fully private loan. Third, Federal loans may provide deferral of interest, allowance of grace periods, and the waiver or reduction of loan fees, all of which increase the value of the loan to the borrower. Fourth, default clauses in Government loans may offer the borrower greater protection from foreclosure actions than private loans. Finally, direct loan and loan guarantee programs may make credit available to borrowers for purposes for which the private sector would not lend—at virtually any interest rate, under virtually any repayment terms.

This section presents estimates of the subsidies provided by Federal direct loan and loan guarantee programs in 1984. It also presents estimates of the degree to which the administration's proposal to increase interest rates and fees charged to borrowers in 1986 will reduce the subsidy.

The direct loan subsidy is the additional payments that would have been required on the loan if it had been a purely private loan. As these additional payments take place over the life of the loan, they must be discounted, i.e., converted to their present values. The present value of the additional payments represent the subsidy provided by the Government loan to the borrower.

This method requires a calculation of the interest rate and other costs a representative borrower would have had to pay to a private lender absent the Government loan. It is not possible to determine this rate of return with precision, since the terms of a loan depend on such conditions as the purpose of the loan, the creditworthiness of the borrower, the competition among lenders, and specific circumstances facing the borrower and lender at the time the loan agreement is negotiated. These conditions differ greatly among loans. Therefore, hypothetical representative private loans have been used for comparison.

To derive the rate of return on a representative private loan, estimates have been made of the private loan terms according to the purpose of the loan (e.g., to buy a house or to provide a small business with working capital) and the type of borrower (e.g., a high-risk company versus a low-risk company) typically associated with the particular direct loan program. The estimates take into account not only the differences in interest rates, but also the differences in loan fees, maturities, and repayment schedules that would normally be expected for the type of loan being compared. A simplifying assumption used in these calculations is that all loans in a given program bear a similar degree of risk. This is not usually true. Several programs (e.g., the Export-Import Bank or the Small Business Administration) make loans to a variety of borrowers with widely dissimilar risk characteristics.

The discount rate used to evaluate the present values of the Government and private loan is the rate of return on the private loan. This is a more appropriate discount rate than merely the interest rate on the private loan, because that interest rate does not reflect the return that lenders receive from commitment commissions and other loan fees, nor does it reflect the maturity and repayment schedule.

Table F-11 shows subsidy values for selected direct loans obligated in 1984. The present value of the total subsidy is $8.3 billion.

Table F-11. **SUBSIDY VALUES OF SELECTED 1984 DIRECT LOAN OBLIGATIONS**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Estimated private loan	Average Government loan	Estimated private loan	Percent of direct loan obligations	Millions of dollars
Funds Appropriated to the President:						
AID functional development assistance	2.8	15.3	34.0	10.0	61.6	250
Economic support fund	3.0	14.6	15.0	15.0	63.4	183
Foreign military sales credit:						
Forgiven	0.0	14.7	(NA)	1.0	100.0	1,315
Treasury rate (FFB)	12.5	14.6	20.0	20.0	9.6	422
Agriculture:						
ACIF:						
Economic emergency	10.0	14.5	7.0	7.0	12.7	39
Emergency disaster	5.0	15.3	40.0	7.0	52.5	552
Farm operating	10.0	15.3	7.0	7.0	14.4	282
Farm ownership	10.4	14.5	40.0	25.0	27.7	183
Other	10.4	14.5	40.0	25.0	22.2	3
RHIF:						
Farm labor housing	1.0	14.0	33.0	25.0	69.9	14
Home ownership	3.0	14.0	33.0	25.0	61.8	1,141
Rental housing	1.0	14.5	50.0	5.0	77.7	688
Other	1.0	16.2	20.0	15.0	62.4	16
RDIF:						
Community facilities [1]	8.8	12.0	40.0	20.0	20.1	26
Water and waste [1]	8.8	12.0	40.0	20.0	20.1	54
CCC:						
Commodity loans [2]	10.6	13.8	1.0	1.0	1.3	65
Export loans	11.5	14.9	3.0	1.0	4.8	7
Rescheduled loans	13.5	14.9	5.0	5.0	6.8	12
Storage facility loans	10.6	14.5	4.0	1.0	6.5	*
Public Law 480	3.0	14.7	30.0	1.0	75.8	611
REA:						
Electric	11.6	14.6	35.0	15.0	39.6	614
Telephone	5.0	14.6	35.0	15.0	41.7	140
Rural Telephone Bank	9.5	14.6	35.0	15.0	28.3	40
Education:						
Guaranteed student loan defaults	4.0	20.0	14.5	10.0	77.4	580
National direct student loans	5.0	18.5	13.0	5.0	68.1	115
College housing	3.0	12.8	30.0	30.0	60.7	24
Housing and Urban Development:						
Community development grants (FFB)	12.2	12.5	6.0	6.0	1.6	1
FHA fund	12.9	13.2	30.0	30.0	1.1	5
Housing for the elderly and handicapped	9.0	13.1	40.0	30.0	25.4	172
Low-rent public housing	10.7	16.9	1.0	2.0	3.0	43
Rehabilitation loan fund	4.7	15.2	15.0	15.0	38.5	33
Interior:						
Bureau of Reclamation	2.0	15.1	33.0	30.0	66.2	29
Transportation:						
MarAd Federal ship financing fund defaults	13.1	17.4	10.0	3.0	9.0	11
Highway right-of-way loans	0.0	12.9	10.0	20.0	42.8	11

Table F-11. **SUBSIDY VALUES OF SELECTED 1984 DIRECT LOAN OBLIGATIONS—Continued**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Estimated private loan	Average Government loan	Estimated private loan	Percent of direct loan obligations	Millions of dollars
NASA	12.7	14.2	8.0	5.0	4.2	6
Veterans Administration:						
Loan guaranty revolving fund:						
Vendee loans and loans acquired	13.0	14.0	30.0	30.0	9.7	92
National service life insurance	11.0	13.2	4.0	4.0	4.1	4
Loans to District of Columbia [1]	12.2	13.5	30.0	27.0	8.6	10
Export-Import Bank	11.2	15.2	9.0	9.0	16.1	237
NCUA	9.9	11.0	0.3	0.3	0.2	1
Small business assistance:						
Disaster	4.0	17.8	3.0	1.0	25.5	80
General business	13.5	17.8	7.0	2.0	20.9	157
503 debentures and SBICs (FFB)	13.7	14.0	20.0	30.0	5.5	26
Tennessee Valley Authority (Seven States)	10.1	13.6	5.0	5.0	7.2	18
Total—Selected direct loan subsidies						**8,312**

* $500 thousand or less.

[1] The borrower's alternative to the Federal loan could be a federally tax-exempt instrument. Using a tax-exempt rate as an alternative borrowing rate for the purposes of these calculations, however, would understate the economic subsidy since part of the subsidy would be the loss of tax revenue. In these cases, therefore, the private market interest rate is the tax-exempt rate adjusted for taxes. The tax-exempt rate is assumed to be 75% of the taxable rate.

[2] The subsidy calculations for CCC commodity loans take into account only the difference between the Federal and private loan terms. The calculations do not measure the additional subsidy received by farmers in the form of target price deficiency payments. Further, the calculations do not take into account the effect of these commodity price loans on ultimate commodity market prices (i.e., that the loans help set a floor for the commodity market prices.)

NA: Not applicable.

Note: The comparative loan terms shown above are for illustrative purposes. The present value of the subsidies shown in the right hand columns take into account fees, grace periods, and amortization schedules, which are not shown.

Table F-11 also shows the degree of subsidy relative to loan value. The greater the difference between the Government loan terms and private loan terms, the higher the degree of subsidy. The programs that had the largest degree of subsidy are the FMS credit forgiven loans, and the RHIF rental housing program.

The calculation method used in Table F-11 measures the value of the subsidy to the borrower. Another common approach measures the cost of the subsidy to the Government. Under this approach, the Treasury borrowing rate is used instead of a comparable private market interest rate. This method shows a lower subsidy because the Government can raise funds more cheaply than the private sector.

This approach does not accurately measure the true cost of the loan subsidy to the economy. The Treasury borrowing rate is a risk-free rate, while all of the loans made by the Government to the public bear some risk. Using the Treasury rate as a proxy for private market interest rates may lead to startling results. Government loans with interest rates slightly above the Treasury rate will appear to have negative subsidies although the loans will offer borrowers a considerable subsidy benefit compared to the credit terms they could obtain in the private market. A case in point is the FFB loans of the Foreign Military Sales Credit program, which normally charges foreign government borrowers an interest rate one-eighth percentage point above the U.S. Treasury borrowing rate.

Under the Treasury cost-of-money assumptions, these loans would appear to be virtually unsubsidized. However, the assumed private lending rate shown in Table F-11 is 14.6%, and the calculated present value of the subsidy of this program is $422 million. Clearly, foreign governments would not borrow under this program if they could obtain better terms elsewhere.

The same method applies to the calculation of guaranteed loan subsidies. The guaranteed loan subsidy is the present value of the additional payments that borrowers would have paid if the loan had not been guaranteed by a Federal agency. In some cases, private insurance or guarantee coverage of a type offered by Federal programs is available from private insurors. An example is private mortgage insurance, which is comparable to the mortgage insurance or guarantees offered by the FHA and VA. (FHA and VA guaranteed loan commitments in 1984 comprise 62% of total commitments.) In these cases, one means of estimating the subsidy is to calculate the present value of the difference in fees charged by Federal and private insurors. In other cases, private insurors simply do not offer insurance or guarantee coverage that is similar to that offered by Federal programs. This may be because the credit risks of the guaranteed loans are so large or so immeasurable that private insurors will not undertake to offer guarantees or it may be because potential private insurance has been preempted by a Federal guarantee program, which inherently has an immensely larger capacity to bear risk and to charge guarantee fees below what the private insuror would charge. In these cases, the subsidy is calculated in terms of what a private lender might have charged the borrower in the absence of a Federal guarantee.

Table F-12 presents these subsidy calculations by major loan guarantee program for selected 1984 guaranteed loan commitments. The present value of the total estimated subsidies is $7.4 billion.

Table F-12. **SUBSIDY VALUES OF SELECTED 1984 GUARANTEED LOAN COMMITMENTS**

Agency and programs	Interest rate (in percent) [1]		Loan maturity (in years)		Guarantee fees (in percent) [2]		Present value of subsidy	
	Average Government guaranteed loan	Estimated private loan	Average Government guaranteed loan	Estimated private loan	Average Government guaranteed loan	Estimated private loan	Percent of guaranteed loan commitments	Millions of dollars
Funds Appropriated to the President:								
AID housing and other credit	11.1	14.7	30.0	20.0	2.0	....	19.6	29
Overseas Private Investment Corporation	14.0	14.7	10.0	7.0	....	....	4.3	4
Agriculture:								
ACIF:								
Economic emergency	13.8	15.2	7.0	7.0	....	....	3.7	11
Farm operating	13.2	14.5	7.0	7.0	....	....	3.2	4
Farm ownership	12.5	14.5	40.0	25.0	....	....	10.7	4
RDIF:								
Industrial development	12.5	14.8	15.0	7.0	1.0	....	7.8	16
CCC export credits	11.8	14.0	3.0	1.0	....	....	2.9	120
Education:								
Guaranteed student loans	8.0	15.0	14.0	10.0	7.5	13.5	52.0	3,948
Health:								
Health professions graduate student insurance	13.2	15.0	16.3	10.0	2.0	13.5	48.0	120
Housing and Urban Development:								
FHA:								
Single-family	12.9	13.1	30.0	30.0	3.8	1.0	1.1	145
Multi-family	13.5	13.9	40.0	15.0	....	....	3.5	86
Low-rent public housing	6.0	16.9	25.0	25.0	....	....	3.0	417
Transportation:								
MarAd Federal ship financing fund	13.9	15.9	20.0	10.0	0.6	....	7.9	14
Veterans Administration:								
Loan guaranty revolving fund	13.0	14.5	30.0	30.0	2.0	2.0	9.0	1,487
Export-Import Bank:								
Financial guarantees	12.5	14.0	5.0	5.0	....	....	4.2	38
Other guarantees and insurance	12.0	14.9	3.0	3.0	....	....	4.1	256
Small business assistance:								
General business	13.0	17.8	9.0	2.0	1.0	1.0	23.0	686
Pollution control bonds	12.5	14.0	20.0	30.0	3.5	4.0	8.4	1
Total—Selected guaranteed loan subsidies	....	....	....	....	....	....	....	**7,386**

[1] Includes annual fees.

[2] Flat fees only.

Note.—The comparative guaranteed loan terms shown above are for the most frequent type of loan guaranteed by the program, and are shown for illustrative purposes. The present value of the subsidies shown in the right hand columns take into account all of the types of loans guaranteed by the program, and include grace periods and amortization schedules, which are not shown.

Table F-12 measures the value of the subsidy to the borrower, not the cost of the subsidy to the Government, which would be the difference between the loan guarantee fee revenue and the net costs of default payments for each loan. A subsidy calculated on this basis would be much lower than the $7.4 billion "value of the subsidy to the borrower." It would be inappropriate to use such a "cost to Government" basis for calculating economic subsidies, since it would not measure the cost of the loan guarantee to the economy. This could lead to the mistaken perception that a program was economically self-sustaining when in fact, it was not. The Government need not worry, for example, that it will be forced out of business should it miscalculate the credit risk of guaranteeing a large loan.

Several qualifications should be kept in mind when reviewing Federal credit subsidies.

First, the subsidy calculation measures the economic cost of a given program, but it does not compare the cost to the benefit. This special analysis does not attempt to measure the benefits of credit programs and therefore cannot judge their justifications. Despite the absence of such measurements, it should be clear that the value of a particular credit program cannot be determined without making such a comparison.

Second, the subsidy estimates in Tables F-11 and F-12 are sensitive to changes in assumptions. As an example, if the appropriate private interest rate for RHIF home ownership loans were 16%, rather than 14% as shown in Table F-11, the present value of the subsidy would increase from $1,141 million to $1,200 million.

Third, the theoretical difficulties of calculating Federal credit subsidies are enormous, and the subsidy values shown in Tables F-11 and F-12 do not overcome all of them. For example, private investors might wish to have more detailed financial information about the borrower than the Federal Government might possess. The private sector would therefore reflect these higher transaction costs in its charges for loans and loan guarantees. The OMB subsidy estimates do not take account of such transaction costs.

Although economic subsidy values are important in evaluating the relative merits of Federal credit programs, it is equally important to know the actual cost of loan and loan guarantee programs to the Government, since this will affect Government outlays and the deficit. For direct loans, these costs will be the difference between the interest income on the loans, and the interest expense, the default costs and the servicing costs. For loan guarantees it will be the difference between the revenue from guarantee fees and the net costs of default and administration. Most loan guarantee programs in 1984 paid default claims that were higher than the fee revenue they received. As mentioned in Section V, in order to place loan and loan guarantee programs on a sounder actuarial basis, the administration proposes to raise the level of the interest rates and fees several credit programs charge borrowers. Nonetheless, raising interest rates and fees does reduce the subsidy to favored borrowers. In all cases, the programs, even with higher user fees, still provide subsidies to favored borrowers. Table F-13 illustrates the degree to which these higher fees are estimated to reduce the subsidies offered by several major credit programs in 1986.

The amount of revenue that these higher interest rates and fees will raise is estimated at $6.7 billion in 1986-90.

Table F-13. **COMPARATIVE SUBSIDY VALUES FOR SELECTED CREDIT PROGRAMS IN 1986**

Type of loan and programs	Present value of subsidy			
	Average current Government loan		Proposed loan terms	
	Percent of loan value	Millions of dollars	Percent of loan value	Millions of dollars
Guaranteed loans:				
ACIF	4.0	120.9	0.8	22.8
CCC export credit	4.2	210.0	0.6	32.0
FHA mortgage insurance	3.1	663.6	2.1	448.1
Health professions graduate student loans	28.6	28.6	27.4	27.4
MarAd	9.8	29.2	5.0	14.9
VA loan guaranty fund	9.9	1,521.3	*	3.1
Total, guaranteed loans		2,573.6		548.3
Direct loans:				
MarAd advances	9.5	1.4	5.7	0.8
REA	45.7	262.6	2.4	13.9
VA vendee loans	10.8	69.3	1.0	6.1
Total, direct loans		333.3		20.8
Grand total, guaranteed and direct loans		2,906.9		569.1

* 0.05 percent or less.

VII. Defaults

Federal credit programs have markedly different objectives than private-lending institutions, which seek profits. Several Government credit programs, such as the Small Business Administration, are designed to play the role of "lender of last resort". Federal loans, therefore, often bear more risk than private lenders are willing to bear. As a result, some Government loan programs have high default rates. The diverse characteristics of Federal credit programs, each with its own legislative mandate, and the variety of different borrowers make it difficult to compare default rates among programs.

Losses from direct loan write-offs appear to have been a miniscule amount of loans outstanding over the last two years according to the present system of Government reporting. In great part, however, this reflects the absence of Government-wide standards for writing off direct loans held in the Government's portfolio. As a result, direct loans are frequently carried in the Government's portfolio at their nominal value regardless of their true value. The Eximbank, for example, still holds in its portfolio $81 million in loans made to Cuba between 1951 and 1958. The FmHA holds in its portfolio, at their full nominal value, several billion dollars of loans that are delinquent by more than a year.

In the past, losses from loan guarantee programs were considered relatively small for two reasons. First, many of the guaranteed loans involved liens on marketable property, particularly houses. Second, due to the absence of Government-wide standards, many loans acquired as a result of defaults on guaranteed loans were never written off. This makes the losses due to Government guarantee programs look smaller than they are.

There has been a growing recognition that losses in both direct and loan guarantee programs are higher than reported. In recognition of this problem, the Treasury Department and the Office of Management and Budget are studying means to improve the Government's reporting of and control over defaults. Table F-14 shows the amount of direct loans written off and the amount of guaranteed loans terminated for defaults. Of all direct loans outstanding, only 0.5% are recorded as write-offs in 1984. Of total guaranteed loans outstanding, 1.0% are reported to be terminated in 1984. These percentages decline over 1985-1986.

Table F-14. **DIRECT LOAN WRITE-OFFS, GUARANTEED LOAN TERMINATIONS FOR DEFAULTS, AND PERCENT OF TOTAL OUTSTANDING LOANS**

(In millions of dollars)

	Actual 1984	Estimate		As Percent of Outstanding Loans		
		1985	1986	1984	1985	1986
Direct loans:						
AID Development loans	308	259	261	3.41	2.95	3.07
National direct student loans	65	38	21	1.31	0.75	0.40
FmHA agriculture credit insurance fund	46	55	60	0.18	0.19	0.23
Federal Housing Administration	152	42	46	3.65	1.00	1.13
Small business assistance:						
Disaster loan fund	102	99	96	2.06	2.06	2.86
Business loans	327	300	300	7.12	5.79	12.25
Other	213	114	112	0.11	0.06	0.06
Total write-offs	1,213	977	896	0.53	0.40	0.37
Guaranteed loans:						
Foreign military sales [1]	613	683	793	3.54	3.48	3.99
Guaranteed student loans	749	870	877	2.34	2.39	2.21
Veterans Administration	1,121	1,164	1,248	0.89	0.86	0.86
Federal Housing Administration	1,756	1,882	1,846	1.03	1.02	0.92
Small business loans [1]	613	550	535	6.26	5.17	6.98
Maritime Administration	93	183	92	1.32	2.73	1.43
Export-Import Bank	461	408	294	8.11	6.19	4.05
Grants to Amtrak [1]	880	....	....	100.00	....	....
Other	344	113	96	0.11	0.03	0.03
Total terminations	6,630	5,853	5,781	0.98	0.79	0.72

[1] Includes loans guaranteed by this account that are disbursed by the Federal Financing Bank.

The Agency for International Development (AID) and the Small Business Administration (SBA) report the largest write-offs for direct loans in 1984. AID wrote off $308 million, or 3.4%, of its outstanding loans in that year. SBA wrote off $429 million, or 4.5% of its outstanding loans. The FHA has the largest dollar amount of guaranteed loan terminations for default. In 1984, FHA terminated $1.8 billion or 26% of the total amount of guaranteed loan terminations.

VIII. The Federal Financing Bank

The Federal Financing Bank (FFB) began operation 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 have been excluded from the budget totals. Hence, its lending transactions have not been counted as budget outlays, although it is part of the Federal Government and finances its operations by borrowing from the Treasury Department. The administration is proposing legislation to place these transactions in the unified budget, and they are included on-budget in the actual and projected totals in the 1986 budget documents.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies. Use of the FFB by Federal agencies leads to lower debt financing costs than if the agencies were to borrow individually in the credit market. Agency obligations trade at premiums above Treasury securities due to their relative illiquidity, smaller size of issue, and unique financial terms that distinguish them from Treasury securities and each other.

The FFB performs three functions: (1) it purchases guaranteed loan assets from Federal agencies; (2) it disburses loans directly to borrowers when the loans are guaranteed by a Federal agency; and (3) it lends to Federal agencies that are otherwise authorized to borrow from the public. In all cases, the servicing of the loans and the operation of the programs remain with the agencies that use the FFB.

(1) Loan asset sales.—Most loan asset sales are made to the FFB rather than to the public. This converts the loans from outlays of the responsible agencies to FFB outlays. This subject is discussed in more detail in the next section.

(2) Guaranteed loan originations.—The FFB disburses loans directly to borrowers when the loan is guaranteed by a Federal agency. The agency's guarantee program thus becomes a program that effectively makes direct loans. The only programs that are proposed to use the FFB in this manner in 1986 are the Rural Electrification Administration and the Tennessee Valley Authority's Seven States Energy Corporation.

(3) Agency borrowing.—Agencies authorized to borrow from the public, such as Eximbank, almost always borrow from the FFB (or the Treasury) instead, since it is less expensive than issuing their own securities and borrowing directly from financial markets. This borrowing has no effect on outlays, since outlays are recorded when the proceeds of borrowing are spent by the agencies.

Table F–15 summarizes the activities of the FFB for 1984 through 1990. Table F–22 at the end of this special analysis shows the activities of the FFB over the same period by agency and account.

The proper treatment of FFB transactions is a major accounting issue with respect to the unified budget. In principle, all outlays of the Federal Government should be reported in the unified budget. The past use of the FFB was the greatest exception to the comprehensive principles of the unified budget. From 1978 to 1983, FFB outlays averaged 96% of all off-budget outlays.

Table F-15. **SUMMARY OF FEDERAL FINANCING BANK ACTIVITY**

(In billions of dollars)

	Actual 1984	Estimate					
		1985	1986	1987	1988	1989	1990
Purchases of loan assets from Federal agencies:							
New acquisitions	13.2	11.4	0.8	0.2	0.2	0.4	0.3
Net outlays	2.9	4.5	−0.7	−4.2	−4.2	−4.4	−5.3
Outstandings	63.3	67.9	67.2	63.0	58.8	54.4	49.2
Guaranteed loan originations:							
New acquisitions	6.3	2.3	0.4	0.3	0.2	0.1	....
Net outlays	4.5	5.9	0.8	0.9	0.1	−0.4	−0.8
Outstandings	50.8	56.7	57.4	58.4	58.5	58.0	57.2
Total:							
New acquisitions	19.4	13.7	1.2	0.5	0.4	0.5	0.3
Net outlays	7.3	10.4	0.1	−3.3	−4.1	−4.8	−6.1
Outstandings	114.1	124.6	124.6	121.3	117.3	112.5	106.4
ADDENDUM							
Agency Borrowing:							
Net change	1.5	1.6	1.0	−0.4	−1.5	−2.2	−2.4
Outstandings	30.6	32.2	33.1	32.8	31.3	29.1	26.6

The key improvement that could be made to the unified budget would be to charge the FFB outlays on-budget to the agencies that use the FFB to finance their programs. Last year, the credit budget attributed FFB outlays in this manner. Table F-19 ("Direct Loan Transactions of the Federal Government") at the end of this special analysis attributes FFB direct loans to the responsible agencies. FFB outlays are also attributed to the appropriate function, subfunction and program in Part 5 of the budget.

IX. Loan Asset Sales and Repurchases

Loan assets are direct loans that an agency has made to the public and on which repayments are still owed. Table F-16 shows data for two types of transactions. The first is loan asset sales to the public and the FFB. In the case of loan asset sales to the FFB, the agency selling the loan assets also guarantees the repayment of the loan to the FFB. In the case of sales to the public, the agencies do not normally guarantee the repayment.

The second type of transaction, the repurchase of loan assets, occurs when the agency buys back from the FFB or the public the loan assets it previously sold. Although the repurchase agreement requires an agency to incur a direct loan obligation, repurchases are intragovernmental transactions and do not comprise new credit transactions with the public.

Originally, selling loan assets meant selling title to the individual loans to the public. Later, various types of certificates representing pools of loans were sold to the public. However, with the creation of the FFB, most loan assets have been sold by agencies to the FFB as a means of financing the program. In 1984, 84% of total loan asset sales were to the FFB.

The largest volume of loan assets sold are certificates of beneficial ownership (CBO's) sold to the FFB by the Farmers Home Administration (FmHA) and Rural Electrification Administration (REA) to support their direct loan programs. CBO's are not loans themselves but are instead certificates backed by groups or pools of direct loans. 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 assume the full risk of default on the loans. The President's Commission on Budget Concepts recommended in 1967 that the sale of such securities be treated as borrowing because there is little difference in substance between an agency selling securities labeled "certificates of beneficial ownership," or the same agency or the Treasury Department selling securities labeled "debt." While this treatment generally has been applied, legislation requires that the CBO's of FmHA and REA be treated as loan assets rather than debt.

At scheduled intervals, the agency will repurchase loan assets from the FFB. At present, the FmHA is the only agency that repurchases its loan assets. REA plans to begin repurchasing loan assets in 2006.

Selling loan assets to the public with a Government guarantee is a form of federally assisted borrowing from the public. The Government incurs a contingent liability in the amount of the loan guarantee. Guaranteed loan asset sales are, however, a more costly means of borrowing for the Government than issuing new Treasury securities since purchasers frequently will offer prices well below the face value of the loans, despite the Government guarantee. The lower price is offered because the loan assets may be relatively illiquid or have unique characteristics that reduce their value to the purchaser. Yet, because of the Government guarantee, such sales do reduce the demand for the alternative investment of a Treasury security. It is more efficient for the Government to meet its borrowing needs by issuing Treasury securities. For this reason, administration policy has been to sell loan assets to the public without a Government guarantee.

Sales of unguaranteed loans may be attractive to the Government. First, the private purchaser may be more efficient in administering the loan than the Federal agency. Selling the loans allows the Government to reduce its administrative expenses. Second, the discount from the face value of the loans provides an unambiguous measure of the subsidy of the loan. This subsidy can then be compared with the benefits of the loan, and thereby provide the

Table F-16. **LOAN ASSETS SALES AND REPURCHASES**

(In millions of dollars)

Agency or program	Loan asset sales and repurchases:	Actual 1984	Estimates 1985	Estimates 1986
Agriculture:				
Agriculture credit insurance fund	sales to the FFB	6,805	5,332	166
	repurchases from FFB	5,395	4,157	1,250
Rural housing insurance fund	sales to the public	30	25	20
	sales to the FFB	5,020	4,445	26
	repurchases from FFB	3,930	2,110	206
Rural development insurance fund	sales to the FFB	1,300	1,184	360
	repurchases from FFB	980	595	
Rural electrification and telephone revolving fund	sales to the FFB	69	447	253
Commerce:				
Economic development revolving fund	sales to the public	1	5	5
Health and Human Services:				
Health programs	sales to the FFB	1	8	1
Housing and Urban Development:				
Federal Housing Administration fund	sales to the public	159	21	33
Veterans' Administration:				
Loan guarantee revolving fund	sales to the public	866	665	496
Small business assistance	sales to the public			2,000
	repurchases from FFB	1	1	1
Subtotal, excluding tandem plans [1]	sales to the public	1,057	716	2,554
	sales to the FFB	13,195	11,415	806
	repurchases from FFB	10,306	6,863	1,457
Housing and Urban Development (GNMA):				
Tandem Plan Sales—FHA/VA mortgages	sales to the public	1,461	1,040	628
Grand total	sales to the public [2]	2,518	1,756	3,183
	sales to the FFB [3]	13,195	11,415	806
	repurchases from FFB	10,306	6,863	1,457

[1] All loans sold, except conventional tandem plan sales, are guaranteed upon sale and reflected in the guaranteed loan totals in Table F-20.
[2] The "public" includes Government-sponsored enterprises such as FNMA and FHLMC, which are among the principal purchasers of HUD and VA mortgages.
[3] See Table F-22 for detail of FFB purchases.

Note: Amounts shown are net receipts, not necessarily face value of loans sold.

executive branch and Congress with the information necessary to evaluate the relative benefits and costs of such subsidized loans.

X. Federal Deposit Insurance

One borderline area in Federal credit programs is the budgetary treatment accorded the deposit insurance programs of the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration (NCUA). Some credit activities of these programs have been reflected in past credit budgets, while other activities have not.

Deposit insurance offered by these programs serves two purposes: (1) it is intended to help stabilize the Nation's monetary and financial system and thereby the economy as a whole; and (2) it protects depositors who use the insured financial intermediaries. Table F–17 below shows that the value of insured deposits at the end of 1984 was over $2 trillion.

Table F–17. **FEDERAL DEPOSIT INSURANCE**

(In billions of dollars)

	1983	1984
Federal Deposit Insurance Corporation	1,210	1,322
Federal Savings and Loan Insurance Corporation	608	695
National Credit Union Administration	78	88
Total	1,896	2,105

Federal deposit insurance is not included in the guaranteed loan portion of the credit budget, principally because it does not directly allocate credit to the ultimate borrowers of that credit. Deposit insurance directly affects the liabilities (the deposits) of financial intermediaries but only indirectly their assets (loans). All other Federal guarantee programs are structured to influence the assets or loans of financial intermediaries directly. Nonetheless, as the 1984 *Economic Report of the President* states, Federal deposit insurance does give insured institutions "an incentive to take on more risk than they would otherwise, either by making riskier loans or by increasing leverage" (page 165). To this degree, deposit insurance does indirectly affect the allocation of credit. It also indirectly affects the allocation and amount of credit by changing depositor behavior as a result of its protection, and by insuring the stability of the financial system and the economy.

Federal deposit insurance programs may assist insured depositors in a variety of ways. When an insured financial institution becomes troubled, deposit insurance programs may: (1) liquidate the institution and pay depositors directly; (2) merge the troubled institution with a healthier institution, perhaps providing financial assistance to the acquiring partner in the merger; or (3) provide financial assistance directly to the troubled institution in the expectation that it will recover. Financial assistance to private financial intermediaries has consisted of equity purchases, purchases of physical assets, and direct loans and loan guarantees.

Direct loans involving disbursements of cash are included in the credit budget. These amounts have typically been small for the FDIC ($64 million in 1983) and the FSLIC ($19 million) because the preferred means of helping troubled financial intermediaries was to arrange a merger with a healthy institution. This did not normally involve the disbursement of cash and the creation of a loan asset held by the FDIC or FSLIC.

The recent increase in bank failures, particularly of some larger banks, has increased the amount of FDIC and FSLIC loans to private financial intermediaries and brought about a reexamination of how these transactions have been treated in the budget. While many of these transactions do not involve the disbursement of cash by a Federal agency to the troubled financial institution, they do involve the acquisition by the Federal agency of both loan assets and liabilities of the troubled institution. Because no cash has been disbursed, these transactions are not reflected in increased Federal outlays. On the other hand, the dollar amount of loan assets held by the Federal Government has increased. For that reason, transactions of this type are scored in the 1986 credit budget as direct loan obligations and increases in direct loans outstanding. Direct loan obligations made by deposit insurance programs amounted to $6.3 billion in 1984.

In addition to deposit insurance and direct loans, Federal deposit insurance programs also offer loan guarantees to private financial intermediaries. These loan guarantees have not been counted in past credit budgets. The exclusion of these guaranteed loans—as distinct from deposit insurance—is inconsistent with the principle of comprehensive coverage, which has always been one of the foundations of the credit budget. It is also inconsistent with the inclusion of direct loans made by these Federal agencies to private financial intermediaries. Beginning with the 1986 budget, therefore, these guaranteed loan commitments and guaranteed loans are included in the credit budget. Guaranteed loan commitments made by deposit insurance programs amounted to $232 million in 1984.

XI. Tax Exempt Credit

Interest on State and local government obligations generally has been exempted from the Federal income tax since its adoption in 1913.[4] Federal tax exemption increases the demand for these obligations, since it results in higher interest rates net of taxes for the lenders and investors. This increase in demand reduces the interest rates of these obligations relative to the pre-tax interest rates of taxable securities. Consequently, tax-exempt interest rates in 1984 have normally been about 75% of taxable interest rates on long-term obligations with similar credit risk.

Tax exemption reallocates scarce credit resources, just as do Federal direct loans and loan guarantees. Borrowers aided by Federal tax-exempt status have access to credit resources at preferential interest rates over competing borrowers without the tax-exempt status. Borrowers who benefit both from tax exemption and

[4] Tax exemption is a tax expenditure. (See Special Analysis G, "Tax Expenditures.") Special Analysis G includes a discussion of revenue losses attributable to special provisions of the tax code, including various types of tax-exempt bonds.

Federal guarantees have an advantage over all other borrowers, including the Federal Government, since the interest on Federal Government debt is taxable.

Although tax-exempt financing alters the allocation of credit and has costs similar to other Government financing programs, it is not included in the credit budget for two reasons. First, unlike other credit assistance, the statutory authority for tax-exempt credit generally allows unlimited access that is unilaterally elected by eligible borrowers. Second, tax-exempt credit is not controlled by the budget process in the same manner as direct loans or guaranteed loans; effective control of tax-exempt financing can only be achieved through legislated changes to the tax code.

A relatively small portion of tax-exempt financing is guaranteed by the Federal Government and so is included in the credit budget as guaranteed loan commitments. This occurs when the Federal Government guarantees the financial assets that underlie the tax-exempt obligation. Examples include State and local government bonds that finance home mortgages guaranteed by the Federal Housing Administration or the Veterans Administration, or bonds that finance student loans guaranteed by the Department of Education. No complete data exist on the amount of guaranteed loans that are directly or indirectly linked to tax-exempt financing.

This administration and previous ones have believed for several reasons that Federal agencies should not offer direct or indirect guarantees for securities that benefit from tax-exempt status. First, tax-exempt financing is an inefficient means of financing, since the tax loss to the Treasury is greater than the savings from the lower financing costs available to the borrower. Therefore, it should not be stimulated by benefitting from a Government guarantee. Second, the guarantee of tax-exempt financing confers double benefits on investors in those securities: they pay no Federal income tax and they bear no risk. This class of debt obligation is therefore superior to Treasury securities.

OMB's revised Circular A–70 states explicit prohibitions against the linkage of Federal guarantees with tax-exempt instruments. Congress has generally agreed with this policy. The Deficit Reduction Act of 1984 includes provisions that deny tax-exempt status to obligations that are guaranteed directly or indirectly by the Federal Government, including obligations issued by institutions insured by Federal deposit insurance programs. The Act does allow several exceptions to the rule, including certain bonds to finance mortgages insured by FHA or guaranteed by VA, and student loans guaranteed by the Department of Education.

During the first half century of the income tax, tax-exempt borrowing was confined mainly to State and local borrowing for public purposes such as financing roads and schools. From the 1960s on, however, the benefits of tax-exempt financing increasingly have been made available to private businesses. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt financing to private borrowers. They use their tax-exempt financing to purchase an asset, which in turn is purchased from them by the borrower, or they lend the proceeds of an issue to a private borrower. In general, the private borrower is solely responsible for the payment of interest and principal even in the event of default. The State or local government, in some cases, can benefit from investment earnings on funds held for temporary periods and from fees paid by borrowers.

Industrial development bonds (IDBs) issued for use by private business were made taxable in the 1968 and 1969 tax acts, but a number of major exceptions were permitted. Tax-exempt IDBs are permitted for pollution control, sewage and waste facilities, multifamily rental housing, facilities financed with "small-issues" of under $10 million in face amount, and certain other private business projects. In recent years, tax-exempt bonds have also become a common means of financing owner-occupied housing, student loans, and private nonprofit hospitals and educational facilities.

Concerned by the rapid growth of private purpose tax-exempt bonds, Congress recently placed further restrictions on their use. The Omnibus Reconciliation Act of 1980 imposed a number of restrictions on tax-exempt mortgage subsidy bonds for owner-occupied housing, including limitations on the volume issued in each State. The Tax Equity and Fiscal Responsibility Act of 1982 required that IDBs be approved by an elected public official after a public hearing, and that assets of certain IDB-financed projects placed in service 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" IDBs issued after 1986.

The Deficit Reduction Act of 1984 (DEFRA) restricted the annual volume of student loan bonds and most IDBs issued in each State to the greater of $150 per capita or $200 million, a total volume of approximately $36 billion in 1984. The per capita limitation will be reduced to $100 in 1987 to reflect the termination of the small-issue exception for nonmanufacturing facilities; authority for small-issue IDBs for manufacturing facilities was extended through 1988. DEFRA also required IDB issuers to rebate any excess arbitrage earnings to the Federal Government, and prohibited the use of consumer loan bonds. Although the Act extended the use of mortgage subsidy bonds for 4 years, an optional program for issuers to provide mortgage credits to eligible homebuyers in lieu of tax-exempt bonds was enacted. Finally, volume limits on the use of veterans' housing bonds restricted their use to five States.

Even with these restrictions, the volume of private purpose tax-exempt bonds has continued to increase. Table F-18 shows the growth of the volume of new issues of long-term tax-exempt bonds. Total new issues grew from $55 billion in calendar year 1981 to $85 billion in 1982 and $93 billion in 1984. Private purpose tax-exempt bonds rose from $31 billion in 1981 to an estimated $67 billion in 1984. Private purpose tax exempt bonds, as a percentage of total tax-exempt new long-term issues, rose steadily from 29% in 1975 to 60% in 1980, remaining a fairly constant percentage in later years.

The record supply of new tax-exempt bond issues, combined with reduced demand for tax-exempt bonds by financial institutions and lower marginal tax rates of individual investors, has contributed to the reduction in the relative advantage of tax-exempt financing to the borrower. Tax-exempt yields have had to increase relative to yields on alternative investments in order to attract additional funds. Consequently, the interest saving to the borrower from the tax exemption on securities with 20-year maturities has dropped to between 15% and 20% of taxable interest rates. A smaller cost advantage increases the financing costs for State and local government borrowing for traditional public projects such as roads, schools, and sewers.

Special Analysis G, "Tax Expenditures," shows the annual revenue loss from outstanding tax-exempt bonds issued for various purposes.

Table F–18. **TAX EXEMPT FINANCING (in billions of dollars)**

	Calendar years										
	Actual [1]								Estimates		
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Private purpose tax-exempts	11.4	17.4	19.7	28.1	32.5	30.9	49.6	57.1	67.0	66.5	75.8
Housing bonds	2.7	4.4	6.9	12.1	14.0	4.8	14.6	17.0	18.5	22.3	24.7
Single-family mortgage subsidy bonds	0.7	1.0	3.4	7.8	10.5	2.8	9.0	11.0	11.5	14.8	16.6
Multi-family rental housing bonds	1.4	2.9	2.5	2.7	2.2	1.1	5.1	5.3	5.5	6.0	6.6
Veterans general obligation bonds	0.6	0.6	1.2	1.6	1.3	0.9	0.5	0.7	1.5	1.5	1.5
Private exempt entity bonds [2]	2.5	4.3	2.9	3.2	3.3	4.7	8.5	11.7	11.0	12.1	13.2
Student loan bonds	0.1	0.1	0.3	0.6	0.5	1.1	1.8	3.3	1.5	0.9	0.9
Pollution control industrial development bonds	2.1	3.0	2.8	2.5	2.5	4.3	5.9	4.5	11.0	9.0	10.4
Small-issue industrial development bonds	1.5	2.4	3.6	7.5	9.7	13.3	14.7	14.6	15.0	13.0	16.0
Other industrial development bonds [3]	2.5	3.2	3.2	2.2	2.5	2.7	4.1	6.0	10.0	9.2	10.6
Public purpose tax-exempts	23.6	29.5	29.3	20.3	22.0	24.2	35.3	36.2	39.6	43.6	48.0
Total new issues, long-term tax exempts	35.0	46.9	49.1	48.4	54.5	55.1	84.9	93.3	106.6	110.1	123.8

[1] Includes some estimates.
[2] Private exempt entity bonds are obligations of Internal Revenue Code Section 501 (c)(3) organizations, such as private non-profit hospitals and educational facilities.
[3] Other IDB's include obligations for private businesses that qualify for tax exempt activites, such as sewage disposal, airports and docks.

Source: Office of Tax Analysis, Department of Treasury.

XII. SUMMARY

The need for better control over Federal credit is widely recognized within the executive branch and the Congress. With $229 billion in direct loans outstanding and $387 billion in primary guaranteed loans outstanding in 1984, the Federal Government is the single largest financial intermediary in the United States. Its credit policies and practices affect all major segments of the economy.

To gain better control over Federal credit, the President's budget since January 1980 has included a Federal credit control system, composed of the credit budget and credit limitations proposed in individual appropriations bills. This system needs to be strengthened. Congress should establish aggregate limits on new direct loan obligations and guaranteed loan commitments in the budget resolution process. It should also require that credit totals be included in the budget reconciliation process. The unified budget should be made more reflective of Federal lending by including the currently off-budget outlays of the Federal Financing Bank and other entities, as proposed in the 1986 budget. The management of Federal credit programs should be improved through consistent application of Government-wide standards on loan defaults and write-offs.

These steps, though critical, are only part of the improvements necessary for better control. The subsidy element in Federal credit programs needs to be measured more accurately and targeted more effectively. A key improvement in Federal credit programs would be to state their objectives and the means of achieving those objectives in a straightforward manner. The subsidy costs of operating these programs could then be compared to the economic and social benefits realized in achieving the programs' objectives.

XIII. Appendices

Additional Discussions of Federal Credit Programs and Related Issues in the 1986 Budget Documents

- Special Analysis E ("Borrowing and Debt") contains information on Federal borrowing, borrowing by Government-sponsored enterprises, and the Federal Financing Bank.
- Special Analysis G ("Tax Expenditures") contains information on tax-exempt borrowing.
- Special Analysis H ("Federal Aid to State and Local Governments") contains information on Federal loans to State and local governments.
- Part 5 of the Budget ("Meeting National Needs: The Federal Program by Function") contains a discussion of major credit programs by budget function (e.g., Agriculture, Commerce and Housing, International Affairs).
- Part 6 of the Budget ("Perspectives on the Budget") discusses the proposal to shift the entities (such as the FFB) that are off-budget under current law into the budget, and discusses the activities of these entities, Government-sponsored enterprises, loan guarantees, and tax expenditures.
- Part 7 of the Budget ("The Budget System and Concepts") contains a summary description of the credit budget principles.
- Part 8 of the Budget ("The Federal Program by Agency Account") presents budget authority and outlay data in accounts that contain credit programs.
- Part 9 of the Budget ("Summary Tables") contains summary tables of the credit budget totals (Table 1) and summaries by agency of direct loan obligations and guaranteed loan commitments (Table 17).
- The Budget Appendix contains additional information for each credit program by budget account. Part I of the Appendix ("Detailed Budget Estimates") provides credit program information by major departments and agencies. Part V ("Government-Sponsored Enterprises") provides information on these enterprises.

Credit Accounting

For the 1986 budget, two accounting changes and two presentational changes have been introduced in this document. The accounting changes involve a reclassification of defaulted guaranteed loans, and a change in the accounting for noncash lending. The presentational changes involve the on-budget treatment of entities formerly displayed as off-budget entities, and the removal of agency repurchases of loan assets previously sold to FFB from the direct loan tables.

- *Accounting changes.* For several years, when a borrower defaulted on an agency-guaranteed loan, the Government would reimburse the lender for his losses, and the defaulted guaranteed loan would be simultaneously scored as a direct loan regardless of whether the borrower retained liability to repay the Government. The new treatment is to classify each default as to whether it results in the Government: acquiring a note, loan or other promise to repay; acquiring property or other collateral in satisfaction of the default; or suffering a nonretrievable loss. Only the first type of defaulted guaranteed loan will now be considered a direct loan in the credit budget for 1985 and onward.

  A second accounting change involves loans that are not created by a Federal agency's disbursement of cash. Such loans take place when the Government sells physical assets on credit terms or when it otherwise increases its holdings of loan assets. An example of the first type is the VA vendee loan program, in which the VA resells houses acquired through foreclosure on credit terms. The resulting VA mortgage from resale of the property, although not a cash transaction, is considered a direct loan.

  An example of the second type of noncash loan is the FDIC's assumption of $3.5 billion in loans from the Continental Illinois bank. The FDIC increased its holdings of loan assets by assuming an equivalent amount of Continental's liabilities to the Federal Reserve Bank of Chicago.

- *Presentational change.* Consistent with the administration's 1986 proposal to place all off-budget entities on-budget, off-budget Federal lending of the Rural Electrification Administration, the Rural Telephone Bank, and the U.S. Railway Association is shown as on-budget lending. These loans have always been included in the credit budget totals, so the aggregate credit budget is not affected by this change.

  Beginning this year, a change to further simplify the credit budget presentation has been implemented. Agency repurchases of loan assets from the FFB are no longer presented in the direct loan table (F-19), but are presented in Table F-15, "Loan Asset Sales and Repurchases." Since these repurchases are to buy back previous loans, they do not involve new Federal lending to the public.

Table F-19, "Direct Loan Transactions of the Federal Government," reflects the attribution of FFB direct loans (loan asset purchases and direct loans made to the public) to each agency responsible for those loans. Consistent with this presentation, Table F-20, "Guaranteed Loan Transactions of the Federal Government", excludes agency guarantees of FFB direct loans. The presentation of these tables is consistent with the credit program tables in Part 5 of the Budget, which were changed last year to attribute the FFB activity.

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Funds Appropriated to the President:								
Economic Support Fund	Obligations	288	240	396	463	503	545	592
	Loan disbursements	382	240	396	463	503	545	592
	Change in outstandings	*335*	*192*	*337*	*303*	*493*	*545*	*506*
	Outstandings	**6,011**	**6,203**	**6,540**	**6,844**	**7,336**	**7,882**	**8,387**
Foreign Military Sales Credit	Obligations	1,315	4,940	5,655	5,779	5,901	6,019	6,130
	Loan disbursements	1,060	2,802	4,863	5,646	6,059	6,248	6,514
	Change in outstandings	*–86*	*421*	*1,874*	*2,314*	*2,494*	*2,406*	*2,277*
	Outstandings	**140**	**562**	**2,435**	**4,750**	**7,244**	**9,650**	**11,927**
Foreign Military Sales Credit (loans made by FFB) [1]	Obligations	4,401						
	Loan disbursements	3,503	3,147	1,311	524	262		
	Change in outstandings	*2,818*	*2,340*	*282*	*–693*	*–1,001*	*–1,218*	*–1,029*
	Outstandings	**17,111**	**19,451**	**19,733**	**19,040**	**18,040**	**16,821**	**15,792**
Guarantee Reserve Fund (Foreign military sales defaults)	Obligations	613	683	793	824	793	793	785
	Loan disbursements	613	683	793	824	793	793	785
	Change in outstandings	*248*	*239*	*278*	*288*	*278*	*277*	*275*
	Outstandings	**775**	**1,014**	**1,292**	**1,580**	**1,857**	**2,135**	**2,410**
Overseas Private Investment Corporation	Obligations	10	15	15	15	15	15	15
	Loan disbursements	4	10	10	10	12	13	13
	Change in outstandings	*–**	*4*	*4*	*4*	*6*	*7*	*6*
	Outstandings	**33**	**37**	**41**	**45**	**51**	**58**	**64**
Overseas Private Investment Corporation (loans held by FFB) [2]	*Change in outstandings*	*–5*	*–5*	*–5*	*–1*	*–**		
	Outstandings	**11**	**6**	**1**	*****			
AID functional development assistance	Obligations	406	342	315	358	358	358	358
	Loan disbursements	330	345	342	342	344	346	347
	Change in outstandings	*332*	*337*	*334*	*333*	*334*	*335*	*335*
	Outstandings	**2,840**	**3,178**	**3,511**	**3,844**	**4,178**	**4,513**	**4,848**
AID development loans revolving fund	Obligations							
	Loan disbursements	*						
	Change in outstandings	*–304*	*–259*	*–261*				

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	Outstandings	**9,026**	**8,767**	**8,506**	**8,506**	**8,506**	**8,506**	**8,506**
AID private sector revolving fund	Obligations	12	18	20				
	Loan disbursements		8	16	14	7	2	
	Change in outstandings		*8*	*16*	*14*	*7*	*2*	
	Outstandings		**8**	**24**	**39**	**46**	**48**	**48**
AID housing and other credit guarantees	Obligations	27	29	29	22	22	19	19
	Loan disbursements	27	29	29	22	22	19	19
	Change in outstandings	*12*	*24*	*24*	*14*	*14*	*9*	*9*
	Outstandings	**32**	**56**	**81**	**94**	**108**	**117**	**127**
AID miscellaneous appropriations	Obligations							
	Loan disbursements	48						
	Change in outstandings	*42*	*−8*	*−8*	*−9*	*−10*	*−11*	*−12*
	Outstandings	**181**	**173**	**165**	**156**	**146**	**135**	**123**
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Obligations	4,005	3,770	435	318	294	365	19
	Loan disbursements	3,976	3,786	643	318	209	108	8
	Change in outstandings	*131*	*1,392*	*−1,065*	*800*			
	Outstandings	**410**	**1,802**	**737**	**1,537**	**1,537**	**1,537**	**1,537**
Agricultural credit insurance fund (loans held by FFB) [2]	*Change in outstandings*	*1,410*	*1,175*	*−1,084*	*−3,177*	*−3,088*	*−2,876*	*−3,305*
	Outstandings	**25,517**	**26,692**	**25,608**	**22,431**	**19,343**	**16,467**	**13,162**
Rural housing insurance fund	Obligations	2,776	3,445	168	42	170	192	34
	Loan disbursements	2,562	3,451	1,621	450	94	30	30
	Change in outstandings	*90*	*−292*	*312*				
	Outstandings	**435**	**143**	**455**	**455**	**455**	**455**	**455**
Rural housing insurance fund (loans held by FFB) [2]	*Change in outstandings*	*1,090*	*2,335*	*−180*	*−1,192*	*−1,236*	*−1,446*	*−1,675*
	Outstandings	**26,766**	**29,101**	**28,921**	**27,729**	**26,493**	**25,047**	**23,372**
Rural development insurance fund	Obligations	412	511	62	5	243	90	301
	Loan disbursements	457	739	507	438	239	77	27

	Change in outstandings	−*	−5	−25	15	−10	−10	−10
	Outstandings	105	100	75	90	80	70	60
Rural development insurance fund (loans held by FFB) [2]	Change in outstandings	320	589	360	121	183	−45	−276
	Outstandings	7,228	7,817	8,177	8,299	8,482	8,437	8,160
Commodity Credit Corporation:								
Short and medium term export loans	Obligations	147	325					
	Loan disbursements	142	325					
	Change in outstandings	83	−95	−267	−211	−172	−63	−6
	Outstandings	823	728	460	250	78	15	9
Commodity loans	Obligations	5,130	8,891	8,507	7,928	5,345	3,367	3,123
	Loan disbursements	5,130	8,891	8,507	7,928	5,345	3,367	3,123
	Change in outstandings	−6,220	1,984	−591	−2,579	−2,257	−1,523	−329
	Outstandings	7,856	9,839	9,249	6,670	4,413	2,890	2,561
Storage facility loans	Obligations	1	*					
	Loan disbursements	1	*					
	Change in outstandings	−293	−294	−264	−130	−29		
	Outstandings	716	422	159	29	*		
Rescheduled guaranteed loans	Obligations	183						
	Loan disbursements	183						
	Change in outstandings	181	−13	−45	−52	−70	−78	−39
	Outstandings	364	350	306	254	184	106	67
Public Law 480 long-term export credits	Obligations	806	1,012	922	940	958	975	964
	Loan disbursements	748	1,012	922	940	958	975	964
	Change in outstandings	468	761	647	640	638	635	604
	Outstandings	9,269	10,030	10,677	11,317	11,955	12,590	13,194
Rural electrification and telephone revolving fund	Obligations	1,079	1,122	575	435	290	145	
	Loan disbursements	780	1,200	800	700	600	500	400
	Change in outstandings	285	314	98	119	104	88	71
	Outstandings	10,163	10,477	10,575	10,694	10,798	10,886	10,957
Rural electrification and telephone revolving fund (loans made by FFB) [1]	Obligations	1,002	1,325	300	225	150	75	
	Loan disbursements	2,395	2,885	2,432	1,950	1,750	1,500	1,000
	Change in outstandings	1,648	2,685	2,222	1,700	1,490	1,230	700
	Outstandings	20,587	23,272	25,494	27,194	28,684	29,914	30,614
Rural electrification and telephone revolving fund (loans held by FFB) [2]	Change in outstandings	69	447	253	53			
	Outstandings	3,537	3,984	4,237	4,290	4,290	4,290	4,290

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Rural Telephone Bank	Obligations	143	185	185	139	92	46	
	Loan disbursements	90	150	150	150	125	115	105
	Change in outstandings	*74*	*134*	*133*	*149*	*104*	*89*	*75*
	Outstandings	**1,327**	**1,461**	**1,594**	**1,743**	**1,847**	**1,936**	**2,011**
Commerce:								
Economic development revolving fund	Obligations	13	12	10	15	15	15	15
	Loan disbursements	22	26	10	15	15	15	15
	Change in outstandings	*−87*	*−41*	*−72*	*−15*	*−15*	*−15*	*−15*
	Outstandings	**624**	**582**	**511**	**496**	**481**	**466**	**451**
EDA Miscellaneous appropriations	Obligations							
	Loan disbursements			7				
	Change in outstandings	*−2*	*−2*	*12*	*−25*	*−13*	*−14*	*−14*
	Outstandings	**101**	**99**	**111**	**86**	**72**	**59**	**44**
ITA operations and administration	Obligations	8	*					
	Loan disbursements	3	8					
	Change in outstandings	*2*	*3*	*−8*				
	Outstandings	**5**	**8**					
NOAA coastal energy impact fund	Obligations							
	Loan disbursements	3	1	2	2	2	2	2
	Change in outstandings	*2*	*−1*	*−**	*−**	*−**	*−**	*−**
	Outstandings	**96**	**95**	**95**	**94**	**94**	**93**	**93**
NOAA Federal Ship Financing (fishing)	Obligations	14	10	2				
	Loan disbursements	14	10	2				
	Change in outstandings	*3*	*1*	*−2*				
	Outstandings	**18**	**19**	**17**				
Education:								
Guarantees of SLMA obligations (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings				*−30*	*−30*	*−30*	*−30*
	Outstandings	**5,000**	**5,000**	**5,000**	**4,970**	**4,940**	**4,910**	**4,880**

Guaranteed student loans	Obligations	769	937	877	885	815	781	744
	Loan disbursements	749	937	877	885	815	781	744
	Change in outstandings	*552*	*552*	*344*	*425*	*292*	*75*	*41*
	Outstandings	**2,465**	**3,017**	**3,361**	**3,786**	**4,078**	**4,153**	**4,194**
National Direct Student Loans	Obligations	169	192					
	Loan disbursements	157	169	192				
	Change in outstandings	*70*	*102*	*118*	*–45*	*–40*	*–35*	*–30*
	Outstandings	**4,974**	**5,076**	**5,194**	**5,149**	**5,109**	**5,074**	**5,044**
College housing loans	Obligations	40						
	Loan disbursements	43	70	63	36	12		
	Change in outstandings	*–350*	*–361*	*–18*	*–74*	*–89*	*–89*	*–90*
	Outstandings	**2,676**	**2,314**	**2,296**	**2,222**	**2,134**	**2,044**	**1,954**
Higher education	Obligations							
	Loan disbursements							
	Change in outstandings	*–25*	*–22*	*–21*	*–16*	*–7*	*–6*	*–4*
	Outstandings	**86**	**64**	**43**	**27**	**20**	**14**	**10**
Higher education facilities loans and insurance	Obligations							
	Loan disbursements							
	Change in outstandings	*–25*	*–15*	*–15*	*–15*	*–15*	*–15*	*–15*
	Outstandings	**375**	**360**	**345**	**330**	**315**	**301**	**286**
Energy:								
Geothermal Resources	Obligations		16					
	Loan disbursements		16					
	Change in outstandings		*14*	*–**				
	Outstandings		**14**	**14**	**14**	**14**	**14**	**14**
Alternative fuels (loans made by FFB) [1]	Obligations							
	Loan disbursements	404	274					
	Change in outstandings	*404*	*274*			*–105*	*–105*	*–105*
	Outstandings	**1,290**	**1,564**	**1,564**	**1,564**	**1,459**	**1,354**	**1,250**
Bonneville Power Administration	Obligations	1	20	20	20	20	20	20
	Loan disbursements	1	20	20	20	20	20	20
	Change in outstandings	***	*18*	*15*	*16*	*16*	*15*	*14*
	Outstandings	**10**	**28**	**44**	**60**	**76**	**91**	**105**
Health and Human Services:								
HMO's and medical facilities	Obligations	4	5	3	2	2	2	2
	Loan disbursements	3	5	3	2	2	2	2

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	Change in outstandings	*2*	*1*	*1*	*1*	*1*	*1*	*
	Outstandings	**31**	**32**	**32**	**33**	**34**	**34**	**35**
HMO's and medical facilities (loans held by FFB) [2]	*Change in outstandings*	*−14*	*−4*	*−10*	*−11*	*−12*	*−13*	*−14*
	Outstandings	**248**	**244**	**234**	**223**	**211**	**198**	**184**
Health resources and services	Obligations	1	1	1	1	1	1	1
	Loan disbursements	2	2	1	1	1	1	1
	Change in outstandings	*−71*	*−4*	*−4*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**538**	**535**	**531**	**528**	**525**	**522**	**519**
Rural development loan fund	Obligations	10						
	Loan disbursements	7	1					
	Change in outstandings	*14*	*	*−2*	*−2*	*−3*	*−4*	*−5*
	Outstandings	**38**	**39**	**37**	**35**	**32**	**28**	**23**
Housing and Urban Development:								
Low-rent public housing	Obligations	1,413	14,303	1,822	1,395	634	400	251
	Loan disbursements	1,413	14,303	1,822	1,395	634	400	251
	Change in outstandings	*1,013*	*−1,216*					
	Outstandings	**1,216**						
Low-rent public housing (loans made by FFB) [1]	Obligations							
	Loan disbursements	153						
	Change in outstandings	*112*	*−32*	*−35*	*−37*	*−39*	*−42*	*−44*
	Outstandings	**2,178**	**2,146**	**2,112**	**2,075**	**2,035**	**1,993**	**1,949**
Housing for the elderly or handicapped	Obligations	666	600	50	20	567	588	608
	Loan disbursements	709	592	606	667	700	735	770
	Change in outstandings	*685*	*567*	*578*	*1,060*	*670*	*703*	*770*
	Outstandings	**5,155**	**5,722**	**6,300**	**7,361**	**8,031**	**8,734**	**9,505**
GNMA special assistance functions	Obligations							
	Loan disbursements	1,268						
	Change in outstandings	*−837*	*−2,165*					
	Outstandings	**2,165**						

GNMA emergency mortgage purchases	Obligations							
	Loan disbursements		792	342				
	Change in outstandings	*−246*	*1,298*	*−667*	*−360*	*−150*	*−150*	*−100*
	Outstandings	**218**	**1,515**	**849**	**489**	**339**	**189**	**89**
Community development grants (loans made by FFB) [1]	Obligations	87	225					
	Loan disbursements	71	113	116	137	69		
	Change in outstandings	*31*	*42*	*25*	*23*	*−59*	*−104*	*−95*
	Outstandings	**208**	**250**	**275**	**298**	**239**	**135**	**40**
Federal Housing Administration Fund	Obligations	456	373	311	368	476	507	643
	Loan disbursements	455	351	288	334	459	491	643
	Change in outstandings	*−878*	*21*	*−112*	*−57*	*−28*	*−22*	*−11*
	Outstandings	**4,166**	**4,187**	**4,075**	**4,018**	**3,990**	**3,968**	**3,957**
Rehabilitation loan fund	Obligations	86	132					
	Loan disbursements	49	136	84				
	Change in outstandings	*−8*	*73*	*22*	*−62*	*−62*	*−62*	*−62*
	Outstandings	**714**	**787**	**809**	**747**	**684**	**622**	**559**
Interior:								
Bureau of Reclamation loan program	Obligations	44	68	40	51	12	6	1
	Loan disbursements	44	59	47	51	12	6	1
	Change in outstandings	*37*	*52*	*38*	*42*	*2*	*−5*	*−10*
	Outstandings	**390**	**442**	**480**	**522**	**524**	**519**	**509**
BIA revolving fund	Obligations	12	19	16	13	13	13	13
	Loan disbursements	12	19	17	13	13	13	13
	Change in outstandings	*7*	*11*	*8*	*4*	*4*	*4*	*4*
	Outstandings	**93**	**104**	**112**	**116**	**120**	**124**	**129**
Transportation:								
Railroad rehabilitation and improvement financing	Obligations	42	16					
	Loan disbursements	45	40	11				
	Change in outstandings	*45*	*40*	*10*	*−14*	*−1*	*−9*	*−16*
	Outstandings	**558**	**598**	**608**	**595**	**593**	**585**	**569**
Railroad rehabilitation and improvement financing (loans made by FFB) [1]	Obligations	6	2					
	Loan disbursements	1	5	2	2	1		
	Change in outstandings	*−24*	*−5*	*−9*	*−10*	*−12*	*−14*	*−12*
	Outstandings	**160**	**154**	**145**	**135**	**124**	**110**	**97**
Grants to Amtrak	Obligations	880						
	Loan disbursements	880						

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	Change in outstandings							
	Outstandings							
Grants to Amtrak (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings	*−880*						
	Outstandings							
Rail service assistance	Obligations	60						
	Loan disbursements	60						
	Change in outstandings	*−65*						
	Outstandings							
Federal-aid highways trust fund	Obligations	27	*					
	Loan disbursements	6	10	11				
	Change in outstandings	*6*	*10*	*11*	*−45*	*−27*	*−18*	
	Outstandings	**69**	**79**	**90**	**45**	**18**		
Right-of-way revolving fund	Obligations	26	50	50	50	50	50	50
	Loan disbursements	20	50	50	50	50	50	50
	Change in outstandings	*−18*						
	Outstandings	**131**	**131**	**131**	**131**	**131**	**131**	**131**
Miscellaneous expired accounts	Obligations							
	Loan disbursements							
	Change in outstandings	*−30*	*−11*	*−1*				
	Outstandings	**12**	**1**					
Aircraft purchase loan guarantees	Obligations	22						
	Loan disbursements	22						
	Change in outstandings	*−41*	*−41*					
	Outstandings	**89**	**48**	**48**	**48**	**48**	**48**	**48**
MarAd Federal ship financing fund	Obligations	127	228	115	85	60	60	60
	Loan disbursements	127	228	115	85	60	60	60
	Change in outstandings	*48*	*173*	*60*	*30*	*5*	*5*	*5*
	Outstandings	**270**	**443**	**503**	**533**	**538**	**543**	**548**

Environmental Protection Agency:								
Abatement, control, and compliance	Obligations		6	11				
	Loan disbursements		6	11	6			
	Change in outstandings		*6*	*10*	*6*	*-1*	*-1*	*-1*
	Outstandings		**6**	**16**	**21**	**20**	**19**	**18**
NASA:								
Space flight, control and data communications (loans made by FFB) [1]	Obligations	142						
	Loan disbursements	142						
	Change in outstandings	*7*	*-67*	*-107*	*-112*	*-98*	*-113*	*-129*
	Outstandings	**955**	**888**	**780**	**668**	**570**	**457**	**328**
Veterans Administration:								
Vendee loans and loans repurchased from the public	Obligations	944	857	642	572	518	462	433
	Loan disbursements	944	857	642	489	444	399	380
	Change in outstandings	*-430*	*-42*	*-80*	*-28*	*-35*	*-45*	*-48*
	Outstandings	**1,066**	**1,024**	**945**	**917**	**882**	**836**	**789**
Direct loan revolving fund	Obligations	1	1	1	1	1	1	*
	Loan disbursements	1	1	1	1	1	1	*
	Change in outstandings	*-33*	*-33*	*-32*	*-19*	*-20*	*-20*	*-20*
	Outstandings	**168**	**135**	**103**	**84**	**64**	**44**	**24**
National service life insurance fund	Obligations	103	117	121	126	130	135	140
	Loan disbursements	103	117	121	126	130	135	140
	Change in outstandings	*-39*	*-26*	*-28*	*-14*	*-10*	*-5*	*-**
	Outstandings	**1,113**	**1,087**	**1,059**	**1,045**	**1,035**	**1,031**	**1,030**
Other veterans insurance funds	Obligations	29	35	36	38	39	40	42
	Loan disbursements	29	35	36	38	39	40	42
	Change in outstandings	*-9*	*-6*	*-5*	*-5*	*-5*	*-6*	*-6*
	Outstandings	**250**	**244**	**239**	**234**	**229**	**223**	**217**
District of Columbia:								
Loans to the District of Columbia	Obligations	115						
	Loan disbursements	115						
	Change in outstandings	*84*	*-107*	*-36*	*-39*	*-42*	*-45*	*-48*
	Outstandings	**1,883**	**1,776**	**1,740**	**1,700**	**1,658**	**1,614**	**1,566**
Export-Import Bank	Obligations	1,467	3,865					
	Loan disbursements	2,341	2,863	2,412	1,331	599	227	104
	Change in outstandings	*621*	*993*	*195*	*-1,032*	*-1,787*	*-2,325*	*-2,374*
	Outstandings	**17,504**	**18,497**	**18,692**	**17,659**	**15,872**	**13,548**	**11,174**

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Federal Deposit Insurance Corporation [3]	Obligations	5,658	180	150	300	300	300	300
	Loan disbursements	5,658	180	150	300	300	300	300
	Change in outstandings	*3,327*	*152*	*111*	*300*	*300*	*300*	*300*
	Outstandings	**3,923**	**4,074**	**4,185**	**4,485**	**4,785**	**5,085**	**5,385**
Federal Savings and Loan Insurance Corporation [3]	Obligations	656	90	148	140	140	140	140
	Loan disbursements	856	90	148	140	140	140	140
	Change in outstandings	*587*	*14*	*117*				
	Outstandings	**1,156**	**1,170**	**1,287**	**1,287**	**1,287**	**1,287**	**1,287**
National Credit Union Administration:								
Share insurance fund	Obligations	14	3	13	13	13	13	13
	Loan disbursements	14	3	13	13	13	13	13
	Change in outstandings	*10*	*3*	*7*	*1*			*−27*
	Outstandings	**20**	**23**	**29**	**30**	**30**	**30**	**3**
Central liquidity facility	Obligations	449	500	550	550	550	550	550
	Loan disbursements	449	500	550	550	550	550	550
	Change in outstandings	*225*	*30*	*20*				
	Outstandings	**270**	**300**	**320**	**320**	**320**	**320**	**320**
General Services Administration Federal buildings fund (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings	*−4*	*−4*	*−5*	*−5*	*−6*	*−6*	*−7*
	Outstandings	**413**	**409**	**404**	**399**	**393**	**387**	**380**
Small Business Assistance: [4]								
Business and investment loans	Obligations	751	726	517	424	236	115	51
	Loan disbursements	728	710	531	424	236	115	51
	Change in outstandings	*20*	*88*	*−999*	*−924*	*−941*	*−564*	
	Outstandings	**3,340**	**3,428**	**2,429**	**1,505**	**564**		
Business and investment loans (loans held by FFB) [2]	*Change in outstandings*	*−8*	*−10*	*−10*	*−10*	*−10*	*−**	
	Outstandings	**40**	**30**	**20**	**10**	*****		
Business and investment loans (loans made by FFB) [1]	Obligations	478	680					
	Loan disbursements	373	625	375				

	Change in outstandings	*263*	*510*	*−1,725*				
	Outstandings	**1,215**	**1,725**					
Disaster loans	Obligations	314	600	168				
	Loan disbursements	160	487	261				
	Change in outstandings	*−536*	*−157*	*−1,452*	*−1,518*	*−1,329*	*−504*	
	Outstandings	**4,960**	**4,803**	**3,351**	**1,833**	**504**		
Tennessee Valley Authority	Obligations	60	58	66	74	83	92	100
	Loan disbursements	60	58	66	74	83	92	100
	Change in outstandings	*3*	*2*	*3*	*2*	*8*	*16*	*22*
	Outstandings	**264**	**266**	**269**	**271**	**279**	**295**	**317**
Tennessee Valley Authority (loans made by FFB) [1]	Obligations	137	90	87	73			
	Loan disbursements	137	90	87	73			
	Change in outstandings	*137*	*90*	*87*	*73*	*−40*	*−40*	*−70*
	Outstandings	**1,556**	**1,646**	**1,733**	**1,806**	**1,766**	**1,726**	**1,655**
Payments for Conrail securities	Obligations							
	Loan disbursements							
	Change in outstandings	*−4*						
	Outstandings	**851**	**851**	**851**	**851**	**851**	**851**	**851**
United States Railway Association	Obligations							
	Loan disbursements							
	Change in outstandings	*−37*						
	Outstandings	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Other agencies and programs	Obligations	37	35	36	38	45	50	51
	Loan disbursements	71	61	42	43	49	54	55
	Change in outstandings	*18*	*−26*	*−11*	*−11*	*−5*	*−8*	*3*
	Outstandings	**618**	**592**	**580**	**570**	**565**	**557**	**561**

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate					
			1985	1986	1987	1988	1989	1990
Other agencies and programs (loans made by FFB) [1]	Obligations							
	Loan disbursements	8	84	19	4	3		
	Change in outstandings	*−37*	*84*	*17*	*1*	*−**	*−3*	*−3*
	Outstandings	**108**	**191**	**208**	**209**	**209**	**207**	**203**
Grand total, net direct loans	Obligations	39,093	51,904	24,240	22,745	19,856	17,345	16,568
	Loan disbursements	41,367	54,703	33,496	28,024	22,773	19,280	18,375
	Change in outstandings	*6,323*	*15,234*	*−276*	*−3,730*	*−5,470*	*−4,964*	*−4,073*
	Outstandings	**229,301**	**244,535**	**244,259**	**240,512**	**235,042**	**230,079**	**226,006**

[1] Loans made by the FFB are agency-guaranteed loans that are disbursed by the FFB as direct loans.
[2] Loans held by the FFB represent the change in outstandings and outstandings of loan assets sold by Federal agencies to the FFB. Since these are sales of prior year loans, they are not attributed as new obligations or disbursements.
[3] Direct loan obligations and disbursements for these programs represent increases in their holdings of loan assets rather than cash disbursements.
[4] Credit programs of the Small Business Administration are proposed to be terminated in 1986, and the loan portfolio transferred to the Treasury Department for administration. These data reflect the combined SBA/Treasury activity.

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Funds Appropriated to the President:								
Foreign Military Sales	Commitments							
	New guaranteed loans	–*						
	Change in outstandings	*–27*	*–20*	*–20*	*40*	*1*	*–1*	
	Outstandings	**200**	**180**	**160**	**200**	**200**	**200**	**200**
Overseas Private Investment Corporation	Commitments	92	150	150	150	150	150	150
	New guaranteed loans	43	50	100	75	75	100	100
	Change in outstandings	*28*	*30*	*80*	*76*	*75*	*100*	*100*
	Outstandings	**188**	**218**	**299**	**374**	**449**	**549**	**649**
AID Housing and other credit guarantees	Commitments	150	160	45				
	New guaranteed loans	52	150	150	150	150	60	
	Change in outstandings	*32*	*128*	*126*	*123*	*121*	*30*	*–33*
	Outstandings	**1,105**	**1,233**	**1,358**	**1,482**	**1,603**	**1,632**	**1,599**
Agriculture:								
Rural Electrification Administration	Commitments							
	New guaranteed loans	48	10	68	50	50		
	Change in outstandings	*48*	*–10*	*38*	*30*	*–10*	*–90*	*–90*
	Outstandings	**910**	**900**	**938**	**968**	**958**	**868**	**778**
Farmers Home Administration:								
Agricultural credit insurance fund	Commitments	443	706	3,000	3,000	3,000	3,000	3,000
	New guaranteed loans	202	204	1,544	3,000	3,000	3,000	3,000
	Change in outstandings	*103*	*6*	*1,378*	*3,000*	*3,000*	*3,000*	*3,000*
	Outstandings	**1,128**	**1,134**	**2,512**	**5,512**	**8,512**	**11,512**	**14,512**
Rural housing insurance fund	Commitments	30	25	20	6	4	2	2
	New guaranteed loans	*	*					
	Change in outstandings	*–5*	*–206*	*69*	*6*	*4*	*2*	*2*
	Outstandings	**993**	**787**	**857**	**863**	**867**	**869**	**871**
Rural development insurance fund	Commitments	124	150					
	New guaranteed loans	81	347	93	64	36	8	
	Change in outstandings	*–183*	*27*	*–210*	*–34*	*–323*	*8*	

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate					
			1985	1986	1987	1988	1989	1990
	Outstandings	**3,206**	**3,233**	**3,023**	**2,989**	**2,667**	**2,674**	**2,674**
Commodity Credit Corporation export credit	Commitments	4,179	5,000	5,000	5,000	5,000	5,000	5,000
	New guaranteed loans	3,282	5,000	5,000	5,000	5,000	5,000	5,000
	Change in outstandings	*332*	*2,741*	*1,615*	*954*			
	Outstandings	**4,690**	**7,431**	**9,046**	**10,000**	**10,000**	**10,000**	**10,000**
Commerce:								
Economic development revolving fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−137*	*−54*	*−45*	*−34*	*−34*	*−34*	*−34*
	Outstandings	**407**	**353**	**308**	**273**	**239**	**204**	**170**
ITA operations and administration	Commitments	16	7					
	New guaranteed loans	15	21					
	Change in outstandings	*8*	*12*	*−34*				
	Outstandings	**22**	**34**					
National Oceanic and Atmospheric Administration	Commitments	51	40					
	New guaranteed loans	51	40					
	Change in outstandings	*−19*	*−25*	*−65*	*−66*			
	Outstandings	**156**	**131**	**66**				
Education : Guaranteed student loans	Commitments	7,597	7,941	7,547	7,006	7,695	8,486	9,063
	New guaranteed loans	7,597	7,941	7,547	7,006	7,695	8,486	9,063
	Change in outstandings	*4,456*	*4,421*	*3,362*	*1,910*	*1,700*	*1,950*	*2,078*
	Outstandings	**31,962**	**36,383**	**39,745**	**41,655**	**43,355**	**45,305**	**47,383**
Energy:								
Geothermal resources development fund	Commitments	6	85	80				
	New guaranteed loans	10	164	51	76			
	Change in outstandings	*4*	*69*	*36*	*77*	*−3*	*−4*	*−4*
	Outstandings	**34**	**104**	**140**	**216**	**213**	**209**	**205**
Health and Human Services:								
Health maintenance organization loan fund	Commitments							
	New guaranteed loans							

	Change in outstandings	*−9*	*−1*	*−1*	*−1*	*−**	*−6*	***
	Outstandings	**5**	**4**	**3**	**2**	**2**	**−4**	**−4**
Medical facilities guarantees and loan fund	Commitments	....	....	....	....	....	....	....
	New guaranteed loans	....	....	....	....	....	....	....
	Change in outstandings	*−61*	*−52*	*−57*	*−60*	*−65*	*−70*	*−75*
	Outstandings	**958**	**906**	**849**	**789**	**724**	**654**	**579**
Health professions graduate student insurance fund	Commitments	250	250	100	100	100	100	100
	New guaranteed loans	250	250	100	100	100	100	100
	Change in outstandings	*239*	*233*	*79*	*77*	*74*	*69*	*69*
	Outstandings	**720**	**953**	**1,031**	**1,108**	**1,182**	**1,250**	**1,319**
Housing and Urban Development:								
Low rent public housing	Commitments	13,723	....	....	....	....	....	....
	New guaranteed loans	17,698	....	....	....	....	....	....
	Change in outstandings	*51*	*−13,311*	*−325*	*−350*	*−375*	*−400*	*−425*
	Outstandings	**19,985**	**6,673**	**6,348**	**5,998**	**5,623**	**5,223**	**4,798**
Revolving fund (liquidating)	Commitments	....	....	....	....	....	....	....
	New guaranteed loans	....	....	....	....	....	....	....
	Change in outstandings	*−2*	*−2*	*7*	*−14*	*−4*	*−11*	*−11*
	Outstandings	**62**	**60**	**67**	**53**	**49**	**38**	**27**
Federal Housing Administration	Commitments	17,071	30,342	32,737	34,839	36,696	38,596	40,543
	New guaranteed loans	21,870	25,342	27,377	30,333	32,895	33,735	34,539
	Change in outstandings	*9,047*	*14,768*	*16,207*	*18,425*	*20,032*	*19,872*	*19,543*
	Outstandings	**170,032**	**184,800**	**201,007**	**219,433**	**239,464**	**259,337**	**278,880**
GNMA: Mortgage-backed securities	Commitments	39,665	53,460	51,110	51,820	52,110	53,815	54,365
	New guaranteed loans	32,090	38,190	36,500	37,000	37,220	38,440	38,830
	Change in outstandings	*24,146*	*29,690*	*27,765*	*25,382*	*24,748*	*25,058*	*24,655*
	Outstandings	**176,485**	**206,175**	**233,939**	**259,321**	**284,069**	**309,127**	**333,782**
Interior:								
Indian loan guaranty and insurance fund	Commitments	19	45	20	10	5	5	5
	New guaranteed loans	11	53	20	10	5	5	5
	Change in outstandings	*5*	*46*	*10*	*1*	*−4*	*−4*	*−4*
	Outstandings	**85**	**131**	**141**	**142**	**138**	**134**	**130**
Transportation:								
Maritime Administration Federal ship financing fund	Commitments	177	300	300	300	300	300	300
	New guaranteed loans	292	250	225	225	225	225	225
	Change in outstandings	*−274*	*−333*	*−266*	*−243*	*−220*	*−670*	*−220*

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate					
			1985	1986	1987	1988	1989	1990
	Outstandings	**7,046**	**6,713**	**6,446**	**6,203**	**5,983**	**5,313**	**5,093**
Rail service assistance	Commitments	12	9	10				
	New guaranteed loans	12	9	10	7			
	Change in outstandings	*−70*	*5*	*10*	*−91*			
	Outstandings	**76**	**81**	**91**				
Aircraft purchase loan guarantees	Commitments							
	New guaranteed loans							
	Change in outstandings	*−69*	*−45*	*−43*	*−43*	*−43*	*−43*	*−43*
	Outstandings	**493**	**448**	**405**	**362**	**319**	**276**	**233**
Miscellaneous expired accounts	Commitments							
	New guaranteed loans							
	Change in outstandings							
	Outstandings	**997**	**997**	**997**	**997**	**997**	**997**	**997**
Treasury:								
Guarantees of New York City notes	Commitments							
	New guaranteed loans							
	Change in outstandings	*−373*	*−390*	*−233*	*−205*			
	Outstandings	**828**	**438**	**205**				
Biomass energy development	Commitments							
	New guaranteed loans	72	263					
	Change in outstandings	*168*	*262*	*−7*	*−21*	*−31*	*−36*	*−42*
	Outstandings	**213**	**475**	**468**	**446**	**415**	**379**	**337**
Veterans Administration:								
Direct loan revolving fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−1*	*−1*	*−1*	*−1*	*−**	*−**	*−**
	Outstandings	**7**	**6**	**6**	**5**	**4**	**4**	**3**
Loan guaranty revolving fund	Commitments	16,465	15,174	15,429	15,373	15,360	15,689	16,037
	New guaranteed loans	15,599	14,510	14,933	14,986	15,011	15,377	15,743
	Change in outstandings	*5,450*	*9,551*	*9,404*	*9,168*	*8,960*	*9,080*	*9,204*

	Outstandings	**125,383**	**134,934**	**144,338**	**153,506**	**162,465**	**171,545**	**180,749**
Export-Import Bank	Commitments	7,149	10,000	12,000	12,000	12,000	12,000	12,000
	New guaranteed loans	4,145	4,945	5,140	6,068	6,115	6,148	6,171
	Change in outstandings	*245*	*902*	*678*	*1,268*	*510*	*410*	*339*
	Outstandings	**5,684**	**6,586**	**7,264**	**8,532**	**9,042**	**9,452**	**9,791**
Federal Savings and Loan Insurance Corporation	Commitments	223	246	351	276	209	150	75
	New guaranteed loans	223	246	351	276	209	150	75
	Change in outstandings	*74*	*176*	*265*	*206*	*149*	*100*	*40*
	Outstandings	**1,763**	**1,940**	**2,204**	**2,410**	**2,559**	**2,659**	**2,699**
National Credit Union Administration	Commitments	9	1					
	New guaranteed loans	9	1					
	Change in outstandings	*−43*	*−24*					
	Outstandings	**24**						
Small Business Assistance: [1]								
Business loan guarantees	Commitments	2,987	3,240					
	New guaranteed loans	2,925	3,425	1,791				
	Change in outstandings	*69*	*340*	*−1,229*	*−2,410*	*−1,885*	*−1,455*	*−980*
	Outstandings	**8,534**	**8,874**	**7,645**	**5,235**	**3,350**	**1,895**	**915**
Pollution control equipment guarantees	Commitments	11	70					
	New guaranteed loans	11	70					
	Change in outstandings	*11*	*.70*					
	Outstandings	**325**	**395**	**395**	**395**	**395**	**395**	**395**
Disaster Loans	Commitments							
	New guaranteed loans							
	Change in outstandings	*−5*	*−3*	*−1*				
	Outstandings	**4**	**1**					
Tennessee Valley Authority	Commitments							
	New guaranteed loans							
	Change in outstandings	*1*						
	Outstandings	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Synthetic Fuels Corporation	Commitments		78	419	478	389	192	11
	New guaranteed loans		78	419	478	389	192	11
	Change in outstandings		*78*	*419*	*476*	*381*	*182*	*−21*
	Outstandings		**78**	**497**	**973**	**1,354**	**1,536**	**1,515**
Other agencies and programs	Commitments	11						

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	New guaranteed loans	86	129	129	143	73	....	....
	Change in outstandings	*−67*	*−31*	*−10*	*−40*	*−43*	*−48*	*−49*
	Outstandings	**818**	**787**	**776**	**736**	**693**	**644**	**597**
Subtotal, guaranteed loans (gross)	Commitments	110,463	127,478	128,318	130,358	133,018	137,485	140,651
	New guaranteed loans	106,675	101,687	101,549	105,046	108,248	111,026	112,863
	Change in outstandings	*43,174*	*49,047*	*59,000*	*57,605*	*56,712*	*56,988*	*56,999*
	Outstandings	**565,528**	**614,574**	**673,574**	**731,179**	**787,891**	**844,878**	**901,878**
Less secondary guaranteed loans: [2] GNMA guarantees of FHA/VA/FmHA pools	Commitments	39,665	53,460	51,110	51,820	52,110	53,815	54,365
	New guaranteed loans	32,090	38,190	36,500	37,000	37,220	38,440	38,830
	Change in outstandings	*24,146*	*29,690*	*27,765*	*25,382*	*24,748*	*25,058*	*24,655*
	Outstandings	**176,485**	**206,175**	**233,939**	**259,321**	**284,069**	**309,127**	**333,782**
Subtotal, Guaranteed loans (net)	Commitments	70,798	74,018	77,208	78,538	80,908	83,670	86,286
	New guaranteed loans	74,585	63,497	65,049	68,046	71,028	72,586	74,033
	Change in outstandings	*19,028*	*19,357*	*31,235*	*32,223*	*31,964*	*31,930*	*32,344*
	Outstandings	**389,043**	**408,400**	**439,635**	**471,858**	**503,822**	**535,750**	**568,096**
Less guaranteed loans held as direct loans: [3] By GNMA	Commitments	....	....	....	....	....	....	....
	New guaranteed loans	1,268	792	342	....	....	....	....
	Change in outstandings	*−1,083*	*−867*	*−667*	*−360*	*−150*	*−150*	*−100*
	Outstandings	**2,382**	**1,515**	**849**	**489**	**339**	**189**	**89**

Total, primary guaranteed loans	Commitments	70,798	74,018	77,208	78,538	80,908	83,670	86,286
	New guaranteed loans	73,316	62,705	64,707	68,046	71,028	72,586	74,033
	Change in outstandings	*20,110*	*20,224*	*31,902*	*32,583*	*32,114*	*32,080*	*32,444*
	Outstandings	**386,661**	**406,884**	**438,786**	**471,369**	**503,483**	**535,562**	**568,007**
Memorandum:								
Callable capital contributions to international financial organizations [4]	Commitments	2,095	3,684	3,642	3,641	2,836	2,836	2,836
	New guaranteed loans	2,095	3,684	3,642	3,641	2,836	2,836	2,836
	Change in outstandings	*2,095*	*3,684*	*3,642*	*3,641*	*2,836*	*2,836*	*2,836*
	Outstandings	**20,589**	**24,273**	**27,914**	**31,556**	**34,391**	**37,227**	**40,063**
ADDENDUM								
Guaranteed loans held as direct loans by Government-sponsored enterprises: [5]								
Federal National Mortgage Association	*Change in outstandings*	*−6,523*	*339*	*−2,945*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**29,238**	**29,577**	**26,632**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Federal Home Loan Banks	*Change in outstandings*	*−1*	*−1*	*−2*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**81**	**80**	**78**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Federal Home Loan Mortgage Corporation	*Change in outstandings*	*−67*	*−63*	*−61*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**894**	**831**	**770**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Farm Credit Administration	*Change in outstandings*	*12*	....	....	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**73**	**73**	**73**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Student Loan Marketing Association	*Change in outstandings*	*1,834*	*1,304*	*1,074*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**4,435**	**5,739**	**6,813**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Subtotal, Enterprise holdings	*Change in outstandings*	*−4,745*	*1,579*	*−1,934*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**34,721**	**36,300**	**34,366**	**(NA)**	**(NA)**	**(NA)**	**(NA)**

[1] Credit activities of the Small Business Administration are proposed to be terminated and the loan portfolio transferred to the Treasury Department. These data reflect the SBA/Treasury activities.

[2] Guarantees of loans that were previously guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration, are counted above as guaranteed loans. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double-counting.

[3] When guaranteed loans are acquired by a budget account, they become direct loans and are counted as such in the direct loan tables. They are therefore deducted from totals in this table.

[4] Callable 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 banks if other resources were exhausted. To date, there has never been a need to call upon these resources.

[5] Data for 1987–1990 not estimated.

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Enterprise		Actual 1984	Estimate 1985	Estimate 1986
LENDING				
Student Loan Marketing Association	Obligations	2,515	2,736	3,010
	New transactions	2,515	2,736	3,010
	Net Change	1,834	1,304	1,074
	Outstandings	9,435	10,739	11,813
Federal National Mortgage Association:				
Corporation accounts	Obligations	18,759	18,241	17,786
	New transactions	17,002	15,370	15,020
	Net Change	9,676	8,946	10,353
	Outstandings	84,850	93,796	104,149
Mortgage-backed securities	Obligations	40,121	15,155	17,115
	New transactions	11,874	15,691	14,225
	Net Change	9,069	12,935	11,668
	Outstandings	32,888	45,823	57,491
Farm Credit Banks:				
Banks for cooperatives	Obligations	27,140	29,295	31,110
	New transactions	27,140	29,295	31,110
	Net Change	189	1,200	1,150
	Outstandings	8,911	10,110	11,261
Federal intermediate credit banks	Obligations	16,694	17,515	18,703
	New transactions	16,694	17,515	18,703
	Net Change	−742	597	1,130
	Outstandings	18,925	19,522	20,652
Federal land banks	Obligations	4,285	5,156	5,887
	New transactions	4,285	5,156	5,887
	Net Change	748	1,479	2,338
	Outstandings	52,362	53,841	56,179
Federal Home Loan Bank system:				
Federal home loan banks	Obligations	75,130	84,500	86,500
	New transactions	75,130	84,500	86,500
	Net Change	14,444	9,394	3,758
	Outstandings	74,876	84,270	88,028
Federal Home Loan Mortgage Corporation:				
Corporation accounts	Obligations	3,143	2,500	2,500
	New transactions	3,143	2,500	2,500
	Net Change	2,591	1,609	1,474
	Outstandings	9,447	11,056	12,530
Participation certificate pools [1]	Obligations	15,358	15,500	17,500
	New transactions	15,358	15,500	17,500
	Net Change	9,829	9,517	10,641
	Outstandings	64,032	73,549	84,190
Subtotal, lending (gross)	Obligations	203,145	190,598	200,111
	New transactions	173,141	188,263	194,455
	Net Change	47,638	46,981	43,586
	Outstandings	355,726	402,706	446,293
Less loans between sponsored enterprises	Obligations			
	New transactions			
	Net Change	−700	−600	−240
	Outstandings	1,790	1,190	950

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1984	Estimate 1985	Estimate 1986
Less secondary funds advanced from Federal sources:				
SLMA from FFB [2]	Obligations			
	New transactions			
	Net Change			
	Outstandings	5,000	5,000	5,000
TVA to FNMA	Obligations			
	New transactions			
	Net Change			
	Outstandings	80	80	80
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Obligations			
	New transactions			
	Net Change	−6,523	339	−2,945
	Outstandings	29,238	29,577	26,632
Federal home loan banks	Obligations			
	New transactions			
	Net Change	−1	−1	−2
	Outstandings	81	80	78
Federal Home Loan Mortgage Corporation	Obligations			
	New transactions			
	Net Change	−67	−63	−61
	Outstandings	894	831	770
Farm Credit Banks	Obligations			
	New transactions			
	Net Change	12		
	Outstandings	73	73	73
Student Loan Marketing Association [2]	Obligations	2,515	2,736	3,010
	New transactions	2,515	2,736	3,010
	Net Change	1,834	1,304	1,074
	Outstandings	4,435	5,739	6,813
Total lending	Obligations	200,630	187,862	197,101
	New transactions	170,626	185,527	191,445
	Net Change	53,083	46,002	45,760
	Outstandings	314,135	360,136	405,897
BORROWING (Funds Raised)				
Student Loan Marketing Association	*Net Change*	1,774	1,211	1,377
	Outstandings	9,998	11,209	12,586
Federal National Mortgage Association [3]	*Net Change*	17,934	20,566	20,967
	Outstandings	113,011	133,577	154,544
Farm Credit Administration:				
Banks for cooperatives	*Net Change*	263	1,147	1,150
	Outstandings	8,429	9,577	10,726
Federal intermediate credit banks	*Net Change*	−761	455	938
	Outstandings	18,194	18,649	19,588
Federal land banks	*Net Change*	733	1,232	1,827
	Outstandings	47,625	48,857	50,684
Federal Home Loan Bank system:				
Federal home loan banks	*Net Change*	15,633	8,594	6,000
	Outstandings	67,406	76,000	82,000

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1984	Estimate 1985	Estimate 1986
Federal Home Loan Mortgage Corporation	*Net Change*	13,269	10,291	11,848
	Outstandings	74,234	84,525	96,373
Subtotal, borrowing (gross)	*Net Change*	48,845	43,496	44,107
	Outstandings	338,897	382,394	426,501
Less borrowing from other sponsored enterprises	*Net Change*	−700	−600	−240
	Outstandings	1,790	1,190	950
Less borrowing from Federal sources: SLMA from FFB [2]	*Net Change*			
	Outstandings	5,000	5,000	5,000
FNMA from TVA	*Net Change*			
	Outstandings	80	80	80
Total borrowing from the public	*Net Change*	49,690	44,096	44,347
	Outstandings	331,735	375,832	420,179
Less investments in Federal securities	*Net Change*	−1,073	311	−98
	Outstandings	2,197	2,508	2,410
Less borrowings for guaranteed loans held as direct loans by: Federal National Mortgage Association	*Net Change*	−6,523	339	−2,945
	Outstandings	29,238	29,577	26,632
Federal home loan banks	*Net Change*	−1	−1	−2
	Outstandings	81	80	78
Federal Home Loan Mortgage Corporation	*Net Change*	−67	−63	−61
	Outstandings	894	831	770
Farm Credit Administration	*Net Change*	12		
	Outstandings	73	73	73
Student Loan Marketing Association [2]	*Net Change*	1,834	1,304	1,074
	Outstandings	4,435	5,739	6,813
Total borrowed	*Net Change*	55,512	42,205	46,379
	Outstandings	294,820	337,026	383,405

[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 in Table F-19 as direct loans. All SLMA loans are student loans guaranteed by the Federal Government. They have, therefore been counted in Table F-20 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.

Table F-22. **FFB ACQUISITIONS (in millions of dollars)**

Agency or program	Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Purchase of loan assets from:							
Overseas Private Investment Corporation:							
Net outlays	-5	-5	-5	-1	-*	...	...
Outstandings	11	6	1	*	...	...	...
Farmers Home Administration (USDA):							
Agricultural credit insurance fund:							
New acquisitions	6,805	5,332	166	...	...	366	...
Net outlays	1,410	1,175	-1,084	-3,177	-3,088	-2,876	-3,305
Outstandings	25,517	26,692	25,608	22,431	19,343	16,467	13,162
Rural housing insurance fund:							
New acquisitions	5,020	4,445	26	30	30	30	315
Net outlays	1,090	2,335	-180	-1,192	-1,236	-1,446	-1,675
Outstandings	26,766	29,101	28,921	27,729	26,493	25,047	23,372
Rural development insurance fund:							
New acquisitions	1,300	1,184	360	121	183	8	19
Net outlays	320	589	360	121	183	-45	-276
Outstandings	7,228	7,817	8,177	8,299	8,482	8,437	8,160
Rural Electrification Administration (USDA):							
New acquisitions	69	447	253	53	...	...	...
Net outlays	69	447	253	53	...	...	...
Outstandings	3,537	3,984	4,237	4,290	4,290	4,290	4,290
Medical facilities guarantees (HHS):							
New acquisitions	...	5	...	...	...	...	...
Net outlays	-12	-*	-6	-6	-7	-7	-7
Outstandings	132	131	126	120	113	106	99
Health Maintenance Organizations (HHS):							
New acquisitions	1	3	1	...	...	...	...
Net outlays	-3	-4	-4	-5	-6	-6	-6
Outstandings	116	112	109	104	98	92	86
Small business assistance:							
Net outlays	-8	-10	-10	-10	-10	-*	...
Outstandings	40	30	20	10	*	...	...
Subtotal, purchase of loan assets:							
New acquisitions	13,195	11,415	806	205	213	404	334
Net outlays	2,861	4,527	-675	-4,216	-4,163	-4,380	-5,270
Outstandings	63,347	67,873	67,198	62,982	58,819	54,439	49,169
Direct loans (purchases of loans guaranteed by agencies):							
Foreign military sales credit (FAP): [1]							
New acquisitions	4,401	...	...	...	...	...	...
Net outlays	2,818	2,340	282	-693	-1,001	-1,218	-1,029
Outstandings	17,111	19,451	19,733	19,040	18,040	16,821	15,792

Table F-22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Defense production guarantees (DOD):							
Net outlays	2	5	5	4	3	....	....
Outstandings	3	8	13	17	20	21	20
Rural Electrification Administration (USDA): [1]							
New acquisitions	1,002	1,325	300	225	150	75	....
Net outlays	1,648	2,685	2,222	1,700	1,490	1,230	700
Outstandings	20,587	23,272	25,494	27,194	28,684	29,914	30,614
Guarantees of SLMA obligations (Education):							
Net outlays	....	....	....	−30	−30	−30	−30
Outstandings	5,000	5,000	5,000	4,970	4,940	4,910	4,880
Alternative fuels production (Energy):							
Net outlays	404	274	....	....	−105	−105	−105
Outstandings	1,290	1,564	1,564	1,564	1,459	1,354	1,250
Geothermal resources development fund: (Energy):							
Net outlays	−39	79	14	−1	−1	−1	−1
Outstandings	6	85	99	99	98	97	96
Low-rent public housing (HUD): [1]							
Net outlays	112	−32	−35	−37	−39	−42	−44
Outstandings	2,178	2,146	2,112	2,075	2,035	1,993	1,949
Community development grants (HUD): [1]							
New acquisitions	87	225	....	....	....	....	....
Net outlays	31	42	25	23	−59	−104	−95
Outstandings	208	250	275	298	239	135	40
Loans to territories (Interior):							
Net outlays	−*	−*	−1	−1	−1	−1	−1
Outstandings	65	64	64	63	63	62	61
Railroad programs (DOT): [1]							
New acquisitions	6	2	....	....	....	....	....
Net outlays	−904	−5	−9	−10	−12	−14	−12
Outstandings	160	154	145	135	124	110	97
Federal Buildings Fund CBI's (GSA):							
Net outlays	−4	−4	−5	−5	−6	−6	−7
Outstandings	413	409	404	399	393	387	380
Space flight, control and data communications (NASA):							
New acquisitions	142	....	....	....	....	....	....
Net outlays	7	−67	−107	−112	−98	−113	−129
Outstandings	955	888	780	668	570	457	328
Small business investment companies and other small business assistance: [1]							
New acquisitions	478	680	....	....	....	....	....

Table F–22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Net outlays	263	510	–1,725	....	....	....	....
Outstandings	1,215	1,725	....	....	....	....	....
Seven States Energy Corporation (TVA):							
New acquisitions	137	90	87	73[1]	....	....	....
Net outlays	137	90	87	73	–40	–40	–70
Outstandings	1,556	1,646	1,733	1,806	1,766	1,726	1,655
Subtotal, direct loans (purchase of loans guaranteed by agencies):							
New acquisitions	6,253	2,323	387	298	150	75	....
Net outlays	4,475	5,916	753	910	100	–444	–825
Outstandings	50,780	56,696	57,448	58,358	58,459	58,015	57,189
Total, direct loans and purchases of agency loan assets:							
New acquisitions	19,448	13,738	1,193	503	363	479	334
Net outlays	7,336	10,442	77	–3,306	–4,063	–4,825	–6,095
Outstandings	114,127	124,569	124,646	121,340	117,278	112,454	106,353
ADDENDUM							
AGENCY BORROWING							
By on-budget agencies:							
Export-Import Bank:							
Net change	1,014	1,277	618	–578	–1,483	–2,129	–2,191
Outstandings	15,690	16,967	17,584	17,006	15,523	13,395	11,203
Tennessee Valley Authority:							
Net change	370	650	375	237	58	–23	–198
Outstandings	13,485	14,135	14,510	14,747	14,805	14,782	14,584
National Credit Union Administration:							
Net change	225	31	20	10	....	....	....
Outstandings	269	300	320	330	330	330	330
By off-budget Federal entities:							
U.S. Railway Association:							
Net change	–73	–4	....	....	....	....	....
Outstandings	51	48	48	48	48	48	48
Postal Service:							
Net change	–67	–367	–47	–47	–47	–47	–47
Outstandings	1,087	720	673	626	579	532	485
Total, agency borrowing:							
Net change	1,468	1,587	996	–378	–1,472	2,199	–2,436
Outstandings	30,582	32,169	33,135	32,757	31,285	29,086	26,650

*$500.000 or less.

[1] FFB activity for this account may not be 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.).

SPECIAL ANALYSIS G

TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires a listing of "tax expenditures" in the Budget. The act defines tax expenditures as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of liability."

The definition of tax expenditures requires a distinction between the baseline provisions of the tax structure and "special" or "preferential" provisions that are exceptions to the baseline structure. Prior to 1983, Special Analysis G used the term "normal" to denote the baseline against which tax expenditures are measured. Since Public Law 93-344 does not provide an exact specification of the "normal" provisions of the tax law, determination of what provisions constitute "special" or "preferential" provisions, and therefore should be listed as tax expenditures, necessarily involves some arbitrary choices. This process has been overseen by executive agency and congressional committee staffs. Prior to 1983, the Special Analysis G listing of "tax expenditures" generally matched those published by the Congressional Budget Office and the Joint Committee on Taxation. This close correspondence of tax expenditure lists resulted because the concept of a "normal" tax used by both executive branch and congressional staffs was a variant of a comprehensive income tax, albeit with several major exceptions, that had not deviated significantly from the concept used in the first tax expenditure listings.

Tax expenditures in Special Analysis G were measured against a revised baseline after 1982 which is referred to as the "reference tax." This year's Special Analysis G displays tax expenditures as compared to both the reference tax baseline used beginning with 1983 and the normal tax baseline used prior to 1983. The discussion below describes in general terms both baselines, discusses the conceptual and practical differences between them, and then reviews the major categories of tax expenditures. For the most part, tax expenditures relative to both baselines are the same, but there are several important items that are characterized differently.

Because different baselines were utilized, the current Special Analysis G generally does not conform with the results presented in the Treasury Department's tax reform proposal of 1984. A comprehensive review is to address this and other tax expenditure issues raised by the Treasury proposals and other tax reform proposals.

Pre-1983 Budget Concepts

The "normal" tax structure used as a departure point for identifying and measuring tax expenditures has historically had many features in common with a comprehensive income tax, where income is defined as the sum of consumption and the change in net wealth in a given period of time. The concept of a normal income tax did not specify any particular structure of tax rates, or definition of the taxpaying unit (as between families and individuals), and allowed for personal exemptions and a standard deduction. In addition, the concept of a normal tax, as would a comprehensive income tax, allowed for deductions needed to measure net income, such as deductions for interest incurred to finance the holding of income-producing assets and for employee business expenses. The "normal" tax structure did allow, however, for several major departures from what is commonly understood to be the base of a truly comprehensive income tax:

- Under the "normal" tax structure, income was only taxed when realized, not as accrued. Thus, for example, the benefit, relative to strict accrual accounting of income, from deferring tax on accrued, but unrealized, capital gains was not regarded as a tax expenditure.
- The fact that the current tax system taxes only cash income, not "imputed income" received in the form of consumption benefits from capital used directly by households or consumption by households of goods they produce, was regarded as part of the "normal" tax structure. Thus, the exclusions from tax of imputed income from owner-occupied homes and consumer durables and tax-free consumption by farmers of products grown on their farms were not regarded to be tax expenditures.
- The "normal tax structure" included a separate tax on corporation income, although neither economic theory nor common international practice justifies a totally separate corporation income tax. At the same time, the "normal" tax structure allowed for devices to eliminate the separate corporate tax by attributing income to shareholders, such as subchapter S corporations. The additional revenue resulting from maintenance of a separate, unintegrated corporation tax could well be considered a "negative tax expenditure" if the "normal" tax base were defined as the comprehensive income of individuals, with corporate retained earnings attributed to individual shareholders.

- The "normal" tax structure did not adjust the basis of capital assets or debt for changes in the price level over the time period assets were held, and thus overstated real capital gains, interest income, and interest costs, and understated depreciation during a period of inflation. If the "normal tax" were a true comprehensive income tax, failure to take account of inflation in measuring depreciation, capital gains, and interest income of lenders would be regarded as negative tax expenditures and failure to take account of inflation in measuring the interest costs of borrowers would be regarded as a positive tax expenditure, or subsidy for borrowing.

Notwithstanding these major differences from a fully comprehensive income tax, the "normal" tax concept can be thought of as a base for a "practical" income tax intended to avoid the complexities that would result from including in taxable income an imputation for accrued but unrealized gains received by individuals and an imputation for the rental value of services from owner-occupied homes and consumer durables, integrating the corporate and personal income taxes, and adjusting measured net income from capital for the effects of inflation. Moreover, the departures from a comprehensive tax allowed in defining the "normal" tax had essentially remained unchanged between the first published Special Analysis G and 1982. This facilitated the generally consistent decisions by those responsible for preparing tax expenditure budgets on what constituted "tax expenditures."

The "normal" tax as described above is, of course, not the only broad-based or "normative" tax system that can be used as a standard for identifying tax expenditures. One could, for example, use as the standard a truly comprehensive income tax in which the tax base is equal to consumption plus the change in net wealth of individuals and families. Under such a standard, as indicated in the previous discussion, the failure to include accrued but unrealized income in the tax base would be regarded as a tax expenditure, while the double taxation of corporate dividends and the failure to index the basis of capital gains for price level changes would be regarded as negative tax expenditures, or tax penalties. Alternatively, the standard could be a comprehensive personal tax on consumption of individuals and families. Using a consumption tax as a normative standard, the failure to tax income accrued within pension funds would not be a tax expenditure, as it would be under an income tax, because under a consumption based tax income earned but not consumed is not taxable. On the other hand, the failure to include the proceeds of borrowing in the tax base would be a "tax expenditure" under a consumption tax standard, even though borrowing, in itself, would have no effect on the tax base under an income tax.

In addition, some of the items listed as tax expenditures when the "normal" tax is used as a baseline can themselves be regarded as practical adjustments to correct for departures of the normal tax from a truly comprehensive base. For example, as noted above, the failure to adjust the basis of capital assets for changes in the price level in measuring taxable income is part of the normal tax even though it represents a significant departure from correct income measurement. The exclusion from tax of 60 percent of realized capital gains—a provision listed as a tax expenditure relative to both the normal tax baseline and the reference tax baseline discussed below—may itself be regarded as a pragmatic rule to adjust for the overstatement of income from capital gains in a period of inflation.

Similarly, in a period of stable prices, capital consumption allowances under a comprehensive income tax would be based on economic depreciation. In a time of inflation, however, use of more accelerated depreciation methods can be regarded as a pragmatic, though imprecise, way of offsetting the failure to adjust depreciation deductions for the increases in the replacement cost of assets.

Post-1982 Budget Concepts

The measurement and subsequently the definition of tax expenditures has undergone major changes in recent years, in part reflecting a changed perception of what constitutes the major structural features of the current tax system. This evolution began with the introduction of the concept of "outlay equivalents" in the 1982 budget and evolved into a redefinition of the tax structure against which departures labelled as tax expenditures would be measured in the budgets after 1982.

In 1982, Special Analysis G included a supplement that departed from previous procedures. In it were jointly displayed the Federal support for housing and energy programs provided on both the outlay and revenue sides of the budget. The purpose of this departure was to illustrate how a tax expenditure budget might be used in the budgetary process to provide a consistent accounting of all resources used to achieve specified national needs, or program objectives, and to demonstrate how such a procedure might aid in the determination of overall budget expenditure and revenue targets.

To achieve this purpose, a modification of previous estimation methodology was introduced. If, for example, the purpose of residential energy tax credits was to reduce the costs to homeowners of certain energy conservation investments, then the credit should be viewed not as a "reduction in tax," but as a subsidy payment that might just as well have been made by the Department of Energy.

In order to convert the residential energy credit into an "outlay" equivalent, it was necessary to ask how the payment would be treated under the existing tax laws if it were a grant from the Department of Energy. If the payment in cash would be taxable, while the tax subsidy is nontaxable, then the tax subsidy would have to be "grossed-up" to the equivalent taxable cash payment to be comparable with actual outlays for the same purpose.

In performing this analysis of the subsidy-equivalent of housing and energy tax expenditures, it was observed that the "norm" from which these "special" provisions departed was simply the body of generally applicable income tax rules to which the special provisions were exceptions. This suggested that, in the budgetary context implied by the Congressional Budget Act of 1974, it would be useful to distinguish two categories of items that had been labelled "tax expenditures" in previous budgets. The first category would consist of deviations from general rules of the existing tax system that could be measured and evaluated in a manner comparable to the measurement and evaluation of subsidy and transfer programs on the outlay side of the budget. The second category would consist of more general deviations of the structure of the Federal income tax from some normative, comprehensive income or other broad-based tax. The items in the second group would not be labelled "tax expenditures" as such, even though they might be regarded as items to be considered as part of a more general reform of the existing income tax.

This evolutionary step was taken in the 1983 Special Analysis G and has been continued since then. Two criteria were used to identify a tax expenditure or tax subsidy. First, it was necessary that, absent the special provision, the tax laws provided general rules to enable a taxpayer to determine his income tax due and payable. These general rules were called the "reference law." Second, it was necessary that the special provision apply to a sufficiently narrow class of transactions or transactors to permit the specification of a program objective that could be assigned to an existing agency other than the IRS and be administered with appropriated funds. In keeping with the intended use of the estimates in budget program displays, the budget impacts of the items listed were expressed as outlay equivalents.

Neither the Congressional Budget Office nor the Joint Committee on Taxation adopted these revisions. Those offices continued to use a modified income tax "norm," as described above, as the basis for identifying tax expenditures. As a consequence, Special Analysis G in the 1983 and 1984 budgets did not fully correspond to other "tax expenditure budgets," a condition some have found confusing.

To help remedy this state of affairs, in the 1985 budget Special Analysis G began to list a number of tax provisions in addition to those that meet the narrower tests for identifying tax expenditures (or "tax subsidies") used in 1983 and 1984. The discussion below sets out in greater detail the "reference tax law" and identifies some of the departures of this "reference law" from the "normal" income tax used prior to 1983 to identify tax expenditures.

Reference Tax Rules and Comparison to Normal Tax Structure

The reference tax rules from which departures represent expenditure-like government programs include:

1. *Definition of the taxpaying unit.* Taxpaying units are individuals (single, married, head of household); corporations (except those electing subchapter S treatment, cooperatives, real estate investment trusts, and other financial organizations that attribute their income to members in whose hands it is taxable); and trusts and estates (to the extent income is not distributed to beneficiaries). Certain otherwise taxable corporations and associations whose activities and ownership meet the requirements of section 501 are exempt from income tax, as are government-owned enterprises encompassed by section 115.

The taxpaying units are the same in the normal and reference tax structures with one major exception. In the normal tax, controlled foreign corporations are not regarded as entities separate from their controlling U.S. shareholders. Therefore, the deferral of tax on income accumulated within controlled foreign corporations is regarded as a tax expenditure. In contrast, except for tax haven activities, the reference tax rules follow the current tax system in treating controlled foreign corporations as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under that definition of the tax unit, deferral of tax on controlled foreign corporation income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized income.

2. *Tax rate schedules.* Separate schedules for single individuals, heads of household, married persons filing jointly, married persons filing separately, and corporations are all regarded as part of the reference tax system. The rate structures imposed on the tax base of these entities are whatever current law provides. The "normal" tax system is similar, except that it specifies a single rate (the current maximum rate) on corporate income. The lower tax rates applied to the first $100,000 of corporate income are thus regarded as a tax expenditure, relative to the normal tax.

3. *General accounting rules for determining income subject to tax.* Income subject to tax is gross income less costs of earning that income. Gross income includes payments (or obligations to receive payment) from all sources, foreign and domestic, that are: (1) con-

sideration received in the exchange of goods and services (including one's labor services), or of property; and (2) the taxpayer's share of gross, or net income earned and/or reported by another entity, such as interest, dividends, rents, royalties, and profits of partnerships, subchapter S corporations, and cooperatives. Under the reference tax rules, gross income does not include gifts, defined as receipts of money or property that are not consideration in an exchange, or most transfer payments (gifts from the Federal Government). Gross income does, however, include transfer payments associated with past employment, such as social security benefits. The "normal" tax also does not define gifts between individuals as gross income. However, under the normal tax baseline used prior to 1983, all cash transfer payments (gifts from government to private individuals) were regarded as gross income, and exemptions of such gifts from tax under current law were identified as tax expenditures.

Costs of earning gross income are deductible in determining taxable income under the reference rules. These include: (1) expenses incurred in earning gross personal service income (not including expenditures on goods and services for personal use); (2) costs of earning income incurred by a taxpayer's trade or business including "costs of goods sold" (compensation of employees, goods and services purchased from other firms, royalties paid), an allowance for physical capital "used up" in producing the output that generates the gross income of the business (depreciation in the case of machinery, equipment, and structures; depletion in the case of mineral deposits); and (3) interest paid creditors who have advanced funds to help finance the ownership and use of assets by the trade or business.

These deductions are all necessary to measure the net income of the equity holder in a business. Deductions for "cost of goods sold" functionally allocate to employees and suppliers their "shares" of the trade or business' gross income which they in turn will report on their income tax returns. Depreciation and depletion deductions are necessary to cover the using-up of physical capital, the cost of which has already been paid for by the owners, thus enabling the owners to recover their capital free of an additional tax. Depreciation allowances as provided according to statutory schedules for different classes of depreciable property are part of the reference tax rules. Depletion allowances in the reference tax rules are not schedular but are based on the pro-rata recovery of the original cost as the mineral deposit is depleted by extraction. Deductions for interest represent an allocation of pre-tax income of a trade or business reportable as such by creditors of that trade or business under the reference tax.

The "normal" tax includes the same items of deduction needed to measure net income as the "reference" tax, but, in addition, specifies the time pattern of depreciation deductions to correspond in some approximate way to the time pattern of "using up" of physical capital. The "reference" tax encompasses the existing general depreciation rules, as modified by the Accelerated Cost Recovery System (ACRS), as part of the general structure of the tax rules. Since ACRS schedules are generally the applicable rules for all investments in depreciable property, they are part of the "reference tax" structure and not identified as a tax expenditure item, or tax subsidy, when the reference tax is taken as the baseline. In contrast, when the normal tax rules are used as the baseline, the ACRS schedules for depreciable personal and real property enacted in the Economic Recovery Tax Act of 1981 are a tax expenditure item. This identification of ACRS as a tax expenditure in the normal tax recognizes that some attempt, however imprecise, to match capital recovery rules to the decline in asset value is needed to measure economic income from depreciable capital. In the accompanying tables, the revenue loss resulting from substituting ACRS for depreciation rules based on the Asset Depreciation Range system (ADR) midpoint lives, for machinery and equipment, and based on 35-year straight-line depreciation for structures is listed as a tax expenditure under the pre-1983 budget concept.

In addition to rules for determining what is to be includable in gross income and what deductions are to be allowed, and when, an operational income tax requires a set of accounting procedures for classifying, recording, and summarizing transactions during the tax year. In the reference tax system, the basic elements of this accounting system are similar to those described above that characterize the "normal" income tax. These elements are: (1) reliance on valuations determined at the time transactions occur ("realization" as opposed to "accrual" accounting), (2) exclusion from gross income of the market value of services from durable goods or other "self-produced" income, such as "do-it-yourself" repairs and maintenance, (3) reliance on historical cost for determining allowable deductions for capital cost recovery and in the computation of gain on the sale of an asset (no inflation adjustments), (4) distinguishing "current expense" from "capital expenditures," with the former deductible from gross income in the period when the transaction is completed, while the latter is recovered by depreciation or depletion deductions over the asset's productive life, and (5) specification of the accounting period for summarizing transactions to determine income subject to tax and computing tax due and payable as well as a stipulation of when tax must be paid. As part of the computation of tax liability, both the reference tax and the normal tax allow a tax credit for foreign income taxes paid up to the amount of U.S. income taxes that would otherwise be due. This prevents the double taxation of income earned abroad.

Major Departures From the Reference Rules

Beginning with the 1983 budget, the "reference" tax has been used to identify provisions that substitute for budget outlays. For example, compared to the general rules described as the "reference" tax:

- Not all consideration received in exchange for goods and services is reportable as gross income. Some forms of employee compensation, such as certain military housing and food allowances or employer-paid fringe benefits, are specifically excluded from employees' reportable gross income although it is clearly a consideration received in exchange for labor services and is properly deductible from the gross income of the trade or business of employers who are taxable entities.
- Holders of State and local government bonds are specifically exempt from reporting interest payments on those obligations as gross income, although these payments are no less income than interest, dividends, rents, and royalties received from other payees.
- Dividend and interest receipts of pension funds, the value of which accrues to taxable beneficiaries, are not reportable as gross income when received, either by the qualified pension trusts or by the beneficiaries; they become reportable, after compounding at pre-tax rates of interests, only when they are paid out as retirement benefits.

Defense Department outlays reported in the budget for military personnel are lower because part of military compensation is paid in tax-free housing and food allowance dollars. This exclusion of compensation from tax substitutes for higher direct outlays to obtain the same quality and quantity of military personnel whose compensation in this form, if received from another employer, would be subject to tax. Similarly, the nontaxability of interest paid by State and local borrowers enables them to obtain funds at lower rates at a saving to their taxpayers. This particular exclusion is therefore a substitute for interest subsidies or capital grants to State and local governments on the outlay side of the budget. The exclusion of employer-paid pension, health, and other insurance benefits for employees and the preferred treatment of pension trust income substitute for outlays that would pay part of the costs of private retirement, health, and insurance plans.

The tax laws also provide many deductions from gross income in the derivation of taxable income that have no apparent relation to the cost of earning the reported gross income, as the general rule requires. For example:

- Individuals may deduct amounts paid to charitable, educational, scientific or religious organizations, although these are not costs of earning reportable gross income.
- Some oil and gas and mineral producers are allowed deductions for "percentage depletion" that are not limited to recovery of the cost of acquiring the mineral deposit. In addition, some investments in the acquisition of depletable and depreciable property may be deducted in the year incurred, rather than capitalized and recovered as production ensues. These special rules for cost recovery of oil and gas and mineral deposits permit investment costs in these activities to be recovered more rapidly than the reference rules allow in all activities generally and often permit more than the full investment to be recovered tax free, contrary to the conditions imposed on other forms of capital use.
- Individuals are allowed to deduct mortgage interest and consumer interest paid from their pre-tax incomes even though, under the reference tax rules applicable to housing and consumer durables, they have not reported the gross income from services of housing and consumer durables earned with the aid of the debt they are servicing.

These particular exceptions to the general, reference tax rules governing the use of deductions to compute taxable income have direct incentive effects that could alternatively be obtained with outlay programs. Deductibility of qualified contributions lowers the private "price" of giving, as would matching grants to qualified organizations based on contributors' support. The preferential treatment of minerals investment and production expands mineral output as would direct subsidies paid to mineral producers. The deductibility of mortgage interest encourages home ownership in much the same as Federal mortgage interest subsidy programs do.

Finally, there are special exceptions to the general rules for determining net income tax due and payable. After a taxpayer has determined his pre-tax income, taking into account all preferential exclusions for gross income and all the special deductions, and has applied the appropriate tax rate schedule, the tax liability thus derived is not necessarily the amount he must pay. For example, the taxpayer may take as credits against his tax otherwise due and payable amounts determined by expenditures during the tax year on:

- Qualified property (the investment tax credit for purchasing machinery and equipment).
- Certain energy conservation property.
- Wages paid to specific categories of disadvantaged workers.
- Certain research and experimentation expenditures.
- Rehabilitating old and historic structures.

- Contributions to political candidates.
- Transfer of stock in the employer-corporation to qualified employee stock ownership plans.

The equivalence of these tax credits to outlay programs designed to subsidize particular classes of transactions is self-evident.

All of these departures from the reference tax rules are also departures from the "normal" tax rules and appear in tax expenditure budgets constructed from both baselines. The major items of tax expenditure relative to the "normal" baseline used in pre-1983 budgets that are not items of tax expenditure relative to the "reference" rules used beginning with the 1983 budget are: deferral of income of controlled foreign corporations, "gifts" or unilateral transfers from governments, and the difference between current statutory depreciation rules (ACRS) and alternative rules designed to provide a more accurate measure of economic income from capital investments.

Measuring Tax Expenditures

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 are said to "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 slate of goods and services that otherwise would not be produced. This occurs because control over resources is removed from the private sector either by taxation or by borrowing and made available for public use. Functional budget outlay figures, then, provide a basis for evaluating programs. The amount of an outlay 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 all such amounts also be stated in pre-tax magnitudes. Generally, budget outlays for the purchase of goods and services 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, as noted above, 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 or normal 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 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.

The estimates of tax expenditures 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 entries should be viewed as amounts that should be added to functional budget outlays and restored to budget receipts to provide a more consistent and comprehensive display of the resource reallocations produced by Federal fiscal measures.

The basic difference between the outlay equivalent and revenue loss estimates is that the former 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.*—As noted above, certain housing and meal allowances for military personnel are not included in the pre-tax incomes of military personnel. The revenue loss estimate for this item merely computes the tax that would be paid by military personnel if these payments had been taxable. 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 or normal 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, just as the taxable cash pay they receive must yield them enough disposable income to continue in military service. Since virtually all military personnel have otherwise taxable incomes, the outlay equivalent estimate exceeds the revenue loss estimate that does not take account of this fact. By "grossing-up" exempt government outlays for military service, the tax subsidy estimate is now measured in a manner consistent with other Defense Department outlays.

2. *Subsidies to reduce market prices.*—Some subsidies reduce market prices by purposively reducing taxes otherwise due and payable by producers. For example, the incremental research and experimentation (R&E) credit provides a subsidy for industrial R&E. A firm qualifying for the credit, however, 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 in support of its R&E. Cash payments for R&E would either be reported as gross income by the payee or would reduce the deduction for R&E expense, entering the payee's income subject to tax in either event. The expenditure equivalent of the incremental R&E tax credit is estimated as the amount of subsidy subject to reference tax rules that would have to be paid to firms for their qualified R&E expenditures and which would reduce their costs by as much as the tax credit, which does not enter taxable income. Again, this estimate of the R&E tax credit expenditure equivalent is larger than the amount that is estimated as a revenue loss.

Other subsidies reduce prices by reducing tax otherwise due and payable by the final 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 payment of the premium by 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. In other words, the preferential deduction represents partial reimbursement to households for the personal insurance expenditure they have made. Since this amount is included in the tax base of suppliers, the outlay equivalent of this tax expenditure is therefore the same 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 to shipowners who have ships built in U.S. shipyards, or the furnishing of equipment to Government contractors.

In general, under the reference and normal tax laws, the beneficiary of a capital grant is regarded as not having contributed the portion paid for by the Government to the cost of an asset. His "basis" in the subsidized asset is only the amount of his disposable resources expended. The asset is therefore shown on the beneficiary's tax books of account at its net private cost. Depreciation of only the private cost net of subsidy is recoverable in computing his income tax liability. However, in the case of the investment tax credit before January 1, 1983, the private firm was allowed cost recovery deductions for the entire cost of credited assets, gross of the credit for its purchase. 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. The estimated outlay equivalent for the investment tax credit was therefore larger than the revenue loss estimate because the latter did not take into account the extra investment grant provided by the additional tax depreciation allowed. Beginning in January 1983, this additional grant was reduced by half the amount of the investment tax credit because the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) provided 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, as has been noted, under reference and normal tax rules investments for the discovery and development of mineral deposits would be capitalized when incurred and recovered as depletion allowances as production from the deposit ensues. Under special tax rules, however, these investment expenditures are recovered as deductions when made, reducing taxes due and payable 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 deferral 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. For this reason the outlay equivalent of tax deferral is the same as the revenue loss estimate.

The tax expenditure estimates reported in table G-1 were prepared by the Treasury Department and are based upon income tax law enacted as of December 31, 1984. The estimates show the expenditure equivalent of each special tax provision by fiscal year. For tax expenditures resulting from the exclusion from taxable income of Federal Government payments to individuals, estimates of the payments upon which the tax subsidy estimates are based are shown elsewhere in the Budget.

The estimating procedure for tax expenditures 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 the levels that underlie the 1986 budget estimates.

The tax expenditure estimates presented in this Special Analysis, including those computed on a "revenue loss" basis shown in Table G-2, should not be interpreted as estimates of the increase in Federal receipts (or reductions in budget deficit) that would accompany the repeal of the special provisions. There are four reasons why such an interpretation is not possible.

First, repeal of some provisions could affect the aggregate level of income and economic growth. All receipts and expenditures in the budget are based on projections of income and growth that assume all existing laws, amended only as proposed in the budget, will continue. Thus, it is assumed that the investment tax credit and other incentives for private capital formation as currently enacted remain in effect. If, however, these investment incentives were repealed (or drastically curtailed) without being replaced by a comparable investment incentive, the current projections of income and growth would have to be revised downward. Projections of receipts and expenditures would also have to be changed to be consistent with the revised estimates of income. The estimated net effect of repeal of the investment tax credit on receipts, therefore, would not be equivalent to the tax expenditure. Of course, large changes in outlay programs beyond those proposed in the budget would also affect the tax base.

Second, all the tax expenditure estimates are based on the actual level of benefitted activities achieved with their aid, given the existence and utilization of all other tax expenditures. In the event a particular tax expenditure provision were repealed, the relative cost of the affected activity would be increased and this could be expected to elicit a response, some of which would spill over into other tax-expenditure-favored activities. For example, if the exclusion of employer-paid medical insurance from the gross income of employees were repealed, this form of employee compensation would become more costly from the employees' point of view and likely be substituted for by other forms of compensation, including cash but also other still tax-favored fringes, such as employer-paid pensions. Thus, the budget impact of repealing the exclusion of employer-paid medical insurance would not be an increase in revenues equal to the estimated cost of that tax expenditure, but a smaller amount due to some increase in tax expenditures for pensions or other fringes. In this respect, tax expenditures are similar to many outlay programs; a cut in support prices for one commodity might very well result in an increase in outlays for other price-supported commodities.

Third, as is the case with estimates of proposed changes in the reference tax law, tax subsidy estimates are computed on a "cash-flow" basis. The magnitudes of resources reallocated by the Federal government are portrayed by showing the budget impact of differences between current law provisions and either the reference or normal tax under the assumption that the baseline without the particular tax subsidy provision had always been in effect. These figures, therefore generally show larger amounts than would be realized as increased receipts in the first years of transition to a tax law without the special provisions. The estimates only take into account those changes scheduled under existing law, such as the phasing in or out of specific provisions.

Fourth, tax expenditure estimates cannot simply be added together to obtain totals for functional areas or a grand total. Although these estimates are reported on a provision-by-provision basis, many tax expenditures are interdependent because they mutually affect marginal tax rates and because of specific interdependencies between related provisions. For example, if a significant tax expenditure item such as exclusion from gross income of state and local bond interest received were repealed, this would move many taxpayers into higher tax brackets and, for those taxpayers, the value of other special exclusions and deductions from gross income would be enhanced. Thus, if one of these other tax expenditure provisions were simultaneously repealed along with exemption of State and local interest payments, the budget impact of the dual repeal would be greater than the sum of the two separate tax expenditure estimates. On the other hand, simultaneous repeal of two or more of the tax expenditure items cleared through individual tax accounts as deductions, such as for charitable contributions, mortgage interest, and property taxes, would have less budget impact than the sum of the individual tax expenditure estimates because each elimination of a deduction would make it more advantageous for taxpayers to opt for the zero bracket amount rather than to continue to itemize remaining allowable deductions. This would reduce the revenue gain from additional limitations on itemized deductions. Due to these and other interdependencies among tax expenditure items, the tabulated figures can only be interpreted as estimates of the budget impact of changes in one item at a time, assuming that other provisions of the tax law remain unchanged.

Tax Expenditures by Function

Outlay equivalent estimates of tax expenditures for 1984–86 are displayed by functional category in table G–1; revenue loss estimates for the same items are shown in table G–2. Whenever an item is identified as a tax expenditure by application of "normal tax" rules, but not by "reference tax" rules, the two items are shown in the tables, the former designated as "Pre-1983 budget method", the latter as "Post-1982 budget method." The National Need, or functional category, headings are those used in Part 5 of the budget. Inasmuch as the sources of data for estimating tax expenditures are largely corporation and individual income tax returns, the estimates this year are also arrayed by return type to facilitate comparisons with other tax expenditure listings that follow this practice.

It must be emphasized, however, that listing estimates under the "corporation" and "individual" headings does not imply that these categories of filers benefit from the functional program served by the special tax provisions in proportion to the respective tax expenditure amounts. These breakdowns principally show the indicated tax accounts through which the cost of the program is cleared. Corporations as such neither pay tax nor receive government payments. They are the institutional conduit through which their employees, creditors, and stockholders engage in exchanges with customers and the Government. Thus, the reduction in tax deposits of corporations resulting from minerals tax preferences makes possible higher wages and/or more employment for mineral workers, higher royalties payable to mineral land owners (usually not the mining company), and may even make possible lower minerals prices; little, if any, of the subsidy remains in the pockets of creditors and equity holders as interest rates or rates of return that are higher than such capital can earn elsewhere in the economy. Similarly, the exemption from Federal income tax of interest paid by State and local governments provides a subsidy to those governments in the form of lower borrowing rates. Individual and corporate holders of such debt only benefit from the tax exemption to the extent their marginal tax rates exceed the percentage spread between taxable and nontaxable interest rates.

With these interpretative cautions in mind, we turn to a review of the estimates in tables G-1 and G-2.

National defense.—The housing and meals provided military personnel, either in cash or in kind, are excluded from income subject to tax.

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 tax relief on his foreign earnings. Beginning in 1982, the prescribed period of time abroad is 11 out of the past 12 months.

Eligible taxpayers in 1985 may exclude $80,000 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 $80,000 exclusion in 1985 will increase by $5,000 annually starting in 1988 until it reaches $95,000 in 1990. 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 expenditure estimate also includes the effect of excluding from their taxable income certain allowances received by Federal employees working abroad. These provisions depart from the reference and normal tax law income measurement rules under which no allowance is made for regional cost-of-living differentials; their effect is to reduce the cost of employing U.S. taxpayers abroad.

A domestic international sales corporation (DISC) is a U.S. corporation that is usually wholly owned by one or more U.S. corporations. A DISC is organized to carry out the export sales of its U.S. parent(s) and in order to obtain the benefits of certain preferential tax rules. These preferential tax rules are departures from the reference as well as the normal income tax structure.

In 1984, responding to increasing concern over the legality of DISC under the General Agreement on Tariffs and Trade (GATT), Congress replaced DISC with an alternative export incentive, the Foreign Sales Company (FSC), in the Deficit Reduction Act (DEFRA) of 1984. Under DEFRA a portion of the export income of FSCs is exempt from federal income tax. In addition, a domestic corporation is allowed a 100 percent dividends received deduction for distributions from a FSC attributable to certain foreign trade income. In effect no corporate income tax is imposed on a portion of income from exports.

With certain limited exceptions, the income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation because, under the reference tax rules, corporations chartered and operating in foreign countries are not subject to U.S. income reporting and taxation. Therefore the income of even those foreign corporations controlled by U.S. shareholders (individuals and corporations) subject to U.S. taxation becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions with respect to their foreign stockholding. As previously noted, this rule is a deviation from the normal income tax rule under which a controlling interest in a foreign corporation, defined as ownership of more than 50 percent of the foreign corporation's common stock by U.S. shareholders, each of whom hold 10 percent or more of the stock, is considered a partnership interest held by the U.S. shareholder the currently attributable foreign source pretax income of which is subject to U.S. taxation, whether or not distributed. Thus, when the normal tax rule is taken as a baseline, the excess of controlled foreign corporation income over the amount distributed to a U.S. shareholder gives rise to a tax expenditure in the form of tax deferral, an interest-free loan. This tends to encourage investment abroad by U.S. shareholders.

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. Such expenditures are therefore capital outlays under normal income tax rules that will generate amortization deductions over the period they are productive. This departure from normal tax rules is considered a tax expenditure although its quantification is to a degree arbitrary due to lack of a clearly defined norm for the expected amortization period.

The Economic Recovery Tax Act of 1981 added a credit for increasing research activities. The credit is equal to 25 percent of the increase in certain research and experimentation expenditures over average expenditures in a base period and the taxpayer is not required to reduce his otherwise allowable deduction for R&E expenses by the amount of credit allowed. For 1983 and subsequent years, the base period is the preceding 3 years. The credit is scheduled to expire after 1985.

Under both the reference and normal tax rules, the worldwide gross income of U.S. taxpayers is reportable and taxable under U.S. income measurement rules and tax rates, although a credit is allowed for foreign income taxes paid. Due to differences between U.S. and foreign country income measurement rules and tax rates, a reasonably accurate "sourcing" of domestic and foreign gross incomes and related deductions of taxpayers engaged in international operations is required to determine net tax owed in the United States. Regulations issued in 1976 under Code section 861 were designed to achieve a reasonable international allocation of research and experimentation expenses. These regulations are suspended until 1985.

Energy.—Certain expenditures necessary to discover fuel mineral properties may be deducted in whole or in part as current expenses rather than being capitalized and amortized over the productive life of the property. Included in this category of expenditures, the tax treatment of which departs from both the reference and normal tax rules, are: In the case of oil and gas investments, the intangible drilling costs (IDCs) of wells, such as wages and the costs of using machinery for grading and drilling, and for nonsalvageable materials used in constructing wells; and in the case of other fuel minerals, the exploration and development costs of surface stripping and the construction of shafts and tunnels. However, in the case of IDCs, integrated oil companies may currently deduct only 85 percent of such costs and amortize the remaining 15 percent over three years; other oil producers may currently deduct 100 percent of their IDCs, but the amount of annual IDCs in excess of the taxpayer's oil and gas income is subject to the minimum tax. In the case of other fuel minerals, only 85 percent of the exploration and development costs may be currently deducted, the remaining 15 percent being deductible over five years. These departures from both the reference and normal tax rules yield subsidies to the domestic supply of these energy resources.

In addition, mineral fuel producers may generally take percentage depletion deductions rather than cost depletion as provided in the reference and normal tax rules. Under cost depletion, actual outlays, to the extent not immediately recovered through expensing of exploration, discovery, and development costs may be deducted over the productive life of the property, much as other businesses may take deductions for the depreciation of the capital goods they use, the cost of which is capitalized when acquired. Unlike depreciation, however, percentage depletion deductions are not limited to the cost of the investment. Under percentage depletion, taxpayers may deduct a percentage of gross income from mineral production at rates that are 22 percent for uranium, 15 percent for oil, gas and oil shale, and 10 percent for coal; however, the deduction is limited to 50 percent of net income from the property (65 percent of taxable income in the case of oil and gas). Percentage depletion for oil and natural gas is available only for limited quantities of output of independent oil and gas producers and royalty owners. Production from geothermal deposits is eligible for percentage depletion at the same rate as allowed for oil and gas, but with no limit on output and no limitation with respect to qualified producers. In lieu of taking percentage depletion, holders of royalties from coal deposits may treat their payments 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 percent income tax credit for home insulation and other energy-conserving components up to a maximum amount of $300. A credit of 40 percent of the first $10,000 of qualifying expenditures is allowed for expenditures on residential solar and other renewable energy source property. The residential energy credits are scheduled to expire December 31, 1985.

In addition to the 10 percent investment tax credit for machinery and equipment, a 10 percent credit is allowed for biomass energy property and inter-city buses, an 11 percent additional credit is available for certain small-scale hydroelectric generating property, and a 15 percent additional credit is allowed for solar, wind, ocean thermal, and geothermal equipment.

Prior to December 31, 1982, there were also additional 10 percent 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, cogeneration 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 nontaxable $3 per barrel of oil-equivalent production credit is provided for several forms of alternative fuels, but, as a general rule, is not available unless the price of oil drops below $29.50 (in 1979 dollars). The credit is available without this price limitation for processed wood fuel and steam produced from solid agricultural byproducts. Gasohol (a motor fuel comprised of at least 10 percent alcohol) is exempt from 5 of the 9 cents per gallon Federal excise tax on gasoline and there is a corresponding production income tax credit for alcohol used as a fuel in applications where the excise tax is not assessed. This credit, equal to a subsidy of 50 cents per gallon for alcohol used as a motor fuel, is intended to encourage substitution of alcohol for petroleum-based gasoline. Certain small scale hydroelectric generating facilities and facilities which produce steam or alcohol from solid waste may be financed with tax-exempt industrial development bonds, again to encourage the supply of non-petroleum energy resources.

Natural resources and environment.—As is true for fuel minerals, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than capitalized and depreciated over the life of the asset. Most nonfuel mineral extractors also make use of percentage depletion rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulphur down to 5 percent for sand and gravel.

Interest on State and local government debt issued to finance pollution control facilities of private firms is excluded from income subject to tax.

Expenditures to preserve and restore historic structures qualify for a 25 percent investment credit. Taxpayers are permitted to depreciate the full cost of the investment notwithstanding the capital grant implicit in the credit. Annual depreciation amounts are determined by the 18-year straight-line method.

The pre-tax income derived from the cutting of timber and as iron ore royalties are taxed as capital gain, at rates lower than those applicable to ordinary income.

Private forestry is additionally encouraged by a special provision permitting 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 to be amortized over a 7-year period rather than be capitalized and recovered when the timber is cut, 20 or more years later. The $10,000 of costs are also eligible for the 10 percent 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 currently certain expenditures for feed and fertilizer, and for certain conservation measures, even though these expenditures are for inventories held at the end of the year or for capital improvements that are required to be capitalized under reference tax income accounting rules. Capital gains treatment generally applies to the sale of livestock and certain other agricultural products.

Commerce and housing credit.—This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. In general, provisions related to investment, such as the investment tax credit, might alternatively have been classified under the natural resources and environment, energy, agriculture, or transportation categories.

An exclusion of $100 ($200 on a joint return) is allowed for dividend income. The Deficit Reduction Tax Act (DEFRA) of 1984 repealed the 15 percent net interest income exclusion of up to a maximum of $3,000 ($6,000 for joint returns) which had been provided for tax years beginning in 1985 by the Economic Recovery Tax Act (ERTA) of 1981.

The interest on "small issue" industrial development bonds (IDBs) issued by State and local governments to finance private business property is excluded from income subject to tax. Depreciable property financed with small issue IDBs must be depreciated using the straight-line method. Small issue IDBs are generally limited only in the face amount of the bond issue, although certain facilities, such as recreation or entertainment facilities, cannot be so financed. The tax exemption of small issue bonds was scheduled to expire on December 31, 1986. However, the Deficit Reduction Act (DEFRA) of 1984 extended the expiration date to December 31, 1988, for small issue IDBs exclusively issued to finance manufacturing facilities.

In addition, DEFRA has extended the sunset of mortgage subsidy bonds by four years. The interest on mortgage subsidy bonds issued before January 1, 1988, by State and local governments to finance below-market rate mortgages for certain owner-occupied homes continues to be exempt from taxation. The Mortgage Subsidy Bond Tax Act of 1980 restricted the annual volume of mortgage subsidy bonds to State-by-State ceilings. State-by-State restrictions were added by DEFRA in 1984 to include veterans mortgage subsidy bonds. Bond proceeds generally are used to finance homes purchased by first-time buyers of dwellings with prices under 110 percent of the average area purchase price.

Because mortgage subsidy bonds were found to be relatively inefficient in providing subsidies to first-time home buyers, States were offered with the passage of DEFRA mortgage credit certificates (MCCs) in lieu of qualified mortgage bonds. MCCs entitle home buyers to income tax credits for a specified percentage of interest on qualified mortgage loans. When utilizing MCCs the entire amount of the subsidy flows directly to the home buyer without part of it ending up with investors and middlemen as under the bond program.

The aggregate annual amount of MCCs a State may issue may not exceed 20 percent of the amount of qualified mortgage bonds that may be issued under the annual State-by-State ceiling and that the State elects to surrender in lieu of MCCs. Because of this relationship between MCCs and qualified mortgage bonds the outlay equivalent and revenue loss estimates are presented in the tables G–1 and G–2 as single line items.

With regard to State and local government issues of IDBs to finance private multifamily residential rental projects, the Omnibus Budget Reconciliation Act of 1980 restricted their use to multifamily rental housing projects that include 20 percent (15 percent in targeted areas) of units for low- and moderate-income families. Other tax-exempt bonds for multifamily rental projects are issued under Section 11(b) of the Housing Act of 1937. These projects generally require all tenants to be low- or moderate-income families.

DEFRA also has imposed limits on the usage of State and local government bonds for private activity, specifically IDBs and student loan bonds. This includes limits on the aggregate volume of private activity bonds that each State may issue. The annual limitation has been set initially at the greater of $150 for each resident of a State (reduced to $100 after 1987) or $200 million and is effective for bonds issued after 1983.

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.

The earnings of credit unions not distributed to members as interest or "share dividends" are exempt from Federal income taxes. Commercial banks, mutual savings banks, and savings and loan associations also are provided a subsidy. They 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 percent of income provided they maintain stipulated fractions of their assets in "qualifying assets," primarily residential mortgages.

As previously noted, interest paid on consumer credit is allowed as an itemized deduction for individuals, and owner-occupants of homes may deduct mortgage interest and property taxes (but not maintenance outlays or depreciation) as itemized nonbusiness deductions. These are tax expenditures because, under the reference and normal tax rules, these taxpayers are not required to report gross income from the properties to which the deductions pertain.

With the passage of DEFRA the minimum required holding period to qualify as a long-term gain was shortened from 1 year to 6 months for assets acquired after June 22, 1984 and before January 1, 1988. Sixty percent of net long-term gains from the sale of capital assets may be excluded from income. However, the excluded 60 percent 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 percent 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 long-term capital gains from sales or exchanges are taxed at a maximum rate of 20 percent. This maximum rate is equal to the 40 percent inclusion rate times the maximum individual rate of 50 percent.

Corporations may elect a 28 percent alternative tax rate on capital gains. The tax expenditure 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 of the previous residence. The deferral of tax with respect to these gains on owner-occupied dwellings is the tax expenditure estimated.

A taxpayer who is 55 years of age or older at the time of the sale of his residence may elect to exclude up to $125,000 of gain from its sale. This is a once-in-a-lifetime election. In effect, this provision converts some prior deferrals of tax into forgiveness of tax.

The gain on the sale of capital assets acquired by inheritance is computed as the excess of the sales 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 percent 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 only to a 6 percent credit). Notwithstanding the reduction in cost of acquiring qualified property provided by the credit, taxpayers prior to 1983 were able to recover the original cost gross of the credit. Under provisions in the Tax Equity and Fiscal Responsibility Act of 1982 (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, or the taxpayer may elect a 2 percentage point reduction in the credit rate.

As a general rule, the investment tax credit cannot be claimed for investments in land or buildings or for property used abroad. The credit may be claimed as progress payments are made on property that takes 2 or more years to construct. Prior to the Revenue Act of 1978, the maximum credit allowed against income tax liability in a taxable year was generally limited to $25,000 plus 50 percent of tax liability in excess of $25,000. The 1978 act raised the excess liability percentage to 60 percent for 1979 and, through annual increments of 10 percentage points, to 90 percent by 1982. However, the percentage was scaled back to 85 percent under TEFRA, effective in 1983.

The Tax Act of 1981 introduced the Accelerated Cost Recovery System (ACRS) as a replacement for previous statutory and administrative rules for determining annual tax depreciation allowances. Under ACRS, effective for all depreciable property placed in service after January 1, 1981, 6 statutory cost allowance schedules were provided: 4 classes for personal property and 2 for real property. The 4 personal property schedules, with recovery periods ranging from 3 years for vehicles and R&E equipment to 15 years for certain public utility property, set forth annual allowances, as amended by TEFRA in 1982, that are based on the declining balance formula at a rate equal to 150 percent of the straight-line rate. The 2 real property schedules both had 15-year recovery periods prior to passage of DEFRA in 1984. The first property schedule applies only to low-income housing which will continue with a 15 year recovery period whenever depreciation is on an accelerated basis. Annual allowances based on the declining balance formula may be accelerated to 200 percent of the straight-line rate. The holding period of the other, applicable to all other buildings, was extended to 18 years by DEFRA. Its allowances may be based on 175 percent of the straight-line rate.

As previously noted, ACRS is presently the reference law and thus yields no tax expenditure when that is taken as the baseline. However, when the preexisting statutory Asset Depreciation Range System (ADR), with its guideline depreciation periods for scores of personal property classes, is taken as the normal tax depreciation standard, along with 35-year straight-line depreciation for real property (not included in ADR), the ACRS provisions yield the "Pre-1983 budget method" tax expenditure estimates (tax deferrals) shown in the tables. Of course, other standards for determining annual depreciation allowances would yield different estimates.

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 was repealed by TEFRA, effective after 1983. For the period between July 1, 1982 and January 1, 1984, a restricted form of safe-harbor leasing was in effect.

In 1984, DEFRA reduced the tax benefits that were up to then available for tangible property used by tax-exempt entities including Federal, State and local governments. The Act provides for less rapid write-offs of property in use by tax-exempt entities. Depreciation deductions must be computed using the straight-line method disregarding salvage values instead of applying ACRS. For example, real tax-exempt use property must be depreciated over the greater of 40 years or a period equal to 125 percent of the lease term.

As under prior law, the investment credit generally is denied for property leased or used by tax-exempt entities. The Act expands the number of tax-exempt entities placed under the use restriction and provides statutory guidelines to distinguish between leases and service contracts or similar arrangements designed to circumvent the use restriction. DEFRA also introduced measures to limit foreign tax-exempt entities so that their tax benefits for property used does not exceed that of domestic tax-exempt entities. The Act's provisions generally apply to leases entered into after May 23, 1983 subject to numerous transition rules.

When an individual or corporation acquires or otherwise enters into a new business, certain "start-up" expenses, such as the costs of investigating opportunities and legal services, are normally incurred. The taxpayer may elect to amortize these outlays over 60 months although they are similar in kind to other payments he makes for nondepreciable intangible assets to be used in the business that are not recoverable until the business is sold.

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 percent of the interest rate on the last 52-week Treasury bills issued in a preceding week. The total amount of interest that was 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 percent of the proceeds from these certificates in housing or agricultural loans.

Taxpayers who hold common or preferred stock in a qualified dividend reinvestment plan established by a domestic public utility company may exclude from tax up to $750 per year ($1,500 for joint returns) of distributions in the form of common stock rather than cash. The stock so received has a zero basis; the proceeds of sales of the stock are taxed as capital gain if the sale takes place at least one year after the record date of the distribution. Under the normal and reference tax rules, distributions from corporate income are taxable to individual shareholders as ordinary income in the year received.

Corporation income tax rates range from 15 percent of the first $25,000 of taxable income to 46 percent of taxable income over $100,000. Prior to DEFRA, the corporation income tax of corporations with income of $100,000 or more was $20,250 less than had the tax been at a flat 46 percent rate on all income. DEFRA imposed an additional 5 percent corporate tax on corporations with taxable income in excess of $1 million, but with this additional tax liability limited to $20,250. The benefit of graduated rates is, therefore, eliminated for corporations with income in excess of $1,405,000.

Under the "Post-1982 budget method" graduated rates are part of the reference tax rules and do not give rise to a tax expenditure. Under the "Pre-1983 budget method", however, this rate progression departs from the normal tax rule that all corporation income be taxed at the single rate at which most corporation income is taxed (46 percent) and gives rise to a tax expenditure intended to encourage small business.

Transportation.—Certain companies that operate U.S.-flag vessels receive an indefinite deferral of income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs of ships, and repayment of loans to finance these qualified investments. An investment credit of one half the regular credit may be claimed on the tax-deferred amounts withdrawn from capital construction funds, an exception to the reference tax rule that the credit may be claimed only with respect to the taxpayer's basis in qualified property.

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 for lease to government transit agencies.

As a consequence of the deregulation of motor carriers in 1980, the value of operating authorities held by affected firms diminished. Under the reference and normal tax rule that asset value changes are recognized only when an exchange transaction occurs, this loss of value would occasion no income tax consequence; a motor carrier would simply experience a diminished gross income as competition reduced tariffs and, accordingly, pay less income tax; only in the event a carrier liquidated or sold out to another firm would the loss trigger a tax refund. To relieve existing motor carriers continuing in business of some of the loss they experienced due to deregulation, the Tax Act of 1981 provided a tax expenditure in the form of an exceptional 60-month amortization of their investment in operating authorities (a nondepreciable intangible asset).

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 in lieu of ACRS depreciation. 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 expired 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 percent of rehabilitation expenditures for buildings at least 30 years old and 20 percent for buildings at least 40 years old. The basis of the rehabilitation recoverable as depreciation must be reduced by the amount of the credit. Under prior law, a 10 percent credit was allowed for buildings at least 20 years old, with no reduction in basis.

The interest on industrial development bonds (IDBs) issued by State and local governments to finance airports, docks, and sports and convention facilities is exempt from taxation. Unlike the "small issue" industrial development bonds, there is no limit on the face amount of tax-exempt bonds issued for these purposes nor are they subject to the annual State-by-State volume limitation placed on the issuance of IDBs by the Deficit Reduction Act (DEFRA) of 1984.

Education, training, employment, and social services.—The first $300 per month received by students as scholarship *or* fellowship aid is excluded from students' gross incomes, provided the amounts are not emoluments awarded them for services they perform in association with the payee. From a strictly economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are "rebates" of educational costs by the institutions in which students are enrolled. Thus, under the "Post-1982 budget method", the exclusion is not a tax expenditure; the reference law does not include either gifts or price reductions in a taxpayer's gross income. However, under the "Pre-1983 budget method," the exclusion is considered a tax expenditure because under "normal tax" rules, gifts of Government funds—and many scholarships are derived directly and indirectly from Government funding—are includable in gross income.

Interest on State and local government debt issued to finance student loans and facilities used by private nonprofit educational facilities is excluded from income subject to tax. DEFRA placed limits on the aggregate volume of such private activity bonds that each State may issue during any calendar year. DEFRA also establishes that the Treasury Department has exclusive jurisdiction over any determination by the executive branch as to whether interest on any such obligation is exempt from tax.

Taxpayers may claim personal exemptions for dependent children age 19 or over who receive parental support payments 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; the extra exemption for parents is a tax expenditure.

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 lodging provided by an employer for his own convenience is a tax expenditure, as is the exclusion of housing allowances and the rental value of parsonages from the taxable income of ministers. From January 1, 1979, through December 31, 1983, an employer was able to set up an educational assistance program to provide educational benefits to his employees. The program can pay for tuition, fees, books, and supplies and 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 such plans are also excluded from employee income.

Prior to January 1, 1983, a corporation could claim an additional 1 percent investment tax credit if an equivalent amount of its common stock were set aside in a employee stock ownership plan (ESOP). A further one-half of 1 percent investment tax credit could be claimed to the extent that additional employer contributions to an ESOP were matched by employee contributions. Under the Economic Recovery Tax Act of 1981, the base for the tax credit for contributions of stock to an ESOP was limited to a prescribed percentage of total compensation paid to all employees under the plan. The percentage was one-half of 1 percent in 1983 and 1984, and was set to increase to three-quarters of 1 percent in 1985, 1986, and 1987, after which it was to expire. However, the Deficit Reduction Act (DEFRA) of 1984 froze the percentage at one-half of 1 percent for all years until expiration. Employees generally are prohibited from withdrawing their share of an ESOP for 7 years. The effective subsidy rate for this form of employee compensation exceeds 100 percent; the employer is fully reimbursed for the stock he transfers, and the benefitted employees are not required to include this compensation in their current year gross income.

Contributions to charitable, religious and certain other nonprofit organizations are allowed as an itemized deduction for individuals, generally up to 50 percent of adjusted gross income. Beginning in 1982, nonitemizers may also deduct a portion of their charitable contributions. Taxpayers whose contributions to charitable or educational organizations are in the form of capital assets (usually securities that have appreciated in value) obtain a deduction for the contribution at the current value of the asset without taxation of the appreciation in value. Corporations may also deduct charitable contributions of up to 10 percent of their pre-tax income, beginning in 1982. Tax expenditures resulting from the deductibility of contributions are shown separately for contributions to educational and other institutions. Contributions to health institutions are reported under the health function.

A 30 percent 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 $2,400 for one dependent and $4,800 for two or more dependents are eligible for the credit. The credit is equal to 30 percent 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. This aid to encourage employment of spouses is supplemented by excluding from employees' income the value of employer-furnished child care. Additional aid to spousal employment is provided by the deduction allowed married taxpayers filing jointly. The deduction allowed is equal to 10 percent of the lesser of $30,000 or the earned income of the lower earning spouse.

The targeted jobs credit provides tax credits to employers for qualified wages paid to individuals certified as members of a "targeted group." A credit of 50 percent of first-year wages and 25 percent of second-year wages up to $6,000 of each employee's wages can be taken by the employer to offset up to 90 percent of his tax liability. However, the employer's deduction for wages is reduced by the amount of the credit, the same reference tax treatment as would be accorded a wage subsidy paid in cash. The targeted jobs credit was originally scheduled to expire at the end of 1982 but had been extended by TEFRA until the end of 1984 before it was again extended by DEFRA for an additional year to the end of 1985. Also, the credit was expanded to include an 85 percent credit for wages paid for the summer employment of 16 and 17 year old disadvantaged youths. These credits are also structured to be taxable by the requirement that the employer reduce his wage paid deduction by the amount of the credit claimed.

To encourage the adoption of children found by a State to be difficult to place without financial assistance to the adopting parents, the 1981 Tax Act provided that taxpayers might deduct up to $1,500 of adoption expenses incurred during a year. Only those adoption expenses incurred with respect to a child with "special needs" as defined in section 473 of the Social Security Act qualify for this tax expenditure.

Health.—Employee compensation in the form of payments by employers for health insurance premiums and other medical expenses are deducted as business expenses by employers but excluded from employee gross income. The exclusion from employee income of this form of compensation gives rise to a tax expenditure.

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

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

Contributions to nonprofit health institutions are allowed as a deduction for individuals and corporations. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

Drugs for the treatment of rare diseases or physical conditions are often called "orphan drugs" because the narrow markets for their use discourages private firms from undertaking the costly investment in clinical testing that must be completed before manufacture and general distribution may be approved by the Food and Drug Administration. To encourage the development of such drugs, a tax credit equal to 50 percent of the clinical testing costs incurred by the taxpayer was introduced in 1983. Since the drug firm is not required to reduce its deduction for testing expense (an R&D expenditure), this credit reduces the private cost of clinically testing orphan drugs to little more than 7.5 cents per $1 expended. This tax expenditure is scheduled to expire at the end of 1987.

Social Security and Medicare.—Social security benefits, like other forms of deferred employee compensation, give rise to tax expenditures to the extent that they exceed employees' contributions of previously taxed income to pay for those benefits. These additional retirement benefits are paid for by employers' contributions that were excluded from employees' taxable compensation. As provided in the Social Security Act Amendments of 1983, beginning in 1984, up to one-half of any recipient's social security benefits and tier 1 railroad retirement benefits may be subject to inclusion in the income tax base. Thus, this tax expenditure is reduced to the portion which remains excluded from the tax base. Benefits will be taxable if a recipient's "modified adjusted gross income" plus one-half of his or her social security and railroad retirement benefits exceed a certain base amount: $32,000 for those filing joint tax returns; $25,000 for single persons; and zero for those married filing separately (if they did not live apart from their spouse for the entire year). "Modified adjusted gross income" is adjusted gross income plus (a) the amount, if any, taken as a deduction for two-earner married couples, (b) foreign or U.S. possession income excluded from AGI, and (c) tax-exempt interest excluded from AGI. If the modified AGI exceeds the specified base amount, the lesser of one-half of the excess or one-half of the social security or railroad retirement benefits must be included in income subject to tax.

Other benefit payments from the Social Security Trust Fund, for disability and for dependents and survivors, are excluded from beneficiaries' gross incomes and thus also give rise to tax expenditures. However, the 1983 legislation has modified Social Security disability benefits provisions, combining them with the elderly tax credit (see Income Security, below) beginning in 1984.

Income security.—The exclusion from taxable income of public assistance benefits received by individuals is listed as a tax expenditure under the "Pre-1983 Budget Method" because, under normal tax rules, cash transfers from government are includable in gross income. In contrast, gifts not conditioned on the performance of services, including transfers from government as well as from individuals, are not taxable under the reference tax baseline. Therefore, under the "Post-1982 Budget Method" the exclusion from taxable income of public assistance benefits is not shown as a tax expenditure.

The exclusion from tax of a portion of unemployment benefits gives rise to a tax expenditure. Under current law, 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), the lesser of one-half of that amount over the $12,000 limit or his unemployment benefits is taxable.

Certain payments up to $100 per week 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. This exclusion was repealed effective December 31, 1983, and the tax credit for the elderly was expanded to cover the permanently disabled. Disability-related military pension income received by current retirees is also mostly excluded from income subject to tax.

Certain contributions to pension plans by employers and amounts set aside by the self-employed and those not covered by an employer's plan (contributions to individual retirement accounts or IRAs) 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 percent of their income up to a maximum of $15,000 per year. Employees can deduct annual contributions of $2,000 (or 100 percent of compensation, if less), or $2,250 on a joint return if one spouse has no income. The investment income earned by pension funds and other qualifying retirement plans is not taxable when earned.

The exclusion from employee income of certain other employer payments, including payments for premiums of group life insurance and accident and disability insurance, are listed here because of their relationship to income security. The exclusion of certain other 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 percent 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. As provided in the Social Security Act Amendments of 1983, beginning in 1984 the disabled and retired will both be covered under this provision.

Premiums paid for casualty and theft insurance with respect to items of one's personal or real property are considered personal expenditures on a par with purchases of the property itself. Neither the purchases of property nor insurance premiums are therefore deductible as costs of earning income, and receipt of reimbursement for insured loss of such property is not reportable as gross income by the insured. Thus, under neither the reference nor normal tax baselines would the amount of an uninsured loss of such property be reportable. However, a special provision permits taxpayers to deduct casualty and theft losses exceeding $100 during a year, up to a maximum allowable deduction of 10 percent of AGI. This special relief for taxpayers suffering an uninsured loss is therefore a tax expenditure.

The Deficit Reduction Act (DEFRA) of 1984 provided for a number of changes to the earned income credit that low-income workers with minor dependents may claim. As a percentage of earned income up to $5,000, the credit was increased from 10 to 11 percent for a maximum annual credit of $550. The credit phased out at the rate of 12.5 cents per dollar earned over $6,000 until DEFRA changed the phase-out rate to 12 2/9 cents per dollar over $6,500. DEFRA also provided that in any tax year the amount of the credit allowed must be reduced by the alternative minimum tax liability of the tax payer. 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 shown as a tax expenditure.

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.

The interest on general obligations issued by State and local governments to finance housing for veterans is excluded from income subject to tax. However, DEFRA placed restrictions on veterans mortgage subsidy bonds including limits on their issuance to preexisting State programs and amounts based upon previous volume levels. Furthermore, future issuance of these bonds is limited to veterans who served in active duty before 1977. In addition, this tax expenditure provision is unaffected by the sunset of mortgage subsidy bonds.

General government.—A 50 percent credit may be claimed for 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. As a result of the tax exemption, State and local 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 to finance private activities, such as student loans, businesses, private nonprofit organizations, and housing, is classified elsewhere. Only the excluded interest on bonds for public purposes, such as schools, roads, and sewers, is included in this functional tax expenditure.

The deductibility of nonbusiness State and local taxes gives indirect assistance to these governments by reducing the costs of the services they provide and, thus, the burden on their taxpayers. 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.

Proposed Changes in Tax Expenditures

The Administration has proposed a number of tax revisions that would introduce new tax expenditures or change the cost of existing ones.

Enterprise Zones.— The Administration proposes that up to 25 small areas per year, not to exceed 75 in total, be designated "enterprises zones." The following tax incentives will be available for economic redevelopment in the zones: an exemption from capital gains tax on certain qualified property; a tax credit for employees equal to 5 percent of the first $10,500 of wages earned in the zone; a tax credit for employers equal to 10 percent of any qualified increases in their payrolls; a separate tax credit for employers of certain disadvantaged individuals equal to 50 percent of the wages of such persons for the first three years of employment (the percentage declines by 10 points in the fourth year and each year thereafter); an increase of 50 percent in the regular investment tax credit for investment in equipment; a 10 percent investment tax credit for new construction and reconstruction of buildings; and continued availability of tax-exempt financing beyond the sunset date of small issue bonds.

The incentives for enterprise zones will result in a revenue loss of $100 million in 1986. The corresponding outlay equivalent tax expenditure figure is $305 million in 1986.

Tuition Tax Credit.—The Administration proposes to provide taxpayers a nonrefundable credit of 50 percent of tuition expenses paid to private elementary and secondary schools for certain qualified dependents. The maximum credit allowable for each dependent phases up over time to a maximum of $300 and phases out for taxpayers with adjusted gross incomes between $40,000 and $60,000. The proposed effective date is August 1, 1985.

Enactment of the tuition tax credit will result in a revenue loss of $360 million in 1986. The corresponding outlay equivalent tax expenditure estimate is $635 million in 1986.

Tax Incentives for Higher Education.—The Administration proposes to exclude from tax the earnings on savings deposited in special accounts that will be used to pay future higher education expenses of dependent children. The maximum annual contribution to these accounts will be $1,000 per child. This maximum will be reduced 5 cents for each dollar that the taxpayer's adjusted gross income exceeds $40,000, so that any taxpayer with adjusted gross income in excess of $60,000 will be ineligible.

If enacted, the education savings account proposal is scheduled to become effective January 1, 1986 and would result in a revenue loss of $30 million in 1987. The corresponding outlay equivalent tax expenditure is $75 million in 1987.

Increase in Dependent Care Tax Credit.—The Administration proposes to classify all qualified, nonprofit dependent care facilities as tax-exempt organizations and to increase the dependent care tax credit to 40 percent of the qualifying dependent care expenses of individuals with an income of $10,000 or less; the credit would reduce as the individual's income increases and phase out when income reaches $60,000.

The effective date of the proposed increase of the credit is January 1, 1986. Enactment will increase the revenue loss by $25 million in 1987. The corresponding increase in the outlay equivalent tax expenditure is $235 million in 1987.

Extension of Incremental R&D Credit.—The Administration proposes to extend for 3 years the credit for research and experimental expenditures which is scheduled to expire December 31, 1985.

Table G–1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	2,210	2,375	2,425
International affairs:						
Exclusion of income earned abroad by United States citizens	....	....	....	2,100	2,265	2,405
Deferral of income of domestic international sales corporations (DISC)	1,420	785	*	....	....	....
Exclusion of income of foreign sales corporations (FSC)	....	785	1,665	....	....	....
Deferral of income from controlled foreign corporations:						
Pre-1983 budget method	575	625	650	....	....	....
Post-1982 budget method	....	....	....	....	....	....
Total (after interactions) [1]	1,995	2,195	2,315	2,100	2,265	2,405
General science, space, and technology:						
Expensing of research and development expenditures	3,190	3,595	3,755	145	170	180
Credit for increasing research activities	3,345	2,760	1,595	15	50	10
Suspension of the allocation of research and experimentation expenditures	90	210	110	....	....	....
Total (after interactions)	7,280	7,200	5,995	175	240	210
Energy:						
Expensing of exploration and development costs:						
Oil and gas	620	1,005	1,170	975	1,055	1,075
Other fuels	*	*	*	....	....	....
Excess of percentage over cost depletion:						
Oil and gas	465	440	410	1,175	1,105	1,025
Other fuels	530	580	620	20	25	25
Capital gains treatment of royalties on coal	15	20	20	150	170	185
Exclusion of interest on State and local industrial development bonds for certain energy facilities	145	155	180	....	....	....
Residential energy credits:						
Supply incentives	....	....	....	415	450	175
Conservation incentives	....	....	....	325	295	70
Alternative, conservation and new technology credits:						
Supply incentives	225	215	120	35	35	15
Conservation incentives	5	*	*	*	....	....
Alternative fuel production credit	35	40	45	....	....	....
Alcohol fuel credit [2]	*	*	*	....	....	....
Energy credit for intercity buses	15	15	5	*	*	*
Special rules for minning reclamation reserves	15	35	50	*	5	5
Total (after interactions)	1,470	1,780	1,860	2,195	2,230	1,825
Natural resources and environment:						
Expensing of exploration and development costs, nonfuel minerals	*	*	*	....	....	....
Excess of percentage over cost depletion, nonfuel minerals	465	535	605	15	20	20
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	975	1,115	1,265	....	....	....
Tax incentives for preservation of historic structures	105	140	180	220	290	370

Table G–1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Capital gains treatment of iron ore	*	*	*	25	30	35
Capital gains treatment of certain timber income	375	470	600	110	115	120
Investment credit and seven-year amortization for reforestation expenditures	40	40	45	5	10	10
Total (after interactions)	1,550	1,815	2,125	370	460	545
Agriculture:						
Expensing of certain capital outlays	75	80	80	575	605	635
Capital gains treatment of certain income	40	55	65	685	720	755
Total (after interactions)	110	130	135	1,185	1,245	1,305
Commerce and housing credit:						
Dividend exclusion				680	700	730
Exclusion of interest on small issue industrial development bonds	1,875	2,210	2,590			
Exemption of credit union income	410	455	490			
Excess bad debt reserves of financial institutions	1,100	1,395	1,655			
Exclusion of interest on life insurance savings				4,690	5,020	5,370
Deductibility of interest on consumer credit				12,985	14,790	16,030
Deductibility of mortgage interest on owner-occupied homes				23,030	25,140	27,575
Deductibility of property tax on owner-occupied homes				8,930	9,815	10,870
Exclusion of interest on State and local housing bonds for owner-occupied housing				1,315	1,670	2,115
Exclusion of interest on State and local debt for rental housing	665	865	1,085			
Capital gains (other than agriculture, timber, iron ore and coal)	1,430	1,560	1,695	27,580	28,870	30,300
Deferral of capital gains on home sales				2,355	2,485	2,670
Exclusion of capital gains on home sales for persons age 55 and over				1,040	1,120	1,205
Carryover basis of capital gains at death				6,045	6,850	7,690
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	23,980	25,580	26,190	3,880	3,920	3,950
Accelerated depreciation on rental housing:						
Pre-1983 budget method	145	165	185	570	635	695
Post-1982 budget method						
Accelerated depreciation of buildings other than rental housing:						
Pre-1983 budget method	4,295	5,625	6,460	2,195	2,930	3,265
Post-1982 budget method						
Accelerated depreciation of machinery and equipment:						
Pre-1983 budget method	13,080	19,035	20,350	1,550	2,430	2,595
Post-1982 budget method						
Safe harbor leasing rules	2,935	2,640	2,245			
Amortization of start-up costs	30	45	50	260	355	410
Exclusion of interest on certain savings certificates				110		
Reinvestment of dividends in public utility stock				670	685	170
Reduced rates on the first $100,000 of corporate income:						
Pre-1983 budget method	8,860	9,290	9,975			
Post-1982 budget method						

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

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Deductions for special percentage of taxable income for life insurance companies	950	1,335	1,425	....	....	....
Total (after interactions) [1]	60,235	70,710	74,920	96,625	106,025	114,075
Transportation:						
Deferral of tax on shipping companies	40	40	40	....	....	....
Exclusion of interest on State and local government bonds for mass commuting vehicles	40	55	60	....	....	....
Deduction for motor carrier operating rights	110	70	15	5	5	*
Total (after interactions)	190	165	115	5	5	*
Community and regional development:						
Five-year amortization for housing rehabilitation	25	30	30	40	45	45
Investment credit for rehabilitation of structures (other than historic)	185	185	195	165	160	170
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	330	370	420	....	....	....
Total (after interactions)	545	590	650	210	210	220
Education, training, employment, and social services:						
Exclusion of scholarship and fellowship income:						
Pre-1983 budget method	....	....	....	610	640	650
Post-1982 budget method	....	....	....	....	....	....
Exclusion of interest on State and local student loan bonds	....	....	....	220	310	390
Exclusion of interest on State and local debt for private nonprofit educational facilities	120	160	200	....	....	....
Parental personal exemption for students age 19 or over	....	....	....	1,065	1,130	1,250
Deductibility of charitable contributions (education)	400	415	550	710	790	930
Employer educational assistance	....	....	....	70	95	25
Total education (after interactions) [1]	520	575	750	2,710	3,005	3,290
Exclusion of employer provided child care	....	....	....	10	20	30
Exclusion of employee meals and lodging (other than military)	....	....	....	805	885	975
Exclusion of contributions to prepaid legal services plans	....	....	....	50	60	15
Investment credit for ESOPs	2,275	3,070	3,650	....	....	....
Credit for child and dependent care expenses	....	....	....	2,640	3,030	3,410
General jobs credit	55	*	....	....	....	....
Targeted jobs credit	320	540	300	100	120	65
Deduction for two earner married couples	....	....	....	6,240	6,915	7,700
Total training and employment (after interactions)	2,650	3,610	3,950	9,950	11,145	12,325
Deductibility of charitable contributions, other than education and health	500	515	560	9,670	10,810	12,680
Deduction for certain adoption expenses	....	....	....	15	15	15
Exclusion of parsonage allowances	....	....	....	160	170	175
Total social services, (after interactions)	500	515	560	9,845	10,995	12,870
Grand total (after interactions) [1]	3,670	4,700	5,260	22,515	25,155	28,500
Health:						
Exclusion of employer contributions for medical insurance premiums and medical care	....	....	....	25,335	28,200	31,555
Deductibility of medical expenses	....	....	....	3,190	3,470	3,850

Table G–1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Exclusion of interest on State and local debt for private nonprofit health facilities	1,090	1,425	1,790			
Deductibility of charitable contributions (health)	245	255	275	1,415	1,580	1,855
Tax credit for orphan drug research	25	25	25			
Total (after interactions)	1,360	1,705	2,090	30,240	33,585	37,635
Social Security and Medicare:						
Exclusion of social security benefits:						
Disability insurance benefits				2,265	1,160	1,175
OASI benefits for retired workers				12,750	12,740	13,250
Benefits for dependents and survivors				3,660	3,785	4,000
Total (after interactions)				18,575	17,685	18,425
Income security:						
Exclusion of railroad retirement system benefits				525	450	455
Exclusion of workmen's compensation benefits				2,270	2,435	2,615
Exclusion of public assistance benefits:						
Pre-1983 budget method				515	520	530
Post-1982 budget method						
Exclusion of special benefits for disabled coal miners				155	150	150
Exclusion of untaxed unemployment insurance benefits				1,845	1,405	1,205
Exclusion of disability pay				35		
Exclusion of military disability pensions				120	120	125
Net exclusion of pension contributions and earnings:						
Employer plans				64,655	72,010	80,655
Individual Retirement Accounts				15,920	17,620	19,570
Keogh plans				2,525	2,710	2,925
Exclusion of other employee benefits:						
Premiums on group term life insurance				2,575	2,770	2,900
Premiums on accident and disability insurance				175	170	175
Income of trusts to finance supplementary unemployment benefits				20	20	30
Additional exemption for the blind				40	45	50
Additional exemption for elderly				2,530	2,685	2,955
Tax credit for the elderly and disabled				195	225	225
Deductibility of casualty losses				530	615	700
Earned income credit [3]				370	355	395
Total (after interactions) [1]				91,925	103,045	114,345
Veterans benefits and services:						
Exclusion of veterans disability compensation				1,640	1,675	1,720
Exclusion of veterans pensions				195	190	190
Exclusion of GI bill benefits				135	125	110
Exclusing of interest on state and local debt for veterans housing				225	245	270
Total (after interactions)				2,195	2,235	2,290
General government:						
Credits and deductions for political contributions				290	290	295
General purpose fiscal assistance:						
Exclusion of interest on public purpose State and local debt	1,445	1,580	1,740	5,775	6,280	6,960
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes				21,000	22,605	24,740

Table G–1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Tax credit for corporations receiving income from doing business in United States possessions	2,180	2,400	2,640	....	....	....
Total (after interactions)	3,625	3,980	4,380	26,775	28,885	31,700
Interest:						
Deferral of interest on savings bonds	....	....	....	740	795	850

* $2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] Totals include only pre-1983 budget method.

[2] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $215 million in 1984, $270 million in 1985, and $305 million in 1986.

[3] The figures in the table indicate the tax subsidies provided by the earned income tax credit. The effect on outlays is: 1984, $1,120 million; 1985, $1,041 million; 1986, $1,165 million.

Revenue Loss Estimates for Tax Expenditures

Table G–2 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 Expenditures," revenue loss estimates do not take into account the additional resources (if any) that would be required to provide the same after-tax incentive if the expenditure program were administered as a direct outlay rather than through the tax system. As was also previously explained, these "revenue loss" estimates are not equivalent to estimates of the increase in Federal receipts that would accompany the repeal of tax expenditure provisions.

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	1,825	1,960	2,095
International affairs:						
Exclusion of income earned abroad by United States citizens	....	....	....	1,300	1,405	1,490
Deferral of income of domestic international sales corporations (DISC)	850	470	*	....	....	....
Exclusion of income of foreign sales corporations (FSC)	....	470	1,000	....	....	....
Deferral of income from controlled foreign corporations:						
Pre-1983 budget method	345	375	390	....	....	....
Post-1982 budget method	....	....	....	....	....	....
General science, space, and technology:						
Expensing of research and development expenditures	3,355	3,530	3,745	140	160	180
Credit for increasing research activities	1,360	1,615	1,110	20	25	15
Suspension of the allocation of research and experimentation expenditures	55	125	65	....	....	....
Energy:						
Expensing of exploration and development costs:						
Oil and gas	485	970	1,150	930	1,060	1,140
Other fuels	*	*	*	....	....	....
Excess of percentage over cost depletion:						
Oil and gas	325	305	285	850	815	755
Other fuels	355	360	390	15	15	15
Capital gains treatment of royalties on coal	10	10	15	90	100	110
Exclusion of interest on State and local industrial development bonds for certain energy facilities	90	95	100	70	80	90
Residential energy credits:						
Supply incentives	....	....	....	325	330	315
Conservation incentives	....	....	....	270	245	190

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

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Alternative, conservation and new technology credits:						
Supply incentives	195	185	120	25	25	20
Conservation incentives	10	*	*	*	....	....
Alternative fuel production credit	10	25	25	*	*	*
Alcohol fuel credit [1]	*	*	*	*	*	*
Energy credit for intercity buses	10	10	5	*	*	*
Special rules for minning reclamation reserves	10	35	45	*	5	5
Natural resources and environment:						
Expensing of exploration and development costs, nonfuel minerals	*	*	*	....	....	....
Excess of percentage over cost depletion, nonfuel minerals	315	365	415	15	15	15
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	640	695	755	500	575	645
Tax incentives for preservation of historic structures	90	110	140	165	215	275
Capital gains treatment of iron ore	*	*	*	15	20	25
Capital gains treatment of certain timber income	215	270	345	80	85	90
Investment credit and seven-year amortization for reforestation expenditures	20	20	20	*	*	5
Agriculture:						
Expensing of certain capital outlays	75	75	80	565	595	620
Capital gains treatment of certain income	20	30	35	550	580	605
Commerce and housing credit:						
Dividend exclusion	....	....	....	495	505	525
Exclusion of interest on small issue industrial development bonds	1,265	1,385	1,530	985	1,175	1,350
Exemption of credit union income	240	270	290	....	....	....
Excess bad debt reserves of financial institutions	635	810	970	....	....	....
Exclusion of interest on life insurance savings	....	....	....	3,190	3,915	3,655
Deductibility of interest on consumer credit	....	....	....	12,680	14,625	15,900
Deductibility of mortgage interest on owner-occupied homes	....	....	....	22,735	24,925	27,300
Deductibility of property tax on owner-occupied homes	....	....	....	8,820	9,725	10,745
Exclusion of interest on State and local housing bonds for owner-occupied housing	1,225	1,500	1,805	275	350	450
Exclusion of interest on State and local debt for rental housing	435	540	650	295	370	455
Capital gains (other than agriculture, timber, iron ore and coal)	1,440	1,540	1,675	17,615	18,355	19,260
Deferral of capital gains on home sales	....	....	....	1,705	1,780	1,885
Exclusion of capital gains on home sales for persons age 55 and over	....	....	....	755	805	860
Carryover basis of capital gains at death	....	....	....	3,860	4,355	4,940
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	20,285	20,710	22,020	3,160	3,190	3,285
Accelerated depreciation on rental housing:						
Pre-1983 budget method	150	160	180	530	615	670

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Post-1982 budget method	....	....	....	....	....	....
Accelerated depreciation of buildings other than rental housing:						
Pre-1983 budget method	4,325	5,420	6,365	1,965	2,640	3,195
Post-1982 budget method	....	....	....	....	....	....
Accelerated depreciation of machinery and equipment:						
Pre-1983 budget method	12,810	18,105	20,395	1,280	2,080	2,625
Post-1982 budget method	....	....	....	....	....	....
Safe harbor leasing rules	2,800	2,340	1,990	....	....	....
Amortization of start-up costs	20	25	30	160	230	285
Exclusion of interest on certain savings certificates	....	....	....	320	....	....
Reinvestment of dividends in public utility stock	....	....	....	415	450	280
Reduced rates on the first $100,000 of corporate income:						
Pre-1983 budget method	4,910	5,000	5,315	....	....	....
Post-1982 budget method	....	....	....	....	....	....
Deduction for special percentage of taxable income for life insurance companies	455	790	845	....	....	....
Transportation:						
Deferral of tax on shipping companies	40	40	40	....	....	....
Exclusion of interest on State and local bonds for mass commuting vehicles	35	40	40	30	35	40
Deduction for motor carrier operating rights	70	50	15	5	5	5
Community and regional development:						
Five-year amortization for housing rehabilitation	25	30	30	35	40	45
Investment credit for rehabilitation of structures (other than historic)	200	185	195	165	160	165
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	230	260	285	170	195	225
Education, training, employment, and social services:						
Exclusion of scholarship and fellowship income:						
Pre-1983 budget method	....	....	....	605	655	645
Post-1982 budget method	....	....	....	....	....	....
Exclusion of interest on State and local student loan bonds	220	295	355	65	80	95
Exclusion of interest on State and local debt for private nonprofit educational facilities	120	150	180	30	35	40
Parental personal exemption for students age 19 or over	....	....	....	1,060	1,120	1,230
Deductibility of charitable contributions (education)	420	415	445	700	775	910
Employer educational assistance	....	....	....	15	110	25
Exclusion of employer provided child care	....	....	....	5	10	20
Exclusion of employee meals and lodging (other than military)	....	....	....	725	795	870
Exclusion of contributions to prepaid legal services plans	....	....	....	35	40	15
Investment credit for ESOPs	1,430	1,910	2,330	....	....	....
Credit for child and dependent care expenses	....	....	....	1,875	2,195	2,500
General jobs credit	*	....	....	....	....	....
Targeted jobs credit	275	340	230	55	75	60
Deduction for two earner married couples	....	....	....	6,170	6,745	7,285

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

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
Deductibility of charitable contributions, other than education and health	525	515	550	9,580	10,620	12,460
Deductions for certain adoption expenses				10	10	10
Exclusion of parsonage allowances				125	130	140
Health:						
Exclusion of employer contributions for medical insurance premiums and medical care				19,145	21,245	23,700
Deductibility of medical expenses				3,165	3,430	3,805
Exclusion of interest on State and local debt for private nonprofit health facilities	1,065	1,335	1,630	250	305	355
Deductibility of charitable contributions (health)	260	255	275	1,400	1,555	1,825
Tax credit for orphan drug research	15	15	15			
Social Security and Medicare:						
Exclusion of social security benefits:						
Disability insurance benefits				1,245	1,165	1,185
OASI benefits for retired workers				13,815	12,830	13,385
Benefits for dependents and survivors				3,755	3,780	3,990
Income security:						
Exclusion of railroad retirement system benefits				615	450	455
Exclusion of workmen's compensation benefits				2,165	2,325	2,500
Exclusion of public assistance benefits:						
Pre-1983 budget method				515	520	530
Post-1982 budget method						
Exclusion of special benefits for disabled coal miners				155	150	150
Exclusion of untaxed unemployment insurance benefits				2,045	1,605	1,260
Exclusion of disability pay				75		
Exclusion of military disability pensions				120	120	125
Net exclusion of pension contributions and earnings:						
Employer plans				44,050	44,205	55,110
Individual Retirement Accounts				10,990	12,050	13,410
Keoghs				1,410	1,585	1,685
Exclusion of other employee benefits:						
Premiums on group term life insurance				1,910	2,055	2,220
Premiums on accident and disability insurance				125	125	130
Income of trusts to finance supplementary unemployment benefits				20	20	30
Additional exemption for the blind				40	45	45
Additional exemption for elderly				2,520	2,665	2,920
Tax credit for the elderly and disabled				145	225	225
Deductibility of casualty losses				370	435	490
Earned income credit [2]				330	305	340
Veterans benefits and services:						
Exclusion of veterans disability compensation				1,640	1,675	1,720
Exclusion of veterans pensions				195	190	190
Exclusion of GI bill benefits				135	125	110
Exclusion of interest on State and local debt for veterans housing	200	220	335	40	45	50
General government:						
Credits and deductions for political contributions				275	295	290

Table G–2. **REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1984	1985	1986	1984	1985	1986
General purpose fiscal assistance:						
Exclusion of interest on public purpose State and local debt	6,235	6,755	7,320	1,895	2,030	2,170
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	....	....	....	20,895	22,520	24,650
Tax credit for corporations receiving income from doing business in United States possessions	1,310	1,440	1,585	....	....	....
Interest:						
Deferral of interest on savings bonds	....	....	....	720	770	825

* $2.5 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 $215 million in 1984, $270 million in 1985, and $305 million in 1986.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1984, $1,120 million; 1985, $1,041 million; 1986, $1,165 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 toward that role by providing grants, loans, and tax subsidies to States and localities. Federal policies designed to improve the economy also contribute significantly to the fiscal health of the State and local sector.

Federal grants are used to help State and local governments provide a wide variety of public programs and services ranging from income support for individuals to the construction of highways. Federal grant-in-aid outlays, which are estimated to be $107.0 billion in 1985, are projected to decline to $100.7 billion in 1986 and $99.2 billion in 1987. These reductions reflect the administration's efforts to restrain Federal spending in all areas of the budget and to reduce Federal involvement in activities that are primarily State and local responsibilities.

The curb on Federal spending is essential for sustained, long term economic growth. State and local governments have benefited significantly from the national economic recovery over the past 2 years and will continue to benefit from a strong, expanding economy. The budget proposes a 1-year freeze on funding for selected discretionary grants, program reforms for better targeting of Federal aid, and reductions in low priority grant programs.

—Medicaid cost increases would be reduced by $1.1 billion from projected levels in 1986. In subsequent years, the program would be allowed to grow at the rate of increase in prices in the medical sector.

—The administration is proposing changes in the Federal payment for State administrative expenses associated with the medicaid, food stamp, and aid to families with dependent children (AFDC) programs. The current open-ended matching payments would be replaced in 1986 by a Federal grant funded at 1985 levels; payments in subsequent years would be indexed to the GNP deflator. Complicated matching requirements would be eliminated and cost allocation plans would be simplified. States would also be permitted to transfer up to 10% of the

[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.

funds for each program to other State-administered public assistance programs.

—A 2-year moratorium is proposed for new subsidized housing commitments and for rental rehabilitation grants.

—The obligation limit for the Federal-aid highway program would be frozen at the 1985 level for the next 2 years. Available funds would be used to complete and preserve the interstate highway system and to rehabilitate Federal highways and bridges.

—Block grants for health, social services, energy assistance, education, and training and employment would generally be frozen at 1985 levels in 1986 with one exception. The primary care block grant would be expanded to include narrow categorical programs for black lung clinics, migrant health, and family planning.

In addition to these proposals, the administration has not requested funds for grant programs that are unnecessary, ineffective, or an inappropriate use of Federal funds. These proposed terminations are motivated both by the need to reduce the deficit and by a fundamental conviction about the proper relationship between Federal, State and local governments.

—The administration is proposing legislation to end the general revenue sharing program in 1986. Local governments have decreased their reliance on inelastic and regressive revenue sources and most are able to finance their own public services. In the current fiscal environment, Federal revenues must be used to support national needs and priorities.

—Large reductions are proposed for mass transit programs. These proposals reflect the administration's belief that it is inappropriate to spend Federal tax dollars on activities that provide mainly local benefits.

—The urban development action grants program would be terminated in an effort to reduce direct Federal intervention in the economic decisions of firms and individuals.

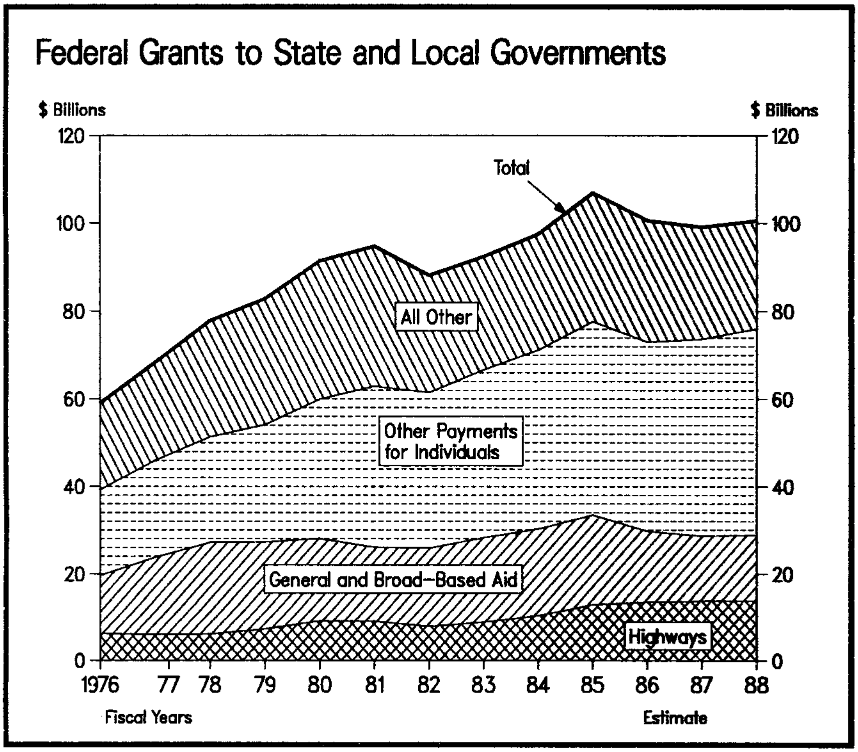
—The work incentive program is proposed to be eliminated because it is ineffective and better programs are available to train welfare recipients.

The chart on the following page shows trends in outlays in major grant categories from 1976 to 1988.

In addition to grants-in-aid, Federal direct lending and loan guarantees to State and local governments are a significant source of Federal aid. Federal loans are used by States and localities for many purposes, including housing construction and rehabilitation, land and water resource development, and education. In 1986, the Federal Government is expected to disburse $2.6 billion in loans to

State and local governments. New guaranteed loans are estimated to be $0.5 billion in 1986.

The two major State and local tax expenditures are the deductibility of most State and local taxes and the exclusion of interest on State and local securities from Federal taxation. Federal aid to State and local governments through tax expenditures is expected to be $44.4 billion in 1986.



Highlights of the Federal Aid Program

This section provides an overview of the Federal aid program proposed for 1986. Shown first are major differences between actual grant outlays in 1984 and estimated levels for 1985 and 1986. This presentation is followed by a more detailed description of proposals for specific grant programs and a discussion of proposed levels of Federal aid through loans and tax expenditures.

Table H-1 shows changes in grant outlays between 1984 and 1985 and between 1985 and 1986. These changes are divided into two categories: those that affect grants that finance State or local payments for individuals and all other changes.

Grants that are subsequently paid as income support for individuals—such as medicaid, nutrition assistance, and housing subsidies—are estimated to increase by $3.6 billion between 1984 and

1985 and decrease by $0.9 billion between 1985 and 1986. The largest increase in 1985 is for medicaid benefits, which are expected to grow by $2.8 billion. Outlays for the food stamp and child nutrition programs are also expected to increase in 1985. The decrease between 1985 and 1986 due primarily to administration proposals to impose a 2-year moratorium on new subsidized housing commitments, and reforms in the food stamp, child nutrition, and assistance payments (AFDC) programs.

All other grants are expected to increase by $5.9 billion in 1985 and decrease by a somewhat lesser amount—$5.4 billion—in 1986. Outlays for highway programs are estimated to increase by $2.5 billion in 1985 as a result of the Surface Transportation Assistance Act of 1982. Other increases are expected for education, training and employment, and mass transit programs. The outlay reduction projected for 1986 reflects the proposed termination of general revenue sharing, a 1-year spending freeze for most discretionary programs, and other measures to restrain Federal spending.

Energy, natural resources, and environment.—State and local *energy conservation grants* administered by the Department of Energy are used to insulate school buildings, hospitals, and the homes of low income families living in less energy efficient housing. Grants are also available to help States develop energy conservation programs. The budget proposes to phase out support for these activities over the next 5 years. The significant energy and dollar savings from conservation projects in schools and hospitals should provide sufficient incentive for these institutions to finance these programs. In addition, legislation is proposed to finance these projects with funds recovered by the Government from past petroleum pricing violations. Budget authority of $35 million is requested for the program in 1986. An additional $191 million will become available in 1986 if Congress enacts proposed legislation allowing the use of funds from petroleum pricing violations for a total program level of $226 million.

The *coastal zone management State grant program* was created in 1972 to help States develop the capability to manage their coastal resources. No budget authority is proposed for the program in 1986 and a rescission of $37 million is proposed for 1985. The program has achieved its objectives and Federal funding is no longer required. Twenty-eight States have developed management plans encompassing 90% of the U.S. coastline.

The budget authority request in 1986 for grants from the *abandoned mine reclamation fund* is $211 million, $44 million below the 1985 level. The decrease reflects the administration's belief that States have primary responsibility for coal mining regulatory and reclamation programs. Approximately 450 projects in 29 States would be financed by the 1986 request.

Table H-1. **FEDERAL GRANT-IN-AID CHANGES, 1984–86**

(Outlays in billions of dollars)

	Outlays
Total grants, 1984 actual	97.6
Changes:	
Payments for individuals:	
Medicaid	2.8
Food and nutrition assistance	0.6
Housing programs	0.3
Other	−0.1
Subtotal, payments for individuals	3.6
Other programs:	
Highway programs	2.5
Elementary, secondary, and vocational education programs	0.9
Training and employment programs	0.6
Urban mass transit assistance	0.4
Food donations (CCC)	0.4
Other	1.1
Subtotal, other programs	5.9
Total grants, 1985 estimate	107.0
Changes:	
Payments for individuals:	
Housing programs	−0.9
Medicaid	0.7
Food and nutrition assistance	−0.3
Other	−0.4
Subtotal, payments for individuals	−0.9
Other programs:	
General revenue sharing	−3.4
Highway programs	0.6
Social services	−0.4
Urban mass transit assistance	−0.9
Food donations (CCC)	−0.4
Community development block grants	−0.4
Other	−0.5
Subtotal, other programs	−5.4
Total grants, 1986 estimate	100.7

The Environmental Protection Agency's *construction grants program* was created to help State and local governments build municipal wastewater treatment systems. Although the 1986 request of $2.4 billion continues funding levels established in 1982, legislation to phase out the program will be submitted by the end of the year. Funds in 1986 will be limited to ongoing projects. This proposal recognizes that by 1990 the original objective of the program—to reduce the pollution from municipal waste—will largely be achieved. In the future, communities will be expected to finance waste treatment facilities through market sources and assistance from their State governments.

The *hazardous substance response trust fund* pays for the cleanup of abandoned hazardous waste sites and chemical spills. Budget authority of $235 million has been requested in 1986 for site specific cooperative agreements with States. This funding level, which is $105 million above 1985, should finance the cleanup of 28 sites in 1986. Cooperative agreements with States are one component of a total Federal-State superfund program that will be funded at approximately $1.0 billion per year over the next 5 years.

Budget authority of $278 million is requested in 1986 for grants to support State *regulatory, enforcement and pollution control activities.* These grants are used to implement and enforce Federal and State pollution control laws in the following areas: air and water quality; public water supply; underground injection control; hazardous wastes; pesticide certification; training; and enforcement. The budget includes increases to implement the Hazardous and Solid Waste Act Amendments of 1984.

Transportation.—The obligation limitation for the *Federal-aid highway program* is proposed to remain frozen at the 1985 level of $13.2 billion for the next 2 years. The freeze is intended to slow the decline in the highway trust fund balance. Most funds will be used to complete and preserve the interstate highway system and to rehabilitate primary highways and bridges. These highway systems are a primary Federal concern because of their role in interstate commerce and national defense. The budget does not propose changes in the authorization levels in the 1982 Surface Transportation Assistance Act except for the $100 million parkways and park highway program. No funding is proposed for this program because the $1.0 billion park restoration improvement initiative has been completed and because the National Park Service has no road projects on its near term list of priority programs.

The budget proposes a freeze on *highway traffic safety grants* to States in 1986 at their 1985 obligation level of $155 million. These grants support Federal truck safety standards, highway safety and alcohol education programs.

The budget proposes significant changes for *mass transportation assistance.* Discretionary grants are proposed to be discontinued and their funding sources—one penny of the nine-cent gasoline tax—will be used to fund a new formula grant program for capital investments. Operating assistance will also be discontinued. The local matching share is proposed to be increased from 20% to 30%. The $1.1 billion requested for the new program for 1986 is $0.5 billion less than funds provided in 1985 for formula-based capital assistance.

These changes reflect the administration's belief that mass transportation is a local responsibility since these activities provide mainly local benefits. Localities should not be allowed to pass on a portion of their capital and operating costs to taxpayers who do not use the services or have any influence on their cost. However, as long as the Federal Government continues to collect the one cent gas tax for transit, there remains a legitimate Federal role in managing and allocating the revenue.

Obligations for *grants-in-aid for airports* are expected to be $1.0 billion in 1986, the amount newly authorized for 1986 under the Airport and Airway Improvement Act of 1982. Projects that improve airport safety, increase airport capacity, or reduce noise will receive the highest priority for funding in 1986.

Community and regional development.—*The community development block grant program* (CDBG) provides flexible community and economic development support to cities, counties, Indian tribes, and U.S. territories. Budget authority proposed for 1986 is $3.1 billion, 10% below the 1985 level. This reduction is consistent with the administration's effort to freeze program levels and reduce administrative costs. The administration also proposes to change the statutory distribution of these funds between urban and rural areas from 70/30 to 60/40. This change will increase the resources available to rural areas currently served by the Farmer's Home Administration's rural development programs that are proposed for termination in 1986.

The administration proposes to terminate the *urban development action grants* program in 1986. This proposal is consistent with the government-wide effort to reduce local economic development subsidies and reduce excessive Federal intervention in the economic decisions of firms and individuals. Cities may use CDBG resources for economic development projects.

In 1983, the administration proposed and Congress enacted, the *rental rehabilitation grant program* to help States and localities rehabilitate properties for low-income renters. This program was intended for communities that do not have enough standard quality low- and moderate-income housing to support a rental voucher program. The $300 million authorized for this program in 1984 will allow the Federal Government to subsidize up to half the cost of rehabilitating an estimated 60,000 rental housing units by the end of 1986. As part of the administration's spending freeze plan, this budget proposes a 2-year moratorium on new funding for the rental rehabilitation program, in conjunction with a 2-year moratorium on housing vouchers.

Congress enacted a second grant program in 1983 to subsidize the construction or substantial rehabilitation of rental housing in low- and moderate-income neighborhoods with shortages of rental housing. The *rental development grant program,* which was funded on a demonstration basis through 1985, is not proposed to be extended in this budget. New housing construction is an expensive means of housing the poor compared to approaches that utilize existing housing stock.

The administration does not request funds in 1986 for the *economic development assistance programs* administered by the Economic Development Administration (EDA). The budget also proposes to rescind all unobligated funds. There is no evidence that categorical EDA project grants create net employment gains for the Nation. Instead, they lock resources into unproductive areas and industries. Funds for State and local community and economic development are available in 1986 through the community development block grant program.

Programs administered by the *Appalachian Regional Commission* (ARC) are intended to promote economic development of the 13-State Appalachia region. Both the Commission and its programs are proposed to be terminated at the end of 1985. The budget also proposes to rescind uncommitted funds. This proposal reflects the administration's policy to rely on the private sector to provide the major stimulus for economic development. In anticipation of the eventual termination of the ARC, the Commission has been working with recipients to help them become more self-reliant.

Education.—Budget authority requested for the *State education block grant* for 1986 is frozen at the 1985 budget authority level of $500 million. This block grant provides States and localities with resources that can be used for a wide variety of educational purposes.

Major education grants for persons with special needs include: *compensatory education, education for the handicapped, vocational and adult education,* and *Indian education.* The 1986 request for these activities is frozen at the 1985 budget authority level except for the State agency migrant grant program. Reforms proposed for the migrant program reduce budget authority by targeting aid to children of migratory agricultural workers or fishermen whose education has been recently interrupted by moves. Legislation will also be proposed to give States and local educational agencies the option of providing compensatory education services through voucher systems. Budget authority for several other small elementary and secondary programs is proposed to be frozen in 1986 at 1985 levels. No funds will be provided for a number of low priority elementary and secondary programs.

Impact aid programs compensate school districts for educating children whose parents live and/or work on Federal land or for facilities damaged in natural disasters. Budget authority of $543 million is requested for 1986, $143 million below the 1985 level. Aid for districts with children who live and whose parents work on Federal property is frozen at the 1985 program level. No funds are proposed for new construction or for compensation where the children impose little or no burden on school districts.

Training and employment.—Budget authority proposed for *basic State grants* under the Job Training and Partnership Act of 1983 (JTPA) is frozen in 1986 at the 1985 level of $1.9 billion. For both the *summer youth employment and training* and the *dislocated workers programs* rescissions are proposed in 1985 because of large unspent balances at the end of 1984. In addition, the budget proposes revisions in the formula for distributing summer youth funds to target them to the neediest communities.

No budget authority is requested in 1986 for the *work incentive (WIN) program.* The program has not proven to be cost effective and is no longer necessary since JTPA block grant funds can be used to train welfare recipients for jobs. In addition, changes are proposed in the AFDC program to create new opportunities for employment.

Grants for the *State employment service* will remain the same in 1986 as in 1985. This program is financed almost completely by receipts collected from the Federal unemployment payroll tax. The administration is working with the States to develop legislation that will be proposed to transfer responsibility to the States for designing, operating, and financing their own job matching and unemployment insurance services beginning in 1988. The Federal unemployment tax would be reduced accordingly, freeing tax resources for the States.

Social services.—Budget authority requested for the *social service block grant* is at the 1986 authorized level of $2.7 billion. Block grant funds may be used for social services and for State and local administrative costs. In addition, States may transfer up to 10 percent of their social services allotment to block grants that support health services, health promotion, or low-income housing assistance.

Budget authority is not requested in 1986 to continue the *community services block grant program.* States have the discretion to fund community services activities under the social services block grant.

Grants for *vocational rehabilitation services* help physically and mentally disabled persons become gainfully employed and live more independently. The major State grant for vocational rehabilitation services is frozen at the 1985 budget authority level of $1.1 billion. Reductions are proposed for several small project grants.

In 1986, budget authority of $733 million is requested for the non-research portions of the foster care, adoption assistance, child welfare services, and child welfare training programs. These *family social services* support State efforts to reunite children with their families or to place them promptly in adoptive homes. The administration will propose modifications in the foster care system to encourage States to reduce the duration and incidence of foster care placements.

Grants for *human development services* supplement State, local, and nonprofit efforts to improve the quality of life for low-income, neglected, abused, or homeless children, and for elderly people and other special groups. The largest program for children is Head Start, which helps local community groups provide child development programs for low-income preschool children. The 1986 budget authority request for these programs is $1.9 billion. The Head Start program will maintain its current enrollment of 448,000 children in 1986.

Health.—The medicaid program continues to be the largest grant-in-aid. This program supports State and local efforts to provide health services to low-income residents. For 1986, the administration proposes to reduce the costs of medicaid benefits by $1.0 billion below the current services level. In subsequent years, medicaid cost increases would be limited to increases in the consumer price index for medical costs. The administration also proposes limits on Federal funding for administrative costs that save an estimated $112 million in 1986. The current open-ended matching payment would be replaced in 1986 by a Federal grant funded at projected 1985 levels. Payments in subsequent years would be indexed to the GNP deflator. Complicated matching requirements would be eliminated and cost allocation plans would be simplified. States would be permitted to transfer up to 10% of the funds to other State-administered public assistance programs.

Budget authority of $1.6 billion is requested in 1986 for the four *health block grants:* maternal and child health; preventive health and health services; alcohol, drug abuse, and mental health; and primary care. The $189 million increase over the 1985 level reflects an administration proposal to expand the primary care block grant to include narrow categorical programs for black lung clinics, migrant health, and family planning.

Housing Assistance.—Outlays for the grant portion of the *subsidized housing program* are estimated to be $4.0 billion in 1986. The budget includes a proposal for a 2-year moratorium on new subsidized housing commitments as part of the President's spending freeze proposal.

Budget authority of $1.0 billion is requested for *payments for low-income housing.* These payments are used to subsidize operating costs for low-rent public housing units. The 1986 request freezes personnel and related expenses in the operating subsidy formula. Reductions are also proposed for Federal subsidies for public housing units that are vacant because they are uninhabitable or because there is insufficient demand for those units. The budget also proposes to rescind $253 million in excess operating subsidy funds appropriated for 1985.

Food and nutrition assistance.—Outlays for the Federal share of State administrative expenses for the *food stamp program* are estimated to be $840 million in 1986. The budget proposes replacing the current open-ended matching payment with a grant equal to the payment projected for 1985. In subsequent years, the Federal grant would be indexed to the GNP deflator. Complicated matching requirements would be eliminated and cost allocation plans would be simplified. States would be allowed to allocate the grant in the most efficient manner, including the transfer of up to 10% of the funds to other State-administered public assistance programs.

Child nutrition programs subsidize meals for children in schools, child care facilities, and other institutional settings. Approximately 14.1 million children will receive federally subsidized meals in 1986. As part of the administration's spending freeze proposal, the 1986 cost-of-living adjustment would be eliminated for child nutrition meal reimbursement rates. In addition, legislation will be proposed to discontinue meal subsidies for upper income students. Budget authority proposed for the program in 1986 is $3.4 billion, $0.2 billion below the 1985 level.

Women, infants, and children programs provide nutritious food supplements to lessen health problems associated with inadequate diets during critical stages of child development. These programs will serve an average of 3.1 million low-income women and children each month in 1986. The budget authority request is $1.5 billion in 1986, $0.1 billion above the 1985 level.

The *Commodity Credit Corporation* (CCC) donates surplus food, such as cheese, butter and nonfat dry milk, to needy families, charitable institutions and schools. CCC Commodities valued at $1.3 billion are expected to be distributed through State and local governments in 1986.

Other income security.—*Aid to families with dependent children* (AFDC) helps State and local governments finance cash assistance payments to needy families. Reforms enacted during the past four years have refocused AFDC on its original goal: to serve as temporary aid where resources for complete self-support do not exist. The budget proposes additional reforms that would establish work-related programs for employable AFDC applicants and recipients, prohibit unmarried minor mothers from leaving their parents' homes to qualify for AFDC, and eliminate payments to employable AFDC parents whose youngest child is 16 or older. In addition, the budget proposes replacing the current open-ended matching payment for

State administrative expenses with a grant equal to the payment projected for 1985. In subsequent years, this grant would be indexed to the GNP deflator. Complicated matching requirements would be eliminated and cost allocation plans would be simplified. States would also be allowed to transfer of up to 10% of the funds to other State-administered public assistance programs. Total outlays for the program are estimated to be $8.1 billion in 1986.

The *child support enforcement program (CSE)* finances most State and local administrative expenses for establishing paternity and for collecting support from legally liable absent parents. These collections offset State and Federal AFDC costs. Federal outlays for CSE are estimated to be $652 million in 1986.

The Federal Government reimburses States for all of the initial resettlement costs of welfare, health, employment, English language training, and other services for refugees and entrants. Budget authority of $300 million is requested in 1986 for *refugee assistance,* $86 million below the 1985 level. In 1986, the administration proposes to initiate refugee welfare eligibility 90 days after arrival in the United States rather than immediately. This policy would encourage resettlement organizations to help refugees find employment before they become dependent on welfare.

To moderate the impact of energy costs on low-income families, $1.3 billion in budget authority is proposed for *low-income home energy assistance* in 1986. The budget also proposes to use $0.8 billion in recoveries from petroleum price overcharges to finance a total program level of $2.1 billion in 1986. This program is a block grant that allows States to make payments to individuals, fuel vendors, or public housing operators. For 1986, the administration proposes to continue the current program level as part of the overall spending freeze plan. Department of Energy programs for low-income home weatherization and energy conservation for schools and hospitals would also be funded through these recoveries.

Administration of Justice.—Criminal *justice assistance programs* provide training, technical and financial assistance to State and local criminal justice agencies through formula and discretionary grants. The administration is not requesting new budget authority for juvenile justice and delinquency prevention programs in 1986 because the primary objective of these programs—the separation of juvenile from adult offenders—has largely been achieved. Budget authority proposed for the remaining programs totals $67 million in 1986.

In 1985, the administration will begin a new initiative for *victims of crime* in accordance with the Comprehensive Crime Control Act of 1984. Up to $100 million per year in Federal criminal fines and penalties will be distributed to State victim assistance and compensation programs.

General purpose fiscal assistance.—*General revenue sharing* provides assistance to approximately 40,000 local jurisdictions with virtually no restrictions on the use of the funds. The administration is proposing legislation to end the general revenue sharing program in 1986. Local governments have decreased their reliance on inelastic and regressive revenue sources and most have the resources to finance local public services. In the current fiscal environment, Federal revenues must be used to fulfill national needs and responsibilities. Outlays for the program, which was reauthorized in 1984, are estimated to be $1.2 billion in 1986 reflecting the final quarterly payment from the 1985 program.

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 $546 million in 1986, $204 million less than the 1985 estimate. The budget proposes to deduct the Federal costs of obtaining these receipts before calculating the States' shares. If enacted, States would receive the same percentage of net receipts that they now receive of gross receipts.

Additional information on these and other grant programs is in Part 5 of the *Budget.* For a detailed list of these programs, see table H–11.

Loans.—Another form of Federal aid to State and local governments is assistance in obtaining credit, either directly through loans and advances, or indirectly through loan guarantees. The Federal government provides credit assistance to States, localities, and Indian tribes on more favorable terms than private lenders. Direct loans and loan guarantees are used to finance housing construction, land acquisition, land and water development projects, and a variety of other activities.

Direct loan disbursements (excluding repayments) are estimated to be $2.6 billion in 1986. The low-rent public housing program is the largest provider of direct loans to States and localities. This program finances construction, acquisition, and modernization activities for public housing. Between 1984 and 1985 these loans are expected to increase from $1.4 billion to $14.3 billion. This increase is the result of a provision in the Deficit Reduction Act of 1984 that suspended tax-exempt financing for construction activities. Loan disbursements for this program are estimated to be $1.8 billion in 1986.

A Federal loan guarantee occurs when a government agency enters into a formal commitment to use government funds to repay a lender upon default by the borrower. New loan guarantees to

State and local governments are expected to decrease from $1.3 billion in 1985 to $0.5 billion in 1986.

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. Tax expenditures are a means by which the Federal Government carries out public policy objectives; in many cases they can be considered alternatives to direct spending programs. To compare direct Federal spending and assistance provided through tax expenditures, estimates for tax expenditures are generally shown as outlay equivalents; that is, the level of budget outlays required to provide the same amount of after-tax benefits is the tax expenditure. A detailed discussion of the measurement and definition of tax expenditures and a complete list of revenue loss and outlay equivalent estimates for specific tax expenditure items is contained in Special Analysis G.

The two major categories of tax expenditures that provide aid to State and local governments 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.

Table H-2. **TAX EXPENDITURES AIDING STATE AND LOCAL GOVERNMENT**

(Outlay equivalents; in millions of dollars)

Description	Fiscal year		
	1984	1985	1986
Deductibility of:			
Property taxes on owner-occupied homes	8,930	9,815	10,870
Nonbusiness State and local taxes other than on owner-occupied homes	21,000	22,605	24,740
Exclusion of interest on:			
Public purpose State and Local debt	7,220	7,860	8,700
IDBs for certain energy facilities	145	155	180
IDBs for pollution control and sewage and waste disposal facilities	975	1,115	1,265
Small-issue IDBs	1,875	2,210	2,590
Owner-occupied mortgage subsidy bonds	1,315	1,670	2,115
State and local debt for rental housing	665	865	1,085
Mass commuting vehicle IDBs	40	55	60
IDBs for airports, docks and sports and convention facilities	330	370	420
State and local student loan bonds	220	310	390
State and local debt for private nonprofit educational facilities	120	160	200
State and local debt for private nonprofit health facilities	1,090	1,425	1,790
State and local debt for veterans housing	225	245	270
Total (after interactions) [1]	35,690	39,655	44,485

[1] The estimate of total tax expenditures reflects interactive effects among the individual items. Therefore the individual items cannot be added to obtain a total.

Interest on virtually all State and local government securities is tax exempt. As a result, State and local governments can sell their debt at lower interest rates than would be possible if such interest were taxable. The exclusion of interest on public purpose State and local debt subsidizes the financing of traditional public projects, such as toll roads, sewer systems, and schools. However, as shown in table H–2, State and local jurisdictions also provide the benefits of tax-exempt financing to a wide variety of private and quasi-public activities, such as pollution control, housing and small businesses. The growth of private purpose tax-exempt bonds and other issues pertaining to tax-exempt credit are discussed in more detail in Special Analysis F.

To curb the rapid growth of private purpose tax-exempt bonds, Congress has placed restrictions on their use in recent legislation. The Mortgage Subsidy Bond Tax Act of 1980 imposed a number of restrictions on tax-exempt mortgage subsidy bonds (MSB's) for owner-occupied housing including limitations on the volume issued in each State. The Deficit Reduction Act of 1984 (DEFRA) extended these limitations to December 31, 1987. DEFRA also placed restrictions on qualified veteran's MSB's. The issuance of these bonds is limited to preexisting State programs in amounts based on previous volume levels. Future issuance will be limited to veterans who served in active duty before 1977.

The Tax Equity and Fiscal Responsibility Act of 1982 required that industrial development bonds (IDB's) be approved by an elected public official after a public hearing and that assets of certain IDB-financed projects placed in service after 1982 be depreciated using straight-line rather than accelerated depreciation. The 1982 tax act also eliminated the tax exemption for small issue IDB's issued after 1986. DEFRA extended the expiration date to December 1988 for small issue IDB's that are issued exclusively to finance manufacturing facilities.

The Deficit Reduction Act also placed limits on the total volume of private purpose industrial revenue bonds that can be issued within each State. The maximum amount is limited to the greater of $150 per capita ($100 after 1987) or $200 million per year. Under prior law there were no limitations on the amount of such bonds issued by State and local governments.

The administration will repropose an enterprise zone program that would provide tax incentives for the redevelopment of economically distressed areas. Twenty-four States have established enterprise zone programs partly in response to the administration's proposal. The Federal program would serve as a national experiment for a concept that has already begun to succeed in some States. Upon enactment, up to 25 small areas per year would be designated "enterprise zones." 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 1-year tax expenditure from this proposal is estimated to be $305 million in 1986.

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.

Table H-3. **FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION**

(In millions of dollars)

Function	Actual 1984	Estimate					
		1985	1986	1987	1988	1989	1990
National defense	95	117	125	117	110	112	115
Energy	534	583	508	440	384	327	268
Natural resources and environment	3,779	3,944	3,653	3,440	3,311	3,103	2,722
Agriculture	1,832	2,209	1,740	836	879	445	446
Commerce and housing credit	2	2	2	2	2	2	2
Transportation	15,013	18,027	17,827	17,135	16,799	16,836	16,756
Community and regional development	5,157	5,366	5,060	4,623	3,965	3,837	3,846
Education, training, employment, and social services	16,669	18,434	17,893	17,743	17,938	18,329	18,714
Health	21,837	24,768	25,465	26,534	28,000	29,494	30,992
Income security	25,678	26,531	25,184	26,217	27,159	28,358	29,287
Veterans benefits and services	66	92	99	104	108	106	107
Administration of justice	69	163	230	218	208	209	210
General government	171	202	89	73	75	79	82
General purpose fiscal assistance	6,677	6,576	2,792	1,675	1,751	1,801	1,894
Total outlays	97,577	107,016	100,668	99,155	100,688	103,038	105,442

Table H-3 shows a functional distribution of Federal grant-in-aid outlays.[2] (Consistent with the emphasis now being placed on longer range budget planning, Table H-3 and other tables in this special analysis show estimates through 1990.) The functional composition of grant outlays has changed significantly over the years, as shown in table H-4. The health function has increased from 3% of Federal aid in 1960 to an estimated 25% in 1986. Transportation has declined from 43% in 1960 to 18% in 1986. Other changes occurred between 1960 and 1986 in education, training, employment, and social services programs which increased from 7% in 1960 to an estimated 18% in 1986. General purpose fiscal assistance also increased with the addition of revenue sharing, from 2% in 1960 to an estimated 9% in 1984. Between 1984 and 1990, outlays for this

[2] Table H-11 contains functional data and programmatic detail within each function for both budget authority and outlays.

function are expected to drop to 2% of total grants due primarily to the termination of the general revenue sharing program. The distribution of grant-in-aid outlays for all other functions is expected to remain fairly constant between 1986 and 1990.

Table H–4. **PERCENTAGE DISTRIBUTION OF FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION**

	Actual				Estimate					
	1960	1970	1980	1984	1985	1986	1987	1988	1989	1990
Energy	*	*	1	1	1	1	*	*	*	*
Natural resources and environment	2	2	6	4	4	4	3	3	3	3
Agriculture	3	4	1	2	2	2	1	1	*	*
Transportation	43	19	14	15	17	18	17	17	16	16
Community and regional development	2	5	7	5	5	5	5	4	4	4
Education, training, employment, and social services	7	27	24	17	17	18	18	18	18	18
Health	3	16	17	22	23	25	27	28	29	29
Income security	38	24	20	26	25	25	26	27	28	28
General purpose fiscal assistance	2	2	9	7	6	3	2	2	2	2
Other	*	1	1	*	1	1	1	*	*	*
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

*0.5% or less.

Distribution of grants by agency.—Table H–5 shows grant outlays by agency. The Department of Health and Human Services will provide 42% of total estimated grant-in-aid outlays in 1986, far more than any other agency.

Table H–5. **FEDERAL GRANT-IN-AID OUTLAYS BY AGENCY**

(In millions of dollars)

Agency	Actual 1984	Estimate	
		1985	1986
Funds Appropriated to the President	417	352	312
Department of Agriculture	9,310	10,326	9,297
Department of Commerce	419	397	236
Department of Education	7,346	8,308	8,252
Department of Energy	356	368	273
Department of Health and Human Services	38,923	41,994	42,078
Department of Housing and Urban Development	10,064	10,630	9,550
Department of the Interior	1,679	1,495	1,238
Department of Justice	44	36	200
Department of Labor	4,994	5,632	5,657
Department of Transportation	14,980	17,975	17,775
Department of the Treasury	5,009	5,027	1,512
Environmental Protection Agency	2,921	3,077	3,036
Other	1,115	1,299	1,252
Total outlays	**97,577**	**107,016**	**100,668**

Distribution of grants by region.—Table H–6 shows that Federal aid on a per capita basis varies among regions. The thinly populated Western States ranked highest in 1974 because of highway construction grants and shared revenues from Federal land holdings. The northwestern States had 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. Region X, which had per capita grants 20% above the national average in 1974, now has grants only 14% above the average, while Region VII has risen from 20% below the average to only 12% below. Grants to Region II have grown the most during the period, averaging 9.1% per year from 1974 to 1984.

Table H–6. **DISTRIBUTION OF GRANTS BY REGION, SELECTED FISCAL YEARS**

	Federal Region	1984[1] total grants	Dollars per capita		Average annual percent increase, 1974–84
			1974	1984[2]	
I.	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island	5.7	232	456	6.8
II.	New York, New Jersey, Puerto Rico, Virgin Islands	15.6	254	619	9.1
III.	Virginia, Pennsylvania, Delaware, Maryland, West Virginia, District of Columbia	10.6	224	422	6.4
IV.	Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida	14.4	204	349	5.4
V.	Illinois, Indiana, Michigan, Ohio, Wisconsin, Minnesota	18.0	185	393	7.6
VI.	Arkansas, Louisiana, Oklahoma, New Mexico, Texas	9.0	208	326	4.5
VII.	Iowa, Kansas, Missouri, Nebraska	4.3	172	363	7.5
VIII.	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming	3.9	242	515	7.7
IX.	Arizona, California, Nevada, Hawaii, other territories	12.0	227	389	5.4
X.	Idaho, Oregon, Washington, Alaska	4.0	258	470	6.0
	United States	**97.6**	**215**	**413**	**6.6**

[1] Preliminary estimate, in billions of dollars.
[2] See "Federal Expenditures by State," Bureau of the Census, for additional information concerning State distribution of Federal grants and other Federal spending.

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 1981 they increased to nearly

$95 billion, an average annual increase of 14.2% since 1965. In 1986 Federal grants are expected to be $100.7 billion, 10.3% of total Federal outlays and 15.0% of domestic Federal outlays. Table H–7 shows historical data for grant outlays for selected years since 1950.

Table H–7 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 21.2% in 1984. Grants increased as a percent of GNP from 0.8% in 1950 to a peak of 3.7% in 1978, declining to an estimated 1.9% by 1990.

Table H–7. **HISTORICAL TREND OF FEDERAL GRANT-IN-AID OUTLAYS**

(Fiscal years; dollar amounts in millions)

	Total [1] grants-in-aid	Federal grants as a percent of			
		Budget outlays		State and local expenditures [3]	Gross National Product
		Total	Domestic [2]		
Five-year intervals:					
1950	$2,253	5.3%	9.3%	10.4%	0.8%
1955	3,207	4.7	13.7	10.1	0.8
1960	7,019	7.6	17.1	14.7	1.4
1965	10,910	9.2	17.5	15.3	1.7
1970	24,065	12.3	22.0	19.2	2.5
1975	49,791	15.0	20.9	23.0	3.4
Annually:					
1976	59,094	15.9	21.4	24.2	3.6
1977	68,415	16.7	22.4	25.9	3.7
1978	77,889	17.0	22.5	26.8	3.7
1979	82,858	16.5	21.8	26.3	3.5
1980	91,451	15.5	20.6	26.3	3.6
1981	94,762	14.0	18.7	25.2	3.3
1982	88,195	11.8	16.1	21.9	2.9
1983	92,496	11.4	15.8	21.6	2.9
1984	97,577	11.5	16.0	21.2	2.7
1985 estimate	107,016	11.2	15.6	NA	2.8
1986 estimate	100,668	10.3	15.0	NA	2.4
1987 estimate	99,155	9.7	14.4	NA	2.2
1988 estimate	100,688	9.2	14.0	NA	2.0
1989 estimate	103,038	9.1	14.1	NA	1.9
1990 estimate	105,442	8.9	14.1	NA	1.9

[1] Includes outlays that are off-budget under current law; legislation is proposed to include them on-budget. Such outlays began in 1973.
[2] Excludes outlays for the national defense and international affairs functions.
[3] As defined in the national income and product accounts.
NA=Not available.

Table H–8 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 1986 grants are to States and localities as payments for individuals.[3] Most such grants are accompanied by State or local matching

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

payments. Among the larger of these programs are medicaid, assistance payments (AFDC), housing assistance, and nutrition programs.

Table H–8. **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 individuals [1]	Grants for capital investment [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	7,019	2,480	3,321	1,218	23.9	76.1
1965	10,910	3,699	4,985	2,729	24.8	75.2
1970	24,065	8,612	7,046	8,407	24.6	75.4
1975	49,791	16,445	10,870	22,476	25.8	74.2
Annually:						
1976	59,094	19,640	13,502	25,952	31.1	68.9
1977	68,415	22,178	16,146	30,091	41.1	58.9
1978	77,889	24,175	18,310	35,404	41.1	58.9
1979	82,858	26,854	20,036	35,968	40.0	60.0
1980	91,451	31,927	22,451	37,073	39.5	60.5
1981	94,762	36,931	22,116	35,715	39.0	61.0
1982	88,195	37,875	20,108	30,212	36.9	63.1
1983	92,496	41,636	20,474	30,386	37.2	62.8
1984	97,577	44,284	22,662	30,631	39.1	60.9
1985 estimate	107,016	47,851	25,819	33,347	NA	NA
1986 estimate	100,668	46,933	25,474	28,261	NA	NA

[1] For an identification of accounts in this category, see Table H–11 and footnotes.
[2] Excludes capital grants that are included as payments for individuals.
NA=Not available.

Table H–8 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 trust fund financing for the interstate highway system. The share increased from 24.6% in 1970 to 39.5% in 1980, increasing by more than half in ten years. The major programs are for highways, mass transit, community development block grants, and sewage treatment systems.

Grants for capital investment are estimated to be $25.5 billion in 1986, 25% of total grants-in-aid. In constant 1972 dollars, Federal aid is expected to increase from $9.5 billion in 1984 to $9.8 billion in 1986.

Grants Management

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 reverse this trend and to devolve authority, broad-based grants have been emphasized in recent years. In addition, many mandatory administrative or procedural requirements associated with grant programs have been simplified or eliminated. Regulatory reforms and management improvements have increased the efficiency of the intergovernmental grant-in-aid system and have strengthened the authority of State and local elected officials over Federal financing and development activities in their jurisdictions.

General purpose and broad-based grants.—General-purpose aid gives State and local governments almost complete discretion in determining their use. The general revenue sharing program is currently the largest general-purpose grant. Broad-based aid, which includes the block grants, gives State and local governments considerable discretion within a broadly defined program area. Table H–9 shows general-purpose and broad-based grants as a percent of total grants from 1972 to 1988.

General-purpose aid increased dramatically with the introduction of the general revenue sharing program, from less than 2% of all grants in 1972 to over 12% in 1976. The administration is proposing legislation to end the general revenue sharing program in 1986. Federal resources can no longer be spared for programs and activities that do not address national spending priorities. The remaining programs in this category are expected to comprise about 2% of total grants-in-aid by 1987.

Under the current administration, broad-based aid increased as a percent of total Federal aid from slightly over 11% in 1980 to more than 13% in 1984. Based on proposals in the 1982 Budget, Congress enacted nine block grants that consolidated 57 grant programs contained in the Catalog of Federal Domestic Assistance. In 1982, Congress enacted the Job Training Partnership Act, which replaced several expiring Comprehensive Employment and Training Act programs with a block grant to the States.

Proposals in this budget impose a 1-year freeze on spending for most existing broad-based aid programs in 1986 as part of an effort to restrain spending in all areas of the budget. The community services block grant is the only program in this category proposed for elimination. Broad-based aid is expected to remain at about 13% of total grants-in-aid through 1988.

The chart shows a decline in the number of grant programs as a result of the new block grants and the elimination or consolidation of many small categorical programs. In 1981 there were 361 grant

Table H-9. **OUTLAYS FOR GENERAL-PURPOSE, BROAD-BASED, AND OTHER GRANTS**

(Dollar amounts in millions)

	Actual				Estimate			
	1972	1976	1980	1984	1985	1986	1987	1988
General-purpose grants:								
General revenue sharing	....	$6,243	$6,829	$4,567	$4,610	$1,162	....	....
Other general purpose fiscal assistance and TVA [1]	$516	907	1,765	2,281	2,156	1,831	1,876	1,952
Subtotal, general-purpose grants	**516**	**7,150**	**8,594**	**6,848**	**6,766**	**2,993**	**1,876**	**1,952**
Broad-based:								
Community development	....	983	3,902	3,819	3,900	3,520	3,360	3,216
Health block grants	90	128	83	1,308	1,392	1,611	1,650	1,696
State education block grants	....	....	....	489	407	485	499	500
Employment and training	....	1,698	2,144	1,545	1,894	1,886	1,886	1,886
Social services block grant	1,930	2,251	2,763	2,788	2,743	2,702	2,700	2,700
Low-income home energy assistance	....	....	....	2,024	2,098	2,098	2,186	2,274
Other	835	1,112	1,440	988	1,160	846	667	650
Subtotal, broad-based grants	**2,855**	**6,172**	**10,332**	**12,961**	**13,594**	**13,148**	**12,948**	**12,922**
Other grants	**31,004**	**52,015**	**79,354**	**77,768**	**86,656**	**84,527**	**84,331**	**85,814**
Total	**34,375**	**59,094**	**91,451**	**97,577**	**107,016**	**100,668**	**99,155**	**100,688**
ADDENDUM: PERCENT OF TOTAL								
General-purpose grants	1.5%	12.1%	9.4%	7.0%	6.3%	3.0%	1.9%	1.9%
Broad-based grants	8.3%	10.4%	11.3%	13.3%	12.7%	13.1%	13.1%	12.8%
Other grants	90.2%	77.5%	79.3%	79.7%	81.0%	84.0%	85.0%	85.2%
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-9 above include shared revenues from the Tennessee Valley Authority, shown in the energy function.

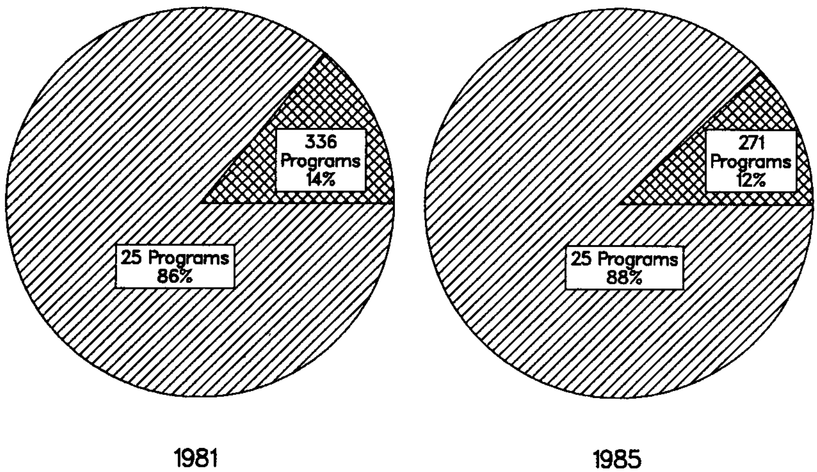
programs compared to an estimated 296 in 1985, a reduction of 65 or 18%. Approximately 88% of estimated obligations in 1985 are concentrated in only 25 programs.

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 1980, State and local governments were estimated to provide approximately $1 of matching funds for $2.70 of Federal aid; the Federal share in 1984 was $2.08 for each State and local dollar. 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.

Regulatory reform.—In 1981, President Reagan established the Presidential Task Force on Regulatory Relief. Many of the regula-

Most Grant Dollars Are Concentrated in a Few Programs

Percent of Estimated Obligations



tions reviewed by the Task Force affect State and local governments. Although the Task Force concluded its formal activities in 1983, continuing oversight was transferred to the Office of Management and Budget. During 1984, Executive branch agencies have revised several regulations affecting State and local governments, in part to reflect statutory amendments proposed by the administration.

—The Department of Health and Human Services (HHS) proposed rules that simplify requirements for obtaining Federal matching funds for automated data processing equipment and services. The Department also published final rules to improve the administration of the early periodic screening, diagnostic and treatment program under the medicaid program. As a result of a statutory change supported by the administration, HHS changed the reporting requirements for the assistance payments (AFDC) program. States are now required to report on only those recipients with earned income or recent work histories.

—The Department of the Interior issued a rule authorizing States to conduct inspections, audits, and investigations related to oil and gas royalties paid and collected on Federal and

Indian lands. This rule could increase State revenues since they receive half of all royalties collected. The budget proposes to offset Federal costs before calculating State shares. The Department also issued rules that give States and local governments a larger role in reviewing and approving applications for historic preservation programs. Interior hopes to reduce the review time for these applications by 25 percent.

Management improvements.—During 1984, the administration carried out reforms initiated in previous years to increase Federal responsiveness to State and local concerns and to streamline the financial management system for Federal aid.

—Executive Order 12372, Intergovernmental Review of Federal Programs went into effect on October 1, 1983. The Order, which replaced the OMB Circular A-95 review process, gave States the authority to establish their own procedures for reviewing proposed Federal activities in their jurisdictions and required Federal agencies to be more responsive to State and local concerns. A recent OMB evaluation of the new Order found that Federal agencies have become more responsive to State and local concerns. The Order has also helped to avoid costly duplication of services and has achieved cost savings through better coordination of services among Federal, State and local governments. At the request of State and local officials, OMB and the Federal agencies are making changes in the Executive Order that may broaden the range of Federal activities reviewed by State and local officials.

—In 1984, Congress enacted the Single Audit Act. The new law eliminated audit requirements imposed on recipients of small amounts of Federal assistance and clarified requirements for organizationwide audits of recipients receiving Federal grants. At present, OMB is developing procedures to carry out the Act. State and local governments that receive more than $100,000 in Federal aid will be allowed to conduct their own financial audits to make sure that the aid they received was spent for the intended purposes and that recipients complied with accounting and administrative controls, Federal laws, and regulations.

—In 1983, a joint State and Federal task force agreed on a set of cash management principles for Federal assistance programs. Last year, Virginia, Indiana, Wisconsin, and California tested a funds transfer technique for Federal assistance programs. Under the new procedure, States would be charged interest on Federal assistance payments from the time they receive the Federal funds until recipients checks clear States' banks. Similarly, the Federal Government would pay interest in certain cases when State funds are used for Federal assistance payments prior to receipt of Federal funds.

—The Office of Management and Budget is revising grant management policies contained in Circular A-102, "Uniform requirements for Grants to States and local government". The changes should simplify requirements for the administration of Federal aid.

—The Census Bureau and the Office of Management and Budget are working with Federal agencies and State and local governments to improve data on the distribution of Federal funds to counties and local governmental jurisdictions.

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;

—certain 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. 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 subsidies by the Federal Government in the NIPA rather than as grants. Table H-10 shows these and other minor differences among the three series, but the differences are largely offsetting and the three series exhibit similar patterns.

Table H-10. **THREE MEASURES OF FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1980–83**

(In billions of dollars)

	1980	1981	1982	1983
Budget (Special Analysis H)	**91.5**	**94.8**	**88.2**	**92.5**
Less principal exclusions:				
Agricultural commodities	−1.1	−1.1	−1.1	−2.0
Geographical exclusions	−2.0	−1.8	−1.8	−2.5
Plus payments for research	2.9	3.2	3.4	4.2
Federal unemployment benefits and related	1.3	2.6	0.4	0.2
All other (net)	−1.8	−3.1	−3.1	−3.9
Federal payments (Census)	**90.8**	**94.6**	**86.0**	**88.5**
Less:				
Low-rent public housing	−3.3	−3.9	−4.8	−5.5
Federal unemployment benefits and related	−1.3	−2.6	−0.4	−0.2
All other (net)	0.5	2.0	2.6	2.9
Grants-in-aid (national income and product accounts)	**86.7**	**90.1**	**83.4**	**85.7**

In addition to these data sources, information on the distribution of Federal funds to State and local governments can be found in several other documents.

—*Budget Information for the States* (BIS) provides estimates of State funding allocations for the largest formula grant programs for the past, present and budget year. These programs comprise approximately 80% of total Federal aid to State and local governments. The document is prepared by the Office of Management and Budget soon after the Budget is released.

—*Federal Expenditures by State* is a report prepared by the Bureau of the Census that shows Federal spending by State for the most recently completed fiscal year. This document includes the outlay data on Federal grants to State and local governments that previously appeared in the Department of the Treasury publication, *Federal Aid to States.*

—The *Consolidated Federal Funds Report* (CFFR) is two documents that show the distribution of Federal spending by county areas and by local governmental jurisdictions. It is released by the Bureau of the Census in the Spring.

—The *Catalog of Federal Domestic Assistance* is prepared by the General Services Administration with data collected by the Office of Management and Budget and is available from the Government Printing Office. The basic edition of the *Catalog* is usually published in May and an update is generally published in December. It 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. These notices also provide information on eligibility criteria and application procedures.

—The *Federal Assistance Awards Data System* (FAADS) provides computerized information about current grant funding. Data on all direct assistance awards is provided quarterly to the States and to the Congress.

The State and Local Government Sector of the National Income and Product Accounts[4]

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 governments as a sector of the economy and other sectors.

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.—The following chart shows State and local operating account surpluses and deficits as a percent of receipts, excluding the social insurance funds (primarily pensions). The social insurance funds have been excluded because their surpluses are for future pension obligations and are not available for carrying out the general responsibilities of these governments. It is reasonable for the operating account to be in deficit because it includes capital expenditures, often financed through borrowing.

[4] Special Analysis B provides general information on the Federal sector of the national income and product accounts.

The peaks and troughs in the operating account are largely the result of:

—changes in economic activity, which affect primarily receipts;
—decisions regarding debt-financed capital spending; and
—changes in Federal aid.

The operating account was in deficit every year from 1955 to 1971. Unlike this earlier period, during the 1970's it was generally in surplus. In part, this change reflected the growth of Federal grants (rather than State and local borrowing) to finance new infrastructure.

—The surpluses in the early 1970's were largely the result of the initiation of general revenue sharing and strong economic growth.
—The low point in 1975 was largely the result of the recession.
—The surpluses in the latter 1970's are largely the result of the economic recovery, increases in anti-recession Federal grants, reductions in debt-financed capital spending, and general restraints in government spending exemplified by the passage of Proposition 13 in California in 1978.

The recent recession brought the account into deficit in 1982, albeit a quite small one relative to the 1955–71 period. As a result of the recession, States and localities reduced expenditures and increased taxes. These actions along with the strong national ecomomic recovery over the past two years have returned the account to surplus for 1983 and 1984.

State and Local Surpluses and Deficits (Operating Account) as a Percent of Receipts

Note: Excludes Social Insurance Funds

Detailed Federal Aid Tables

The following two tables present detailed Federal aid data for 1984, 1985, and 1986. Table H–11, "Federal Grants to State and Local Governments—Budget Authority and Outlays," provides detailed budget authority and outlay data for grants-in-aid. 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—BUDGET AUTHORITY AND OUTLAYS

(In millions of dollars)

Function, agency and program	BUDGET AUTHORITY			OUTLAYS		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
NATIONAL DEFENSE:						
Department of Defense--Military:						
National Guard centers construction	40	42	42	40	42	42
Federal Emergency Management Agency:						
Emergency management planning and assistance	94	96	64	55	75	83
Total, national defense	**134**	**138**	**106**	**95**	**117**	**125**
ENERGY:						
Department of Energy:						
Energy conservation [1]	280	283	35	356	367	272
Department of Housing and Urban Development:						
Assistance for solar and conservation improvements	25	14	0	8	26	35
Tennessee Valley Authority:						
Tennessee Valley Authority fund	0	0	0	170	190	201
Total, energy	**305**	**298**	**35**	**534**	**583**	**508**
NATURAL RESOURCES AND ENVIRONMENT:						
Department of Agriculture:						
Watershed and flood prevention operations	113	95	0	151	199	114
Resource conservation and development	12	9	0	17	11	11
State and private forestry	28	22	3	28	22	3
Forest research	7	11	7	7	11	7
Department of Commerce:						
Operations research and facilities	109	87	40	109	106	25
Coastal zone management	9	0	0	31	18	0
Department of the Interior:						
Abandoned mine reclamation fund	236	255	211	63	114	138
Regulation and technology	38	37	38	39	37	38
Land acquisition	73	72	0	166	124	86
Urban park and recreation fund	9	0	0	38	41	12
Historic preservation fund	26	25	0	51	29	16
Resource management	2	5	5	2	5	5
Construction	4	4	0	4	4	0
Sport fish restoration	0	0	44	0	0	43
Operation of the national park system	0	0	0	2	*	0
Miscellaneous permanent appropriations	128	124	112	149	148	120
Environmental Protection Agency:						
Sewage treatment system construction grants	2,435	2,400	2,400	2,619	2,736	2,646
Abatement, control, and compliance	258	270	278	246	271	270

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS - BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, agency and program	BUDGET AUTHORITY			OUTLAYS		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Hazardous substance response trust fund	101	130	235	57	70	120
Total, natural resources and environment	**3,588**	**3,546**	**3,372**	**3,779**	**3,944**	**3,653**
AGRICULTURE:						
Department of Agriculture:						
Food donations (Commodity Credit Corporation)	1,356	1,712	1,309	1,354	1,713	1,326
Extension Service	334	343	265	330	342	267
Cooperative State Research Service	147	157	132	139	151	148
Other agriculture	4	4	0	9	5	0
Total, agriculture	**1,841**	**2,217**	**1,706**	**1,832**	**2,209**	**1,740**
COMMERCE AND HOUSING CREDIT:						
Department of Agriculture:						
Miscellaneous expiring appropriations	0	0	0	*	*	0
Department of Commerce:						
Enterprise development and opportunity	2	2	2	2	2	2
Total, commerce and housing credit	**2**	**2**	**2**	**2**	**2**	**2**
TRANSPORTATION:						
Department of Transportation:						
Federal-aid highways (trust fund)	13,655	14,701	15,065	10,072	12,636	13,307
Highway traffic safety grants	148	176	142	117	127	166
Highway-related safety grants	10	10	0	12	10	0
Motor carrier safety grants	8	14	14	2	19	14
Other highway programs	26	50	0	319	261	225
Formula grants	2,389	2,450	0	1,395	1,648	1,074
Formula capital grants	0	0	1,100	0	0	55
Discretionary grants	1,250	1,100	0	233	359	612
Interstate transfer grants - transit	295	250	0	591	473	368
Research, training, and human resources	19	18	0	16	17	13
Washington metro	250	250	250	64	131	183
Miscellaneous expired accounts	0	0	0	1,417	1,473	923
Federal Railroad Administration	17	17	0	34	42	27
Grants-in-aid for airports	994	987	1,017	694	760	775
Boat Safety	12	14	29	11	14	29
Research and special programs	4	4	4	3	4	4
Washington Metropolitan Area Transit Authority:						
Interest payments	52	46	52	33	52	52
Total, transportation	**19,129**	**20,087**	**17,673**	**15,013**	**18,027**	**17,827**
COMMUNITY AND REGIONAL DEVELOPMENT:						
Funds Appropriated to the President:						
Appalachian regional development programs	159	50	0	209	182	148
Disaster relief	0	85	165	207	170	165
Public works acceleration	0	0	0	1	0	0
Department of Agriculture:						
Rural water and waste disposal grants	90	115	25	135	184	171
Rural community fire protection grants	3	3	0	3	3	2
Miscellaneous expiring appropriations	0	0	0	1	2	1

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS - BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, agency and program	BUDGET AUTHORITY			OUTLAYS		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Department of Commerce:						
Economic development assistance programs	266	21	0	248	242	190
Regional development programs	0	0	0	−1	4	2
Regional development commissions	0	0	0	2	1	*
Miscellaneous appropriations	0	0	0	9	4	2
Department of the Interior:						
Bureau of Indian Affairs	16	16	16	16	16	16
Department of Housing and Urban Development:						
Community development block grants	3,468	3,472	3,125	3,819	3,900	3,520
Urban development action grants	440	440	0	454	500	522
Rental rehabilitation grants	615	0	0	0	95	262
Other community development	0	0	0	27	37	35
Federal Emergency Management Agency:						
Emergency management planning and assistance	11	12	7	10	12	9
Neighborhood Reinvestment Corporation:						
Neighborhood Reinvestment Corporation	16	16	15	16	16	15
Total, community and regional development	**5,085**	**4,230**	**3,353**	**5,157**	**5,366**	**5,060**
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES:						
Department of Commerce:						
Public telecommunications facilities	12	14	0	17	19	0
Miscellaneous appropriations	0	0	0	1	2	13
Department of Health and Human Services:						
Social services block grant	2,700	2,725	2,700	2,789	2,750	2,702
Community services	348	368	0	353	363	125
Human development services	1,779	1,886	1,880	1,717	1,784	1,874
Family social services	676	725	733	648	734	737
Work incentives	262	257	0	259	257	60
Department of the Interior:						
Operation of Indian programs	5	5	0	5	5	0
Department of Labor:						
Training and employment services	5,441	2,857	2,781	2,555	2,975	2,958
Federal-State employment service	1,451	919	916	779	975	905
Community service employment for older Americans	70	72	72	59	70	72
Temporary employment assistance	0	0	0	−15	0	0
Department of Education:						
Compensatory education for the disadvantaged	3,475	3,683	3,641	3,067	3,551	3,776
Impact aid	592	686	543	567	720	614
Special programs	482	619	600	570	454	588
Bilingual education	124	100	109	112	96	103
Indian education	64	64	64	67	73	64
Education for the handicapped	1,107	1,177	1,177	791	1,310	1,101
Rehabilitation services and handicapped research	1,063	1,133	1,128	1,301	1,015	1,050
Vocational and adult education	823	820	819	719	890	832
Student financial assistance [2]	76	76	0	70	76	30
Higher education	0	0	0	0	0	0
Libraries	80	118	0	80	116	88
Payments to special institutions	5	6	6	4	6	6
Community Services Administration:						
Community services programs	0	0	0	−12	4	0

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS - BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, agency and program	BUDGET AUTHORITY 1984 actual	BUDGET AUTHORITY 1985 estimate	BUDGET AUTHORITY 1986 estimate	OUTLAYS 1984 actual	OUTLAYS 1985 estimate	OUTLAYS 1986 estimate
Corporation for Public Broadcasting:						
Public broadcasting fund	138	150	160	138	150	160
National Foundation on the Arts and the Humanities:						
National Endowment for the Arts	32	32	29	26	31	31
National Foundation on the Arts and the Humanities:						
Institute of Museum Services	5	5	0	4	6	4
Total, education, training, employment, and social services	**20,811**	**18,497**	**17,357**	**16,669**	**18,434**	**17,893**
HEALTH:						
Department of Agriculture:						
Food Safety and Inspection Service	32	35	36	32	35	36
Department of Health and Human Services:						
Medicaid [2]	20,674	21,845	23,690	20,061	22,985	23,690
Health resources and services [2]	992	1,098	1,024	1,025	1,039	1,006
Disease control, research and training	163	177	177	154	174	174
Alcohol, drug abuse, and mental health [2]	469	503	490	501	472	495
Department of Labor:						
Occupational Safety and Health Administration	55	57	57	58	58	57
Mine Safety and Health Administration	5	5	5	6	5	5
Total, health	**22,389**	**23,721**	**25,479**	**21,837**	**24,768**	**25,465**
INCOME SECURITY:						
Department of Agriculture:						
Child nutrition programs [2]	3,365	3,599	3,387	3,345	3,629	3,408
Food stamp program administration [2]	778	840	840	732	864	840
Nutrition assistance for Puerto Rico [2]	825	825	825	814	833	825
Women, infants, and children programs [2]	1,397	1,447	1,512	1,396	1,517	1,509
Special milk program [2]	11	17	11	15	15	17
Food donations program [2]	167	140	175	172	163	173
Agricultural Marketing Service (food donations) [2]	347	478	371	408	369	351
Rural housing preservation grants	15	5	0	0	1	8
Mutual and self-help housing [2]	6	8	0	8	8	5
Miscellaneous expiring appropriations [2]	4	0	0	11	11	10
Department of Health and Human Services:						
Assistance payments program (AFDC) [2]	8,270	8,248	8,120	8,311	8,328	8,120
Child support enforcement	537	612	571	487	580	652
Payments to States from receipts for child support	*	*	*	*	1	*
Low income home energy assistance [1, 2]	2,073	2,098	1,288	2,024	2,098	2,098
Refugee and entrant assistance [2]	524	386	300	585	431	343
Supplemental security income program [2]	0	0	0	8	0	0
Department of Labor:						
Unemployment insurance program administration	1,889	1,581	1,660	1,552	1,549	1,660
Department of Housing and Urban Development:						
Subsidized housing program [2]	9,448	10,759	499	4,611	4,800	4,034

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS - BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, agency and program	BUDGET AUTHORITY			OUTLAYS		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Payments for operation of low income housing [2]	1,718	885	1,011	1,135	1,255	1,126
Congregate services program [2]	0	4	0	4	10	6
Federal Emergency Management Agency:						
Emergency food and shelter [2]	110	0	0	58	70	0
Total, income security	**31,484**	**31,932**	**20,571**	**25,678**	**26,531**	**25,184**
VETERANS BENEFITS AND SERVICES:						
Veterans Administration:						
Medical care [2]	54	66	70	54	66	70
Grants for constructing State care facilities [2]	18	34	22	5	18	24
Other veterans	7	9	3	7	8	4
Total, veterans benefits and services	**79**	**109**	**96**	**66**	**92**	**99**
ADMINISTRATION OF JUSTICE:						
Department of Justice:						
Justice assistance	134	69	67	40	114	129
Crime victims fund	0	70	100	0	15	60
National Institute of Corrections	5	7	5	3	7	11
Revolving fund	0	0	0	*	*	0
Department of Housing and Urban Development:						
Fair housing assistance	5	7	15	6	8	11
Equal Employment Opportunity Commission:						
Equal Employment Opportunity Commission	19	20	20	19	20	20
Total, administration of justice	**163**	**173**	**206**	**69**	**163**	**230**
GENERAL GOVERNMENT:						
Department of the Interior:						
Administration of territories	79	74	58	67	76	61
Trust Territory of the Pacific Islands	114	99	14	104	127	28
Office of Personnel Management:						
Other general government	0	0	0	−*	0	0
Total, general government	**193**	**173**	**71**	**171**	**202**	**89**
GENERAL PURPOSE FISCAL ASSISTANCE:						
Department of Agriculture:						
Forest Service permanent appropriations	203	239	67	203	239	67
Department of Defense--Civil:						
Corps of Engineers permanent appropriations	7	6	6	6	7	6
Department of the Interior:						
Payments in lieu of taxes	105	103	105	104	103	105
Payments to States mineral leasing receipts	736	511	479	736	511	479
Bureau of Land Management permanent appropriations	59	80	12	56	80	12
National wildlife refuge fund	13	13	13	13	13	13
Payments to the U.S. territories	65	63	66	65	63	66
Department of the Treasury:						
General revenue sharing	4,567	4,567	0	4,567	4,610	1,162
Internal revenue collections for Puerto Rico	370	315	245	365	315	245

Table H-11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS - BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, agency and program	BUDGET AUTHORITY			OUTLAYS		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Miscellaneous permanent appropriations...	93	102	105	77	102	105
Department of Energy:						
Payments to States under the Federal Power Act	1	1	1	*	1	1
District of Columbia:						
Federal payment to the District of Columbia	486	533	532	486	533	532
Total, general purpose fiscal assistance	**6,704**	**6,532**	**1,630**	**6,677**	**6,576**	**2,792**
Total, grants-in-aid	**111,906**	**111,655**	**91,657**	**97,577**	**107,016**	**100,668**

*$500 thousand or less.

[1] Excludes budgetary resources that are proposed to be made available starting in 1986 from collections from violators of oil price controls. These amounts must be added to the budget authority to arrive at total budgetary resources for grants. Total budget authority in 1986 is proposed to be $91,657 million; in addition, $191 million of offsetting receipts are proposed to finance energy conservation grants and $809 million to finance low-income energy home assistance with total budgetary resources for grants estimated at $92,657 million in 1986.

[2] Programs included in the 'Grants for payments to individuals' category shown in Table H-8.

Table H–12. **CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS** [1]

(In millions of dollars)

Function, agency and program		1984 actual	1985 estimate	1986 estimate
Direct Loans				
Energy, natural resources and environment:				
Department of the Interior:				
Bureau of Reclamation loan program	Loan disbursements	44	59	47
	Net loans	*37*	*52*	*38*
	Outstandings	**390**	**442**	**480**
Drought emergency loan fund	Loan disbursements			
	Net loans	*–2*	*–1*	*–1*
	Outstandings	**15**	**14**	**13**
Environmental Protection Agency:				
Construction grants	Loan disbursements	4	4	4
	Net loans	*4*	*1*	*1*
	Outstandings	**4**	**5**	**6**
Abatement, control, and compliance	Loan disbursements		6	11
	Net loans		*6*	*10*
	Outstandings		**6**	**16**
Total, energy, natural resources and environment	Loan disbursements	48	68	63
	Net loans	*39*	*57*	*48*
	Outstandings	**410**	**467**	**515**
Agriculture and Commerce and housing credit:				
Department of Agriculture:				
Agricultural credit insurance fund	Loan disbursements	397	370	137
	Net loans	*145*	*97*	*–157*
	Outstandings	**3,025**	**3,122**	**2,965**
Rural housing insurance fund	Loan disbursements	36	30	25
	Net loans	*20*	*17*	*13*
	Outstandings	**351**	**368**	**381**
Total, agriculture and commerce and housing credit	Loan disbursements	433	400	162
	Net loans	*165*	*114*	*–144*
	Outstandings	**3,376**	**3,490**	**3,346**
Transportation:				
Department of Transportation:				
Federal aid highways (trust fund)	Loan disbursements	6	10	11
	Net loans	*6*	*10*	*11*
	Outstandings	**69**	**79**	**90**
Right-of-way revolving fund	Loan disbursements	20	50	50
	Net loans	*–18*		
	Outstandings	**131**	**131**	**131**
Total, transportation	Loan disbursements	26	60	61
	Net loans	*–12*	*10*	*11*
	Outstandings	**200**	**209**	**220**
Community and regional development:				
Department of Agriculture:				
Rural development insurance fund	Loan disbursements	445	683	495

Table H-12. **CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS [1]—Continued**

(In millions of dollars)

Function, agency and program		1984 actual	1985 estimate	1986 estimate
	Net loans	*	*−45*	*
	Outstandings	**105**	**60**	**60**
Department of Commerce:				
Miscellaneous appropriations	Loan disbursements			
	Net loans	*−2*	*−2*	*−2*
	Outstandings	**91**	**89**	**88**
Coastal energy impact fund	Loan disbursements	3	1	2
	Net loans	*2*	*−1*	*
	Outstandings	**96**	**95**	**95**
Department of Interior:				
BIA revolving funds for loans	Loan disbursements	8	15	13
	Net loans	*5*	*11*	*8*
	Outstandings	**42**	**53**	**61**
Department of Housing and Urban Development:				
FHA revolving fund (liquidating programs)	Loan disbursements			1
	Net loans	*−16*	*−16*	*−15*
	Outstandings	**406**	**390**	**375**
Urban renewal programs	Loan disbursements	25		
	Net loans	*20*	*−21*	*−1*
	Outstandings	**21**	**1**	
Total, community and regional development	Loan disbursements	481	699	511
	Net loans	*9*	*−73*	*−10*
	Outstandings	**761**	**689**	**679**
Education, training, employment and social services:				
Department of Education:				
College housing loans	Loan disbursements	17	28	25
	Net loans	*−140*	*−145*	*−7*
	Outstandings	**1,070**	**926**	**918**
Higher education facilities loan and insurance fund	Loan disbursements			
	Net loans	*−10*	*−6*	*−6*
	Outstandings	**150**	**144**	**138**
Student loan insurance fund and other	Loan disbursements	21	67	
	Net loans	*15*	*67*	*−177*
	Outstandings	**110**	**177**	
Total education, training, employment, and social services	Loan disbursements	38	95	25
	Net loans	*−135*	*−84*	*−190*
	Outstandings	**1,330**	**1,246**	**1,056**
Health:				
Department of Health and Human Services:				
Medical facilities guarantee and loan fund	New guaranteed loans			
	Net loans	*−1*	*−1*	*−1*
	Outstandings	**20**	**19**	**18**
Income security:				
Department of Housing and Urban Development:				
Low-rent public housing	New guaranteed loans	1,413	14,303	1,822

Table H-12. **CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS [1]—Continued**

(In millions of dollars)

Function, agency and program		1984 actual	1985 estimate	1986 estimate
	Net loans	*1,013*	*−1,216*	
	Outstandings	**1,216**		
General purpose fiscal assistance:				
Other independent agencies:				
Loans to the District of Columbia	New guaranteed loans	115		
	Net loans	*84*	*−107*	*−36*
	Outstandings	**1,883**	**1,776**	**1,740**
Grand total, direct loans	New loans	2,553	15,625	2,644
	Net loans	*1,163*	*−1,299*	*−322*
	Outstandings	**9,195**	**7,896**	**7,575**
Guaranteed Loans				
Agriculture and Commerce and housing credit:				
Department of Agriculture:				
Agricultural credit insurance fund	New guaranteed loans	13	13	
	Net loans	*9*	*9*	*−4*
	Outstandings	**113**	**122**	**118**
Community and regional development:				
Department of Agriculture:				
Rural development insurance fund	New guaranteed loans	1,209	1,138	340
	Net loans	*252*	*529*	*298*
	Outstandings	**7,158**	**7,688**	**7,985**
Department of Housing and Urban Development:				
Community development grants	New guaranteed loans	71	113	116
	Net loans	*31*	*42*	*25*
	Outstandings	**208**	**250**	**275**
Urban renewal programs	New guaranteed loans	*		
	Net loans	*−39*	*−7*	*−15*
	Outstandings	**22**	**15**	
Department of Interior:				
Indian loan guaranty and insurance fund	New guaranteed loans	16	30	13
	Net loan	*15*	*28*	*10*
	Outstanding	**28**	**56**	**66**
Total, community and regional development	New guaranteed loans	1,296	1,281	469
	Net loans	*259*	*592*	*318*
	Outstandings	**7,416**	**8,009**	**8,326**
Health:				
Department of Health and Human Services:				
Medical facilities guarantee and loan fund	New guaranteed loans		5	
	Net loans	*−12*	*	*−6*
	Outstandings	**132**	**131**	**126**
Income security:				
Department of Housing and Urban Development:				
Low-rent public housing	New guaranteed loans	17,698		
	Net loans	*163*	*−13,344*	*−360*
	Outstandings	**22,163**	**8,820**	**8,460**
General purpose fiscal assistance:				
Department of the Treasury:				
New York City loan guarantees	New guaranteed loans			

Table H-12. **CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS [1]—Continued**

(In millions of dollars)

Function, agency and program		1984 actual	1985 estimate	1986 estimate
	Net loans	*−373*	*−390*	*−233*
	Outstandings	**828**	**438**	**205**
Grand total, guaranteed loans	New guaranteed loans	19,007	1,299	469
	Net loans	*45*	*−13,133*	*−285*
	Outstandings	**30,652**	**17,519**	**17,235**

* $500 thousand or less.

[1] Only direct loans are included in budget outlays. New direct loan disbursements 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 analysis discusses the method used to control civilian employment in the Executive Branch, the resulting employment ceilings, and recent experience in reducing nondefense employment.

Full-Time Equivalent of Total Federal Civilian Employment in the Executive Branch

Total employment of civilian agencies in the executive branch is controlled on a full-time equivalent (FTE) or workyear basis. However, section 904 of the 1982 Defense Authorization Act (Public Law 97-86) exempts the Department of Defense from full-time equivalent employment controls. The Defense Appropriations Act of 1985 (a part of the fiscal year 1985 Continuing Resolution) also states "the civilian personnel of the Department of Defense . . . shall not be subject to any constraint or limitation (known as an end-strength) on the number of such personnel who may be employed on the last day of such fiscal year." Postal Service employment by law is not subject to Presidential control.

Table I-1 is a tabulation of full-time equivalent employment estimates for the major departments and agencies of the executive branch. Generally, the estimates for 1985, 1986, and 1987 constitute upper limits on agency FTE employment. The 1985 total for "Civilian agency employment" reflects an adjustment to take into account the fact that actual nondefense employment tends to fall short of assigned employment ceilings. The average shortfall for the period 1982-1984 is 2.33 percent, within a range from 3.38 to 1.38 percent. For 1985, a lapse of 1 percent is projected. No lapse rates are projected for 1986-1987 because the achievement of the lower employment levels for these years depends on Congressional action on the 1986 Budget.

In 1984, the Administration achieved, three months ahead of schedule, its goal of reducing nondefense Federal civilian employment by 75,000 workyears from the 1982 revised Budget estimates. The overall reduction was nearly 78,100 workyears at the end of fiscal year 1984, thus exceeding the President's goal by nearly 4.1 percent. As indicated in table I-1, further reductions are planned.

Table I–1. **FULL-TIME EQUIVALENT OF FEDERAL CIVILIAN EMPLOYMENT** [1]

	Fiscal year				
	1982 revised Budget estimate [2]	1984 actual [3]	1985 estimate	1986 estimate	1987 estimate
Agriculture	121,000	108,598	108,986	98,800	91,745
Commerce [4]	36,347	32,305	33,633	33,704	34,168
Defense—civil functions	32,330	28,681	28,798	28,548	28,348
Education	6,634	5,025	4,840	4,579	4,187
Energy	18,675	16,708	16,500	15,979	15,779
Health and Human Services	154,000	136,969	132,717	128,844	123,083
Housing and Urban Development	15,703	12,437	12,174	11,438	11,234
Interior	81,747	73,245	73,244	70,748	69,748
Justice	54,422	58,244	61,668	63,650	63,919
Labor	21,647	18,577	18,598	18,073	17,806
State	22,887	24,139	25,134	25,908	25,882
Transportation	68,055	61,130	61,583	60,474	58,248
Treasury [4]	124,264	123,155	123,585	122,660	123,472
Environmental Protection Agency	12,861	11,412	12,576	13,081	12,901
National Aeronautics and Space Administration	22,727	22,080	22,000	21,800	21,800
Veterans Administration	209,575	218,545	221,304	218,216	216,089
Other:					
Agency for International Development	5,616	5,115	5,108	4,875	4,825
General Services Administration [5]	32,758	25,572	25,865	25,335	24,467
Nuclear Regulatory Commission	3,448	3,441	3,491	3,491	3,491
Office of Personnel Management	6,559	5,710	5,822	5,510	5,419
Panama Canal Commission	9,138	8,137	8,410	8,300	8,300
Small Business Administration [4]	4,704	4,238	4,200	554	
Tennessee Valley Authority	44,752	31,952	32,500	32,500	32,500
United States Information Agency	7,636	8,167	8,751	9,100	9,240
Miscellaneous [5]	44,587	41,414	41,992	41,482	41,135
Estimated nondefense lapse			−10,935		
Contingencies	1,000				
Civilian agency employment	**1,163,072**	**1,084,996**	**1,082,544**	**1,067,649**	**1,047,786**
Defense—military functions [6]	937,700	1,011,532	1,010,217	1,020,321	1,024,000
Subtotal	2,100,772	2,096,528	2,092,761	2,087,970	2,071,786
Postal Service Employment [7]	663,070	662,111	682,774	696,945	710,426
Total, Executive Branch	2,763,842	2,758,639	2,775,535	2,784,915	2,782,212

[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 and the International Trade Commission.
[4] For 1986–87, reflects proposed abolition of the Small Business Administration in 1986 and transfer of activities to the Departments of Commerce and Treasury.
[5] For 1984–1987, reflects adjustments for the National Archives and Records Administration formerly included in the General Services Administration.
[6] 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.
[7] Includes the Postal Rate Commission.

Significant Changes in Full-Time Equivalent Employment

Nondefense employment is estimated to decrease by about 15,100 from 1985 to 1986 and by nearly 34,800 from 1985 to 1987. (See table I–1.)

The major decreases from the 1985 estimates to the corresponding estimates for 1986 are:

- Department of Agriculture (−10,186). Reductions will result from programmatic terminations and reductions proposed in this budget and from management improvements.
- Department of Health and Human Services (−3,873). Investments in data and word processing equipment in the Social Security Administration and the resulting productivity increases account for a large portion of the decrease. Other reductions result from phasing in programmatic changes such as elimination of the Community Services Block Grant, health professionals subsidies and health planning, and the transfer of St. Elizabeths Hospital to the District of Columbia. General productivity improvements, elimination of duplicative functions, and streamlining of field staffs contribute to declining employment.
- Small Business Administration (−3,646). This reduction is due to the planned termination of the Small Business Administration and the transfer of certain residual functions to the Departments of Commerce and Treasury.
- Veterans Administration (−3,088). This reduction reflects anticipated productivity increases, together with savings from several management reforms. These include the consolidation of regional office functions that do not involve face-to-face contact with veterans and greater use of private sector providers of services.
- Department of the Interior (−2,496). Reductions will occur as a result of the transfer of certain land management responsibilities from the Bureau of Land Management to the Forest Service, reduced headquarters and administrative staffing in line with administration guidelines, program reductions in mining technology, and the phase-out of the Job Corps program.
- Department of Transportation (−1,109). This decrease reflects both program reductions and overall administrative efficiencies. Employment reductions are expected from a diminished Federal role in providing mass transit subsidies and through arranging for private sector concerns to carry out activities currently conducted by Department personnel.
- Department of the Treasury (−925). Net reductions will occur as a result of productivity improvements and overall program reductions. A larger overall decrease is offset by increases of 500 FTE's for the first phase of a multi-year revenue enhancement initiative in the Internal Revenue Service. Also, 1,650 FTE's will be used to service and liquidate a loan portfolio to be transferred from the Small Business Administration.
- Department of Housing and Urban Development (−736). This decrease results from both programmatic and administrative

changes. The major programmatic changes are the proposed termination of the Urban Development Action Grant program, the two-year suspension of subsidized housing activity, and the continuing reduction in the new housing construction pipeline. Savings result from the initiatives to consolidate the Department's administrative payments operations and from on-going productivity reviews. Significant savings are also expected from the government-wide field reorganization initiative.

- General Services Administration (−530). Reductions will result from productivity improvements, primarily within the Federal Supply Service and the Public Buildings Service. These decreases will be partially offset by increases for the enhancement of the Federal Secure Telephone System (Office of Information Resources Management). The changes reflect the fact that the National Archives and Records Administration will become an independent agency, effective April 1, 1985.
- Department of Labor (−525). This reduction reflects the elimination of the Job Corps; the effects of the domestic program freeze and the 10 percent decrease in overhead costs; and efficiencies to be achieved through consolidating administrative services in the National Capital Region, merging three small regional offices into larger ones, and intensive productivity reviews.
- Department of Energy (−521). Employment will continue to decline due to implementation of management improvements and reductions in regulatory activities and near-term research and development activities. This decline is consistent with the administration's policy of primary reliance on the marketplace to achieve energy goals.
- Department of Education (−261). This reduction is achieved principally through continued conversion from Federal to private contractors of debt collection activities and elimination of redundant overhead staff. Additional, smaller reductions are due to termination of small categorical grant programs, continued management improvements, and simplification of regional and national office organizations.
- Department of Defense, civil functions (−250). This reduction is due to decreasing workload in the Corps of Engineers because of a lack of new starts in the construction program.
- Agency for International Development (−233). Decreases result from a structural reorganization and a change in the way AID delivers its services, both in Washington and abroad. Changes will affect the range of program and administrative functions, including activities of the Inspector General.

- National Aeronautics and Space Administration (−200). This reduction reflects continued progress toward more efficient management and operation of NASA programs.

Some agencies show increases:

- Department of Defense, military functions (10,104). The increase is needed to provide further improvement of spare parts management, to support new weapons systems, to release military personnel to perform essential military functions, to improve logistics support, to enhance the Departments' audit and investigation activities, and to improve supply management functions.
- The Department of Justice (1,982). The largest component of this increase will be used to implement the provisions of the Comprehensive Crime Control Act of 1984.
- The Department of State (774). Additional employment is needed to enhance security at posts abroad and to increase the amount and quality of reporting and analysis by the Department.
- Environmental Protection Agency (505). This increase reflects the expansion of the Hazardous Waste regulatory program and the anticipated expansion of the clean-up efforts under the Superfund program.
- United States Information Agency (349). Expanded Voice of America programming and modernization, additional satellite television programming and increased exchanges of persons require additional staffing.
- Department of Commerce (71). This increase reflects the transfer of 733 FTE's from the Small Business Administration. Except for the transfer, Department of Commerce employment would have decreased by 662. These decreases result from productivity improvement savings and programmatic reductions in the National Oceanic and Atmospheric Administration and the National Bureau of Standards, as well as from the termination of the Economic Development Administration and the U.S. Travel and Tourism Administration. Increases are planned in the Bureau of the Census for its periodic programs, in the International Trade Administration for export enforcement as well as import and export administration, and in the Patent and Trademark Office for expediting patent and trademark reviews.

End-of-Year Employment Levels

Federal employment can be viewed 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 2,146,675 at the end of 1984, excluding 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, 1984, the corresponding number was 1,142,146; a decrease of 90,035 employees.

Table I-2 shows Government-wide Federal civilian employment as of the end of fiscal years 1981, 1982, 1983, and 1984. 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.

Full-time permanent employment accounted for nearly 88 percent of executive branch employment (excluding the Postal Service) at the end of fiscal year 1984. The remainder is made up of part-time employees, intermittent employees (those employed on an irregular basis) and full-time temporary employees (generally, in positions occupied for less than one year).

Table I-2. **TOTAL FEDERAL EMPLOYMENT END-OF-YEAR**

Description	Actual, as of September 30			
	1981	1982	1983	1984
Civilian employment in the executive branch:				
Full-time permanent	1,851,045	1,833,687	1,852,984	1,881,590
Other than full-time permanent	264,949	254,277	280,051	265,085
DOD-Military functions (total employment)	(939,042)	(947,061)	(983,644)	(1,004,529)
Non-DOD (total employment)	(1,176,052)	(1,140,903)	(1,149,391)	(1,142,146)
Subtotal	2,115,994	2,087,964	2,133,035	2,146,675
Postal Service:				
Full-time permanent	545,504	546,019	545,687	560,952
Other than full-time permanent	119,664	113,602	117,405	121,764
Subtotal	663,168	659,621	663,092	682,716
Special categories [1]	26,963	22,400	24,367	24,522
Subtotal, executive branch civilian employment	2,806,125	2,769,985	2,820,494	2,853,913
Military personnel on active duty: [2]				
Department of Defense	2,082,183	2,108,612	2,123,349	2,138,157
Department of Transportation (Coast Guard)	39,819	38,248	39,708	39,560
Subtotal, military personnel	2,122,002	2,146,860	2,163,057	2,177,717
Total, executive branch employment	**4,928,127**	**4,916,845**	**4,983,551**	**5,031,630**
Legislative and judicial personnel: [3]				
Full-time permanent	32,844	32,898	31,685	32,097
Other than full-time permanent	21,423	21,875	24,084	23,982
Subtotal, legislative and judicial branches	54,267	54,773	55,769	56,079
Grand total	**4,982,394**	**4,971,618**	**5,039,320**	**5,087,709**

[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] Exludes members and officers of Congress.

Personnel Compensation and Benefits

Direct compensation of the current 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. In addition, it includes uniform allowances (when paid in cash), cost-of-living and overseas quarters allowances.

In the case of military personnel, compensation includes basic pay, special and incentive pay (including enlistment and reenlistment bonuses), and allowances for clothing, housing, and subsistence.

Related compensation in the form of personnel benefits for current personnel consists primarily of the Government's share (as employer) of health insurance, life insurance, old-age survivors' disability and health insurance, and payments to the Department of Defense's DOD Military Retirement Fund and the Civil Service Retirement and Disability Fund to finance future retirement benefits.

The 1986 Budget includes proposals that are designed individually and as a whole to gain control over the Government's expenditures as an employer. The size of projected deficits has brought to the fore a growing perception that Government salaries are relatively high, certain technical measurements of pay comparability with the private sector notwithstanding, and that the benefit programs are liberal and expensive. For 1986, the Administration will propose:

- reform of the Civil Service Retirement System to make its benefits and costs more like that of private sector practice,
- a new retirement plan for employees covered by Social Security, and
- a voucher system for the health benefits program to widen employee choice and to control cost escalation through enhanced competition for employee enrollments.

Additional details on these proposals can be found under the income security and health functions of Part 5 of the 1986 Budget of the United States.

The budget assumes a 3 percent military pay increase on July 1, 1985, a military pay freeze in 1986, and a 5 percent decrease in pay for Federal white- and blue-collar workers, effective January 1, 1986. The final decision on the pay adjustment for white-collar workers will be made in 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 prevailing economic conditions.

As indicated in table I–3, obligations for executive branch civilian personnel compensation and benefits in 1986 are projected to reach $68 billion, excluding the Postal Service.

Table I–3. **COMPENSATION AND BENEFITS FOR CURRENT PERSONNEL**

(In millions of dollars)

Description	1984 actual	1985 est.	1986 est.
Civilian personnel costs:			
Executive branch:			
Direct compensation	54,609	57,324	55,960
Personnel benefits [1]	11,392	12,274	12,083
DOD-Military functions, civilian personnel:			
Direct compensation	*(24,474)*	*(25,434)*	*(25,113)*
Personnel benefits	*(2,993)*	*(3,187)*	*(3,176)*
Subtotal	66,001	69,598	68,043
Postal Service:			
Direct compensation	18,771	19,778	20,617
Personnel benefits	2,740	3,645	3,950
Subtotal	21,511	23,423	24,567
Legislative and judiciary: [2]			
Direct compensation	1,019	1,127	1,212
Personnel benefits	122	142	159
Subtotal	1,141	1,269	1,371
Total, civilian personnel costs [3]	88,653	94,290	93,981
Military personnel costs: [4]			
Direct compensation	41,686	44,298	46,956
Personnel benefits	19,971	21,036	22,797
Subtotal	61,657	65,334	69,753
Allowance for military pay raise [5]		460	24
Total, military personnel costs	61,657	65,794	69,777
Grand total, personnel costs [3]	150,310	160,084	163,758
ADDENDUM			
Retired pay for former personnel:			
Civilian personnel	21,639	22,836	23,695
Military personnel	16,783	17,597	18,129
Total	38,422	40,433	41,824

[1] In addition to the employing agency's contributions to the costs of life and health insurance, retirement, and 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 $4,185 million in 1984 and are estimated to be $4,532 million in 1985 and $4,406 million in 1986.

[2] Excludes members and officers of Congress.

[3] Includes Postal Service.

[4] Excludes reserve components.

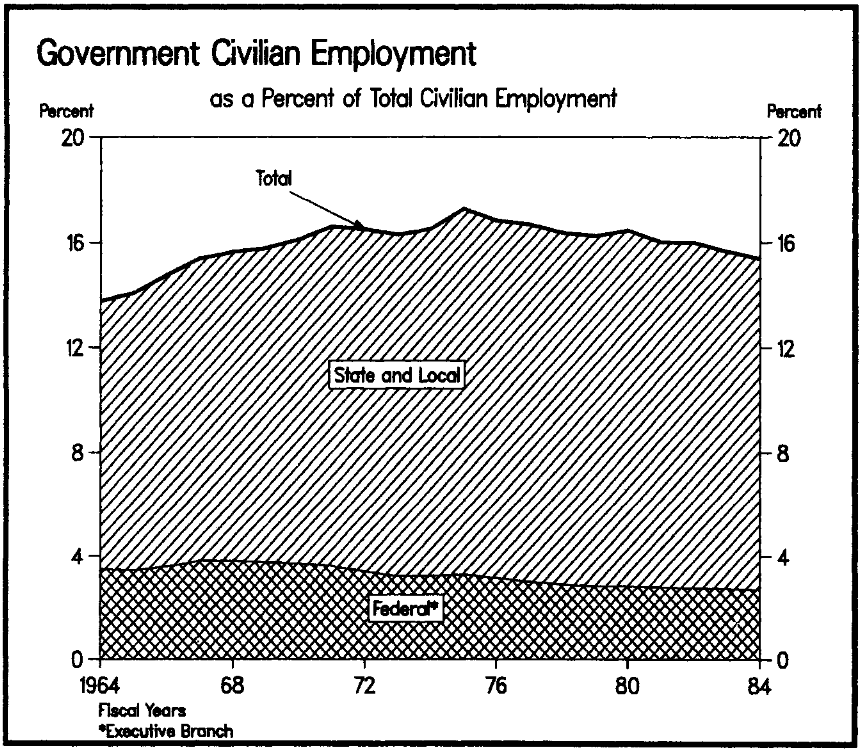
[5] Comprised of allowances for a 3 percent pay increase effective July 1, 1985 for military personnel as follows: for the Department of Defense, $454 million in 1985; for the Coast Guard, $6 million in 1985 and $24 million in 1986.

Government Employment and Labor Force Comparisons

As shown on the following chart, Government employment—Federal, State, and local—comprised nearly 15.4 percent of the total employed civilian labor force in 1984.

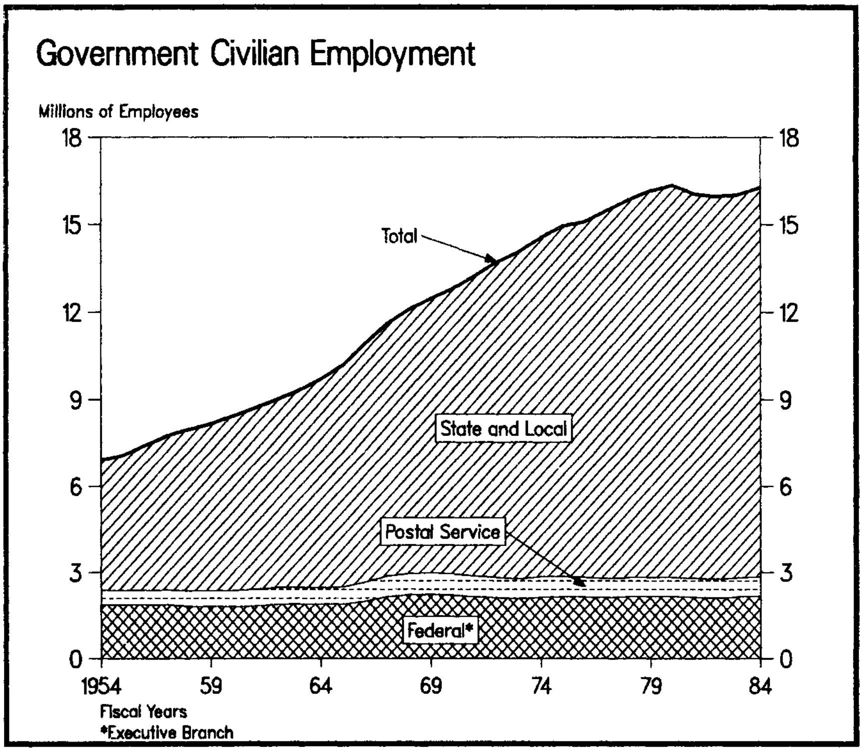
Within this segment, Federal civilian employment in the executive branch accounts for 2.70 percent of the total employed civilian labor force in 1984, down from a high of 3.82 percent in 1968.

The portion of the total employed civilian labor force attributable to State and local government has grown from 10.3 percent in 1964 to 12.7 percent in 1984.



Government Employment and Population Comparisons

As illustrated in the following chart and in table I–4, the Federal share of total government employment has declined significantly over the last three decades, from 37.2 percent in 1954 to 17.5 percent in 1984. Employment for all government had been rising steadily due to increases in State and local government. In 1981 it began to decline but in 1983 this trend reversed and State and local government is again increasing.



The ratio of Federal civilian employment to the total U.S. population is expected to be 12.0 per thousand in 1984, the lowest (except for 1982) that this ratio has been during the thirty year span shown.

Table I–4. **GOVERNMENT EMPLOYMENT AND POPULATION, 1954–84**

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
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	13,542	16,363	17.2	[6] 228,430	12.3
1981 [2]	2,806	13,274	16,080	17.5	[6] 230,700	12.2
1982	2,768	13,207	15,975	17.3	[6] 232,944	11.9
1983	2,819	13,226	16,045	17.6	[6] 235,122	12.0
1984	2,854	13,440	16,294	17.5	[6] 237,267	12.0

[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 1954 through 1976 are as of June 30; for 1977 through 1984, as of Sept. 30.
[6] U.S. population data for 1980–1984 are the latest available from the Census Bureau.

PART 3

SELECTED FEDERAL PROGRAMS

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

"The explicit promise in the Declaration of Independence that we are endowed by our Creator with certain inalienable rights was meant for all of us. It was not meant to be limited or perverted by special privilege, or by double standards that favor one group over another. It is a principle for eternity, America's deepest treasure."—PRESIDENT REAGAN, August 1, 1983

"Our ruling in *Teamsters* that a court can award competitive seniority only when the beneficiary of the award has actually been a victim of illegal discrimination is consistent with the policy behind section 706(g) of Title VII . . . That policy, which is to provide make-whole relief only to those who have been actual victims of illegal discrimination, was repeatedly expressed by the sponsors of the Act during the congressional debates . . . Senator Humphrey explained the limits on a court's remedial powers as follows: 'No court order can require hiring, reinstatement, admission to membership, or payment of back pay for anyone who was not fired, refused employment or advancement or admission to a union by an act of discrimination.' " *Firefighters* v. *Stotts,* (104 S.Ct. 2576 (1984))

"Public officials sworn to uphold the Constitution may not avoid a constitutional duty by bowing to the hypothetical effects of private racial prejudice that they assume to be both widely and deeply held . . . The effects of racial prejudice, however real, cannot justify a racial classification . . ."—*Palmore* v. *Sidoti* (104 S.Ct. 1879 (1984))

A "MOVEMENT OF LAW AND POLICY"

"I am pleased at the movement of law and policy in the direction of a colorblind society."—PRESIDENT REAGAN, October 26, 1984

Some 130 Federal statutes prohibit discrimination based on sex, race, color, religion, national origin, age, or handicap in employment, housing, education, credit, and public accommodations (as well as in the exercise of such rights and responsibilities of citizenship as voting and jury service). Taken as a whole, these laws express the vision Americans have come to share of the nation we want to be: a nation in which every man and woman is treated according to individual effort and ability; a nation in which one's race, sex, religion, color, or national origin are truly irrelevant to the judgment of what a person is worth and what he or she can contribute.

Despite this clear expression of national intent, however, decisions affecting who will be hired, promoted, or laid off; where children will attend school and what courses they may take; who shall be permitted to live, or to continue to live, in public housing;

and who shall be admitted to colleges or to graduate and professional schools, continue to be made on the basis of race, national origin, or sex—not the qualifications and needs of individuals. And too frequently, such discrimination occurs not despite of, but in asserted compliance with the very constitutional and statutory mandates designed to make color, or sex, or national origin irrelevant.

The worthwhile concept of affirmative action to end discrimination and to ensure equal opportunity has come to mean, in some quarters, that government should require that selections be made so as to attain specified numerical proportions of this group or that. And the consequences of this drift (for society as a whole, and for its purported beneficiaries) are becoming increasingly obvious:

- Quotas institutionalize the making of distinctions on the basis of race and sex. Already, we have the distasteful spectacle of institutions reviewing the ancestry of individuals to establish who is qualified, or not qualified, for opportunities on the basis of being "Hispanic", or "black", or "American Indian", or "Asian and Pacific Islander" or "white".[1]
- Quotas accustom us as a nation to think in terms of group, not individual, entitlements. The lesson of quotas is that advantages are to be won or lost on the basis of our ancestry—not on what we, as individuals, have struggled to become. Ultimately, they teach that opportunities are earned not by individual effort, but by groups who use political alliances to negotiate "a piece of the action" for their members. At the end of that quota road is a society divided into racial and ethnic groups; of separate fiefdoms competing for jobs and power.
- In mandating preferences rather than rigorous nondiscrimination, quotas falsely teach that members of the preferred groups would not be selected without them. The attainments of women and members of minority groups are made to appear benefits conferred by the Federal government—not the rewards of hard work. By casting a broad and tangible shadow on the real achievements of minorities and women, quotas promote the very prejudices they were initiated to overcome.

[1] The above categories are not self-defining, however, and need even further and continuous elaboration by learned Federal administrators. E.g., the *Manual* developed in the prior administration for use by presonnel of the Department of Labor's Office of Federal Contract Compliance Programs provides the following detailed guidance:

"The Indian Subcontinent is now included under 'Asian or Pacific Islander' and itself includes: India, Pakistan, Bangladesh, Sri Lanka, Nepal, Sikkim, and Bhutan."

"Not all persons from Central and South American countries will be included in the Hispanic category. Persons from Brazil, Guyana, Surinam, or Trinidad, for example, are classified by race, and are not always Hispanic."

"Persons of Portugese ancestry will not be included in the Hispanic category, but will be classified by race." U.S. Department of Labor, *Federal Contract Compliance Manual,* p. 2-31.

- Quotas rarely benefit the poorest, the most unskilled, the most economically hopeless. Often those who benefit most from group preferences are those who have already come furthest in freeing themselves from past burdens. Indeed, the primary beneficiaries of quotas may be the armies of lawyers and administrators whose task is not to increase opportunities for all, but to mediate between institutions and the Federal government.
- Institutions, large and small, are increasingly finding it more expedient to move towards mechanical quotas under various guises and euphemisms instead of providing fair treatment for all workers.
- The moral opprobrium which should accompany a finding of discrimination (and constitute, as it did in the early and successful days of the civil rights movement, a powerful weapon against discrimination) has decreased, and threatens to be lost entirely, as the clear concept of discrimination is replaced by complicated numbers games played by lawyers and government administrators.

By contrast, true affirmative action (to which this nation, and this administration, are committed) bears no relationship to quotas or preferential treatment. Affirmative action properly means expanding opportunities by:

- vigorously recruiting qualified minority and women candidates;
- encouraging qualified minority and women candidates to apply for educational, employment, and other opportunities in which they have been traditionally underrepresented;
- identifying barriers to opportunities for women and minority group members;
- assisting unions, community groups, educational institutions, public and private institutions, and employers in devising training programs to overcome such barriers.

This administration has continued to accord a relatively high budgetary priority to Federal civil rights programs. It is committed to the principle of nondiscrimination, and accordingly to correcting those errors of law and policy, encrusted in many Federal regulations, which are inconsistent with that principle.

1984 was a year of considerable accomplishment, not only in terms of enforcing Federal civil rights mandates, but in the progress of the ineluctable movement of law and policy through which they are being restored to their original meaning and purpose. The analysis which follows details those accomplishments—and the work which remains to be done.

Table J-1. **BUDGET OUTLAYS FOR PRINCIPAL FEDERAL CIVIL RIGHTS ACTIVITIES,* 1980–1986**

(In millions of dollars)

	Total outlays	% Change
Fiscal year:		
1980 (actual)	286.8	....
1986 (proposed)	337.5	+18

*Includes the Equal Employment Opportunity Commission; the U.S. Commission on Civil Rights; the Civil Rights Division, Department of Justice; the Office for Civil Rights, Department of Education; the Office of Civil Rights, Department of Health and Human Services; the Office of Fair Housing and Equal Opportunity, Department of Housing and Urban Development; the Office of Federal Contract Compliance Programs, U.S. Department of Labor; and the Architectural and Transportation Barriers Compliance Board.

A "MOVEMENT OF LAW AND POLICY": REAFFIRMING FUNDAMENTAL CIVIL RIGHTS . . .

"A core purpose of the Fourteenth Amendment was to do away with all governmentally-imposed discrimination based on race . . . Classifying persons according to their race is more likely to reflect racial prejudice than legitimate public concerns; the race, not the person, dictates the category . . ."—*Palmore* v. *Sidoti* (104 S.Ct. 1879 (1984))

In addition to guarantees embodied in the Constitution itself, the following statutes prohibit violations of fundamental civil rights:

—The Voting Rights Act of 1965, as amended (42 U.S.C. 173 et seq.), and the Overseas Citizens Voting Rights Act (42 U.S.C. 1973 dd), which guarantee the right of all qualified citizens to register and vote without discrimination on account of race, color, membership in a language minority group, age, or absence from legal residence.

—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), and 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).

Within the Department, the Civil Rights Division is primarily responsible for investigating and prosecuting violations of the Federal civil rights criminal statutes. The Division annually processes a large number of complaints alleging criminal interference with civil rights. During 1984, the Division reviewed 3,410 matters which had been investigated by the Federal Bureau of Investigation and 5,207 other inquiries and complaints; and presented the results of 48 investigations to Federal grand juries. Thirty-six indictments were returned and ten informations were filed charging a total of 93 defendants. Trials were conducted in 29 cases, resulting in the conviction of 40 defendants. An additional 33 defendants tendered guilty pleas.

The Division gave particular emphasis to investigating and prosecuting cases involving racial violence. The 13 racial violence cases filed during 1984 represent the largest number of such prosecutions in the history of the Division's criminal section. Charges were brought against 36 defendants, 13 of whom tendered guilty pleas. Successful prosecutions included the conviction of four members of the Ku Klux Klan for their roles in two separate acts of intimidation (a fifth defendant entered a guilty plea); the conviction of a defendant for causing the death of a Chinese-American in Highland Park, Michigan; and the conviction of three defendants in Milwaukee, Wisconsin, on charges of intimidating a biracial family. Two Klansmen from Oakdale, Louisiana, tendered guilty pleas for their involvement in a series of acts of intimidation. Nine Klansmen are awaiting trial on charges stemming from a violent confrontation in Decatur, Alabama, and a tenth has tendered a guilty plea for involvement in that incident.

The Civil Rights Division also continued to encourage the involvement of the United States Attorneys in civil rights prosecutions, since experience demonstrates that prosecutions handled jointly by United States Attorneys and the Division have a greater likelihood of success. The success rate (convictions plus guilty pleas) for joint prosecutions rose from 65 percent in 1982 to 84 percent in 1983 and 1984.

The Division actively prosecuted alleged violations of civil rights by government officials. As a result of the Division's efforts in 1984, a 44-count indictment was returned charging 10 officers of the Police of Puerto Rico with conspiracy to obstruct justice and numerous substantive counts of perjury regarding the unlawful killing of two independence advocates. Successful prosecutions included the conviction of a police sergeant in Massachusetts for violating the civil rights of a person whom he had thrown off a pier (and who subsequently drowned). A police officer in Hawaii was sentenced to five years imprisonment and a second officer was sentenced to three years imprisonment for violating the civil rights of an arrestee and then committing perjury during the grand jury investigation. One of these defendants was also convicted along with another police officer for his involvement in a separate incident in which a handcuffed arrestee was beaten after being taken to an isolated area. Three Federal corrections officers were convicted for beating and gassing several inmates and then attempting to obstruct investigations by the FBI and Federal grand jury by asking witnesses to lie. A police chief in Texas pled guilty in a shooting death of an individual in his custody; and a California defendant licensed by the State to operate a foster home pled guilty to charges of sexually assaulting quadriplegic and retarded children.

The Division also continued its efforts to protect migrant workers and other minorities against violations of the involuntary servitude and peonage statutes. Particularly significant cases resulted in the guilty plea of a defendant in Texas on charges of illegally transporting 19 Mexican aliens across the State in an enclosed vehicle and forcing them to work on a farm without providing adequate food or water; and the conviction of three defendants in Michigan for compelling two elderly, retarded men to work without pay and live in unsafe and unhealthy conditions.

The Department also successfully appealed a District Court's dismissal of 24 counts of a criminal indictment alleging violations of the involuntary servitude statutes. The Ninth Circuit held, in that case, that involuntary servitude may be accomplished through coercion without the use or threatened use of physical force or imprisonment.

Under the Civil Rights of Institutionalized Persons Act (CRIPA), 42 U.S.C. 1997, the Department of Justice's Civil Rights Division participates in litigation to vindicate the constitutional rights of persons confined to publicly operated residential institutions. These include prisons, jails, mental health and retardation facilities, juvenile detention centers and publicly operated nursing homes.

During 1984, the Division entered into three significant consent decrees resolving four of its CRIPA investigations. The consent decree in *U.S.* v. *Indiana,* stemming from the Division's investigations of two mental health facilities in Indiana, was the first settlement agreement concerning institutions for the mentally ill negotiated by the U.S. under CRIPA. The agreement requires the State to improve staffing; provide adequate medical care; improve the monitoring of the use of psychotropic medication, seclusion and restraint; improve recordkeeping procedures; and correct fire safety deficiencies. A decree entered in *Davis and U.S.* v. *Henderson* requires a Louisiana State institution for the criminally insane to substantially comply with applicable State and Federal standards governing health, safety, and patient rights. The third settlement agreement, in *U.S.* v. *Michigan,* remedied unconstitutional conditions of confinement in several prisons in that State.

During 1984, the Division also filed a suit (*U.S.* v. *City of Newark*) alleging unconstitutional conditions of confinement at the Newark City Jail; and initiated nine investigations pursuant to CRIPA (a total of twenty-two investigations were pending at the end of 1984).

The Civil Rights Division is primarily responsible for enforcing statutes guaranteeing the right to vote. Under the Voting Rights

Act, for example, it is solely responsible for designating counties where Federal personnel are necessary to conduct registration or observe polling places; and for determining whether proposed changes affecting voting in 926 political subdivisions in 21 States (including nine States in their entirety) covered by the Act's pre-clearance provisions are discriminatory. In conjunction with the Director of the Census, the Department determines which States and subdivisions of States will be subject to those pre-clearance requirements. In addition, the Office of Personnel Management is responsible for providing Federal observers as necessary to assure the fairness of elections.

The Civil Rights Division's Voting Rights Section participated in 24 new cases during 1984, 6 as plaintiff, 9 as plaintiff-intervenor, and 1 as *amicus curiae.* This was the largest number of new cases for any fiscal year since 1977. The Division received over 3,400 submissions involving more than 15,200 voting changes under section 5 of the Voting Rights Act, and objections were made to 75 changes that were contained in 33 different submissions. These figures represent the largest number of changes ever submitted under section 5 in a single year, and the largest number of submissions ever received under section 5 in a single year.

A total of 1,220 Federal observers were assigned to cover 20 elections in 37 counties in 6 States during 1984. These locations include 10 counties that were among the 13 counties certified for Federal examiners by the Attorney General this year under section 6 of the Voting Rights Act. This is the largest number of counties to have been certified under section 6 of the Act in any fiscal year since 1967—and included the first county ever to be certified in the State of North Carolina.

During 1984, the Department of Justice's efforts to enforce these fundamental civil rights contributed to a particularly significant reaffirmation, by the Supreme Court, of the right of individuals to be free from official discrimination based on race. In *Palmore* v. *Sidoti* (104 S.Ct. 1979 (1984)), a lower court had revoked a parent's child custody because the parent had married a person of a different race, asserting that ". . . despite the strides that have been made in bettering relations between the races in this country, it is inevitable that [the child would] if allowed to remain in her present situation and attain school age and thus [become] more vulnerable to peer pressures, suffer from the social stigmatization that is sure to come." The Department of Justice filed an *amicus* brief emphasizing that the Equal Protection Clause prohibits just such "race conscious" decisionmaking by Government.

In a unanimous opinion the Supreme Court, noting that ". . . it is clear that the [lower court's decision] would have been different had petitioner married a Caucasian male of similar respectability," decisively agreed with the Department's position:

> "The question . . . is whether the reality of private biases and the possible injury they might inflict are permissible considerations for removal of an infant child from the custody of its natural mother. We have little difficulty concluding that they are not. The Constitution cannot control such prejudices but neither can it tolerate them. Private biases may be outside the reach of the law, but the law cannot, directly or indirectly, give them effect. 'Public officials sworn to uphold the Constitution may not avoid a constitutional duty by bowing to the hypothetical effects of private racial prejudice that they assume to be both widely and deeply held.' "

A "MOVEMENT OF LAW AND POLICY": REASSERTING EQUALITY OF EMPLOYMENT OPPORTUNITY

> "Your question concerning whether my administration would pursue mandatory quotas to ensure equal employment opportunity, however, contains a contradiction in terms. I do not believe that you can remedy discrimination by discriminating—and I remain unalterably opposed to discrimination by quota, an idea that would undermine the very concept of equality itself.
>
> "Moreover, in its recent decision in *Firefighters* v. *Stotts,* the Supreme Court clearly stated that the policy behind Title VII 'is to provide make whole relief only to those who have been actual victims of illegal discrimination'—and quoted numerous statements by Senator Hubert Humphrey and other primary sponsors rejecting the proposition that Title VII would authorize the EEOC or the courts to impose employment quotas."—PRESIDENT REAGAN, October 26, 1984

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, which 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.

Both in language and intent, Title VII is a model of clarity. On its face, it clearly prohibits employers from, e.g., limiting, segregating, or classifying "employees or applicants for employment in any way which would deprive or tend to deprive *any individual of employment opportunities or otherwise affect his status as an em-*

ployee, because of such individual's race, color, religion, sex, or national origin" (emphasis added). To cite only one of many statements by its sponsors, Senator Hubert Humphrey (the principal author of that title) emphasized that:

> "Contrary to the allegations of some opponents of [Title VII], there is nothing in it that will give any power to the [EEOC] or to any court to require hiring, firing, or promotion of employees in order to meet a racial 'quota' or to achieve a certain racial balance."
>
> "That bugaboo has been brought up a dozen times; but it is nonexistent. In fact, the very opposite is true. Title VII prohibits discrimination."

Indeed, Senator Humphrey thought the idea that Title VII would permit or mandate quotas so ludicrous that he challenged one Senator:

> "If the Senator can find in Title VII . . . any language which provides that an employer will have to hire on the basis of percentage or quota related to color . . . I will start eating the pages one after another, because it is not in there."

During 1984 the Supreme Court made clear, in its decision in *Firefighters* v. *Stotts* (104 S.Ct. 2576 (1984)), that, like Hubert Humphrey, it as well could find no such language in Title VII.

In *Stotts*, the plaintiffs had obtained a court order prohibiting the City of Memphis, TN, from implementing a seniority-based layoff of firefighters if doing so would reduce the percentage of black firefighters employed by the department. Subsequently the City laid off some firefighters with greater seniority than other firefighters who were retained—solely because of their race. The Department of Justice filed a brief in this case reiterating this administration's position that, as a matter of law and policy, courts may not order as purported "relief" under Title VII, the very discrimination that the statute itself prohibits. In language sweeping broadly beyond the narrow issue of layoffs, the Court agreed; citing, among other evidence of Congressional intent, the statement by the principal Senate sponsors that under Title VII:

> ". . . not even a Court, much less the [Equal Employment Opportunity] Commission, could order racial quotas or the hiring, reinstatement, admission to membership or payment of back pay for anyone who is not discriminated against in violation of this Title."

Two other noteworthy decisions in which the Supreme Court significantly clarified and strengthened protections against employment discrimination in opinions adopting positions taken by the Department of Justice were *Consolidated Rail Corporation* v. *Darrone* (104 S.Ct. 1248 (1984) and *Hishon* v. *King & Spalding* (104 S.Ct. 2229 (1984)).[1] In *Consolidated Rail Corporation* v. *Darrone,*

[1] Note.—The Department enjoyed considerable success in appellate litigation concerning civil rights issues (employment and non-employment). During 1984, the Civil Rights Division filed a total of 28 papers in the Supreme Court and 49 in the circuit courts of appeals regarding civil issues. 85 percent of the merits decisions in these cases were in full or partial accord with the Division's positions.

the Court agreed that section 504 of the Rehabilitation Act of 1973 prohibits employment discrimination by Federal aid recipients based on handicap even where the primary purpose of the Federal aid is not to provide employment. In *Hishon* v. *King & Spalding,* the Court agreed that Title VII prohibits discrimination by law firms and other voluntary professional associations in partnership decisions.

In the Fifth Circuit, the Department succeeded (in *Williams* v. *City of New Orleans* (729 F.2d. 1154 (1984))) in forestalling the imposition of a quota system governing promotions in the New Orleans Police Department. The Department had entered the litigation at the behest of female, Hispanic, and white police officers who would have been excluded from promotion opportunities solely because of their race had the quota system been allowed to go into effect.

The Department of Justice's Civil Rights Division is responsible for litigating alleged violations of Title VII by public employers and of Executive Order 11246, as amended, by Government contractors. The Department is also responsible for litigating any equal employment issues arising under Title VI and other provisions requiring nondiscrimination in federally assisted programs and activities. During 1984, the Division filed 19 new suits and obtained agreement to 14 consent decrees in employment discrimination cases. Ten of those decrees have been approved and the remaining four were submitted for approval. The decrees reflect the Department's commitment to vindicating the rights of victims of discriminatory practices, while at the same time opposing preferential treatment in hiring, promotion, assignment or layoff which would create new victims. The consent decrees approved and other orders entered during 1984 provided for the payment of over $900,000 in backpay awards to persons identified as having been harmed by prior practices, plus the elimination of unlawfully discriminatory practices, and enhanced recruitment of members of the group(s) previously excluded. Four additional consent decrees, which were conditionally approved just after the beginning of 1985, provide for backpay awards totaling almost $2,000,000.

Many of the suits filed by the Division during 1984 involved large employers alleged to have engaged in a pattern or practice of employment discrimination; and several entailed new litigation initiatives, including:

- Four lawsuits under the Pregnancy Discrimination Act which were the first such suits the Division has brought to equalize health benefits coverage for employees' spouses. The Division alleged that the defendants had discriminated against their male employees on the basis of sex by providing less comprehensive health insurance coverage for the pregnancy-related medical expenses incurred by spouses of male employees;

- A suit under Title VII involving discrimination against women by a corrections department which refused to hire or promote women into any correctional officer position involving work within the male cell blocks of the local jail. This policy not only precluded females from occupying entry level correctional officer positions assigned to the male housing units but also (because supervisory positions entail work within the male cell blocks) precluded women from attaining any supervisory position within the jail; and,
- The first suit the Division has brought against a State bureau of investigation, which seeks to eliminate discrimination against women in the hire, promotion and assignment of female agents.

Clearly if (as the Supreme Court made clear in *Stotts*) quotas cannot be imposed by the courts as "remedies" for identified discrimination, such inherently unfair and stigmatizing statistical measures are equally unavailable to administrative agencies as "remedies" for such "deficiencies" as "underutilization" and "adverse impact." Yet such an approach may still be at the heart of the regulations, inherited by this administration, for the Department of Labor's Office of Federal Contract Compliance Programs.

Executive Order 11246, as amended (upon which OFCCP's regulations are largely based) was issued by President Johnson in 1965. Like Title VII, it was originally intended [1] to assure that employment by Federal contractors was *without regard* to race, sex, or national origin. As the Office of Federal Contract Compliance Programs' regulations for implementing this Executive order have grown (from 16 pages as recently as 1970 to 192 pages today), however, they have become the most widely applicable *requirement* that employers base employment decisions on those very factors.

During the 1970's, the OFCCP regulations which this administration inherited were perhaps chiefly responsible for converting the worthwhile concept of affirmative action, in the public mind, into a simple euphemism for quotas. Indeed, a recent and widely publicized study of OFCCP's impact during the years 1974-80—prior to this Administration's assumption of office—by economist Jonathan S. Leonard was modeled on the (not widely publicized) assumption that, under those regulations, "Affirmative Action [in the sense mandated by OFCCP regulations] may be thought of as a tax on

[1] E.g., Senator Daniel Moynihan has observed: "I was an Assistant Secretary of Labor in the administration of Lyndon Johnson and helped prepare Executive Order 11246, on equal employment opportunity. This continues to be the basis of the affirmative action programs of the Federal government. It was directed against a specific evil and accomplished much good. But who in the executive branch fifteen years ago would have dreamed the day would come when the Federal courts would require a census in which all employees and judicial officers would be classified by 'race/national origin groups' including 'Arabic' and 'Hebrew'? This was just the sort of thing we assumed we were working against." *Harper's*, December, 1980.

the employment of white males in the contractor sector. If they are immobile, white male workers bear the tax burden and their relative wages fall:"

> "Intuitively, an increase in the affirmative action 'tax' shifts the demand curve for white male labor down."
>
> ". . . The difference between the change in the employment of white males at contractor firms . . . and at non-contractor firms . . . is then simply a function of affirmative action pressure."
>
> ". . . This is the central equation to be tested, . . . *If affirmative action has been effective, these employment shifts will be greater among contractors*" [emphasis added].[2]

Indeed, Leonard's work contains considerable evidence (also unpublicized) supporting the observation of former Solicitor of Labor Lawrence Silberman (who helped draft OFCCP's regulations) that:

> "Once [OFCCP] got into the numbers game, it stopped being equal opportunity. It had to lead to efforts to impose more equal outcomes."

Leonard found, for example, that the pattern of OFCCP compliance reviews he studied for the years 1974-80 was "consistent with an affirmative action effort that is primarily concerned not with attacking the grossest prima facie forms of current employment discrimination, but rather with redistributing jobs to minorities and women." Indeed, during that period, establishments which employed *above average* percentages of blacks and women were *most likely* to be reviewed, while establishments which employed few women or minorities (or none at all) were *least likely* to be reviewed: ". . . just the opposite of what one would expect from a program targetted against the most simple sort of prima facie discrimination" (Leonard reports, e.g., that the percentage of minorities, before review, was *24 percent greater* at reviewed establishments than at unreviewed establishments). Moreover, OFCCP was more likely to review establishments with shrinking employment than those with growing employment.

Thus, it would appear that the establishments that were *least* likely to discriminate against minorities and women were also the establishments most likely to be subjected to OFCCP pressure. OFCCP compliance officers, Leonard noted:

> ". . . tend to be evaluated on fulfilling goals for compliance review, rather than on successfully bringing discriminators to heel . . . The fastest way to fill a production goal for compliance reviews is to review firms with good records and good behavior. In practice, these will usually be large firms with well-established systematic record keeping for internal personnel bureaucracies. They will also tend to be the good corporate citizens who

[2] Jonathan S. Leonard, "Employment and Occupational Advance Under Affirmative Action," *Review of Economics and Statistics,* August, 1984, p. 378. See also Jonathan S. Leonard, "The Impact of Affirmative Action on Employment," *Journal of Labor Economics,* pp. 440-445; and Jonathan S. Leonard, *The Impact of Affirmative Action* (report submitted to the Department of Labor, 1983), pp. 51-55. Leonard judges OFCCP to have been generally successful in these terms during 1974-1980: "White males . . did significantly worse at contractor establishments." Leonard, "Employment and Occupational Advance Under Affirmative Action," *Review of Economics and Statistics,* August, 1984, p. 379.

> have been reviewed before and found in compliance. If this were in fact the internal incentive system for field officers, it would not be surprising to find [Note: as Leonard in fact found] that compliance reviews are concentrated on the largest firms that have already been reviewed in the past, and that already employ the most females and minorities." [3]

Indeed, Leonard's evidence regarding the impact of OFCCP goals on the actual employment of minorities and women confirms this redistribution emphasis:

> "*Neither absolute minority or female employment increased* but both minority and female *shares* did increase. This is because the contraction in employment that did occur was almost lily-white and predominantly male. . . . *while white males averaged 57 percent of initial employment, they accounted for 78 percent of the employment decline* . . ." [emphasis added].[4]

Other of Leonard's evidence and observations—lost in remarkable public assertion that his study validated the preadministration work of OFCCP—are also of interest:

- Although OFCCP's requirements for "race and sex conscious" hiring purportedly benefit white women, black men, black women, Hispanic men, Hispanic women, Asian American men, Asian American women, American Indian men, and American Indian women equally, *this did not occur in practice.* In fact, establishments governed by OFCCP ". . . did not increase non-black minority employment significantly faster than non-contractors" during the 1974-80 period. Moreover, OFCCP compliance reviews were found to have "*significantly retarded the growth in . . . white female representation*" at reviewed establishments [emphasis added]." [5] Moreover, Leonard presents evidence showing that when OFCCP's impact is measured by job category, OFCCP ". . . has had a mixed, and often negative impact on white females. For technical, sales, clerical, craft, and trainee workers, [OFCCP coverage] is associated with a significant decline in white females' employment share. Compliance reviews have also often had a negative impact." [6]
- Although OFCCP's quota requirements are most frequently defended in terms of assisting the disadvantaged, Leonard found that the impact of OFCCP-induced job-redistribution has been greatest for skilled, higher paying positions [7]—in other words, positions for which only those minorities and

[3] Jonathan S. Leonard, *The Impact of Affirmative Action* (report submitted to the Department of Labor, 1983), pp. 336-360.

[4] Leonard, *The Impact of Affirmative Action,* p. 370.

[5] Leonard, "Employment and Occupational Advance Under Affirmative Action," *Review of Economics and Statistics,* August, 1984, pp. 379-380. As economists James P. Smith and Michael P. Ward note in *Women's Wages and Work in the Twentieth Century* (Rand Corporation, 1984, pp. xiii-xiv): "A substantial number of economic studies have found little effect of [OFCCP's version of] affirmative action on the economic status of white women."

[6] *Ibid.,* p. 384.

[7] *Ibid.,* pp. 382-385.

women who were already *most advantaged* in education, skill attainment, and other terms could compete.

- Leonard reports that the employment of black men at OFCCP-covered establishments (as a percentage of the total black men employed at all of the establishments he studied, OFCCP-covered and non-OFCCP covered) actually *fell* between 1974 and 1980. Leonard notes that this occurred because *establishments not covered by OFCCP grew much more rapidly than those covered by its regulations:*

"Establishments not covered by OFCCP absorbed more black males as they grew, and from our previous results we know that *growing establishments increase their employment of minorities and women more quickly".*[8]

- There was a significant difference between the "goals" established through costly and time-consuming negotiations between OFCCP compliance officers and corporate representatives and their real world results. Indeed, Leonard's data indicate that establishments that *refused to increase* goals deemed unacceptably low by OFCCP increased their *actual employment* of black men *faster than establishments whose goals OFCCP approved.* Leonard found that a goal to increase the employment percentage of black men by 10 percent resulted in an actual increase of only 1 percent; a goal to increase the employment percentage of Hispanic, Asian, and American Indian men by 10 percent resulted in an actual increase of only 1.8 percent; a goal to increase the employment percentage of black women by 10 percent resulted in an actual increase of only 2.5 percent; and a goal to increase the employment percentage of white women by 10 percent resulted in an actual increase of only 2 percent.[9]
- Finally, two observations by Leonard highlight what may be the most significant aspect of the OFCCP compliance process as it evolved in prior administrations (and which, it has been estimated,[10] cost firms in the "Fortune 500" over $1 billion during 1980 alone): That the process of defining "underutilization" (for the purpose of establishing the "goals" discussed above) ". . . has kept many lawyers, economists, and statisticians employed, and given birth to a whole new breed: affirmative action professionals"; and that "An internal affirmative action bureaucracy has become entrenched in the largest corporations, and this internal bureaucracy has goals of its own . . .", one of which is to ". . . enhance their [own] em-

[8] *Ibid.,* pp. 123–124.

[9] *Ibid.,* pp. 371, 375, 381.

[10] By the Equal Employment Advisory Council as cited in Daniel Seligman, "Affirmative Action is Here to Stay," *Fortune,* April 19, 1982, p. 156.

ployment prospects by keeping the threat of external pressure alive".[11]

Important new research by economists James P. Smith and Finis Welch provides an overview of the impact of the "race conscious" Federal enforcement policies of the late 1970's. The greatest wage gains for black men and women, and the greatest shifts in minority employment to firms under the jurisdiction of the OFCCP and EEOC, came prior to *1974* [12] and prior to the widespread application of "race conscious" employment requirements by those agencies during the latter half of the 1970's.

There is an alternative to the zero-sum version of "affirmative action" (based on the premise that opportunities for some can be achieved only by taxing the opportunities of others), that was written into the OFCCP regulations during the 1970's—a true affirmative action about which the President has frequently spoken:

> "No American should be discriminated against because of race, ethnic background, sex, or religion in hiring, education, or in any other way . . . [P]rograms, whether government or private, which make an extra effort to find qualified minority applicants are beneficial. They ensure that minority members will not be overlooked, and help provide them with equal opportunity for further advancement . . . However, we must not allow this noble concept of equal opportunity to be distorted into Federal guidelines or quotas which require race, ethnicity, or sex—rather than ability or education. Increasing discrimination against some people in order to reduce it against other does not end discrimination. Instead, we should make a bold commitment to economic growth, to increase job and education opportunities for all Americans." [13]

Through 1986, the Administration will work to achieve substantial reforms in OFCCP's regulations which, pursuant to the principles set forth by the President, will assure that:

- Discrimination, where found, must be swiftly and vigorously attacked—particularly when it affects members of groups historically victimized by discrimination, such as minorities and women.
- Affirmative action is understood to include affirmative outreach, recruitment, counseling, and training activities designed to assure that qualified minorities and women are considered for employment opportunities.
- Recruitment is inclusive, and selection is exclusive—based on individual merit and excellence alone and that affirmative action administrators are no longer permitted to take credit for the earned accomplishments of individual minorities and women.

[11] Jonathan Leonard, *The Impact of Affirmative Action*, pp. 16, 319.

[12] James P. Smith and Finis Welch, "Affirmative Action and Labor Markets", *Journal of Labor Economics*, Volume 2 Number 2, April, 1984, p. 269.

[13] Issue paper, "affirmative action", Reagan-Bush Committee, 1980.

- There is no place for quotas, either as a limit on the obligation to recruit affirmatively, or on the obligation to hire on a nondiscriminatory basis. Both obligations must apply to all vacancies.

Such an approach, to be sure, would not pretend to mandate any "bottom line" result other than nondiscrimination. It would, however, benefit all workers by assuring that all persons, regardless of race or sex, have the fullest opportunity to compete for available jobs—and by reaffirming that the most capable person can always be hired regardless of race or sex.

Since 1981, the Department of Labor has effected substantial improvements in OFCCP's management and procedures—particularly its procedures for selecting contractors for compliance reviews and assuring their quality and timeliness. As a result, the OFCCP was able to complete 5,025 compliance reviews of contractor facilities employing 2.94 million workers during 1984 (compared with only 2,632 compliance reviews of facilities employing 1.05 million workers during 1980, the last year of the prior administration). During 1984, OFCCP also conducted 1,246 investigations of discrimination complaints.

The Equal Employment Opportunity Commission has made particularly significant strides in overcoming management problems which had been allowed to develop in prior administrations. Of these, the Commission's financial management problems were particularly serious. In an audit conducted in 1981,[14] the General Accounting Office found that many of the recordkeeping and financial management practices it had identified five years earlier remained uncorrected. The Commission had no accurate records of the money owed it; personnel responsible for handling the Commission's funds were found to be poorly supervised and trained. The GAO identified 19 areas of concern which in sum were so serious as to pose the threat of "unnecessary cancellation of programmed activities, slippage of required programs, and even job losses for agency employees." In 1984, by contrast, the GAO gave its full approval to the EEOC's financial accounting system for the first time in the almost 20 years EEOC has been in existence.

Through 1986, the EEOC will be particularly concerned with reviewing its body of policy and regulations in light of the policy of nondiscrimination called for by the President and the legal principles set forth by the Supreme Court in *Stotts* (e.g., the EEOC has voted to review its "Uniform Guidelines on Employee Selection Procedures" (29 CFR 1607)).

Civil and Military Service Equal Employment Opportunity.—The Federal Civil Service and Military Services are built on the princi-

[14] See "Continuing Financial Management Problems at the Equal Employment Opportunity Commission," General Accounting Office, May 17, 1982.

ple of appointment and advancement on the basis of merit—irrespective of race, color, religion, national origin, sex, age, or handicap. Particularly in this period of resource stringency, the Federal government has a particularly strong obligation to appoint only the most able and diligent candidates to available vacancies.

Under the Equal Employment Opportunity Act of 1972, as amended, the EEOC is responsible for coordinating the efforts of Federal agencies to assure equal employment opportunity in their employment practices. In addition, the Office of Personnel Management, under the Civil Service Reform Act, coordinates agency efforts under the Federal Equal Opportunity Recruitment Program (FEORP).

This administration has worked to strengthen (and where necessary, to reaffirm)[15] the complementary principles of affirmative recruitment and merit selection, and the employment of minorities and women in white collar civil service positions and their percentages among military officers are substantially higher than when this administration took office:

Table J–2. **WHITE COLLAR [1] EMPLOYMENT OF MINORITIES AND WOMEN IN THE FEDERAL GOVERNMENT, 1980–1984**

	Percentage of full time white collar employment	
	November 1980	March, 1984 [2]
Minorities	20.8	23.1
Women	45.1	47.2

[1] Nonpostal civilian employment in General Schedule and equivalent positions.
[2] Latest available figures.

Source: Office of Personnel Management.

Table J–3. **PERCENTAGES OF MILITARY OFFICERS WHO ARE MINORITIES OR WOMEN**

	Percentage of total officers	
	1980	1984
Minorities	9.1	10.5
Women	8.2	9.4

The inequities and inefficiencies of current procedures for processing discrimination complaints filed against Federal agencies have previously been extensively documented by the General Ac-

[15] In 1982, for example, a Presidential Task Force forcefully rejected the argument advanced by some in recent years that opportunities for minorities to enlist in the armed services should be limited to their percentage in the population at large: "Some observers express concern about the high proportion of blacks in the enlisted force [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 service-members have served the nation ably and honorably. It would be both unnecessary and unfair to move to a quota-based recruitment system to achieve some arbitrary notion of a proper racial balance."

counting Office and this administration.[16] At the onset of the current fiscal year the Equal Employment Opportunity Commission voted to consider major changes in these procedures.

A "MOVEMENT OF LAW AND POLICY": ASSURING NONDISCRIMINATION IN FEDERALLY ASSISTED PROGRAMS

It is fundamental that activities funded by the Federal government itself 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 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 handicapped in all federally assisted programs and activities.

During 1984, the Supreme Court handed down two particularly significant decisions regarding these statutes, both of which agreed with the Department of Justice's positions regarding their interpretation. The Court's opinions in *Consolidated Rail Corporation* v. *Darrone* (104 S.Ct. 1248 (1984)) (discussed above in the section dealing with equal employment opportunity) and *Grove City College* v. *Bell* (104 S.Ct. 1211 (1984)) significantly clarified the scope, respectively, of Section 504 of the Rehabilitation Act of 1973 and title IX of the Education Amendments of 1972. In *Grove City,* the Supreme Court agreed with the Department of Justice's position that:

—By its terms, title IX explicitly covers an institution's "education program[s] or activit[ies] receiving Federal financial assistance" but does not cover other "programs or activities" within the institution that do not receive Federal financial assistance.

—Pell grants to students constitute Federal financial assistance to the colleges and universities they attend.

The administration had made clear throughout the *Grove City* litigation that its position with respect to the coverage of educational institutions by title IX was one of legal interpretation rather than policy. After the Supreme Court's *Grove City* decision had

[16] See U.S. General Accounting Office, "Problems Persist in the EEO Complaint Processing System", April 7, 1983; Special Analysis J: Civil Rights Activities, Special Analyses, Budget of the United States Government, 1983, 1984, and 1985.

confirmed its interpretation of the existing statutory language, the administration made clear its support for legislation that would extend coverage of title IX and related nondiscrimination statutes to all of the education programs and activities of institutions receiving Federal financial assistance.

Subsequently, legislation was introduced in Congress which, it was stated, would simply restore the coverage of title IX and related statutes to their "pre-*Grove City*" scope. In fact, however, the legislation (styled "The Civil Rights Act of 1984") would have enabled Federal agencies, for the first time, to assert regulatory authority over *any* program or activity of a State or local government, business, or non-profit organization which received Federal financial assistance for any purpose—regardless of whether the program or activity received Federal assistance, or was even related to the purposes for which Federal assistance was provided. As the President observed at his May 22, 1984 press conference, the legislation was "so broad that actually it would open the door to Federal intrusion in local and State governments and in any manner of ways beyond anything that has ever been intended by the Civil Rights Act."

The administration supports, and hopes to see the enactment during 1985, legislation recently introducted by Senate Majority Leader Dole to assure that schools receiving Federal assistance will not be allowed to discriminate in any phase of their operations (e.g., against women in their athletic departments even if those departments received no Federal funds).

In other significant appellate activity during 1984, the Fifth Circuit held that section 504 of the Rehabilitation Act applies to hospitals receiving federal financial assistance in the form of Medicare and Medicaid payments, and that the applicable "program or activity" is the hospital's inpatient services.

There were noteworthy accomplishments, with respect to assuring nondiscrimination on the basis of handicap, in non-litigation areas as well during 1984. With regard to the Federal government's own practices, the General Services Administration, the U.S. Postal Service, and the Departments of Defense and Housing and Urban Development jointly issued the final uniform Federal Accessibility Standards on August 7, 1984. The uniform standards are designed to ensure that Federal and federally-funded facilities are designed, constructed, and altered so as to achieve a high level of access and use by persons with physical disabilities. In other important regulatory activity, the Department of Justice's Civil Rights Division coordinated the efforts of 91 Federal entities to develop regulations implementing Section 504, as it applies to their federally conducted programs and activities.

Among enforcement agencies, the Department of Health and Human Services secured several significant remedies for violations of Section 504, including establishment, by more than fifty hospitals, of procedures to ensure emergency medical treatment for hearing impaired persons; and agreement, by a State group insurance commission, to make group health insurance available to all State employees regardless of medical history.

HHS compliance reviews also produced significant remedies for violations of Title VI as well. One State, for example, agreed to revise adoption and foster care procedures which were racially discriminatory; and another State established procedures to assure that children are not referred to or denied placement in group boarding homes and residential centers based on race, color, national origin (or handicap). During 1984, HHS compliance reviews and complaint investigations resulted in agreements by over 700 to take steps to comply with non-discrimination requirements.

Since 1980, management improvements and a declining complaint workload have enabled the HHS Office for Civil Rights to shift increasing percentages of its personnel resources from complaint investigations to compliance reviews:

Table J-4. **DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE FOR CIVIL RIGHTS PERCENTAGE ALLOCATION OF STAFF RESOURCES**

	Complaint investigations	Compliance activities*	Miscellaneous activities**
Fiscal year:			
1981 (actual)	43	34	23
1984 (actual)	30	51	19

* Includes pre-grant reviews, compliance and project reviews, and monitoring and outreach activities.
** Program management and legal services.

A similar combination of improved procedures and declining complaint workloads has enabled the Department of Education's Office for Civil Rights (the largest of the Title VI enforcement agencies) to significantly improve its complaint closure rate, (resulting in a 58% reduction in its backlog of pending complaints since 1980):

Table J-5. **DEPARTMENT OF EDUCATION OFFICE FOR CIVIL RIGHTS COMPLAINT CLOSURE RATE; 1980–1984***

	Fiscal year	
	1980 (actual)	1984 (actual)
Percentage closure rate*	57.1	69.3
Number, complaints pending end of year	2,051	861

* Complaints closed/complaints pending or received for processing.

In 1982, reports of the death of a handicapped infant[17] first focused widespread public attention on the question of whether infants with disabilities were being denied the care and treatment necessary to sustain life. As President Reagan was quick to emphasize, Section 504 "forbids recipients of Federal funds from withholding from handicapped citizens, simply because they are handicapped, any benefit or service that would ordinarily be provided to persons without handicaps. Regulations under this law specifically prohibit hospitals and other providers of health services receiving Federal assistance from discriminating against the handicapped."

The Department of Health and Human Services has primary responsibility for enforcing the requirements of Section 504 and similar nondiscrimination requirements with respect to federally assisted providers of health care. During 1984, the Department (together with the Department of Justice) devoted considerable effort to attempts to enforce the rights of handicapped infants under Section 504. On January 12, 1984, HHS (following extensive consultations with medical professionals, disability rights organizations, a wide range of other interested parties) issued a final rule implementing Section 504's protection of handicapped infants.

In June 1984, a Federal court invalidated this regulation and enjoined further investigations of alleged discriminatory withholding of medical treatment from handicapped infants—requiring HHS to administratively suspend investigations of 28 complaints of such alleged discrimination (HHS had received a total of 67 such complaints during 1983 and 1984). HHS appealed this decision, and the Administration will continue its legal efforts to protect the rights of handicapped infants. As the President has emphasized:

> 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 mental gifts we too often take for granted.

During 1984, the Justice Department's Civil Rights Division established a special unit, the Equal Educational Opportunity Section, to represent the Federal Government in school desegregation suits throughout the nation based on Title VI and other statutory and Constitutional grounds. The Federal Government has been party to suits involving approximately 525 elementary and secondary school districts, most of which are located in southern states. Approximately 150 of these districts have been declared unitary (no longer segregated by law) and the cases have either been dismissed or deactiviated by the courts. During 1984, the Equal Education Opportunity Section devoted a considerable amount of its resources monitoring and seeking full compliance with the approximately 375 orders which remain in effect. And major remedial orders

[17] The infant, who has Down's Syndrome, died in Bloomginton, Indiana, after treatment to repair detached ecophagus had been withheld.

involving school desegregation issues were entered in cases in Lawrence County, Mississippi, Ector County, Texas, Lubbock, Texas, and Huntsville, Alabama.

The Division also focused on pursuing several equal educational opportunity cases in which initial orders had been entered. In a suit involving the Massachusetts Maritime Academy alleging sex discrimination in admissions, the court found illegal discrimination and is now considering appropriate relief. Consent decrees were entered in suits involving school districts in Bakersfield, California (a case which was filed at the same time that the order was entered); Marion County, Florida; and Lima, Ohio which required implementation of desegregation plans relying primarily on the use of magnet schools to encourage voluntary student desegregation.

In developing these remedies, the Division has rejected the proposition that future discrimination in pupil assignment is an appropriate remedy for past discrimination in pupil assignment. Such mandates, which frequently include forced busing, not only exclude students from educational programs based solely on their race or national origin; but frequently serve simply to reassign students from one poor school to another, and typically produce significant enrollment losses—followed by more severe racial isolation than existed before such measures were ordered.

In this regard, the experience of the Norfolk, Virginia school system after 13 years under a court ordered "race conscious" pupil assignment plan is all too typical. Since 1971, when court-ordered busing was initiated, the student population in Norfolk has decreased by 37 percent—and the white student population has dropped by 59 percent. There are 21,290 fewer students in the system than in 1971—and 19,259 fewer white students. The Department of Justice has intervened (in litigation currently pending before the Fourth Circuit Court of Appeals) in support of the local board's efforts to modify this order. In so doing, the Department is acting to defend the abiding interests of black and white students and parents against those who would (in the name of desegregation) resegregate school systems and denude local citizens and their school boards of the capacity to engage in a critical set of good-faith educational policy decisions.

A "MOVEMENT OF LAW AND POLICY": FAIR HOUSING AND EQUAL CREDIT ENFORCEMENT

". . . [L]et us once again dedicate ourselves to the great work of assuring fair housing for all. And let us continue that work until fair housing becomes a permanent reality in our national life."—President Reagan, April 10, 1984

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 for brokerage services. During 1983, the administration not only continued its vigorous enforcement of the Fair Housing Act's current provisions, but offered legislation that would fill significant gaps in the protection now afforded by the Act.

The Department of Housing and Urban Development's Office for Fair Housing and Equal Opportunity is responsible for investigating complaints of alleged 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.

Title VIII also provides that such complaints filed with HUD may be deferred to State and local fair housing agencies with equivalent statutory authority. During 1984, HUD continued its aggressive efforts to expand the involvement of the private sector and State and local governments in assuring fair housing. Through direct grants and technical assistance, HUD helped State and local agencies develop procedures, train staff, and complete other tasks 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 79 at the end of 1983 to 90 at the end of 1984, an increase of 14 percent (and a 180% increase over the number of such agencies at the end of 1980).

Through 1986, HUD expects to increase the number of participating State and local agencies to 110. The number of title VIII complaints processed at the State and local rather than the Federal level will further increase in 1986. To help defray these costs of State and local complaint processing, Federal support of $4 million is planned for 1986.

Table J–6. **TOTAL FAIR HOUSING COMPLAINTS PROCESSED BY HUD AND STATE AND LOCAL AGENCIES**

Year	Total closures	Percent change, 1980–1984
1980	2,860	+62
1984	4,642	....

During 1984, HUD also provided financial support for local Community Housing Resource Boards. These Boards initiate affirmative marketing and other voluntary efforts to assure fair housing. It is expected that over 589 of these Boards will be in existence at the end of 1985, 50 more than existed in 1984. An estimated $1 million will be spent to support the activities of these boards in 1986. (In addition, the President's budget would make $10 million available to support fair housing initiatives by State and local governments *and* private organizations during 1986.)

Table J-7. **FAIR HOUSING COMPLAINTS REFERRED TO STATE AND LOCAL AGENCIES**

	Actual				
	1980	1981	1982	1983	1984
Complaints received	3,039	4,209	5,112	4,551	4,533
Complaints received	410	1,661	2,679	2,736	3,062

HUD's 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 1984, for example, HUD referred 68 percent of the complaints it received to State and local agencies for processing (compared with only 13 percent in 1980). 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 62 percent more complaints closed in 1984 than in 1980.

Table J-8. **NUMBER OF STATE AND LOCAL AGENCIES WITH CHARGE PROCESSING AGREEMENTS**

End of fiscal year:	
1980	32
1981	42
1982	67
1983	79
1984	90
1985 (estimate)	100
1986 (estimate)	110

The Civil Rights Division of the Department of Justice is responsible for bringing suits to enjoin alleged patterns and practices of discrimination prohibited by title VIII. During 1984, the Division established a separate unit, the Housing and Civil Enforcement Section, to handle housing and credit matters. The section represents the United States in pattern or practice lawsuits brought pursuant to the Fair Housing Act (42 U.S.C. 3601–3619) or the Equal Credit Opportunity Act (15 U.S.C. 1691–1691f). The housing cases involve such prohibited actions as refusal to sell or rent a dwelling to a person on the basis of race, religion, national origin or sex; zoning and other exclusionary practices; and interference with persons who have exercised rights protected by the statute.

As a result of this new arrangement a greater percentage of the Civil Rights Division's resources are now devoted to housing and credit matters, resulting in a significant increase in the number of housing cases initiated in 1984. During 1984, the section filed 17 housing discrimination cases and successfully negotiated consent decrees in 8 housing suits. Six of the cases filed attack alleged racial steering of home buyers by Chicago area real estate brokers. Two other new cases alleging racial discrimination were filed against large companies (one with 24 complexes, the other with 13) that develop and manage apartment buildings in the eastern United States. And since the onset of the current fiscal year, the Department of Justice has filed suits in Texas and Ohio to enjoin a practice widely assumed to have been eliminated—restrictive racial covenants in real estate deeds.

This administration's fair housing enforcement efforts are directed at eliminating the evil that the Fair Housing Act was designed to address: the denial of housing opportunities to individuals solely because of their race, color, religion, sex, or national origin. And as the Justice Department's 1984 filing in *Starrett City* demonstrated, this administration has not hesitated to act against attempts to perpetuate that evil under color of the Fair Housing Act itself.

Starrett City, a 6,000 unit housing project in New York City, had for a number of years set aside 65 percent of its units for whites—generating a private suit to enjoin this apparent violation of title VIII's nondiscrimination mandate. In 1984, the parties to the suit agreed to a "remedy" which, rather than ending the discriminatory quota system, simply provided a modest increase in the quota of units which individuals from minority groups would be permitted to occupy in Starrett City. In addition, the agreement called for 86 other developments throughout the State of New York to "work toward 20 minority occupancy within 15 years".[18]

Just as the lower court in *Palmore* v. *Sidoti* (see above) cited "the reality of private biases and the possible injury they might inflict" in attempting to deny custody to a mother because she had chosen to marry a man of a different race, the Starrett City quotas were argued to be necessary (in light of that same reality) to prevent segregation and subsequent deterioration of the project.[19] By explicitly linking the health of a housing project to the race (rather than the character) of its tenants, however, such arguments simply reemphasize the truth of the Supreme Court's teaching the *Palmore* that "Classifying persons according to their race is more likely to reflect racial prejudice than legitimate public concerns . . ."[20] Accordingly, the Department of Justice has entered the *Starrett City* case to obtain a genuine remedy for Starrett City's

[18] Walter Goodman, "Dispute Over Quotas at Starrett City," *The New York Times*, July 13, 1984, p. A26.
[19] Jefferson Morley, "Double Reverse Discrimination", *The New Republic*, July 9, 1984, pp. 14–18.
[20] Indeed, the Court's opinion in *Palmore* pointedly quotas a 1917 opinion (*Buchanan* v. *Warely*, 38 S.Ct.16 (1917)) in which the Supreme Court rejected a rationale for housing discrimination strikingly similar to that employed by defenders of the Starrett City quotas: "It is urged that this proposed segregation will promote the public peace by preventing race conflicts. Desirable as this is, and important as is the preservation of the public peace, this aim cannot be accomplished by laws or ordinances which deny rights created or protected by the Federal Constitution."

previous discrimination against blacks and other minorities: an end to discrimination.

Housing discrimination to maintain racial quotas has not been limited to tenant selection. In recent years, pursuant to judicial and administrative orders, public housing tenants have been selected on the basis of their race and required to move from their existing units.[21] Through 1986 this administration will work to assure (through litigation and administrative reform) that the moving van does not join the school bus as a symbol for policies which restrict opportunity in the name of equalizing it.

Since the passage of the 1976 amendments to the Equal Credit Opportunity Act, the Division has worked closely with federal regulatory agencies and significant suits have been filed challenging the lending practices of banks, cash loan companies and retail creditors as well as the activities of real estate appraisers and mortgage lenders. The suits include cases against four nationwide creditors—one defendant had over $38 billion in credit outstanding in 1982—and it is clear that this litigation program will have a substantial impact on the industry.

In 1984 the section continued its enforcement efforts under the Equal Credit Opportunity Act by working out consent decrees in three cases against nationwide creditors. These decrees were filed shortly after the year ended. Also, in 1984 the United States Court of Appeals for the Third Circuit affirmed a favorable district court decision that the section had obtained in a suit against a retail sales company that discriminated on the basis of race, sex, national origin and marital status.

A "MOVEMENT OF LAW AND POLICY": THE U.S. COMMISSION ON CIVIL RIGHTS

"I think we need a new dialogue in America. It might begin with an intellectual housecleaning in Washington, D.C. . . . In the words of Morris Abram . . . 'It's time for some people to stop shouting the slogans of the past and begin dealing with the facts, figures, and conditions of the present'."—PRESIDENT REAGAN, August 1, 1983.

Congress established the Commission on Civil Rights in 1957 to study the enforcement of statutes guaranteeing equal protection of the law regardless of race, color, religion, or national origin. The Commission's early work contributed significantly to the national recognition that it is immoral to limit any person's opportunities because of his or her sex, race, religion, national origin, or other factors irrelevant to character and ability—a recognition that led to the passage of the Civil Rights Act of 1964, the Voting Rights

[21] In a widely noted instance in 1983, thirty families—many of them elderly—were forced to move from their homes for the sake of racial balance. "Kicked Out of My Home," *Newsweek*, December 26, 1983, pp. 19-20.

Act, the Fair Housing Act, the Rehabilitation Act of 1973, and other landmark legislation.

During recent years, however, the Commission often seemed to lose sight of those principles (at times, even to explicitly reject them) as its definition of "civil rights" steadily expanded to include other elements of its members' political and economic agendas. In 1983, the President nominated several new members with distinguished civil rights backgrounds to the Commission. An impasse over these nominations was terminated by the passage of compromise legislation, supported by the President and the Congressional leadership of both parties, creating a new Commission.

The new Commission's reaction to the Supreme Court's decisions in *Stotts* and *Hishon* was but one of several demonstrations, during 1984, that the nation once again had an official "conscience" with respect to civil rights prepared to challenge, with equal force, the denial of any American's civil rights on the basis of race, color, religion, national origin, sex, or handicap:

> "We believe the cause of equal justice under law is well served by the Stotts decision. While more needs to be achieved, we trust that the tide has begun to turn decisively against preferential treatment, such as quotas, on the basis of race, national origin, and gender, and in favor of evenhanded civil rights enforcement for all American citizens.
>
> ". . . The Court's opinion in *Hishon* v. *King and Spalding* makes clear that the partnership decisions of voluntary professional associations may not be made in a discriminatory fashion. The decision is a significant step toward assuring equality of opportunity for women and minorities in a variety of professions."

The new Commission also initiated a number of significant studies and consultations. A consultation on comparable worth[22] at which experts ranging from strong opponents to strong supporters of the concept delivered papers, was particularly significant (and provided, both in its timeliness and the variety of opinions represented, further contrast between the approach of the new Commission and what had come, in recent years, to be the practice of its predecessor). Other achievements by the Commission to date include publication of a *Directory of State and Local Fair Housing Agencies* and *A Citizen's Guide to Understanding the Voting Rights Act;* and initiation of a magazine *(New Perspectives)* which is providing a platform for significant and diverse thinking on civil rights issues.

[22] See *Comparable Worth: Issue for the 80's,* Volume I, U.S. Commission on Civil Rights, 1984. The Administration's position on "Comparable Worth", while continuing to evolve, is that employees and employers should remain free to establish the "worth" of jobs through bargaining—and the Federal government should continue to vigorously enforce the obligation of employers to provide equal pay for equal work, without regard to sex. On the other hand, substitution of a Federally imposed standard (assuming that one could be agreed upon) for the individual judgments of employers, employees and their collective bargaining representatives is, as the ranking member of the Council of Economic Advisors recently noted in understated terms, (see *The New York Times,* October 19, 1984, p. 14) highly problematic idea to say the least. See also William French Smith, "Forcing Equal Pay for Different Jobs is a Bad Idea", *Washington Post,* January 27, 1985, p. C–1.

In addition, the new Commission is currently pursuing studies focusing on a wide variety of concerns, including violence and bigotry against Asian and Pacific Island Americans; trends in income and unemployment by sex, race, and ethnicity; civil rights enforcement by State and local governments; affirmative action in higher education; voluntary and involuntary methods of achieving school desegregation; and the employment of Americans of Eastern and Southern European Ancestry.

Through 1986, the Commission will continue to serve as the America's primary forum for debate on the "facts, figures, and conditions of the present" as they affect civil rights.

"A MOVEMENT OF LAW AND POLICY": FINISHING THE JOB

"I believe these figures demonstrate a commitment to civil rights that is firm and far-reaching. But let me go beyond statistics to speak from my heart . . . All Americans have the right to be judged on the sole basis of individual merit and to go just as far as their dreams and hard work will take them. And we won't have finished the job until, in this country, whatever is done to or for someone is done neither in spite of nor because of their religion or their color, their difference in ethnic background . . ."—PRESIDENT REAGAN, June 25, 1984

". . . we will not concede the moral high ground to those who show more concern for Federal programs than they do for what really determines the income and financial health of blacks—the Nation's economy."—PRESIDENT REAGAN, June 29, 1981

Thus 1984, the twentieth anniversary of the passage of the Civil Rights Act of 1964, saw substantial progress toward the color-blind society which was the objective of that historic legislation. This administration will continue to promote this "movement of law and policy" through 1986 by continuing to effectively enforce the civil rights guaranteed to all Americans: as the President has emhasized, "guaranteeing equality of treatment is government's proper function."

While an agenda for opportunity must necessarily include vigorous enforcement of statutory guarantees of equal treatment, it will be insufficient if it does not also address the barriers to economic opportunity for minorities and women which have been erected by Government itself at all levels (which have, to cite only one effect, well-intentioned minimum wage laws frequently serve to discourage employers from creating jobs which would provide income and skills for minority youths). Where prior administrations attempted to address the symptoms of such barriers by attempting to administratively reinterpret our civil rights laws into demands for special treatment, this administration will enforce the civil rights laws as they were written—and proceed to address the barriers themselves.

The necessity for such a total approach has come to be recognized by a growing coalition of persons in government and the private sector who (while frequently concurring on little else) are agreed on the necessity to fully open the doors of economic opportunity to minorities and women. Through 1986, this administration will accord a high priority to working with these individuals to refine and implement an economic opportunity agenda of special relevance to America's minority citizens. Because, for America to truly "finish the job," a platform of opportunity for all Americans must be built on which all Americans, consistent with our special place in history, can stand.

Table J-9. **BUDGET AUTHORITY FOR PRINCIPAL FEDERAL CIVIL RIGHTS ACTIVITIES**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Architectural and Transportation Barriers Compliance Board	1.9	2.0	1.9
Commission on Civil Rights	12.0	12.9	12.1
Department of Education, Office for Civil Rights [1]	44.4	44.5	42.9
Department of Health and Human Services, Office for Civil Rights [2]	21.3	20.2	19.6
Equal Employment Opportunity Commission	154.0	163.7	158.8
Department of Housing and Urban Development, Fair Housing Activities	28.2	33.3	41.3
Department of Justice, Civil Rights Division	21	23	22
Department of Labor, Office of Federal Contract Compliance Programs	43.9	47.2	43.4

[1] Includes effects of 1985 recission of 541,000 proposed pursuant to section 2901 of the Deficit Reduction Act of 1984.
[2] Total obligational authority, including both budget authority and trust fund transfers.

SPECIAL ANALYSIS K

RESEARCH AND DEVELOPMENT

This analysis covers the funding of research and development across all agencies with R&D programs of $10 million or more. These agencies fund over 99% of total Federal R&D.

In 1986, total Federal obligations for research and development, including R&D facilities, are estimated at $60 billion, an increase of more than $6 billion or 12 percent above the 1985 estimated level of $53 billion as shown in Table K-1. Support for the conduct of basic research, included within this total, is estimated to increase by 1 percent, from $7.8 billion in 1985 to $7.9 billion in 1986.

Within the framework of necessary overall restraint to reduce the deficit the 1986 budget reflects the relatively high priority that this Administration gives to R&D that is appropriate for Federal support. It provides for:

- increases in R&D programs of the Department of Defense;
- a continued high level of support for basic research with further increases in several agencies, including the Department of Defense, the National Aeronautics and Space Administration, and the National Science Foundation. Emphasis continues to be given by several agencies (within basic research funding) to support for the acquisition of state-of-the-art instrumentation at universities and to providing better access to advanced computers by academic scientists; and,
- continued support for several major projects begun in 1985, including, for example, in the NSF, the Very Long Baseline Array radiotelescope; in NASA, the Mars Geoscience/Climatology Orbiter; and in the DOE budget, a new nuclear physics electron facility at Newport News, Virginia.

At the same time, the 1986 budget continues to propose reductions in programs that are not an appropriate Federal responsibility and should be left to the States or the private sector for appropriate investments. These include reductions in nearer-term technology development programs of the Department of Energy, selected programs of the Department of Commerce (e.g., the Sea Grant program), and research activities of the Department of Interior (e.g., the Mineral Institutes program).

Table K–1. **TOTAL FEDERAL FUNDING FOR CONDUCT OF R&D AND RELATED FACILITIES**

(In billions of dollars)

	Obligations			Outlays		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Conduct of R&D	43.2	51.0	57.6	40.5	46.3	53.0
R&D facilities	1.9	2.2	2.1	1.6	2.1	2.0
Total	**45.1**	**53.2**	**59.7**	**42.2**	**48.5**	**55.0**

CONDUCT OF RESEARCH AND DEVELOPMENT

The budget for 1986 includes $58 billion in obligations for the conduct of R&D, an increase of $7 billion or 13 percent over 1985. Highlights of the proposed programs of the seven major R&D agencies, which account for over 90 percent of the obligations for the conduct of R&D by the Federal Government, are presented below.

- **Department of Defense** (DOD).—Obligations for the conduct of R&D by DOD are estimated at $39.4 billion for 1986, an increase of $7.1 billion or about 22 percent above 1985. The increased funds proposed for R&D are largely related to advances in tactical systems such as the JVX aircraft and the C–17 transport aircraft. In addition, DOD will increase its funding of basic research by about 16 percent, and also provide for an increased emphasis on the Strategic Defense Initiative.
- **Department of Energy** (DOE).—Obligations for the conduct of R&D programs in the Department of Energy are estimated at $4.7 billion, a decrease of 2 percent from 1985. Included in this total, basic research funding in high energy and nuclear physics and in the basic engineering and energy sciences would be $934 million, $22 million higher than 1985. Within overall support for R&D, nuclear weapons R&D will increase from $2,192 million to $2,254 million, while funds for energy technology development programs are estimated to decrease from $2,090 million to $1,914 million. This decrease primarily reflects a continuing shift away from support for relatively costly nearer-term development and demonstration activities. The 1986 budget for basic research includes funds for accelerator R&D in support of the future construction of a new nuclear physics facility at Newport News, Virginia. Funds are also included to maintain the preliminary accelerator R&D efforts required for the design of a possible next generation high energy particle accelerator. In addition, the budget continues support for the research programs associated with ongoing construction projects such as the Center for Advanced Materials at the Lawrence Berkeley Laboratory and the accel-

erator upgrades at Fermilab and Brookhaven National Laboratory.

- **Department of Health and Human Services** (HHS).—The 1985 decision to restore stability to HHS R&D activities results in a number of research projects and research centers being funded for two years (through the end of 1986). As a consequence of this policy, in 1985 the National Institutes of Health (NIH), which accounts for about 90 percent of HHS R&D obligations, will fund 5,000 new and competing research project grants and 500 research centers. In 1986, the same number of research project grants and research centers will be supported. However, since some of these project grants and centers will have already received 1986 funding in 1985, total HHS R&D obligations will decrease by about 6 percent, from $5.5 billion is 1985 to $5.2 billion in 1986. This level represents an increase of almost 7 percent between 1984 and 1986.
- **National Aeronautics and Space Administration** (NASA).—Obligations for the conduct of R&D by NASA are estimated at $3.7 billion in 1986, an increase of $225 million over 1985. This will allow NASA to pursue work on a space station and continue programs in science, applications and in long-term advanced technology development for space projects and aeronautics. The 1986 budget continues the design and definition of a space station with development planned for the late 1980's and early 1990's. Initial operational capability is anticipated in the mid-1990's. For science programs, the budget provides for launch of both the Space Telescope and the Galileo mission to Jupiter in mid-1986. The budget also continues development of major flight projects including the Gamma Ray Observatory and the Mars Geoscience/Climatology Orbiter to map the Martian surface, the Upper Atmosphere Research Satellite, to investigate the chemistry of the Earth's upper atmosphere, and the Scatterometer, an instrument for a joint NASA-Navy mission to better understand global wind patterns. Other previously approved projects such as the Venus Radar Mapper and Spacelab experiments will be continued.
- **National Science Foundation** (NSF).—Obligations for research supported by NSF are expected to increase by about $93 million, or 7 percent—to more than $1.4 billion in 1986. The budget principally provides enhanced support for basic research in academic institutions through project grants with emphasis on the physical sciences and engineering and for university research instrumentation. The budget provides additional funds for the Engineering Research Centers program, initiated in 1985, aimed at strengthening multidisciplinary

research and training in engineering at universities, and for the Advanced Scientific Computing program to improve the productivity of U.S. scientists by providing them greater access to supercomputers.

- **Department of Agriculture** (USDA).—Obligations for the conduct of R&D are estimated at $882 million for 1986, a decrease of 6 percent from the 1985 level of $940 million. The proposed reduction reflects the need to control the growth of Federal spending. Within the USDA total, the Cooperative State Research Service will provide $42 million to support research in biotechnology. Funding for the Competitive Grants program, which supports primarily basic agricultural research, is held at the 1985 level of $46 million. The Agricultural Research Service expects to obligate $485 million, slightly less than in 1985, for basic and applied research in soil and water conservation, plant and animal productivity and human nutrition. The Forest Service will enhance its research on land management planning and forest inventory. Other USDA research programs will focus on improving methods and techniques for obtaining agricultural statistics.
- **Department of Commerce** (DOC).—Obligations for R&D undertaken by DOC decrease by 29 percent between 1985 and 1986, from $384 million to $271. The proposed reductions reflect the Administration's continued efforts to reduce funding for programs that are more appropriately the responsibility of the private sector and State or local government. In addition to the Sea Grant Program of the National Oceanic and Atmospheric Administration, both the fire and building research programs at the National Bureau of Standards (NBS) will be eliminated. Some increases, however, are proposed for NBS in areas of growing importance, such as biotechnology, advanced quality control, ceramics and materials science. The budget also provides for construction of a Cold Neutron Research Facility at the Bureau, as well as increases for severe storm and air quality research.

Table K–2 summarizes Federal support for the conduct of R&D by agency.

CONDUCT OF BASIC RESEARCH

The 1986 budget continues this Administration's emphasis on the importance of support for basic research across all scientific disciplines even in a time of budget restraint. Scientific knowledge in fields such as mathematics, physics, chemistry, biology and the various engineering disciplines provides the foundation for the long-term achievement of national objectives of a strong defense, continued economic growth, and an enhanced quality of life.

Table K–2. **CONDUCT OF RESEARCH AND DEVELOPMENT BY MAJOR DEPARTMENTS AND AGENCIES**

(In millions of dollars)

Department or agency	Obligations			Outlays		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Defense-Military functions	26,408	32,318	39,426	23,583	28,539	34,860
Health and Human Services	4,836	5,472	5,159	4,449	4,995	5,239
(National Institutes of Health)	(4,252)	(4,835)	(4,561)	(3,960)	(4,408)	(4,654)
Energy	4,642	4,805	4,712	4,702	4,826	4,714
National Aeronautics and Space Administration	2,877	3,506	3,730	3,539	3,260	3,564
National Science Foundation	1,203	1,354	1,447	1,108	1,313	1,403
Agriculture	868	940	882	867	901	882
Transportation	446	480	362	342	481	377
Interior	362	378	335	393	371	339
Environmental Protection Agency	261	312	327	266	282	317
Commerce	361	384	271	330	368	291
Agency for International Development	192	217	225	139	225	239
Veterans Administration	190	227	190	186	224	187
Nuclear Regulatory Commission	191	150	138	196	152	141
All other [1]	363	417	396	418	396	407
Total	**43,199**	**50,958**	**57,598**	**40,518**	**46,331**	**52,958**

[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.

Funding for basic research is included within the overall Federal support for the conduct of R&D. In 1986, obligations for the conduct of basic research are estimated at $7.9 billion, an increase of $76 million, or 1 percent above the level for 1985.

Within this total, support for basic research in the physical sciences and engineering will increase in 1986 by about 7 percent, with the largest increases occurring in the DOD, NSF and NASA.

Funding for basic research by agencies principally supporting the life and other sciences will decrease 5 percent. The decrease is principally attributable to NIH, which is changing its method of funding some project grants and research centers, as discussed above. Support for basic research in the life and other sciences has increased by more than 8 percent since 1984 and by almost 50 percent since 1982.

Support of basic research particularly serves to strengthen the ability of the Nation's academic research scientists to conduct high-quality research and to educate the next generation of scientists and engineers. University-based researchers receive about half of the total Federal obligations for basic research and provide the critical element of education to maintain a vigorous, first-class scientific and technical talent pool.

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		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Agencies supporting primarily physical sciences and engineering: [2]						
National Science Foundation	1,132	1,273	1,366	1,042	1,235	1,325
Defense—Military functions	847	829	962	720	768	852
Energy	827	912	934	820	904	937
National Aeronautics and Space Administration	713	801	834	729	825	818
Interior	120	130	119	133	128	120
Commerce	21	22	18	21	21	18
Other Agencies [3]	9	9	10	8	9	10
Subtotal	3,668	3,976	4,241	3,473	3,891	4,078
Agencies supporting primarily life and other sciences: [4]						
Health and Human Services	2,812	3,225	3,049	2,587	2,938	3,087
(National Institutes of Health)	(2,625)	(3,022)	(2,847)	(2,441)	(2,753)	(2,896)
Agriculture	393	440	418	394	410	407
Smithsonian Institution	61	65	64	56	63	66
Environmental Protection Agency	30	37	40	26	24	28
Veterans Administration	16	15	16	16	16	16
Education	10	12	12	28	9	11
Other Agencies [5]	16	17	22	14	17	19
Subtotal	3,337	3,810	3,621	3,120	3,476	3,633
Total	7,005	7,786	7,862	6,593	7,367	7,712

[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

In 1986, within the total for support for R&D facilities, funding is provided for major scientific instrumentation, including the specialized research facilities at national laboratories and university centers e.g., particle accelerators, telescopes, and advanced computers. Such specialized facilities are critical to advancing the frontiers of science in a number of scientific disciplines. Funds for R&D facilities are also used for construction or renovation of general purpose laboratories and research support facilities.

In 1986, obligations for R&D facilities are expected to total $2.1 billion, a decrease of $162 million from 1985. The decrease primarily reflects completion of several major construction projects in DOE including the Tevatron I accelerator at Fermilab, and university accelerator upgrades at the University of Washington and Yale University. In keeping with the need for budgetary restraint, no major new construction projects will begin in 1986.

Table K–4 summarizes Federal support for R&D facilities and capital equipment.

Table K–4. **RESEARCH AND DEVELOPMENT FACILITIES BY MAJOR DEPARTMENTS AND AGENCIES**

(In millions of dollars)

Department or agency	Obligations			Outlays		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Energy	921	1,167	1,014	909	1,211	1,104
Defense—Military functions	532	589	556	383	469	446
National Aeronautics and Space Administration	238	275	244	192	248	241
Agriculture	39	48	95	29	52	96
National Science Foundation	45	65	71	43	63	69
Health and Human Services	32	55	39	35	43	36
(National Institutes of Health)	(28)	(35)	(28)	(21)	(33)	(24)
All other [1]	46	39	56	43	46	37
Total	**1,853**	**2,237**	**2,075**	**1,633**	**2,131**	**2,030**

[1] Includes the Departments of Transportation, Commerce, Interior, and Treasury, the Agency for International Development, Veterans Administration, Tennessee Valley Authority, and the Smithsonian Institution.

Table K–5 provides information on the long-term trends in Federal funding for the conduct of R&D.

Table K–5. **TRENDS IN CONDUCT OF R&D**

(Obligations in billions of dollars)

Year	Defense [1]	All other	Total	Basic research [2]
1960	6.1	1.5	7.6	0.6
1961	7.0	2.1	9.1	0.8
1962	7.2	3.1	10.3	1.0
1963	7.8	4.7	12.5	1.2
1964	7.8	6.4	14.2	1.3
1965	7.3	7.3	14.6	1.4
1966	7.5	7.8	15.3	1.6
1967	8.6	7.9	16.5	1.8
1968	8.3	7.6	15.9	1.8
1969	8.4	7.2	15.6	1.9
1970	8.0	7.3	15.3	1.9
1971	8.1	7.4	15.5	2.0
1972	8.9	7.6	16.5	2.2
1973	9.0	7.8	16.8	2.2
1974	9.0	8.4	17.4	2.4
1975	9.7	9.3	19.0	2.6
1976	10.4	10.4	20.8	2.8
1977	11.9	11.6	23.5	3.3
1978	12.6	13.2	25.8	3.7
1979	13.6	14.5	28.1	4.2
1980	15.1	14.7	29.8	4.7
1981	17.8	15.3	33.1	5.0
1982	22.1	14.3	36.4	5.5
1983	24.5	13.9	38.4	6.4
1984	28.3	14.9	43.2	7.0
1985 (estimate)	34.5	16.5	51.0	7.8
1986 (estimate)	41.7	15.9	57.6	7.9

[1] Includes military-related programs of the Departments of Defense and Energy.
[2] Included in totals for conduct of R&D.