

**BASELINE BUDGET PROJECTIONS:
FISCAL YEARS 1982-1986**

**The Congress of the United States
Congressional Budget Office**

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text, tables, and figures of this report may not add to totals because of rounding.

In tables, BA refers to budget authority, O signifies outlays.

PREFACE

The Congressional Budget Office is required by section 308(c) of the Congressional Budget Act of 1974 to issue a report each year that projects new budget authority, outlays, and revenues for the next five fiscal years. This report fulfills that statutory requirement for budget projections for fiscal years 1982 to 1986. The Congressional Budget Act also requires CBO to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

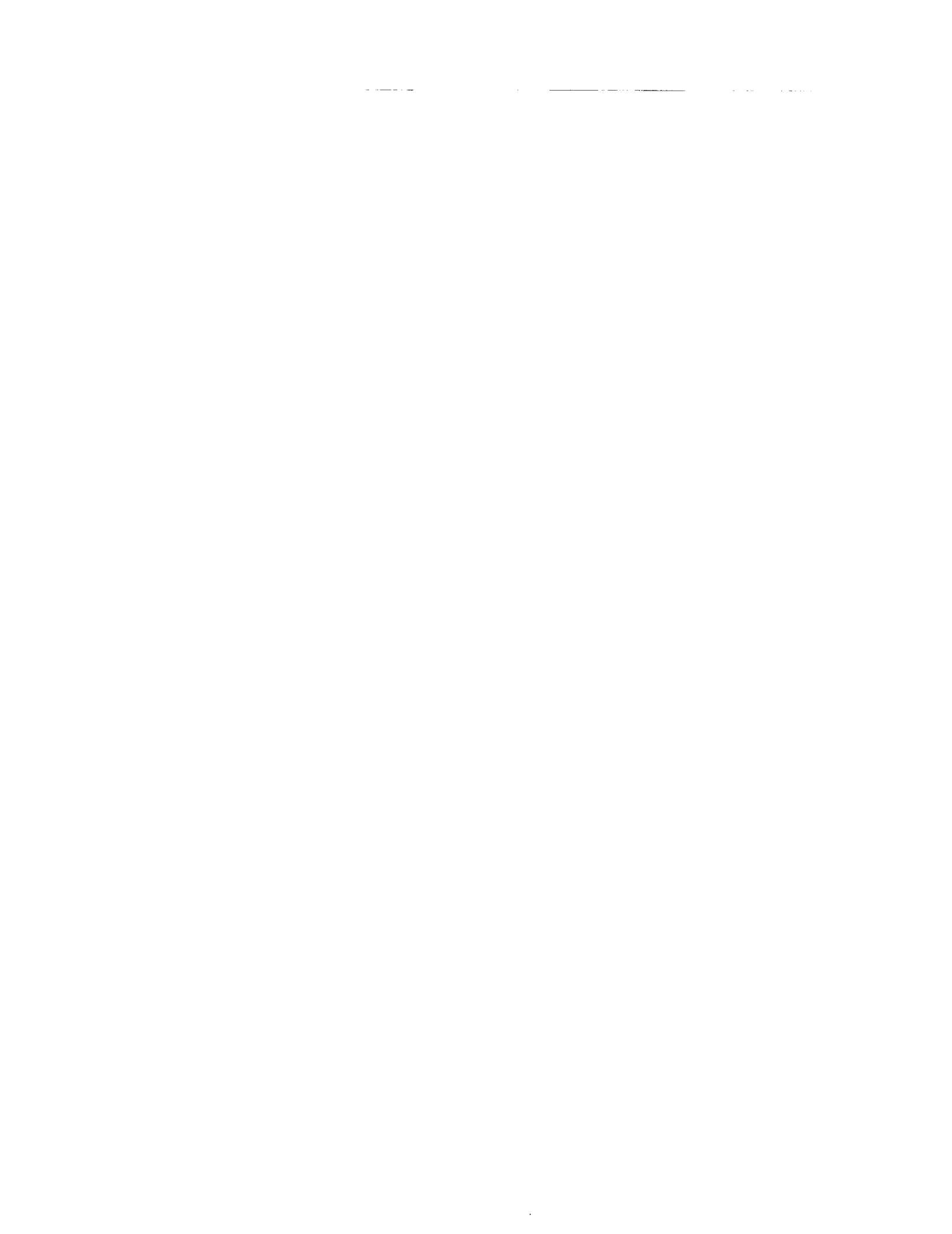
The revenue projections in this report are identical to the current law revenue estimates used for the conference agreement on the First Concurrent Resolution on the Budget for Fiscal Year 1982. The spending projections in this report were used by the Budget Committees in developing the reconciliation instructions specified in the first budget resolution to achieve spending reductions in 1982-1984. These projections also serve as the baseline that CBO used to prepare estimates of savings for legislation contained in the House and Senate reconciliation bills.

The budget projections in this report are based on Congressional action through the end of the 96th Congress and the economic assumptions used for the first budget resolution for fiscal year 1982. They do not include final Congressional action on the 1981 supplemental appropriations bill nor any new policy initiatives proposed by the Administration or assumed in the 1982 first budget resolution to cut taxes and spending. The report is intended to provide useful background information on the reconciliation instructions to achieve spending reductions.

The report was prepared by staff of the Budget Analysis and Tax Analysis Divisions, under the supervision of James L. Blum. Robert L. Faherty and Francis S. Pierce edited the manuscript, and Paula Spitzig prepared the final manuscript for publication.

Alice M. Rivlin
Director

July 1981



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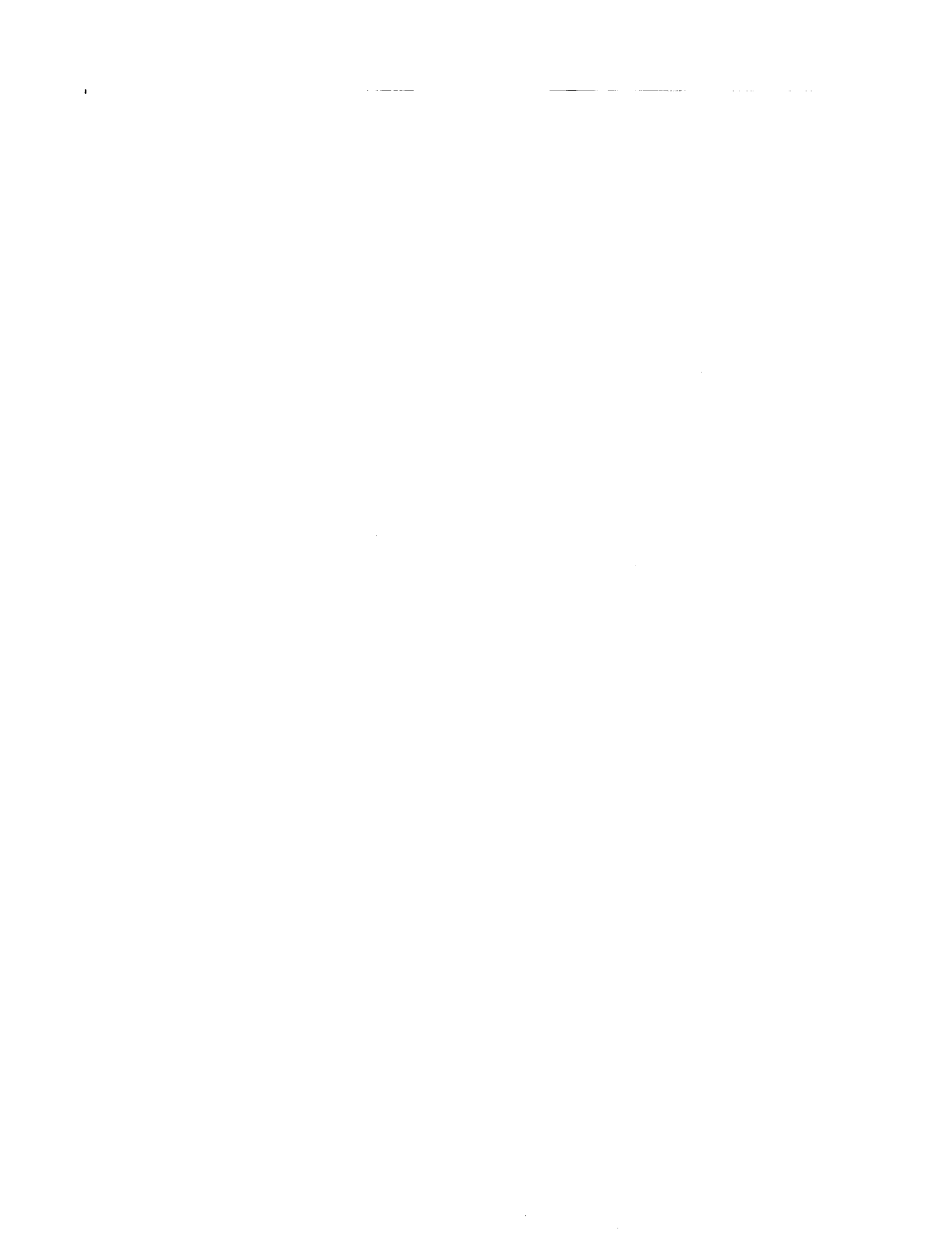
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SUMMARY

This report provides the Congressional Budget Office (CBO) budget projections for fiscal years 1982-1986 that served as the baseline for the reconciliation instructions contained in the First Concurrent Resolution on the Budget for Fiscal Year 1982. These projections of federal revenues, budget authority, and outlays are based on the economic assumptions of that first budget resolution and essentially assume that tax laws and spending policies in effect at the close of the 96th Congress remain unchanged.

Baseline budget projections typically have the following characteristics:

- o Projected revenues grow more rapidly than the economy because of the progressive nature of individual income taxes;
- o Projected outlays grow at a slower pace than the economy because little or no increase in spending in real terms is assumed for a large share of the budget; and
- o The projected baseline budget begins to show a surplus within the five-year projection period because revenues grow faster than outlays.

Baseline projections are not a forecast of future budgets, since changes will undoubtedly be made in existing taxing and spending laws in response to changes in the economy and in national priorities and needs. Baseline projections do, however, provide a useful starting point for developing new budgetary plans such as those contained in the annual Congressional budget resolutions.

The primary purpose of the CBO budget projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations on the annual budget resolutions. The Senate Budget Committee uses CBO budget projections as a starting point for formulating its recommendations for the first budget resolution. The committee makes explicit decisions about how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. The House Budget Committee also uses CBO budget projections to show the outyear effects of its recommendations for the first budget resolution.

The CBO budget projections took on added importance this year because they served as the baseline for the reconciliation instructions

contained in the first budget resolution for 1982. The reconciliation instructions required 14 Senate committees and 15 House committees to revise existing spending programs to achieve outlay reductions of approximately \$36 billion in fiscal year 1982 and even greater amounts in 1983 and 1984. Estimates of spending savings to be generated by committee recommendations have been calculated in terms of reductions from the baseline projections presented in this report.

THE PROJECTIONS

Baseline revenues are projected to rise from \$612 billion in 1981 to \$1,159 billion in 1986--an increase of almost 90 percent in five years (see Summary Table 1). As a percent of the gross national product (GNP), total revenues would rise from 21.4 percent in 1981 to an unprecedented high of 23.9 percent in 1986. This increase is dominated by individual income tax receipts. Because of the progressive structure of individual income taxes, taxpayers are subject to higher rates as their incomes increase. Some of this increased tax burden can be attributed to the effects of inflation. The increase in individual income taxes attributable to inflation is \$15 billion in fiscal year 1982, and that is projected to rise to \$98 billion by 1986 under the baseline economic assumptions.

SUMMARY TABLE 1. BASELINE BUDGET PROJECTIONS (By fiscal year)

| | 1981 Base | Projections | | | | |
|--------------------------------|--------------|-------------|------|------|-------|-------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| In Billions of Dollars | | | | | | |
| Baseline Revenues | 612 | 709 | 810 | 920 | 1,033 | 1,159 |
| Baseline Outlays | 660 | 739 | 792 | 843 | 895 | 950 |
| Implied Deficit (-) or Surplus | -48 | -30 | 18 | 76 | 138 | 209 |
| ----- As a Percent of GNP | | | | | | |
| Baseline Revenues | 21.4 | 22.0 | 22.3 | 22.8 | 23.3 | 23.9 |
| Baseline Outlays | 23.1 | 22.9 | 21.8 | 20.9 | 20.2 | 19.6 |
| Implied Deficit (-) or Surplus | -1.7 | -0.9 | 0.5 | 1.9 | 3.1 | 4.3 |

Under existing tax law, individual income taxes would increase as a share of total revenues from 47 percent in 1981 to 53 percent in 1986. Social insurance taxes and contributions make up the second largest share of total federal revenues--31 percent in 1981, declining slightly to 28 percent in 1986. Although social security contributions will decline as a share of federal revenues, they will grow slightly as a fraction of taxable income because of the tax increases established in the Social Security Amendments of 1977. The Social Security tax rate increases scheduled for 1982, 1985, and 1986 will increase fiscal year 1986 revenues by \$19 billion.

Baseline outlays grow at a slower pace than baseline revenues during the projection period. They are projected to increase from \$660 billion in 1981 to \$950 billion in 1986--an increase of 44 percent (one-half the projected percentage growth in revenues). The projected growth rate for outlays is lower than the assumed growth in the economy. Consequently, projected baseline outlays would fall as a percentage of GNP from 23.1 percent in 1981 to 19.6 percent in 1986.

The largest component of the projected \$290 billion growth in outlays under baseline assumptions is benefit payments for individuals. These payments are for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals. They are projected to grow by \$168 billion during the next five years under current laws and policies, largely as a result of projected inflation. Most of these payments are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index. Benefit payments are also projected to increase because of growth in the number of beneficiaries and such factors as a rising wage base that leads to higher retirement benefit entitlements for new recipients. Under current policy, benefit payments would increase as a share of total outlays from 48 percent in 1981 to 51 percent in 1986.

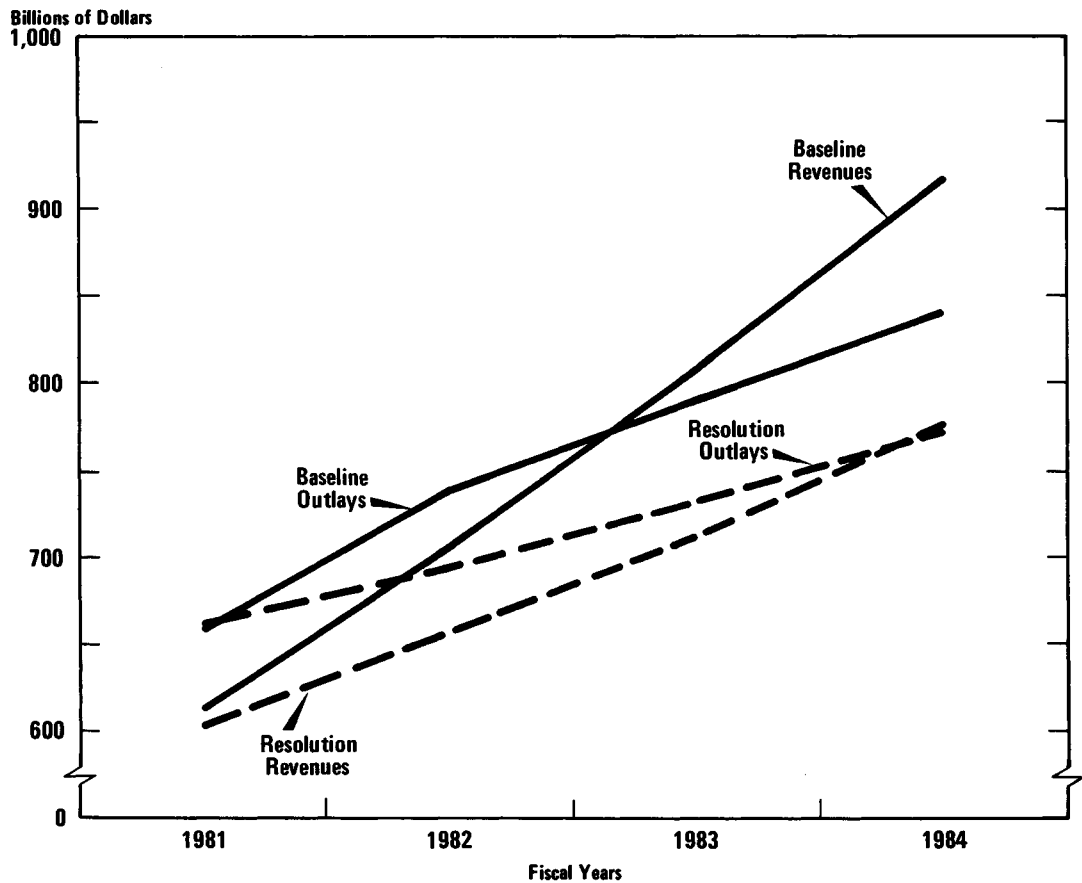
The second largest outlay component, and one that also would increase in its share of the budget during the projection period, is national defense. Under CBO baseline assumptions, national defense outlays would grow by \$94 billion between 1981 and 1986. This growth would exceed the projected rate of inflation by an average of about 3 percent annually. A major reason for this projected real growth is an increase in the cost of strategic forces resulting from the assumed phase-in of the MX missile and a new manned bomber. Relative to the baseline budget as a whole, spending for national defense would increase from 24 percent of total outlays in 1981 to about 27 percent in 1986.

Net interest outlays, which represent interest paid on that portion of the public debt held by the public, have been the fastest growing category of

federal spending during the last five years. They now account for 10 percent of total outlays. Under baseline assumptions, however, net interest outlays would decrease by \$7 billion by 1986, when they would make up only 6 percent of the budget. Grants to state and local governments (other than for benefit payments) would also decline as a share of the budget under baseline assumptions, from 9 percent in 1981 to 7 percent in 1986.

Under baseline assumptions, the budget would begin to show a surplus in 1983. By 1986, this surplus would grow to sizable proportions (over \$200 billion) because of the faster growth of revenues than outlays. Such a result, however, would not be consistent with the underlying economic growth assumptions. If existing tax laws were unchanged during the next

Summary Figure.
Baseline Projections and Budget Resolution Targets



five years, rising tax burdens--caused largely by inflation and the progressive tax structure--would slow economic growth. For the assumed economic growth to be realized, sizable tax cuts would in all likelihood have to be made to offset the increasing tax burden in the baseline budget projections. Such tax cuts are, in fact, assumed in the first budget resolution for 1982.

BUDGET RESOLUTION TARGETS

The first budget resolution proposes large cuts in baseline revenues and a sharp reduction in federal spending from baseline levels (see the Summary Figure). The reductions from projected baseline revenues are \$51 billion in 1982, \$97 billion in 1983, and \$145 billion in 1984 (see Summary Table 2). The intent of the budget resolution is to accommodate the Administration's entire tax program as outlined in its March budget revisions. These tax cuts would lower revenues relative to GNP to 19.2 percent in 1984, a level last attained in 1977. The resolution outlay target for 1982 is \$43 billion below the projected baseline level, and for 1984 the reduction grows to \$70 billion. Outlays as a percentage of GNP would fall to 19.2 percent in 1984, the lowest level since 1966.

In addition to dramatically slowing the annual growth of federal spending, the first budget resolution would significantly change spending

SUMMARY TABLE 2. BUDGET RESOLUTION TARGETS AND CHANGES FROM BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | |
|-------------------------------|--------------|-------------|------|------|
| | | 1982 | 1983 | 1984 |
| Revenues | | | | |
| First budget resolution | 603 | 658 | 713 | 775 |
| Change from baseline | -9 | -51 | -97 | -145 |
| Outlays | | | | |
| First budget resolution | 661 | 695 | 732 | 774 |
| Change from baseline | 1 | -43 | -60 | -70 |
| Deficit (-) or Surplus | | | | |
| First budget resolution | -58 | -38 | -19 | 1 |

priorities from those of the baseline. The first resolution targets for national defense outlays exceed the projected baseline levels for the next three years, and by 1984 would be \$29 billion above the CBO defense baseline estimate. Nondefense outlays, however, would be reduced by large amounts below projected baseline levels. These reductions would total \$48 billion in 1982, \$80 billion in 1983, and \$98 billion in 1984. The major portion of these reductions is assumed to be achieved through the reconciliation process. The outlay savings included in the reconciliation instructions for nondefense programs total about \$34 billion in 1982, \$44 billion in 1983, and \$52 billion in 1984. Most of these reconciliation reductions are targeted for the human resources categories, particularly those covering education, training, employment, social services, and income security programs. Other major reductions are contemplated for energy, transportation, and natural resources and environment programs.

The first budget resolution also assumes that additional reductions in nondefense spending will be achieved outside of the reconciliation process through the appropriation process or by other means. These additional outlay savings from the projected baseline levels for nondefense programs total \$14 billion for 1982, \$36 billion for 1983, and \$46 billion for 1984. Over half of these additional nondefense savings in 1983 and 1984 consist of unspecified future legislative changes. They amount to \$20 billion in 1983 and \$28 billion in 1984.

The baseline budget projections and those in the first budget resolution both depend on the underlying economic assumptions. Changes in economic conditions can have dramatic effects on the budget. A reduction in real growth or an increase in the unemployment rate will lead to reductions in revenues, increases in outlays, and increases in the budget deficit (or decreases in the surplus). An increase in inflation will lead to increases in both revenues and outlays, but the effect on revenues will be greater so that, on balance, the change will lead to a smaller deficit (or larger surplus). An increase in interest rates would also increase both revenues and outlays, but the revenue effect would be quite small so that, on balance, the change would lead to a larger deficit (or smaller surplus).

CHAPTER I. INTRODUCTION

This report provides projections made by the Congressional Budget Office (CBO) of federal revenues, budget authority, and outlays for fiscal years 1982-1986. These projections are not a forecast of future federal budgets since the budgets for the next five years will include changes in current tax laws and spending policies. The projections are those that would hold if existing tax laws were to remain in effect and if spending policies at the end of the 96th Congress, adjusted for inflation, were to continue unchanged. They are designed to provide a useful baseline against which the effects of different taxing and spending policies can be evaluated. The Senate Budget Committee, for example, uses baseline budget projections as the starting point each year for formulating multiyear budget targets in the first concurrent resolution on the budget. Also, the spending projections in this report served as the baseline for developing the reconciliation instructions contained in the First Concurrent Resolution on the Budget for Fiscal Year 1982 to achieve spending reductions in 1982, 1983, and 1984.

THE BASELINE CONCEPT

The baseline concept for the revenue projections is quite simple: federal tax laws existing at the end of the 96th Congress are assumed to continue unchanged, and all future tax changes under current law will occur as scheduled. The projections of tax receipts are calculated in terms of current dollars and include the effects of real economic growth and inflation on taxable incomes. This concept is consistent with the definition of current law revenues used by Congressional budget and tax-writing committees and by the Administration.

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The baseline concept for the spending projections is more complex. As discussed more fully in Chapter II, federal spending can be divided essentially into two categories. About half of total net federal spending is mandated by existing law. This includes spending for Social Security benefits and other entitlement programs, for permanent appropriations such as interest on the public debt, and for most trust funds and other special funds. The baseline spending projections for these programs are comparable to the baseline revenue projections. The projections assume that existing law at the close of the 96th Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in essentially the same way that they have responded to such changes in the past.

The remainder of the federal spending budget is discretionary under existing law and is subject to annual review through the appropriation process. The baseline projections for these programs are generally based on fiscal year 1981 appropriation funding levels as enacted by the Congress through December 1980, with increases in the projection period to keep pace with inflation. For some discretionary spending, such as defense programs, the baseline projections also include future programmatic changes that can be associated with specific Congressional decisions through the end of the 96th Congress.

A number of special assumptions also must be made as to what constitutes current policy for the baseline spending projections. The 96th Congress, for example, did not complete final action on all of the regular appropriation bills for 1981--the base period for the projections. The Congress authorized continued funding for the affected programs in December 1980 in a continuing resolution that was scheduled to expire on June 5, 1981. The baseline spending projections for these programs assume that the spending authority in that continuing resolution would be extended to the end of the fiscal year.

The baseline spending projections also assume that the Congress would enact a 1981 supplemental appropriations bill before the end of the fiscal year to provide additional funds for certain programs such as food stamps, veterans' readjustment benefits, Small Business Administration disaster loans, and for the pay raise for federal civilian and military employees that went into effect on October 1, 1980. In addition, the projections assume that future federal pay raises would be made in accordance with existing law, based on projected results of the annual pay comparability survey, and including a 4 percentage point "catch up" in October 1981 for the below-comparability increases for October 1978 through October 1980.

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After the baseline projections were prepared, a 1981 supplemental appropriation and rescission bill was enacted that included most of the spending items assumed for the projections base, including an extension of the continuing resolution authority to the end of the fiscal year. The baseline spending projections do not, however, include any of the spending rescissions nor all of the additional funds provided in the 1981 supplemental and rescission bill. Also, the baseline projections do not include any tax cuts or spending reductions for 1981-1984 that have been proposed by the Administration or anticipated in the First Concurrent Resolution on the Budget for Fiscal Year 1982 approved by the Congress on May 21, 1981 (H. Con. Res. 115).

Comparison with OMB Projections

The baseline concept for the CBO budget projections is very similar to the concept used by the Office of Management and Budget (OMB) for its current services projections. ^{1/} Beginning with the 1981 budget, OMB has included inflation adjustments for discretionary programs in its current services estimates; CBO has always done this in its current policy projections.

The CBO baseline projections differ from the OMB current services projections in two important aspects. First, the OMB projections are for only one year beyond the current fiscal year, whereas the CBO projections cover a five-year period. The longer projection period is more useful for multiyear budget planning. Second, the OMB projections for discretionary spending programs generally make no specific programmatic assumptions about future spending needs based on current policy. The OMB projections simply extrapolate into the next year the same level of resources (usually in terms of budget authority) provided in the base year, with increases for anticipated inflation. While this may be reasonable for many federal programs that do not change significantly from year to year, it poses a serious problem for programs whose outyear spending needs are influenced or determined by current policy decisions. The major example is defense spending. Under the OMB approach, it is not possible to identify the outyear budget costs of specific defense weapon systems that have been approved by the Congress. Thus, it is not possible to calculate the budgetary effects of explicitly adding or deleting various defense weapon systems when formulating a multiyear budget plan.

To overcome this disadvantage, CBO has developed an alternative approach to defense projections. The CBO baseline projections now assume an explicit defense force structure and investment program that is consistent with Congressional guidance and action on the base-year budget. The projected force structure reflects announced changes in the force level, the introduction of new weapon systems purchased in the current and previous years, and the planned deactivation of obsolete or worn-out systems. The projected investment programs represent the outyear effects of fiscal year 1981 authorization and appropriation decisions through the end of the 96th Congress. ^{2/}

^{1/} For a discussion of the OMB current services concept, see Special Analysis A in Special Analyses, Budget of the United States Government, Fiscal Year 1982 (January 1981).

^{2/} See Appendix C for a more detailed discussion of the CBO defense baseline projections.

A similar approach is used for certain other discretionary programs for which assumptions can be made about future program levels. The CBO baseline projections for the strategic petroleum reserve, for example, are based on the planned fill rates that the Administration used for its March budget estimates. This baseline approach will be applied to other discretionary program areas in future projections when programmatic assumptions can be related to specific Congressional decisions or Administration plans, and when the approach will be useful in considering budget options.

THE USE OF BASELINE PROJECTIONS

The primary purpose of the CBO budget projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations on the annual budget resolutions. A longer-term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run but can significantly influence relative budget priorities over a period of several years.

The Senate Budget Committee uses CBO budget projections as a starting point for formulating its recommendations for the first budget resolution. The Committee makes explicit decisions about how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. The House Budget Committee also uses CBO budget projections to show the outyear effects of its recommendations for the first budget resolution.

CBO budget projections took on added importance this year because they served as the baseline for the reconciliation instructions contained in the first budget resolution for 1982. The reconciliation instructions required Senate and House committees to revise existing spending programs to achieve outlay reductions of approximately \$36 billion in fiscal year 1982 and even greater amounts in 1983 and 1984. These reductions are necessary for the committees to remain within their spending limits as contemplated by the first budget resolution. The reconciliation instructions contained specific targets for spending savings, but each committee had discretion regarding how these savings were to be achieved and what specific programs were to be reduced.

Estimates of spending savings to be generated by the committee reconciliation recommendations were calculated in terms of reductions from the baseline projections used by the Budget Committees. The spending projections presented in this report are identical to the baseline projections

used by the Budget Committees to measure the savings to be achieved by the reconciliation legislation.

CBO has made similar use of baseline budget projections in its bill cost estimates for calculating the costs or savings that would result from legislative proposals to change existing law. This is particularly important for calculating the budgetary effects of changes in various entitlement programs, such as Social Security benefits, medicaid, veterans' pensions, and federal employee retirement programs.

PLAN OF THIS REPORT

Chapter II provides an overview of the baseline projections for revenues, budget authority, and outlays for 1982-1986. It begins with a discussion of the economic assumptions used for the projections, presents the baseline spending and revenue projections, and describes the tax and spending cuts that are assumed in the first budget resolution for 1982 in terms of changes from these projections. The second chapter also describes the sensitivity of the baseline projections to economic assumptions and how the projections would change under an alternative set of assumptions.

The third chapter provides further detail on the revenue projections, showing projections of baseline revenues by major source. It also presents an alternative baseline projection that adjusts individual income tax receipts to remove the effects of the interaction between inflation and the progressive income tax structure. Since the Congress has from time to time enacted tax reductions that have offset a substantial amount of this interaction, referred to as "bracket creep," this alternative baseline revenue projection is useful for policy planning purposes. In addition, the chapter discusses the tax cuts assumed in the first budget resolution for 1982 in comparison to the baseline revenue projections.

The fourth chapter provides further detail on the baseline spending projections, showing the distribution of the spending projections by major program categories and by function. It also compares the projections with the first budget resolution to highlight the policy changes assumed to be made during 1982-1984.

The appendixes to this report contain a distribution of the baseline spending projections by committee jurisdiction, a translation of the projections and the first resolution targets into national income and product account terms, and a more detailed description of the programmatic assumptions contained in the defense baseline projections.

CHAPTER II. BASELINE BUDGET PROJECTIONS

This chapter presents estimates of what would happen to the federal budget over the next five fiscal years--1982 through 1986--under specified economic assumptions if spending and taxing policies were continued unchanged. It also compares these baseline, or current policy, projections with the budget totals for 1982-1984 specified by the First Concurrent Resolution on the Budget for Fiscal Year 1982 (H. Con. Res. 115) approved by the Congress on May 21, 1981.

Baseline budget projections typically have the following characteristics:

- o Projected revenues grow more rapidly than the economy because of the progressive nature of individual income taxes.
- o Projected outlays grow at a slower pace than the economy because little or no increase in spending in real terms is assumed for a large share of the budget.
- o The projected baseline budget begins to show a surplus within the five-year projection period because revenues grow faster than outlays.

Baseline projections are clearly not a forecast, since future budgets will contain changes in spending and tax policies in response to changes in the economy and in national priorities and needs. In the past, such changes have typically included tax cuts and spending increases from the baseline projection levels. As a result, the federal budget has continued to remain in deficit since fiscal year 1969.

ECONOMIC ASSUMPTIONS

Inflation, unemployment, interest rates, and economic growth have major effects on federal budget revenues and outlays. Tax receipts depend primarily on nominal incomes, which reflect both real economic growth and inflation. About 30 percent of spending is directly indexed for inflation through automatic cost-of-living adjustments. In the absence of major budget cuts or program increases, the remainder of the budget typically keeps pace with inflation through specific Congressional actions or in

response to rising costs of providing government services. The costs of certain benefit programs, such as unemployment insurance and food stamps, also depend on the level of unemployment in the economy. The costs of interest on the public debt depend on the level of interest rates. In order to develop budget projections, therefore, explicit assumptions must be made about economic trends over the next several years.

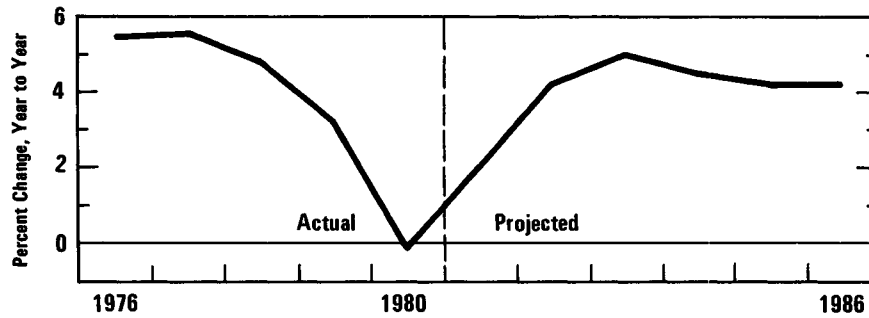
The levels of output, incomes, inflation, unemployment, and interest rates used for the baseline projections are shown in Table 1 and displayed in Figure 1. The assumptions for calendar years 1981-1984 are the same as those used for the conference agreement on the first budget resolution for fiscal year 1982. They also closely correspond to the economic projections assumed by the Administration for its fiscal year 1982 budget revisions that were submitted to the Congress in March, except for the interest rate assumptions and certain modifications to reflect actual experience during the first quarter of calendar 1981. The assumptions for calendar years 1985-1986 are CBO extrapolations of the 1981-1984 conference agreement assumptions; they also closely correspond to the Administration's March budget revision assumptions for those years.

TABLE 1. BASELINE ECONOMIC ASSUMPTIONS (By calendar year, dollar amounts in billions)

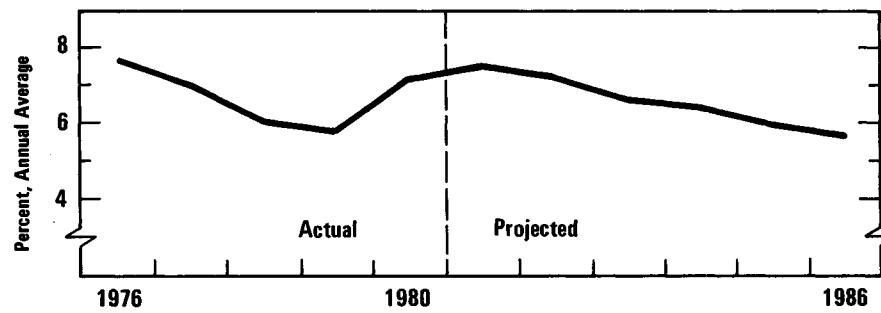
| Economic Variable | Actual 1980 | First Budget Resolution | | | | CBO Extrapolation | |
|---|----------------|-------------------------|-------|-------|-------|----------------------|-------|
| | | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
| Gross National Product (GNP) | | | | | | | |
| Current dollars | | | | | | | |
| Amount | 2,626 | 2,941 | 3,323 | 3,734 | 4,135 | 4,541 | 4,963 |
| Percent change, year to year | 8.8 | 12.0 | 13.0 | 12.4 | 10.8 | 9.8 | 9.3 |
| Constant (1972) dollars | | | | | | | |
| Amount | 1,481 | 1,511 | 1,572 | 1,651 | 1,725 | 1,797 | 1,872 |
| Percent change, year to year | -0.2 | 2.0 | 4.1 | 5.0 | 4.5 | 4.2 | 4.2 |
| Incomes (current dollars) | | | | | | | |
| Wages and salaries | 1,341 | 1,498 | 1,682 | 1,863 | 2,051 | 2,241 | 2,439 |
| Nonwage income | 473 | 541 | 612 | 683 | 745 | 831 | 913 |
| Corporate profits | 245 | 242 | 280 | 321 | 360 | 400 | 447 |
| Prices | | | | | | | |
| GNP deflator (percent change, year to year) | 9.0 | 9.7 | 8.6 | 7.0 | 6.0 | 5.4 | 4.9 |
| Consumer price index (percent change, year to year) | 13.5 | 11.0 | 8.3 | 6.2 | 5.5 | 4.7 | 4.2 |
| Unemployment Rate (percent, annual average) | 7.1 | 7.5 | 7.2 | 6.6 | 6.4 | 5.9 | 5.6 |
| Interest Rate (91-day Treasury bills, percent, annual average) | 11.4 | 13.5 | 10.5 | 9.4 | 8.2 | 7.0 | 6.0 |

Figure 1.
Major Economic Assumptions

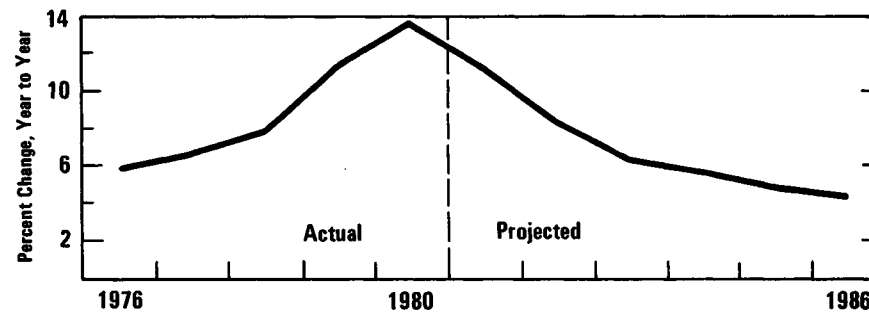
Real Economic Growth



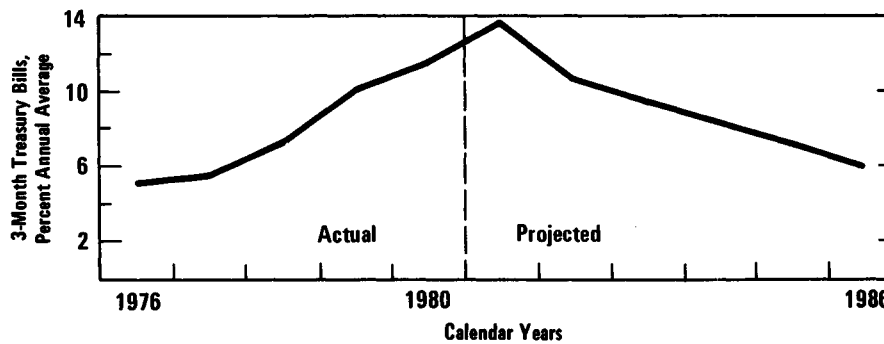
Unemployment Rate



Consumer Prices



Short-Term Interest Rate



Real economic growth is assumed to average nearly 4.5 percent over the 1982-1986 period. Inflation is projected to decline from double-digit levels in 1981 to less than 5 percent by the end of the projection period. Unemployment and interest rates also are assumed to decline steadily throughout the next five years. These assumptions reflect the view of the Administration and the budget conferees that the fiscal and monetary restraint in the President's economic program, together with the general lowering of inflationary expectations, will lead to a steady reduction in inflation and interest rates in an environment of substantial real economic growth over the next five years.

BASELINE BUDGET PROJECTIONS

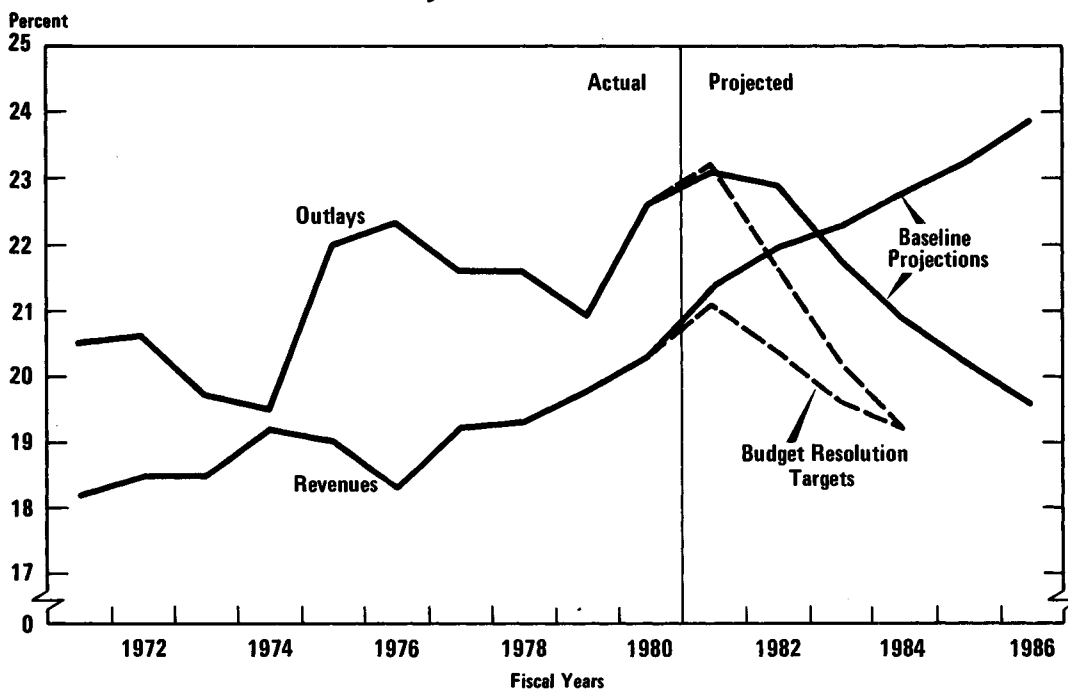
The baseline projections of existing tax laws and spending policies using the budget resolution conference agreement economic assumptions are shown in Table 2.

TABLE 2. BASELINE BUDGET PROJECTIONS (By fiscal year)

| | 1981 Base | Projections | | | | |
|-----------------------------------|--------------|-------------|-------|-------|---------|---------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| In Billions of Dollars | | | | | | |
| Baseline Revenues | 611.9 | 709.1 | 810.2 | 919.6 | 1,033.2 | 1,158.8 |
| Baseline Outlays | 659.8 | 738.7 | 792.5 | 843.3 | 894.9 | 949.9 |
| Implied Deficit (-) or Surplus | -47.9 | -29.6 | 17.7 | 76.3 | 138.3 | 208.9 |
| Baseline Budget Authority | 723.8 | 795.6 | 859.3 | 916.8 | 980.3 | 1,037.7 |
| ----- | | | | | | |
| As a Percent of GNP | | | | | | |
| Baseline Revenues | 21.4 | 22.0 | 22.3 | 22.8 | 23.3 | 23.9 |
| Baseline Outlays | 23.1 | 22.9 | 21.8 | 20.9 | 20.2 | 19.6 |
| Implied Deficit (-) or Surplus | -1.7 | -0.9 | 0.5 | 1.9 | 3.1 | 4.3 |

Baseline revenues are projected to rise from \$611.9 billion in 1981 to \$1,158.8 billion in 1986, an increase of almost 90 percent in five years. This represents an annual average increase of 13.6 percent, compared with an average growth rate in federal revenues since 1976 of about 15 percent a year. Because of the progressive tax structure for individual income taxes, federal revenues under existing law would increase faster than the gross national product (GNP). Consequently, as a proportion of GNP, revenues under existing law would rise from 21.4 percent in 1981 to 23.9 percent in 1986, as displayed in Figure 2.

Figure 2.
Federal Revenues and Outlays as a Percent of GNP



Baseline outlays would increase at a slower pace than revenues during the projection period. Baseline outlays in 1986 are projected at \$949.9 billion, a 44 percent increase above the 1981 base level of \$659.8 billion. This would represent an annual average increase of 7.6 percent, which is considerably below the 11.5 percent average growth rate in federal outlays during the past 10 years. This projected growth rate for outlays is also lower than the assumed growth in GNP measured in current dollars. As a result, projected baseline outlays would fall as a percentage of GNP from 23.1 percent in 1981 to 19.6 percent in 1986.

Under baseline, or current policy, assumptions the budget would begin to show a surplus in 1983. By 1986, this surplus would grow to a sizable amount (over \$200 billion). Such a result would not be consistent, however, with the underlying economic growth assumptions. The rapid increase in tax burdens implied by existing law would slow down the economy. For the target growth assumptions to be realized, therefore, substantial tax cuts would, in all likelihood, be required to offset the interaction between inflation and the progressive income tax structure. Such tax cuts are, in fact, assumed for the first budget resolution for 1982.

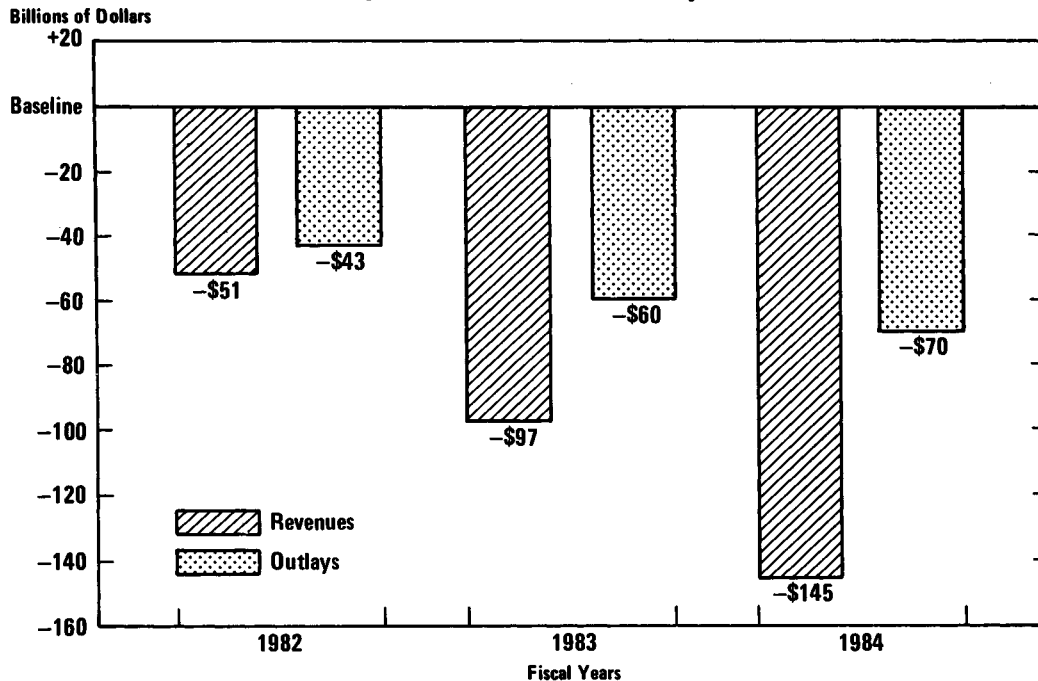
BUDGET RESOLUTION TARGETS

The first budget resolution for 1982 proposes a sharp reduction in federal spending from baseline levels and large cuts in baseline revenues, as shown in Table 3 and displayed in Figure 3. The effect of the resolution

TABLE 3. COMPARISON OF BUDGET RESOLUTION TARGETS AND BASELINE BUDGET PROJECTIONS (By fiscal year, in billions of dollars)

| | 1981 | 1982 | 1983 | 1984 |
|----------------------------------|--------|--------|--------|--------|
| Revenues | | | | |
| Baseline projections | 611.9 | 709.1 | 810.2 | 919.6 |
| First budget resolution for 1982 | 603.3 | 657.8 | 713.2 | 774.8 |
| Difference | -8.6 | -51.3 | -97.0 | -144.8 |
| Outlays | | | | |
| Baseline projections | 659.8 | 738.7 | 792.5 | 843.3 |
| First budget resolution for 1982 | 661.35 | 695.45 | 732.25 | 773.75 |
| Difference | 1.6 | -43.2 | -60.2 | -69.6 |
| Deficit (-) or Surplus | | | | |
| Baseline projections | -47.9 | -29.6 | 17.0 | 76.3 |
| First budget resolution for 1982 | -58.05 | -37.65 | -19.05 | 1.05 |
| Difference | -10.2 | -8.1 | -36.8 | -75.2 |
| Budget Authority | | | | |
| Baseline projections | 723.8 | 795.6 | 859.3 | 916.8 |
| First budget resolution for 1982 | 717.5 | 770.9 | 813.75 | 866.45 |
| Difference | -6.3 | -24.7 | -45.5 | -50.4 |

Figure 3.
Budget Resolution Changes from Baseline Projections



spending targets would be to hold the average annual growth in federal outlays during the next three years (1982-1984) to 5.4 percent. This compares with an average annual projected growth rate of 8.5 percent under baseline assumptions for the same period and 12.5 percent since 1976. Outlays as a percentage of GNP would fall from 23.1 percent in 1981 to 19.2 percent in 1984, the lowest level since 1966.

The resolution proposes to cut taxes from projected baseline levels by even larger amounts, reducing the average annual growth in tax receipts to 8.7 percent during 1982-1984 from a projected growth rate of 14.5 percent under existing tax laws. Relative to GNP, tax revenues would fall from 21.1 percent in 1981 to 19.2 percent in 1984, a level that was last attained in 1977 (see Figure 2).

Because the resolution proposes significantly larger tax cuts than spending cuts, it would attain budget surplus one year later than the baseline projections. A similar result also would occur if the baseline revenue projections were adjusted by tax cuts sufficient to prevent rising tax

burdens resulting from the interaction between inflation and the progressive income tax structure (see Chapter III).

The proposed tax cuts and changes in spending contained in the first budget resolution are discussed in greater detail in Chapters III and IV.

RECONCILIATION INSTRUCTIONS

The conference agreement on the first budget resolution for 1982 includes reconciliation instructions to 14 Senate committees and 15 House committees to report legislation to achieve spending savings from projected baseline levels. Unlike the reconciliation instructions included in the first budget resolution for fiscal year 1981, the 1982 reconciliation instructions do not require any changes in tax legislation.

The 1982 savings included in the reconciliation instructions amount to approximately \$51 billion in budget authority and \$36 billion in outlays, as shown in Table 4. This represents a reduction of about 6 percent in budget authority and 5 percent in outlays from projected 1982 baseline levels. The reconciliation instructions direct savings to be achieved in 1983 and 1984 as well, so that the spending reductions would represent longer-term changes in policy.

TABLE 4. BASELINE BUDGET PROJECTIONS AND RECONCILIATION INSTRUCTIONS (By fiscal year, in billions of dollars)

| | 1981 | 1982 | 1983 | 1984 |
|-----------------------------|-------|-------|-------|-------|
| Budget Authority | | | | |
| Baseline projections | 723.8 | 795.6 | 859.3 | 916.8 |
| Reconciliation instructions | | | | |
| House committees | -- | -50.7 | -57.6 | -66.0 |
| Senate committees | -14.7 | -50.7 | -57.6 | -66.0 |
| Outlays | | | | |
| Baseline projections | 659.8 | 738.7 | 792.5 | 843.3 |
| Reconciliation instructions | | | | |
| House committees | -- | -35.1 | -46.3 | -55.6 |
| Senate committees | -2.3 | -36.5 | -47.0 | -55.8 |

The House reconciliation instructions are limited to fiscal years 1982-1984 and are directed only to authorizing committees, whereas the Senate instructions include actions to be taken to reduce 1981 spending. The budget authority savings to be achieved by reconciliation actions in 1982-1984 are identical for both Houses, but the Senate's reconciliation outlay savings are somewhat greater because they include the outyear effects of the assumed 1981 reductions.

The 1982 reconciliation instructions are aimed at three types of spending authorizations: (1) permanent appropriations and other direct spending authorizations that do not require annual appropriations, (2) entitlement programs that are subject to annual appropriations, and (3) discretionary authorizations that are subject to annual appropriations.

In some instances, authority to spend may be provided directly in the authorizing legislation and does not require subsequent appropriations. Spending from most trust funds and permanent appropriations falls into this first category of authorizations. Examples of such spending include Social Security benefits, unemployment insurance, foreign military sales, Farmers Home Administration insurance funds, and various housing assistance programs. The basic substantive law usually must be changed to achieve savings in these programs. As shown in Table 5, outlays resulting from these direct spending authorizations are estimated to total \$345 billion in 1981, and are estimated to rise to \$503 billion by 1986 under the baseline projections.

The term "direct spending" as used for the reconciliation process also includes all appropriated entitlements. The term "appropriated entitlements" refers to legislation that requires the payment of benefits to any person or government meeting the eligibility requirements established by legislation, the budget authority for which is provided for in annual appropriations. In this case, however, the level of annual appropriations is mandated by existing law and generally cannot be altered through the appropriation process. Examples of appropriated entitlements include the medicaid, supplemental security income, aid to families with dependent children, and veterans' compensation and pensions programs. Outlays for this second category of spending are estimated to be \$78 billion in 1981 and are to rise to \$101 billion by 1986 under the baseline projections.

The third type of spending authorization covered by the reconciliation instructions is authorizing legislation that is funded by appropriations or other kinds of budget authority to be contained in annual appropriation acts. Such legislation may place a limit on the amount of budget authority to be included in appropriation acts or it may authorize the appropriation of "such

TABLE 5. BASELINE OUTLAY PROJECTIONS AND RECONCILIATION INSTRUCTIONS BY TYPE OF SPENDING AUTHORIZATION (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|--|--------------|---------------|---------------|---------------|---------------|---------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Baseline Projections | | | | | | |
| Permanent Appropriations and Other Direct Spending | 345.1 | 392.1 | 421.1 | 449.8 | 476.5 | 503.0 |
| Appropriated Entitlements | 78.4 | 84.2 | 88.5 | 90.7 | 96.3 | 100.8 |
| Discretionary Authorizations | 330.2 | 373.0 | 404.1 | 434.7 | 466.0 | 498.9 |
| Offsetting Receipts (not allocated to committees) | <u>-94.0</u> | <u>-110.7</u> | <u>-121.3</u> | <u>-131.9</u> | <u>-143.9</u> | <u>-152.9</u> |
| Total | 659.8 | 738.7 | 792.5 | 843.3 | 894.9 | 949.9 |
| ----- | | | | | | |
| Reconciliation Instructions a/ | | | | | | |
| Permanent Appropriations and Other Direct Spending | -0.5 | -7.2 | -8.7 | -9.7 | | |
| Appropriated Entitlements | -0.2 | -5.4 | -6.5 | -7.6 | | |
| Discretionary Authorizations | <u>-1.6</u> | <u>-23.9</u> | <u>-31.8</u> | <u>-38.5</u> | | |
| Total | -2.3 | -36.5 | -47.0 | -55.8 | | |

a/ Reconciliation instructions for Senate committees, Conference Report on First Concurrent Resolution on the Budget--Fiscal Year 1982, H. Con. Res. 115, Senate Report No. 97-86, May 15, 1981.

sums as may be necessary." The Appropriations Committees have the discretion to include whatever level of funds they believe necessary in the annual appropriation acts to carry out the purposes of this type of authorizing legislation, up to any limit that may be specified in the authorizing legislation. Estimated outlays in 1981 resulting from such discretionary authorizations total \$330 billion. Under the baseline projections for these programs, outlays would rise to \$499 billion by 1986 (see Table 5).

As shown in Table 5, the Senate reconciliation instructions direct outlay savings of \$23.9 billion in 1982 for programs with discretionary authorizations, and \$12.6 billion in outlay savings for permanent appropriations, appropriated entitlements, and other direct spending. For 1984, the

reconciliation instructions contemplate outlay savings of \$38 billion in discretionary authorization programs, and \$17 billion in direct spending programs.

The savings to be achieved through the reconciliation process are less than the net spending cuts from projected baseline levels specified by the first budget resolution targets. This is because the resolution targets assume that other spending reductions, in addition to those included in the reconciliation instructions, will be made through the appropriation process or by other means. As discussed in Chapter IV, these additional reductions, after allowing for the spending increases in national defense programs assumed by the resolution, total \$14 billion in 1982 outlays and rise to \$46 billion by 1984.

SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS

Changes in economic conditions can have dramatic effects for the federal budget. Actual outlays for fiscal year 1980, for example, were \$47 billion higher than estimated for the first budget resolution, and about one-third of this increase can be attributed directly to higher than expected inflation and interest rates. Forecasting future economic conditions is subject to a great deal of uncertainty, and the longer the forecast period the greater the range of uncertainty. Because of these uncertainties, questions are frequently asked about the effect of different economic assumptions on current budget estimates or on baseline budget projections.

One approach to showing the sensitivity of the budget to changes in economic assumptions is to calculate the effect of a one percentage point change in a key economic variable, such as the rate of inflation or the unemployment rate. This section provides such estimates for four variables--real economic growth, inflation, unemployment, and interest rates. Changes in economic conditions, however, do not occur in isolation. It is unlikely that a one percentage point change in one variable will occur without changes in the other variables. For example, real growth and the unemployment rate are both measures of the utilization of productive economic resources. Interest rates reflect generally held expectations of inflation, which are partially based on past and present inflation rates.

A second, and more realistic, approach to calculating the sensitivity of the baseline budget projections to changes in economic conditions is to use a fully consistent alternative set of economic assumptions. This section also provides the results of using a different set of economic projections for the five-year projection period.

One Percentage Point Change in Selected Economic Assumptions

To estimate the effects of a change in the underlying economic assumptions is a complex task. Much depends on the timing of the economic change. For example, if higher unemployment or inflation is concentrated in the last quarter of the fiscal year, the budget effects will be smaller than if the changes occur early in the year. It also makes a difference if the change in assumptions is limited to one year or affects the entire projection period.

The character of the change in the economic assumptions can be important. For example, higher unemployment can be associated with either higher labor productivity or lower economic growth. In the first case, fewer workers are employed in producing a given level of output. The effect on nominal incomes and, consequently, on revenues will be small. On the other hand, an increase in the unemployment rate caused by less rapid economic growth will mean lower nominal incomes and lower revenues.

The level of unemployment is also important for calculating the effect of a higher or lower unemployment rate for budget outlays. A one percentage point increase in the assumed unemployment rate will result in a greater change in outlays than a one percentage point decrease if the level of unemployment assumed for the projections is near the national or state trigger points for extended unemployment benefits.

The estimates in Table 6 show the budget effects of a one percentage point change beginning in January 1982 for four variables--real economic growth, inflation, unemployment, and interest rates. 1/ The one percentage point change is assumed to occur each year in the 1982-1986 projection period. The result would be to raise or lower the assumptions shown in Table 1 for these variables by one percentage point.

The estimates shown in Table 6 demonstrate the following points about the sensitivity of the budget to changes in economic conditions:

- o A reduction in real growth or an increase in the unemployment rate will lead to reductions in revenues, increases in outlays, and decreases in the budget surplus (or increases in the deficit). 2/

1/ The estimates presented in Table 6 assume that higher unemployment results from lower growth.

2/ Initially, a one percentage point decline in the growth rate, which will increase the unemployment rate by about 0.4 percentage points in the first year, will have less of an effect on the surplus than would a one percentage point increase in unemployment. After a few years, however, the persistence of the slower growth rate will cause a relatively larger decrease in the surplus.

TABLE 6. THE EFFECT ON THE BASELINE PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|------|------|------|------|------|
| Real Growth: Effect of One Percentage Point Lower Annual Rate | | | | | |
| Beginning January 1982 | | | | | |
| Change in revenues | -5 | -12 | -21 | -31 | -44 |
| Change in outlays | +3 | +5 | +13 | +16 | +22 |
| Change in surplus | -8 | -17 | -33 | -47 | -66 |
| Inflation: Effect of One Percentage Point Higher Annual Rate | | | | | |
| Beginning January 1982 | | | | | |
| Change in revenues | +5 | +16 | +30 | +49 | +71 |
| Change in outlays | +1 | +5 | +11 | +16 | +23 |
| Change in surplus | +4 | +11 | +19 | +33 | +49 |
| Unemployment: Effect of One Percentage Point Higher Annual Rate | | | | | |
| Beginning January 1982 | | | | | |
| Change in revenues | -12 | -17 | -18 | -20 | -21 |
| Change in outlays | +7 | +11 | +12 | +13 | +14 |
| Change in surplus | -19 | -28 | -30 | -33 | -35 |
| Interest Rates: Effect of One Percentage Point Higher Annual Rates | | | | | |
| Beginning January 1982 | | | | | |
| Change in revenues | -- | +1 | +1 | +1 | +1 |
| Change in outlays | +2 | +5 | +6 | +7 | +8 |
| Change in surplus | -2 | -4 | -5 | -6 | -7 |

NOTE: The one percentage point change is assumed to occur each year from the rates shown in Table 1 for calendar years 1982-1986. See Chapters III and IV for the effect on revenues and outlays of a one percentage point change for only calendar year 1982.

- o An increase in inflation will lead to increases in both revenues and outlays, but the effect on revenues will be greater so that on balance the change will lead to a larger surplus (or smaller deficit).
- o An increase in interest rates would also increase both revenues and outlays, but the revenue effect would be quite small, so that on balance the change would lead to a smaller surplus (larger deficit).

Further details on the sensitivity of revenues and outlays to economic changes are given in Chapters III and IV, respectively.

Alternative Economic Assumptions

The estimates given in Table 6 for the budget effects of a reduction in real growth and an increase in the unemployment rate are interdependent. A one percentage point decrease in the annual rate of real growth is associated with a 0.4 percentage point increase in the annual unemployment rate. No change, however, is assumed in the annual rate of inflation or in average interest rates. A reduction in real growth, however, could be the result of higher inflation and higher interest rates. Some combination of changes in the four variables from their projected paths is likely, which further complicates the task of showing the sensitivity of the budget projections to changes in the economic assumptions.

Another approach to calculating the sensitivity of the baseline budget projections to changes in economic assumptions, therefore, is to use a fully consistent alternative set of economic assumptions. CBO constructed such a set of economic assumptions for its analysis of the Administration's 1982 budget revisions.^{3/} The key assumptions are summarized in Table 7.

Under the alternative economic assumptions, real growth averages somewhat above 3 percent over the 1982-1986 projection period, compared with nearly 4.5 percent for the baseline assumptions. Inflation is assumed to decline but not as much as for the baseline assumptions. The lower real growth is offset by the higher inflation so that GNP measured in current dollars grows at about the same rate for both sets of assumptions. Unemployment and interest rates are assumed to decline steadily, but not as

^{3/} Congressional Budget Office, *An Analysis of President Reagan's Budget Revisions for Fiscal Year 1982* (March 1981).

TABLE 7. ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--|------|------|------|------|------|------|
| Gross National Product (GNP) | | | | | | |
| Current dollars (percent change, year to year) | 11.8 | 11.9 | 11.5 | 11.4 | 11.7 | 10.9 |
| Constant (1972) dollars (percent change, year to year) | 1.3 | 2.5 | 2.7 | 3.0 | 3.8 | 3.7 |
| Prices | | | | | | |
| GNP deflator (percent change, year to year) | 10.3 | 9.2 | 8.6 | 8.1 | 7.5 | 7.0 |
| Consumer price index (percent change, year to year) | 11.3 | 9.5 | 8.9 | 8.2 | 7.7 | 7.1 |
| Unemployment Rate (percent, annual average) | 7.8 | 7.9 | 7.8 | 7.7 | 7.5 | 7.2 |
| Interest Rate (91-day Treasury bills, percent, annual average) | 12.6 | 13.7 | 11.5 | 10.2 | 9.7 | 9.3 |

much as under the baseline assumptions. The unemployment rate under the alternative economic assumptions falls only to 7.2 percent by 1986, compared with 5.6 percent under the baseline assumptions. Similarly, the 91-day Treasury bill interest rate (annual average) is projected to decline slowly to 9.3 percent by 1986, compared with a sharper decline to 6.0 percent under the baseline economic assumptions.

Projections of baseline revenues and spending under these alternative economic assumptions are shown in Table 8. The effect of the alternative economic assumptions is to increase the average annual growth rate of projected outlays from 7.6 percent under the baseline assumptions to 9.5 percent. By 1986, projected outlays would be \$1,039 billion, or \$89 billion higher than under the baseline assumptions. Lower real growth and higher inflation, unemployment, and interest rates all work together to increase outlays.

The average annual growth in revenues would also be slightly higher under the alternative economic assumptions than under the baseline economic assumptions--14.3 percent compared with 13.6 percent. The higher inflation under the alternative economic assumptions more than offsets the lower real growth, particularly in the last two years of the projection period, as real economic growth approaches the levels assumed for the baseline projections. As a result, revenues by 1986 are projected to be \$28 billion (or about 2 percent) higher under the alternative economic assumptions than under the baseline economic assumptions.

TABLE 8. BASELINE BUDGET PROJECTIONS USING ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|-----------------------------------|--------------|-------------|-------|-------|---------|---------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Baseline Revenues | 607.6 | 706.5 | 805.1 | 915.7 | 1,040.3 | 1,187.0 |
| Baseline Outlays | 659.9 | 749.6 | 823.5 | 892.5 | 963.5 | 1,038.7 |
| Implied Deficit (-) or Surplus | -52.3 | -43.1 | -18.4 | 23.2 | 76.8 | 148.3 |
| Baseline Budget Authority | 719.4 | 803.5 | 882.7 | 954.8 | 1,034.0 | 1,105.5 |

The effect of the greater increase in projected outlays than in revenues under the alternative economic assumptions would be to delay by one year the attainment of a budget surplus. The alternative baseline projections show a budget surplus beginning in 1984, which would increase rapidly in 1985 and 1986. Again, it should be noted that such a result would not necessarily be consistent with the underlying economic assumptions. The restraint that would be exerted by the budget could be too great for the economy to achieve the real growth assumptions. Nevertheless, the alternative projections serve to demonstrate the dramatic effects that changes in economic assumptions can have on budget estimates.

CHAPTER III. BASELINE REVENUE PROJECTIONS

Baseline revenues, for the purposes of this report, are those that would accrue if 1981 tax law were to remain in effect during the next five years, and if the economy were to perform according to the economic assumptions of the first budget resolution for 1982 as agreed to in conference. These baseline revenue projections are shown in Table 9.

TABLE 9. BASELINE REVENUE PROJECTIONS BY SOURCE (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|-------------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Individual Income Taxes | 286.3 | 339.6 | 399.4 | 467.3 | 537.3 | 617.5 |
| Corporate Income Taxes | 66.9 | 69.8 | 82.5 | 93.7 | 104.8 | 118.0 |
| Social Insurance Taxes | 187.4 | 216.3 | 240.8 | 265.0 | 297.8 | 329.5 |
| Excise Taxes | 43.5 | 53.8 | 54.7 | 55.9 | 53.1 | 52.7 |
| Estate and Gift Taxes | 6.9 | 7.6 | 8.5 | 9.4 | 10.4 | 11.3 |
| Customs Duties | 7.5 | 7.9 | 8.3 | 8.8 | 9.1 | 9.3 |
| Miscellaneous Receipts | <u>13.4</u> | <u>14.1</u> | <u>16.0</u> | <u>19.5</u> | <u>20.7</u> | <u>20.5</u> |
| Total | 611.9 | 709.1 | 810.2 | 919.6 | 1,033.2 | 1,158.8 |

SOURCES: Projections for 1981-1984 are based on the First Concurrent Resolution on the Budget for Fiscal Year 1982. Data for 1985 and 1986 are CBO extrapolations of the 1981-1984 projections.

The baseline revenue projections are related to the revenue targets established for fiscal years 1982-1984 in the first budget resolution for 1982. The projections for fiscal years 1981-1984 were derived from these revenue targets by removing the resolution's tax reduction proposals and suggested tax increases and extensions. The projections for fiscal years 1985 and 1986 are CBO extrapolations of the revenue projections based on economic assumptions consistent with those agreed to by the conferees.

The baseline revenue projections are, in fact, inconsistent with the economic assumptions underlying them. If existing tax law were to remain in effect during the next five years, real economic growth would actually be lower than the economic growth assumed for the baseline projections. This is because the rising tax burden--resulting from the interaction between inflation and the progressive income tax as it is now structured--would slow economic growth. The budget resolution economic assumptions (shown in Table 1) were developed as part of the budget planning process and include major tax and spending cuts.

In projecting baseline revenues, all changes in tax law that are part of the present tax code are assumed to take place on schedule. The projections discussed here assume that the highway trust fund taxes will be phased out at the end of fiscal year 1984; that the targeted jobs tax credit will not be available for tax years beginning after December 31, 1981; that the \$200 interest and dividend exclusion (\$400 for joint returns) will not be available for tax years beginning after December 31, 1982; and that the investment credit for Employee Stock Ownership Plans (ESOPs) will not be available for tax years beginning after December 31, 1983.

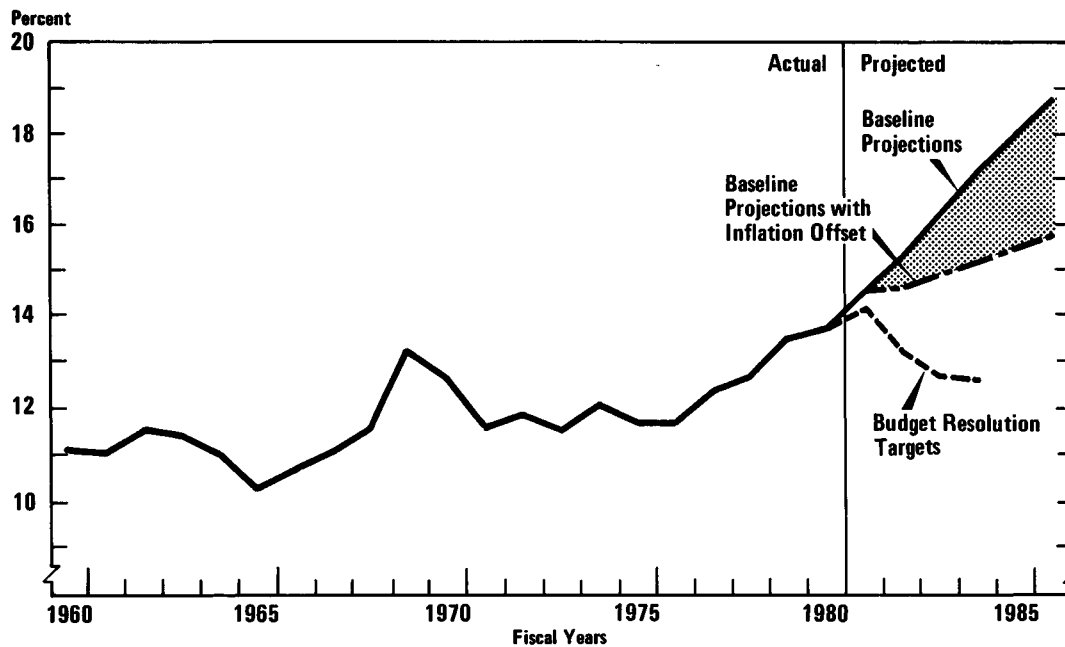
One alternative revenue baseline, also useful for policy planning purposes, would be the baseline used for this report plus the extension of tax provisions that are scheduled to expire during the projection period. This alternative is used by the Office of Management and Budget in its current services projections. ^{1/} Extension of the targeted jobs tax credit would decrease revenues by \$0.2 billion in 1982, \$0.3 billion in 1983, and \$0.4 billion in each year 1984 through 1986. Extension of the \$200 interest and dividend exclusion would decrease revenues by \$0.8 billion in 1983, \$2.5 billion in 1984, \$2.6 billion in 1985, and \$3.0 billion in 1986. Extension of the credit for ESOPs would decrease revenues by \$0.9 billion in 1984, \$1.2 billion in 1985, and \$1.2 billion in 1986. Extension of the highway trust fund taxes would increase revenues by \$3.9 billion in 1985 and \$4.0 billion in 1986. The net effect of including these extensions in the baseline revenue projections shown in Table 9 would be to decrease revenues by \$0.2 billion in 1982, \$1.1 billion in 1983, \$3.8 billion in 1984, \$0.3 billion in 1985, and \$0.6 billion in 1986.

^{1/} See Special Analysis A, "Current Services Estimates," Special Analyses, Budget of the U.S. Government, Fiscal Year 1982 (January 1981).

THE CHANGING COMPOSITION OF REVENUES

The projection of receipts under existing tax law for fiscal years 1982-1986 emphasizes the most salient characteristic of the present tax system: the high and growing share of incomes claimed by the progressive individual income tax during an inflationary period (see Figure 4). Taxpayers whose incomes do not rise faster than the general price level experience actual reductions in their real after-tax incomes. This occurs because marginal and average tax rates rise as these taxpayers move up through the tax brackets, increasing their tax liability even if their real purchasing power on a before-tax basis does not increase. This characteristic of the progressive income tax system is called "bracket creep." For this reason, and also because of the growth in Social Security taxes, revenues under existing law are projected to equal 21.4 percent of gross national product in 1981--the highest level since 1944.

Figure 4.
Individual Income Taxes as a Percent of Taxable Personal Income



NOTE: Individual income taxes are on a unified budget basis.

The composition of federal tax revenues has changed significantly over the past 30 years (see Figure 5). Individual income taxes have grown

from 39.9 percent of total revenues in 1950 to 46.9 percent in 1980. During the intervening years, income taxes have been reduced from time to time in order to contain the share of income paid in taxes. This history of bracket creep mitigated by tax reductions can be seen clearly in the up-and-down path of the ratio of income taxes to taxable personal income shown in Figure 4. (Taxable personal income equals wages and salaries, proprietors' income, rental income, dividend income, and personal interest income.)

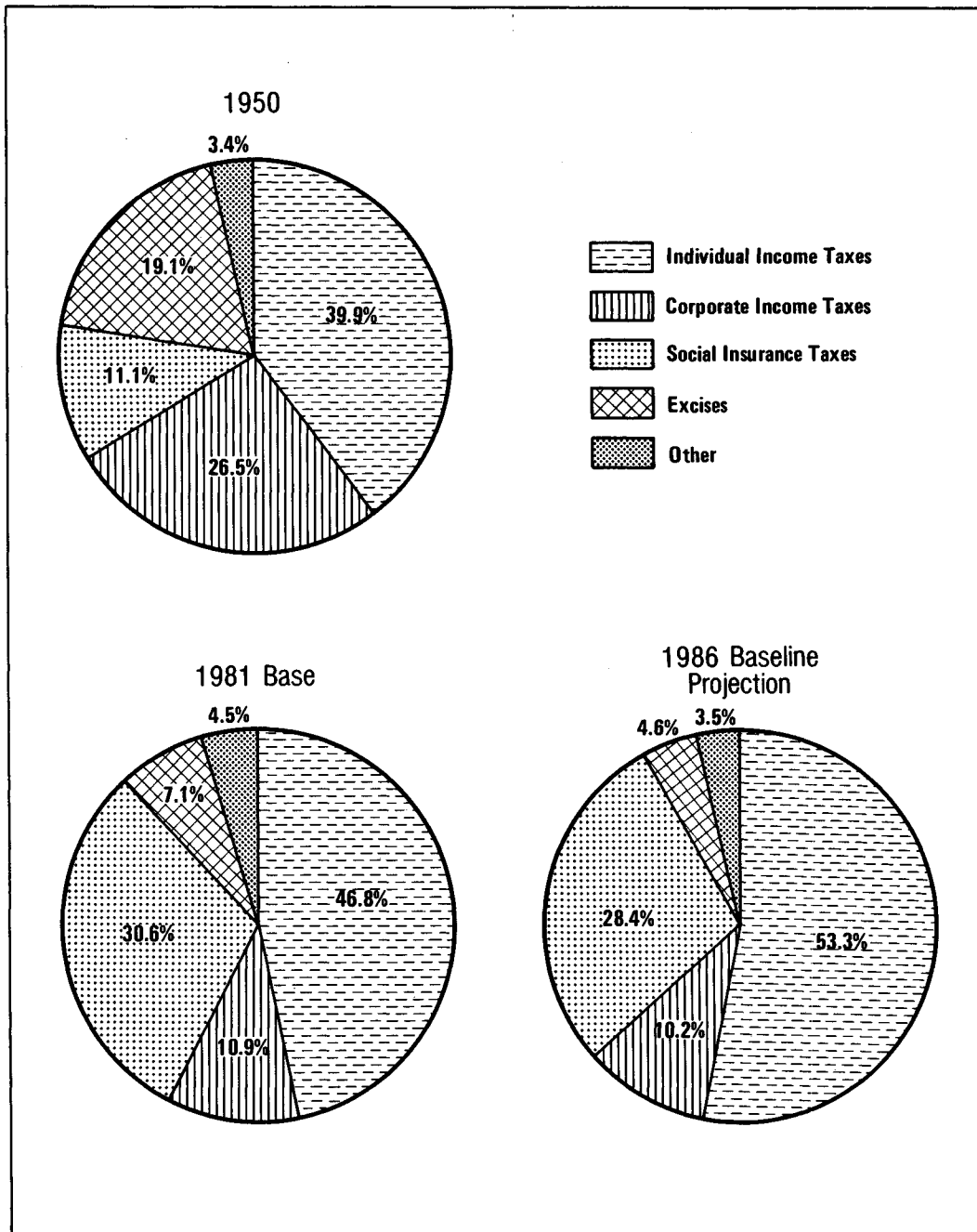
The most rapidly growing tax source over the past 30 years has been social insurance payroll taxes and contributions, including the taxes for Social Security, unemployment insurance, railroad retirement, and civil service retirement. These combined taxes have grown steadily from 11.1 percent of total revenues in 1950 to 30.9 percent in 1980. For the most part, this growth has resulted from increases in the tax rates and maximum taxable income levels for Social Security contributions, which account for over 85 percent of total social insurance taxes.

Although corporate income taxes have continued to increase over the period, their share of total revenues has decreased significantly from 26.5 percent in 1950 to 12.4 percent in 1980. Excise taxes have also been declining as a share of the total since 1950. This trend will continue despite the increase in windfall profit tax collections projected over the next five years. In fact, recent projections of oil prices are generally lower than those on which the Administration's March estimates, which were adopted by the budget conference, were based. Therefore, it is likely that the growth of total excise taxes over the next five years will be less than that shown here.

Under existing tax law, individual income taxes would continue to increase as a share of total revenues from the high level of 46.8 percent in fiscal year 1981 to the unprecedented level of 53.3 percent in 1986. Although social insurance taxes and corporate income taxes would continue to increase during this period, their shares of the total would decrease. The share of social insurance taxes would decrease from 30.6 percent in 1981 to 28.4 percent in 1986, and that of corporate income taxes would decrease from 10.9 percent in 1981 to 10.2 percent in 1986.

These changing shares of revenues reflect the significantly different growth rates projected for the main tax sources. Between 1981 and 1984, total baseline receipts are projected to increase by 50 percent. Individual income taxes would increase by 63 percent, social insurance taxes by 41 percent, and corporate income taxes by 40 percent. By 1986, after two more years of disproportionately high growth, individual income taxes under existing tax law would be 116 percent above their 1981 level, while total receipts would have increased 89 percent.

Figure 5.
The Composition of Federal Revenues



Bracket Creep Attributable to Inflation

An increase in individual income taxes of \$15.0 billion in fiscal year 1982 is attributable to bracket creep--the result of the interaction between inflation and the progressive income tax structure. The tax increase attributable to bracket creep would rise to \$51.3 billion in fiscal year 1984 and to \$97.9 billion in fiscal year 1986. Subtracting annual bracket creep from the baseline revenue projections provides another alternative revenue baseline that is useful for policy planning purposes. Such a baseline is presented in Table 10.

TABLE 10. BASELINE REVENUE PROJECTIONS WITH INFLATION OFFSETS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|---|--------------|-------------|-------|-------|---------|---------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Baseline Revenues | 611.9 | 709.1 | 810.2 | 919.6 | 1,033.2 | 1,158.8 |
| Bracket Creep Attributable to Inflation | -- | 15.0 | 29.2 | 51.3 | 72.8 | 97.9 |
| Revenues with Inflation Offsets | -- | 694.1 | 781.0 | 868.3 | 960.4 | 1,060.9 |
| Percent of GNP | -- | 21.5 | 21.5 | 21.5 | 21.6 | 21.8 |

Revenues adjusted for bracket creep represent a slightly increasing share of GNP over the projection period. These increases in the GNP share are attributable to productivity increases that give rise to increases in real incomes, which are then taxed at the higher marginal tax rates inherent in the progressive income tax system.

As mentioned above, the Congress has from time to time enacted tax reductions that have offset a substantial amount of bracket creep. Tax reductions went into effect in 1964, 1969, 1971, 1975, 1976, 1977, and 1978. Nevertheless, as shown in Figure 4, the individual income tax burden as measured by the ratio of income taxes to taxable personal income has been increasing steadily since 1977 because of the high rates of inflation in recent years. Under existing law, the tax burden would continue to increase

at historically high rates over the next five years. By fiscal year 1986, income taxes under existing law would claim 18.8 percent of taxable personal income--an increase of 57 percent in tax burden over the 20 years since 1966, when individual income taxes claimed 10.7 percent of taxable income. With offsets for bracket creep attributable to inflation after the 1981 base year, the ratio of taxes to income would reach 15.8 percent in 1986--three percentage points below the projected ratio under current law.

Scheduled Increases in Social Security Taxes

After individual income taxes, the preponderant source of federal revenues is social insurance taxes. As mentioned above, these payroll taxes have been the fastest growing source during the past 30 years. Although their share of total baseline revenues would decrease slightly over the next five years, they would be growing at a rate slightly higher than the average increase in GNP during those years.

In the 1982-1986 period, social insurance taxes would provide, on average, 29.2 percent of all federal revenues collected under existing tax law. Combined with individual income taxes, they would provide, on average, 79.9 percent of all federal revenues.

Social Security taxes, which make up over 85 percent of total social insurance taxes, account for most of the projected growth in these revenues. Both the maximum taxable wage level (base) and the tax rate for Social Security taxes will increase regularly over the next five years according to a schedule established in the 1977 Social Security amendments. The base was increased substantially in 1979, 1980, and 1981 in order to increase the percentage of earnings in covered employment that are subject to tax. Starting in 1982, the base will be indexed in order to keep this coverage percentage roughly constant. Table 11 shows the rate and base increments and the resulting revenue increases consistent with the budget resolution economic assumptions.

Without the indexing of the tax base, the effect of inflation on social security taxes would be exactly the opposite of inflation's effect on the personal income tax. In the absence of indexing, inflation would increase the portion of earnings above the social security base, and would decrease the ratio of social security to earnings and the GNP. Indexing the tax base offsets this reverse bracket creep, just as indexing the brackets in the personal income tax for inflation would mitigate bracket creep there.

Of the \$49 billion in 1986 revenues attributable to rate and base increases from 1982 forward, only \$19 billion is attributable to the sched-

TABLE 11. SCHEDULED INCREASES IN COMBINED EMPLOYER AND EMPLOYEE SOCIAL SECURITY TAX RATES AND BASES WITH RESULTING INCREASES IN REVENUES

| Calendar Year | Maximum Taxable Earnings Base | | Combined Employer-Employee Tax Rate | | Increases in Social Security Revenues (By fiscal year, in billions of dollars) | | | | |
|---------------|-------------------------------|--------|-------------------------------------|---------|--|------|------|------|------------|
| | Increase | Amount | Increase | Percent | 1982 | 1983 | 1984 | 1985 | 1986 |
| 1982 | 2,400 | 32,100 | 0.10 | 13.4 | 2.1 | 4.9 | 5.9 | 7.1 | 8.3 |
| 1983 | 3,300 | 35,400 | -- | 13.4 | | 3.0 | 6.4 | 7.9 | 9.4 |
| 1984 | 3,600 | 39,000 | -- | 13.4 | | | 3.3 | 6.8 | 8.2 |
| 1985 | 3,300 | 42,300 | 0.70 | 14.1 | | | | 11.0 | 18.8 |
| 1986 | 3,600 | 45,900 | 0.20 | 14.3 | | | | | <u>4.5</u> |
| | | | | | 2.1 | 7.9 | 15.6 | 32.8 | 49.2 |

uled increases in the rates. The larger part--\$30 billion--is the result of the indexation of the base. Thus, the ratio of social insurance taxes to taxable income will increase only slightly during this period, from 9.7 percent in 1982 to 10.0 percent in 1986.

BUDGET RESOLUTION REVENUE TARGETS

The intent of the budget conferees was to leave room in the recommended revenue levels for the net tax reductions proposed by the Administration in its 1982 budget message. The recommended revenues, as shown in Table 12, include these tax reductions.

The budget resolution specifies net tax reductions of \$8.6 billion in fiscal year 1981 and \$51.3 billion in fiscal year 1982, and recommends net tax reductions of \$97.0 billion in fiscal year 1983 and \$144.8 billion in fiscal year 1984. These revenue reductions, along with the Administration's March tax reduction proposals, are shown in Table 13.

THE ADMINISTRATION'S MARCH TAX PROGRAM

The Administration's March tax program consisted of three annual rounds of 10 percent across-the-board reductions in individual income taxes, as well as an Accelerated Cost Recovery system for plant and equipment depreciation for tax purposes, and several relatively small tax increases,

TABLE 12. BUDGET RESOLUTION REVENUE TARGETS BY SOURCE (By fiscal year, in billions of dollars)

| | 1981 | 1982 | 1983 | 1984 |
|-------------------------|-------------|-------------|-------------|-------------|
| Individual Income Taxes | 279.6 | 293.5 | 314.5 | 343.7 |
| Corporate Income Taxes | 64.7 | 62.2 | 67.5 | 69.4 |
| Social Insurance Taxes | 187.4 | 216.6 | 241.2 | 265.4 |
| Excise Taxes | 43.7 | 55.9 | 57.1 | 58.6 |
| Estate and Gift Taxes | 6.9 | 7.6 | 8.5 | 9.4 |
| Customs Duties | 7.5 | 7.9 | 8.3 | 8.8 |
| Miscellaneous Receipts | <u>13.4</u> | <u>14.2</u> | <u>16.1</u> | <u>19.6</u> |
| Total | 603.3 | 657.8 | 713.2 | 774.8 |

TABLE 13. NET DECREASES IN REVENUES RECOMMENDED IN THE BUDGET RESOLUTION AND THE ADMINISTRATION'S MARCH TAX PROPOSALS (By fiscal year, in billions of dollars)

| | 1981 | 1983 | 1983 | 1984 |
|--------------------------------------|-------------|-------------|-------------|-------------|
| Budget Resolution | -8.6 | -51.3 | -97.0 | -144.8 |
| Administration's March Tax Proposals | | | | |
| Tax Cuts | | | | |
| Individual | -6.4 | -44.2 | -81.4 | -118.1 |
| Business | -2.5 | -9.7 | -18.6 | -30.0 |
| Other | <u>+0.2</u> | <u>+2.6</u> | <u>+3.0</u> | <u>+3.3</u> |
| Total | -8.6 | -51.3 | -97.0 | -144.8 |

including new user charges, an increase in railroad retirement taxes, and the extension of the highway trust fund excise taxes beyond fiscal year 1984.

The rationale for this tax program, which is heavily weighted toward individual income tax reductions, is that present marginal tax rates are impeding work effort, saving, and investment. These rate reductions are expected to generate more output growth, which can then be directed toward productive investment. In addition, the Accelerated Cost Recovery system is designed to offset the inflation-caused erosion of depreciation allowances experienced under the present Asset Depreciation Range system of depreciation.

The Administration's tax cuts would not reduce revenues from their present levels, but would lower the growth rates of taxes compared with those inherent in existing law. They would lower the average annual rate of revenue growth for fiscal years 1981-1984 from the 15.3 percent baseline growth rate to 10.5 percent. They would reduce the federal revenue share of GNP from 20.3 percent in 1980 to 19.2 percent in 1984 (see Table 14). After 1984, however, when no further rate cut is scheduled, revenues would again be increasing as a share of GNP.

TABLE 14. COMPARISON OF BASELINE REVENUES AND BUDGET RESOLUTION REVENUES AS A SHARE OF GNP (By fiscal year, in billions of dollars)

| | 1981 | 1982 | 1983 | 1984 |
|----------------------------------|-------|-------|-------|--------|
| Baseline Revenues | 611.9 | 709.1 | 810.2 | 919.6 |
| Percent of GNP | 21.4 | 22.0 | 22.3 | 22.8 |
| Recommended Net Revenue Decrease | -8.6 | -51.3 | -97.0 | -144.8 |
| Budget Resolution Revenues | 603.3 | 657.8 | 713.2 | 774.8 |
| Percent of GNP | 21.1 | 20.4 | 19.6 | 19.2 |

The Administration's tax program would also alter the relative growth rates of different types of taxes. Under the program, the growth in individual income tax receipts over the 1981-1984 period would be reduced by almost two-thirds, from 63.2 percent to 22.9 percent. The growth in corporate income taxes would be reduced even more substantially, from 40.1 percent to 7.3 percent. The growth in social insurance receipts would not be directly affected by the program.

SENSITIVITY OF REVENUE PROJECTIONS TO ECONOMIC ASSUMPTIONS

As mentioned in Chapter II, each set of budget projections depends in part on the economic developments expected during the projection period. Different economic assumptions produce a different budget, even with no changes in programs or policies. The sensitivity of revenue projections to changes in economic assumptions is discussed in some detail here. As was noted above, economy-induced effects on revenues typically exceed those on outlays.

CBO has estimated the effect on baseline revenues of one percentage point changes in three economic variables--the rates of real growth, inflation, and unemployment (see Table 15). Separate estimates have been made for one-year changes and for changes that persist throughout the projection period. Of the simulated changes, a one percentage point increase in the annual rate of inflation, beginning in 1982 and sustained throughout the period, has the largest effect on baseline revenues by the end of the five-year period--increasing fiscal year 1986 revenues by \$71 billion.

TABLE 15. THE SENSITIVITY OF BASELINE REVENUE PROJECTIONS TO CHANGES IN ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|--|------|------|------|------|------|
| Real Growth: Effect of One Percentage Point Lower Annual Rate | | | | | |
| 1982 through 1986 | -5 | -12 | -21 | -31 | -44 |
| 1982 only | -5 | -7 | -7 | -8 | -8 |
| Inflation: Effect of One Percentage Point Higher Annual Rate | | | | | |
| 1982 through 1986 | +5 | +16 | +30 | +49 | +71 |
| 1982 only | +5 | +8 | +10 | +11 | +13 |
| Unemployment: Effect of One Percentage Point Higher Annual Rate | | | | | |
| 1982 through 1986 | -12 | -17 | -18 | -20 | -21 |
| 1982 only <u>a/</u> | -12 | -4 | +1 | +2 | +2 |

a/ Net revenue increases in later years reflect delayed increases in unemployment insurance taxes.

A one percentage point increase in the unemployment rate has the largest initial effect on revenues--a \$12 billion reduction in fiscal year 1982--but the smallest ultimate effect--a \$21 billion reduction in 1986. A one percentage point reduction in the rate of real growth has less of an effect initially than a one percentage point increase in the unemployment rate, but it has a larger effect in the latter half of the projection period.

The revenue sensitivity estimates presented here assume that the higher unemployment rate results from lower real economic growth rather than from higher productivity. The lower real growth and the higher unemployment rate cases assume that prices remain unchanged from their baseline levels. The higher inflation case assumes that productivity, real growth, and employment remain unchanged from their baseline levels.

In reality, however, changes in economic conditions do not occur in isolation. Like all components of economic performance, real output growth and inflation are interdependent in significant and complex ways. The real growth rate and the unemployment rate are both measures of the utilization of economic resources; their relationship changes over time, but they are directly linked. The revenue estimates for the set of alternative economic assumptions presented in Table 7 account for these interactions.

Inflation

Revenues increase automatically as inflation raises taxable personal and corporate incomes. Taxes rise more than in proportion to nominal income because the individual income tax is progressive. The revenue growth resulting from inflation-induced income increases typically exceeds that resulting from employment-induced income increases of the same magnitude. Inflation-induced income increases lead to higher average effective tax rates as many taxpayers move into higher tax brackets, whereas employment-induced income increases are concentrated more among new workers, who tend to be subject to lower tax rates.

It is important to note how the simplifying assumptions employed here tend to affect the revenue response estimates. If real economic growth did not remain unchanged, as assumed here, but rather were reduced by the higher inflation, the resulting revenue increases would be smaller than those shown here. Alternatively, if the inflation increase were caused by an external shock, such as an OPEC oil price increase, domestic incomes would not rise proportionately, as assumed here, and the resulting revenue increases would be smaller than those shown.

Real Growth and Unemployment

Lower real growth rates and higher unemployment rates generally result in a decrease in revenues. The weaker labor market leads to lower incomes, consumers spend less, profits decline, and wage increases are likely to be tempered. If the lower real growth were to mitigate the upward pressure on prices, income growth might also be reduced, decreasing revenues even further.

In most cases of weaker real growth, the net reductions in revenues reinforce the deficit-widening effects of the induced increases in outlays. In the case of temporary decreases in economic growth, however, the net revenue effect in later fiscal years may be positive as unemployment insurance tax rates are raised to make up for the earlier benefit increases. The estimates of revenue responses resulting from a one percentage point increase in the unemployment rate in 1982 alone shown in Table 15 reflect this possible effect.



CHAPTER IV. BASELINE SPENDING PROJECTIONS

During the past five years (1976-1981), federal budget outlays have grown by almost \$300 billion. Under the baseline assumptions, in which existing spending policies continue unchanged, federal outlays are projected to grow by nearly the same amount over the next five years (1981-1986).

This chapter presents further details on the CBO baseline spending projections for fiscal years 1982-1986, including a discussion of the major components and the sensitivity of selected spending projections to economic assumptions. It also compares the 1982-1984 spending targets specified in the First Concurrent Resolution on the Budget for Fiscal Year 1982 with the CBO baseline spending projections to illustrate the spending policy changes assumed by the resolution.

SPENDING PROJECTIONS FOR MAJOR PROGRAM CATEGORIES

Under the baseline assumptions, federal outlays are projected to grow by \$290 billion, or 44 percent, between 1981 and 1986. The largest component of this projected increase is benefit payments for individuals (see Table 16). These payments--for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals--are projected to grow by \$168 billion, or 53 percent, during the next five years under laws and policies that were in effect at the end of the 96th Congress. The next largest component is national defense programs, which are projected to grow by \$94 billion, or 59 percent, by 1986 under baseline assumptions. These two program categories account for 72 percent of total budget outlays in 1981; by 1986, they would account for 78 percent of total outlays with no change in existing spending policies, as shown in Figure 6.

Projected baseline outlays as a percentage of GNP would fall from 23.1 percent in 1981 to 19.6 percent in 1986--the lowest level since 1966 (see Table 16). Almost all of the projected decline would be in the nondefense areas of the budget, with the largest declines relative to GNP in benefit payments to individuals and net interest.

Table 17 compares the projected increases in unified budget outlays under baseline assumptions for 1982 through 1986 with increases in federal outlays for the past five years. While total outlays are projected to grow

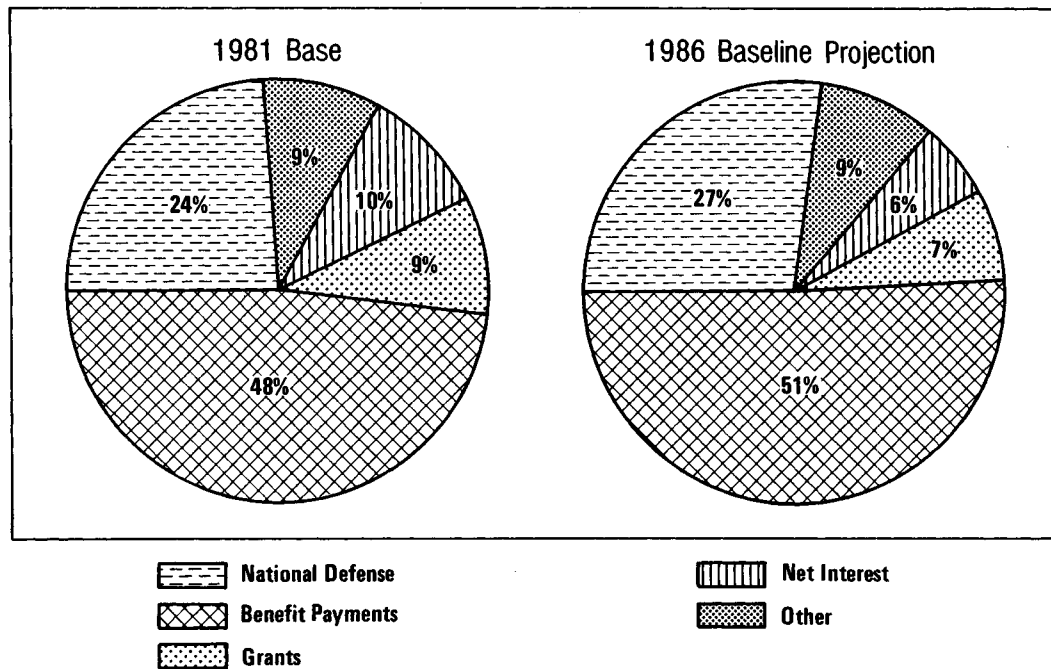
TABLE 16. BASELINE OUTLAY PROJECTIONS FOR MAJOR PROGRAM CATEGORIES (By fiscal year)

| | 1981 Base | Projections | | | | |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| In Billions of Dollars | | | | | | |
| National Defense <u>a/</u> | 159.6 | 183.8 | 203.5 | 222.0 | 238.8 | 254.0 |
| Benefit Payments for Individuals | 316.1 | 355.9 | 388.6 | 418.8 | 451.8 | 484.0 |
| Other Grants to State and Local Governments <u>b/</u> | 56.9 | 58.1 | 60.4 | 63.6 | 67.3 | 71.3 |
| Net Interest | 66.1 | 72.4 | 69.7 | 67.0 | 62.3 | 59.1 |
| Other Federal Operations | <u>61.1</u> | <u>68.6</u> | <u>70.2</u> | <u>72.0</u> | <u>74.7</u> | <u>81.5</u> |
| Total | 659.8 | 738.7 | 792.5 | 843.3 | 894.9 | 949.9 |
| ----- | | | | | | |
| As a Percent of GNP | | | | | | |
| National Defense <u>a/</u> | 5.6 | 5.7 | 5.6 | 5.5 | 5.4 | 5.2 |
| Benefit Payments for Individuals | 11.1 | 11.1 | 10.7 | 10.4 | 10.2 | 10.0 |
| Other Grants to State and Local Governments <u>b/</u> | 2.0 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Net Interest | 2.3 | 2.2 | 1.9 | 1.6 | 1.4 | 1.2 |
| Other Federal Operations | <u>2.1</u> | <u>2.1</u> | <u>1.9</u> | <u>1.8</u> | <u>1.7</u> | <u>1.7</u> |
| Total | 23.1 | 22.9 | 21.8 | 20.9 | 20.2 | 19.6 |

a/ Includes benefit payments for retired military personnel.

b/ Some grants to state and local governments are for benefit payments, such as medicaid and public assistance (AFDC). These grants are classified here as benefit payments for individuals. The other grants category covers grants for purposes such as general revenue sharing, highway construction, community development, and employment and training assistance.

Figure 6.
The Composition of Federal Spending



over the next five years by about the same dollar magnitude as the increase for 1976-1981, the annual growth rate would be lower and the composition of the growth would be different. The projected average annual growth rate for baseline outlays is 7.6 percent, considerably less than the 12.5 percent average growth rate since 1976. The projected growth rate is lower partly because interest rates, the rate of inflation, and unemployment are assumed to decline, and partly because the baseline assumptions do not provide for continuing real growth in a number of program areas. The fastest growing spending component during the past five years has been net interest outlays as a result of continuing large budget deficits and high interest rates. The baseline outlay projections for net interest decrease after 1982 because of the assumed decline in interest rates and in the deficit.

National Defense

National defense programs consist largely of the military activities of the Department of Defense. They also include programs of the

TABLE 17. PROJECTED INCREASES IN FEDERAL OUTLAYS UNDER
BASELINE ASSUMPTIONS BETWEEN 1981 AND 1986

| | Actual Increases 1976-1981 <u>a/</u> | | Projected Increases 1981-1986 | |
|--|---|-------------------|----------------------------------|-------------------|
| | Billions of dollars | Percent change | Billions of dollars | Percent change |
| National Defense | 70.2 | 79 | 94.3 | 59 |
| Benefit Payments for Individuals | 139.5 | 79 | 167.9 | 53 |
| Other Grants to State and Local Governments <u>b/</u> | 18.9 | 50 | 14.4 | 25 |
| Net Interest | 39.4 | 148 | -7.0 | -11 |
| Other Federal Operations | <u>25.4</u> | <u>71</u> | <u>20.4</u> | <u>33</u> |
| Total | 293.4 | 80 | 290.1 | 44 |

a/ Based on 1981 estimates used for the baseline projections.

b/ Some grants to state and local governments are for benefit payments, such as medicaid and public assistance (AFDC). These grants are classified here as benefit payments for individuals. The other grants category covers grants to state and local governments for purposes other than benefit payments for individuals.

Department of Energy devoted to national defense, such as naval ship reactors and nuclear weapons, and miscellaneous defense activities, such as defense stockpiles and selective service. The CBO defense baseline projections assume an explicit defense force structure and investment program approved during the second session of the 96th Congress. 1/

Under the CBO baseline assumptions, national defense outlays are projected to grow from \$160 billion in 1981 to \$254 billion in 1986. This represents an annual average growth of 9.8 percent, which exceeds the

1/ See Appendix C for more details on the assumptions used for the CBO defense baseline projections.

assumed average rate of inflation during the projection period. National defense outlays in real terms are projected to grow by an average of about 3 percent annually. A major reason for this projected real growth is an increase in the cost of strategic forces resulting from an assumed phase-in of the MX missile and a new manned bomber. The baseline projections include all of the Carter Administration's planned outyear funding for the MX strategic missile because the 1981 defense appropriations bill included the funds requested for this new weapons system. The 1981 defense appropriations bill also added funds for a new manned bomber that would have certain specified capabilities, which CBO used to develop a five-year cost estimate. Both of these strategic weapons are under review by the Reagan Administration, and specific proposals have not yet been made.

Relative to the budget as a whole, spending for national defense would increase from 24 percent of total outlays in 1981 to about 27 percent in 1986. As a percent of GNP, however, national defense outlays under baseline assumptions would decline slightly from 5.6 percent in 1981 to 5.2 percent in 1986 (see Table 16).

Benefit Payments for Individuals

The major programs included in this category are shown in Table 18. These programs provide both direct payments from the federal government to individuals (such as Social Security benefits) and indirect payments through state and local governments (such as public assistance and child nutrition). Some programs, such as Social Security and unemployment compensation, provide cash payments to individuals to use at their discretion; other programs provide specific services used by eligible individuals (such as medical services under medicare and medicaid). The benefit payments category of spending also includes retirement pay for all federal civilian employees. Retirement benefits for military personnel are included under the national defense category.

Federal benefit payments for individuals total an estimated \$316 billion in 1981, which is 48 percent of total outlays. Most of these payments are directly or indirectly adjusted, or indexed, for inflation. Social Security benefits, for example, are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index (CPI). Railroad retirement benefits, supplemental security income, and veterans' pensions similarly are adjusted each year for increases in the CPI. Under existing law, federal civil service retirement benefits are automatically adjusted twice a year.

TABLE 18. BASELINE OUTLAY PROJECTIONS FOR BENEFIT PAYMENTS FOR INDIVIDUALS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|---|--------------|-------------|-------------|-------------|-------------|-------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Social Security (OASDI) | 138.3 | 158.6 | 176.4 | 191.8 | 207.2 | 222.5 |
| Medicare and Medicaid | 56.7 | 66.1 | 74.8 | 84.3 | 94.2 | 104.8 |
| Unemployment Compensation | 22.7 | 21.5 | 19.1 | 18.4 | 18.2 | 18.1 |
| Public Assistance and Related Programs | 18.8 | 20.5 | 22.4 | 22.0 | 23.6 | 24.6 |
| Federal Employee Retirement and Disability <u>a/</u> | 18.1 | 20.6 | 22.9 | 24.9 | 26.7 | 28.4 |
| Food and Nutrition Assistance | 16.3 | 18.0 | 18.8 | 19.6 | 20.3 | 21.0 |
| Veterans' Compensation, Pensions, and Readjustment Benefits | 14.9 | 15.7 | 16.5 | 17.1 | 17.7 | 18.3 |
| Other | <u>30.3</u> | <u>34.9</u> | <u>37.7</u> | <u>41.6</u> | <u>43.9</u> | <u>46.3</u> |
| Total | 316.1 | 355.9 | 388.6 | 418.8 | 451.8 | 484.0 |

a/ Excludes military retired pay, which is included in the national defense category.

Benefits for certain other benefit payment programs, while not tied explicitly to the CPI, also increase directly as a result of inflation. These include the food stamp and child nutrition programs, which are indexed to various food price indexes. Black lung benefits for disabled coal miners are adjusted automatically each year by the amount of the October pay raises for federal civilian employees. The benefit levels for unemployment insurance are tied to average earnings. Most states periodically increase aid to families with dependent children (AFDC) benefits for changes in the cost of living, although these changes have not kept pace with inflation in recent years. Finally, the cost of providing benefits in the medicare and medicaid programs rises with inflation as well, since it is the level of services and not a fixed dollar amount that is guaranteed to eligible beneficiaries. Here too,

however, reimbursement levels have not kept up with the costs of privately purchased medical care.

Under CBO baseline assumptions, outlays for benefit payments for individuals are projected to grow by \$168 billion, or 53 percent, over the next five years. This represents an average annual growth rate of 8.9 percent between 1981 and 1986, which exceeds the assumed 6.1 percent average annual increase of the CPI during the projection period. In addition to the effects of inflation, benefit payments are projected to increase because of growth in the number of retirees, disabled persons, and other individuals receiving benefits, and such factors as a rising wage base that leads to higher retirement benefit entitlements for new beneficiaries. Consequently, benefit payments for individuals as a share of the total budget would increase from 48 percent in 1981 to 51 percent in 1986, assuming no changes in existing spending policies. Relative to GNP, however, projected benefit payments for individuals would decline from 11.1 percent in 1981 to 10.0 percent in 1986.

As shown in Table 18, about half of the projected increase in this category (\$84 billion) is for Social Security benefits. Nearly 30 percent of the total projected increase in benefit payments (\$48 billion) is for medicare and medicaid, which are the fastest growing programs in this category. Unemployment compensation outlays are projected to decline during the 1981-1986 period because of the assumed decrease in the unemployment rate.

Grants to State and Local Governments

Grants to state and local governments (other than for benefit payments) make up about 9 percent of total budget outlays in 1981 (\$57 billion). Programs in this category include general revenue sharing, the Comprehensive Employment and Training Act (CETA), aid for elementary and secondary education, community development grants, grants for the construction of wastewater treatment plants, and grants for highway construction.

Under the CBO baseline assumptions, outlays for these programs are projected to rise by \$14 billion, or 25 percent, by 1986. This would represent a small decline in real terms, since outlays for a number of grant programs would not keep pace with inflation under an extension of existing laws. As a consequence, outlays for grants to state and local governments as a share of total budget outlays are projected to decline to about 7 percent by 1986.

The relatively slower growth in outlays for this category results in part from statutory ceilings for at least part of the projection period for grants for social services and general revenue sharing. Furthermore, outlays for wastewater treatment plant construction grants and community development grants are not projected to rise significantly under existing laws, even though the budget authority for these programs under the baseline assumptions is adjusted for inflation. Estimated outlays for these programs are high relative to budget authority in 1981 and the early part of the projection period because of substantial spending from prior-year appropriations.

Net Interest

The net interest category essentially represents interest paid on that portion of the federal debt held by the public. It excludes interest paid to government trust funds that hold federal securities, and includes interest payments on tax refunds and interest collections from federal agencies and the public. Net interest outlays have been the fastest growing category of federal spending since 1976, and now represent 10 percent of total outlays. As shown in Table 16, net outlays are projected to rise in 1982 and fall in 1983-1986. At the end of the projection period, net interest outlays under the CBO baseline assumptions would be somewhat less than the estimated 1981 level, and would represent 6 percent of total budget outlays.

Net interest costs depend on the level of the total interest-bearing public debt and on interest rates. The debt grows by the amount of unified budget deficits, trust fund surpluses, and deficits of off-budget agencies that borrow funds from the Treasury. For purposes of the baseline spending projections, the unified budget was assumed to be balanced beginning in 1984, and the levels of trust fund surpluses and off-budget agency deficits were assumed to be consistent with the Administration's March estimates. The substantial unified budget surpluses projected by the Administration after 1984 were not assumed to be applied to reductions in the public debt (nor to any other specific purpose). Interest rates were assumed to decline throughout the projection period, as discussed in Chapter II.

Other Federal Operations

The other federal operations category includes the remainder of the budget. The major components are farm price supports, domestic energy programs, foreign aid, general science research and space technology, housing credit activities, and the numerous civilian agency salary and

expense accounts that fund the day-to-day operations of the federal government. In 1981, this category represents about 9 percent of total budget outlays (\$61 billion). Under CBO baseline assumptions, outlays are projected to grow by \$20 billion, or 33 percent, over the next five years. This essentially would keep spending growth for this category in line with the projected rate of inflation for 1982-1986, and the relative share of the budget allocated to these programs would remain about the same.

MAJOR FUNCTIONAL CATEGORIES

An important classification of federal spending is by the major functions or purposes being served by federal programs. The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and outlays for each major function in its annual budget resolutions. The functional classification is a means of presenting spending estimates according to the national needs that federal programs are intended to serve, regardless of the methods used to carry out the activities. National needs are grouped in 16 broad areas, ranging from national defense, international affairs, and energy programs to agriculture, transportation, health, and general government programs. Three additional categories--interest, allowances, and undistributed offsetting receipts--do not address specific national needs but are included to cover the entire budget.

Tables 19 and 20 present the baseline projections of budget authority and outlays by the 19 major functions used for Congressional budget resolutions. No funds are projected for the allowances category (function 920) because projected civilian agency pay raises, the usual item included in this category in the past, are distributed among the other categories in accordance with the convention adopted for the 1982 first budget resolution.

The largest single functional category is income security (function 600), which consists mainly of benefit payments for individuals such as Social Security and other general retirement and disability insurance, federal civilian employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance, and other benefit programs. In 1981, outlays for this function are estimated to be \$229 billion, which represents 35 percent of total budget outlays. Under the baseline assumptions, outlays for income security programs are projected to grow by \$110 billion, to \$339 billion in 1986. As a share of total budget outlays, income security programs would increase slightly by the end of the projection period (from 35 percent in 1981 to 36 percent in 1986).

The next largest function is national defense (function 050), which makes up 24 percent of total outlays in 1981 and is projected to grow as a

TABLE 19. BASELINE PROJECTIONS OF BUDGET AUTHORITY, BY FUNCTION (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|--|--------------|-------------|-------|-------|-------|---------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| National Defense (050) | 173.7 | 198.1 | 219.0 | 238.0 | 252.0 | 256.6 |
| International Affairs (150) | 23.2 | 17.1 | 17.4 | 19.8 | 20.9 | 21.5 |
| General Science, Space, and Technology (250) | 6.6 | 7.2 | 7.1 | 7.2 | 6.9 | 7.2 |
| Energy (270) | 9.3 | 9.4 | 9.4 | 8.8 | 9.7 | 14.4 |
| Natural Resources and Environment (300) | 12.4 | 14.0 | 15.0 | 16.0 | 16.9 | 17.5 |
| Agriculture (350) | 5.4 | 5.6 | 6.9 | 7.3 | 8.0 | 9.2 |
| Commerce and Housing Credit (370) | 6.8 | 8.1 | 7.4 | 9.2 | 10.0 | 10.5 |
| Transportation (400) | 24.0 | 23.7 | 25.6 | 27.0 | 28.7 | 30.5 |
| Community and Regional Development (450) | 10.3 | 9.5 | 10.5 | 11.2 | 12.0 | 12.7 |
| Education, Training, Employment, and Social Services (500) | 33.2 | 36.9 | 40.2 | 43.4 | 46.0 | 48.6 |
| Health (550) | 72.5 | 85.7 | 94.9 | 104.8 | 116.8 | 131.9 |
| Income Security (600) | 256.7 | 283.7 | 311.8 | 333.6 | 367.2 | 394.8 |
| Veterans' Benefits and Services (700) | 23.3 | 25.5 | 27.1 | 28.4 | 29.6 | 30.7 |
| Administration of Justice (750) | 4.4 | 4.9 | 5.3 | 5.7 | 6.0 | 6.4 |
| General Government (800) | 4.9 | 5.5 | 6.0 | 6.4 | 6.8 | 7.1 |
| General Purpose Fiscal Assistance (850) | 6.1 | 6.4 | 6.6 | 7.1 | 7.5 | 7.9 |
| Interest (900) | 79.9 | 88.0 | 88.6 | 89.2 | 87.6 | 87.3 |
| Allowances (920) | -- | -- | -- | -- | -- | -- |
| Undistributed Offsetting Receipts (950) | -28.9 | -33.7 | -39.8 | -46.0 | -52.4 | -57.2 |
| Total | 723.8 | 795.6 | 859.3 | 916.8 | 980.3 | 1,037.7 |

TABLE 20. BASELINE PROJECTIONS OF OUTLAYS, BY FUNCTION (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| National Defense (050) | 159.6 | 183.8 | 203.5 | 222.0 | 238.8 | 254.0 |
| International Affairs (150) | 11.0 | 11.4 | 12.1 | 13.1 | 13.7 | 14.3 |
| General Science, Space, and Technology (250) | 6.3 | 7.0 | 7.1 | 7.1 | 7.0 | 7.1 |
| Energy (270) | 9.8 | 11.4 | 12.0 | 10.9 | 11.1 | 13.7 |
| Natural Resources and Environment (300) | 13.7 | 14.3 | 15.0 | 15.6 | 16.2 | 16.8 |
| Agriculture (350) | 2.9 | 6.5 | 6.9 | 7.8 | 9.3 | 11.0 |
| Commerce and Housing Credit (370) | 3.5 | 6.4 | 5.8 | 5.8 | 6.1 | 6.6 |
| Transportation (400) | 23.4 | 22.6 | 24.4 | 25.8 | 27.6 | 29.4 |
| Community and Regional Development (450) | 11.7 | 11.1 | 9.9 | 10.4 | 11.0 | 11.7 |
| Education, Training, Employment, and Social Services (500) | 32.9 | 35.9 | 38.5 | 41.4 | 44.1 | 46.6 |
| Health (550) | 66.3 | 76.6 | 86.0 | 96.3 | 107.0 | 118.3 |
| Income Security (600) | 228.6 | 255.7 | 277.8 | 296.7 | 318.3 | 338.9 |
| Veterans' Benefits and Services (700) | 22.8 | 25.1 | 26.8 | 28.1 | 29.4 | 30.5 |
| Administration of Justice (750) | 4.6 | 5.0 | 5.2 | 5.6 | 6.0 | 6.3 |
| General Government (800) | 4.8 | 5.4 | 5.8 | 6.4 | 6.6 | 6.9 |
| General Purpose Fiscal Assistance (850) | 6.8 | 6.4 | 6.6 | 7.0 | 7.4 | 7.8 |
| Interest (900) | 79.9 | 88.0 | 88.6 | 89.2 | 87.6 | 87.3 |
| Allowances (920) | -- | -- | -- | -- | -- | -- |
| Undistributed Offsetting Receipts (950) | <u>-28.9</u> | <u>-33.7</u> | <u>-39.8</u> | <u>-46.0</u> | <u>-52.4</u> | <u>-57.2</u> |
| Total | 659.8 | 738.7 | 792.5 | 843.3 | 894.9 | 949.9 |

share of total baseline outlays to about 27 percent by 1986. Another function that is projected to grow faster than total budget outlays under baseline assumptions is the health category (function 550), largely because cost increases are assumed to continue to be more rapid for the medicare and medicaid programs than for other domestic programs. Health outlays are projected to grow from 10 percent of total outlays in 1981 to 12.5 percent by 1986 under continuation of existing spending policies.

Declining shares of the budget are projected for the interest and undistributed offsetting receipts categories (functions 900 and 950), which together would fall from about 8 percent of total outlays in 1981 to about 3 percent in 1986. The relative shares of total budget outlays for the remaining functional categories would remain essentially unchanged during 1982-1986 under the CBO baseline assumptions.

The relationship between the five spending categories used earlier in this chapter to discuss the spending projections and the functional classification is as follows:

- o The national defense category is the same for both classifications.
- o The bulk of benefit payments for individuals are classified in the health, income security, and veterans' benefits and services categories (functions 550, 600, and 700).
- o Grants to state and local governments (other than grants for payments for individuals) are found in functions 300, 400, 450, 500, and 850.
- o Net interest consists of the interest category (function 900) and the interest received by trust funds, which constitute approximately one-half of the undistributed offsetting receipts category (function 950).
- o Other federal operations are distributed throughout all functional categories except national defense and interest.

BUDGET RESOLUTION SPENDING TARGETS

The first budget resolution for 1982 proposes a sharp reduction in the annual growth rate of federal spending and a dramatic change in spending priorities. The budget resolution spending targets would hold the annual growth in federal outlays to 5.4 percent for the next three years

(1982-1984), compared with an average annual growth of 8.5 percent under the baseline projections for the same period. The budget resolution outlay growth targets are also substantially below the average annual growth of 11.5 percent during the last ten years (1971-1980) and 12.5 percent since 1976 (see Figure 7). The resolution would also change spending priorities by increasing funds for national defense above the defense baseline levels and reducing funds for nondefense levels from the projected baseline (see Figure 8). The first resolution target for national defense outlays is \$29 billion above the projected baseline level for 1984 and \$98 billion below the baseline level for nondefense programs. National defense outlays as a share of total budget outlays would increase from about 24 percent in 1981 to 32 percent in 1984 under the first budget resolution, compared with 26 percent under the baseline projections.

Because of the changed spending priorities, the average annual growth rate for defense programs would accelerate to 15.5 percent during the next three years, compared with 11.7 percent under the CBO baseline projections for 1982-1984, and 5.6 percent during the last ten years

Figure 7.
Annual Growth in Total Budget Outlays

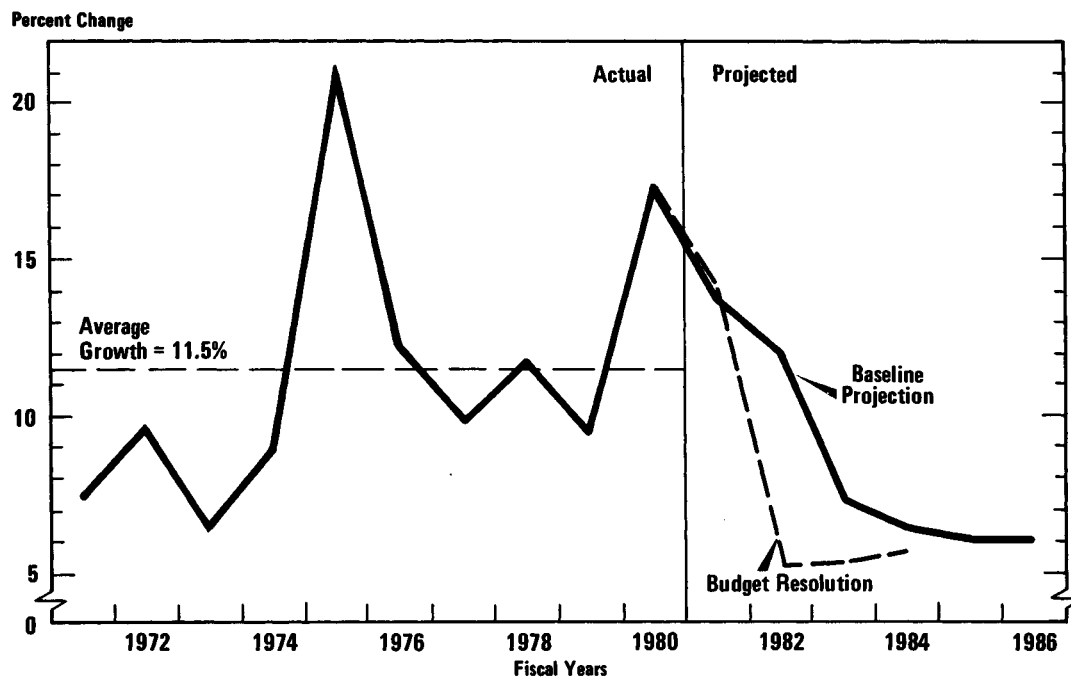
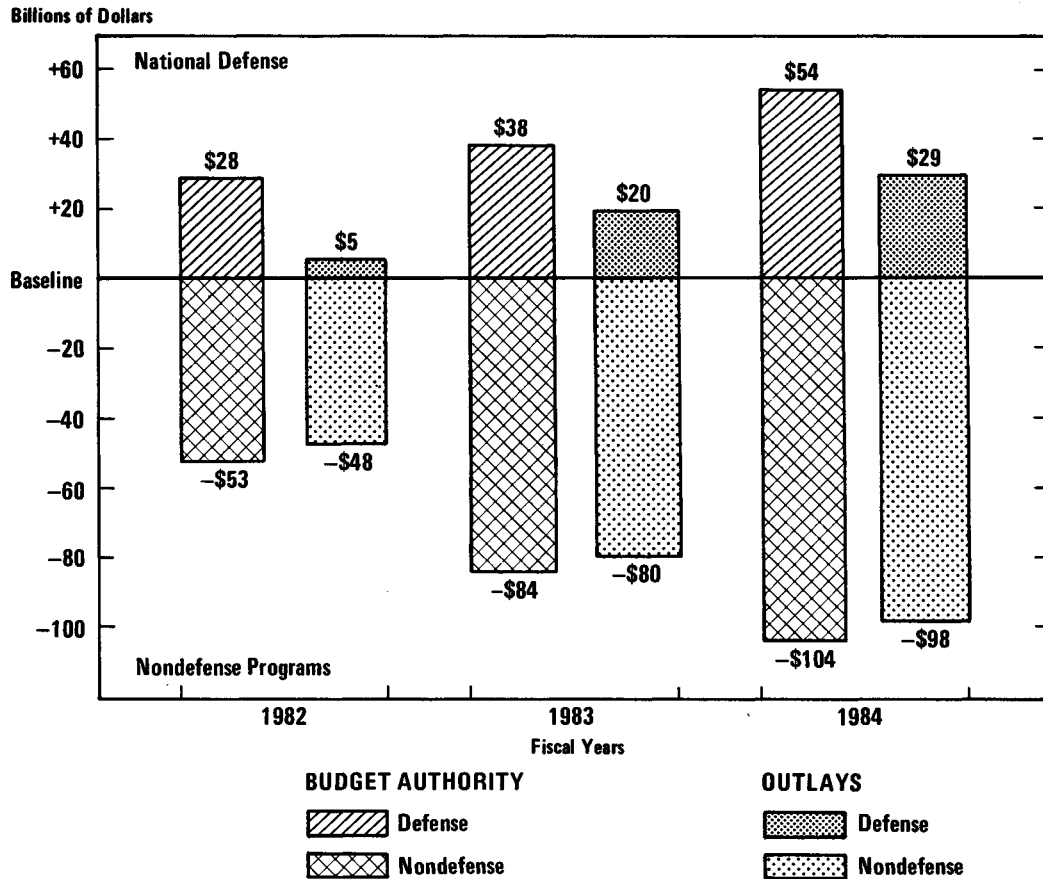


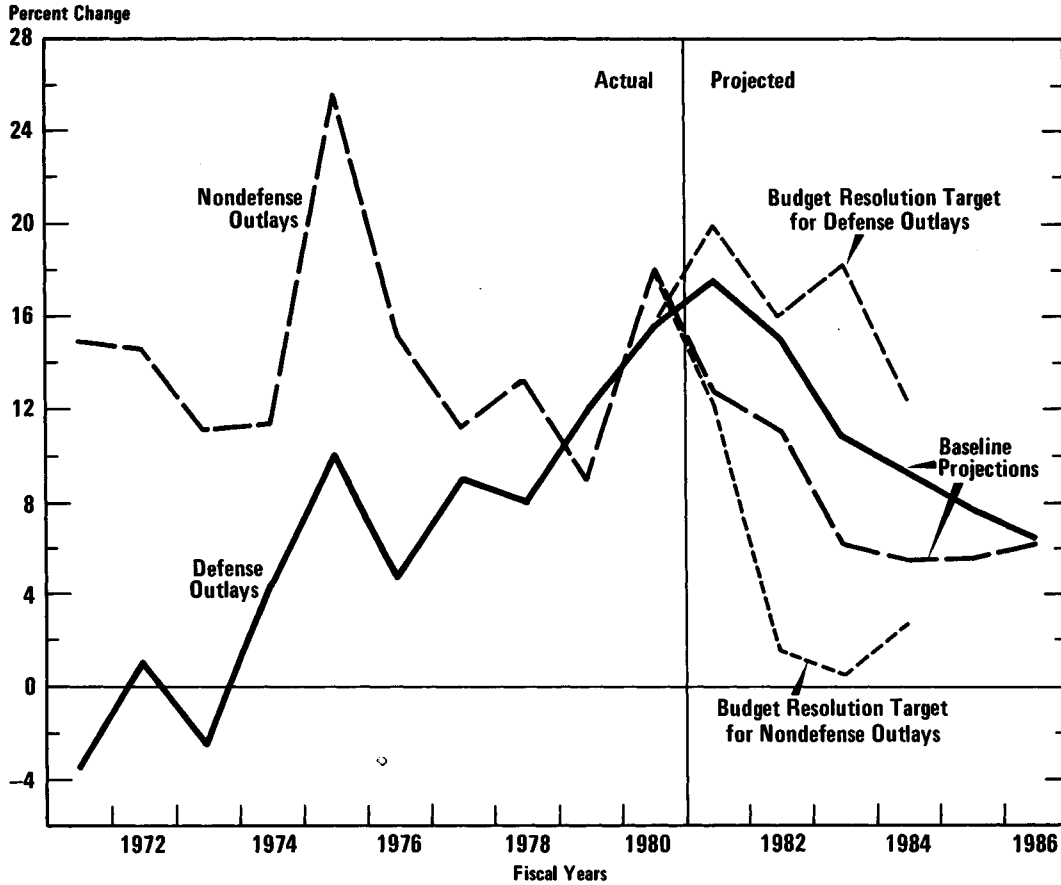
Figure 8.
Budget Resolution Changes in Spending Priorities



(1971-1980). The annual growth rate for nondefense program outlays, in contrast, would fall to less than 2 percent during the next three years, compared with an average of 7.5 percent under the CBO baseline projections and 14.2 percent during the last ten years (see Figure 9).

The major portion of the reductions in spending for nondefense programs are assumed to be achieved through the reconciliation process, which is discussed in Chapter II. The outlay savings included in the reconciliation instructions for nondefense programs total about \$34 billion in 1982, \$44 billion in 1983, and \$52 billion in 1984 (see Table 21). Most of these reconciliation reductions are targeted for the human resources programs, and particularly those programs contained in the areas of education,

Figure 9.
Annual Growth in Defense and Nondefense Outlays



training, employment, and social services (function 500) and income security (function 600). The proposed spending reductions in all other nondefense programs, while smaller in dollar magnitude, are larger in relative terms. The major reductions in these areas involve energy, natural resources and environment, and transportation programs (functions 270, 300, and 400).

The first budget resolution also assumes that additional reductions in nondefense spending will be achieved outside of the reconciliation process through the annual appropriation process or by other means. These additional outlay savings from the projected baseline levels for nondefense programs total \$14 billion for 1982, \$36 billion for 1983, and \$46 billion for 1984 (see Table 21). Over half of these additional nondefense savings in

TABLE 21. COMPARISON OF BUDGET RESOLUTION TARGETS AND BASELINE OUTLAY PROJECTIONS (By fiscal year, in billions of dollars)

| | 1981 | 1982 | 1983 | 1984 |
|---|---------------|---------------|---------------|---------------|
| National Defense (function 050) | | | | |
| Baseline projections | 159.6 | 183.8 | 203.5 | 222.0 |
| Reconciliation instructions <u>a/</u> | -0.2 | -2.6 | -3.3 | -3.3 |
| Other changes from baseline | 3.5 | 7.6 | 22.9 | 31.9 |
| First budget resolution for 1982 | <u>162.9</u> | <u>188.8</u> | <u>223.1</u> | <u>250.6</u> |
| Human Resources (functions 500, 550, 600, 700) | | | | |
| Baseline projections | 350.7 | 393.2 | 429.2 | 462.5 |
| Reconciliation instructions <u>a/</u> | -1.1 | -23.0 | -28.9 | -34.0 |
| Other changes from baseline | -0.6 | -6.3 | -11.0 | -12.8 |
| First budget resolution for 1982 | <u>349.0</u> | <u>363.95</u> | <u>389.3</u> | <u>415.75</u> |
| All Other Nondefense Programs | | | | |
| Baseline projections | 149.5 | 161.7 | 159.8 | 158.8 |
| Reconciliation instructions <u>a/</u> | -1.0 | -10.9 | -14.8 | -18.5 |
| Other changes from baseline | 1.0 | -8.1 | -4.7 | -5.1 |
| First budget resolution for 1982 | <u>149.45</u> | <u>142.7</u> | <u>140.25</u> | <u>135.2</u> |
| Unspecified Future Legislative Changes | | | | |
| First budget resolution for 1982 (function 920) | -- | -- | -20.4 | -27.8 |
| Total Outlays | | | | |
| Baseline projections | 659.8 | 738.7 | 792.5 | 843.3 |
| Reconciliation instructions <u>a/</u> | -2.3 | -36.5 | -47.0 | -55.8 |
| Other changes from baseline | 3.9 | -6.7 | -13.2 | -13.8 |
| First budget resolution for 1982 | <u>661.35</u> | <u>695.45</u> | <u>732.25</u> | <u>773.75</u> |

a/ Reconciliation instructions for Senate committees, Conference Report on First Concurrent Resolution on the Budget--Fiscal Year 1982, H. Con. Res. 115, Senate Report No. 97-86, May 15, 1981.

1983 and 1984 are contained in the allowances category (function 920) and consist of unspecified future legislative changes. They amount to \$20 billion in outlays for 1983 and \$28 billion for 1984.

SENSITIVITY OF SPENDING PROJECTIONS TO ECONOMIC ASSUMPTIONS

As discussed in Chapter II, spending projections are sensitive to changes in the underlying economic assumptions. This section gives more detail on the sensitivity of outlay estimates to changes in economic conditions.

Inflation

About 30 percent of budget outlays are directly indexed to changes in the CPI or similar indexes. The timing and frequency of the inflation adjustments, however, vary among programs. Social Security benefits, for example, are adjusted once a year in July based on the most recent first-quarter-over-first-quarter increase in the CPI. Supplemental security income, railroad retirement benefits, and veterans' pensions are automatically adjusted in a similar manner. Retirement benefits for federal civilian and military personnel, on the other hand, are adjusted twice a year in March and September for six-month increases in the CPI between the previous June-to-December and December-to-June periods, respectively. (The reconciliation instructions assume that this would be changed to a single annual cost-of-living increase for federal retirees.) Food stamp benefits are adjusted each January based on changes in the thrifty food plan.

In general, the lagged effects of the indexing provisions mean that a one percentage point increase in the inflation rate forecast for a particular calendar year would have a relatively small effect on outlays for the same fiscal year. In Social Security, for example, higher (or lower) inflation would significantly affect only one-quarter of the fiscal year and would have greater effects on the next and succeeding fiscal years.

As noted earlier in this chapter, some outlays tend to respond more or less automatically to changes in the inflation rate, since the federal government is paying for the cost of services provided to eligible families and individuals (for instance, medicare and medicaid). Some of the other effects of higher (or lower) inflation on budget outlays are not automatic, but would occur only if discretionary programs were adjusted to offset the effects of inflation (as assumed for the baseline projections).

Federal pay costs would increase with higher inflation if private wages keep pace with higher inflation and if federal wages are adjusted according to the principle of comparability (again, as assumed in the baseline). Net interest costs would decline, because inflation increases revenues by more than it increases outlays, and deficits would decline.

Table 22 shows the estimated effect on the baseline outlay projections of a one percentage point higher inflation rate beginning in January 1982 and continuing for the entire projection period. It also shows the effect of a one percentage point higher inflation rate for only calendar year 1982.

Unemployment

Higher unemployment leads directly to higher unemployment benefits with almost no lag. It also results in higher outlays for certain other programs, such as Social Security, food stamps, and public assistance, which have more beneficiaries as a result of higher unemployment. For these latter programs, however, the outlay effect generally occurs with some lag. The outlay effect of changes in the projected unemployment rate sometimes is not symmetrical. A higher assumed unemployment rate could be sufficient to trigger the extended benefits program, which provides an additional 13 weeks of benefits for insured unemployed workers when the national unemployment rate exceeds roughly 7.5 percent.^{2/} The reason for the higher unemployment also can be important. To the extent that an increase in unemployment can be attributed to increased imports--as in the case of increased unemployment in the auto industry in 1980--unemployment benefits under the trade adjustment assistance program would rise.

Table 23 shows the estimated effects on the baseline outlay projections of a one percentage point higher unemployment rate beginning in January 1982 for the entire projection period as well as of a higher rate just in calendar year 1982. An increase in unemployment is sometimes mitigated to some extent by lower inflation that would eventually result from lower real economic growth. To the extent, however, that higher unemployment results from factors other than reduced economic growth, this offsetting

^{2/} The national extended benefits program is triggered whenever the insured unemployment rate (which is calculated as a 13-week average) exceeds 4.5 percent. This translates into a national unemployment rate of about 7.5 percent. The reconciliation instructions assume the elimination of the national unemployment rate trigger for extended benefits, but the individual state triggers would remain.

TABLE 22. THE EFFECTS ON PROJECTED BASELINE OUTLAYS OF A ONE PERCENTAGE POINT HIGHER INFLATION RATE (By fiscal year, in billions of dollars)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|-------------|-------------|-------------|-------------|-------------|
| One Percentage Point Higher Inflation Rate in Calendar Years 1982-1986 | | | | | |
| Automatically Indexed Programs | | | | | |
| Social Security (OASDI) | 0.2 | 1.5 | 3.5 | 5.7 | 8.6 |
| Federal employee retirement <u>a/</u> | -- | 0.3 | 0.8 | 1.2 | 1.6 |
| Other | -- | 0.2 | 0.8 | 1.0 | 1.4 |
| Subtotal | <u>0.2</u> | <u>2.0</u> | <u>5.1</u> | <u>7.9</u> | <u>11.6</u> |
| Indirectly Indexed Programs | | | | | |
| Medicare and medicaid | 0.2 | 0.5 | 0.9 | 1.3 | 1.9 |
| Other | <u>0.1</u> | <u>0.3</u> | <u>0.4</u> | <u>0.6</u> | <u>0.8</u> |
| Subtotal | <u>0.3</u> | <u>0.8</u> | <u>1.3</u> | <u>1.9</u> | <u>2.7</u> |
| Federal Pay | | | | | |
| Civilian | -- | 0.3 | 0.9 | 1.6 | 2.4 |
| Military | -- | 0.2 | 0.6 | 1.0 | 1.6 |
| Subtotal | -- | <u>0.5</u> | <u>1.5</u> | <u>2.6</u> | <u>4.0</u> |
| Discretionary Programs | | | | | |
| National defense | 0.3 | 1.2 | 2.4 | 3.9 | 11.7 |
| Other | <u>0.7</u> | <u>1.5</u> | <u>2.8</u> | <u>4.4</u> | <u>5.5</u> |
| Subtotal | <u>1.0</u> | <u>2.7</u> | <u>5.2</u> | <u>8.3</u> | <u>6.2</u> |
| Net Interest | <u>-0.2</u> | <u>-1.0</u> | <u>-2.5</u> | <u>-4.6</u> | <u>-7.4</u> |
| Total | 1.3 | 5.0 | 10.6 | 16.1 | 22.6 |
| ----- | | | | | |
| One Percentage Point Higher Inflation Rate in Calendar Year 1982 Only | | | | | |
| Automatically Indexed Programs | | | | | |
| Social Security (OASDI) | 0.2 | 1.2 | 1.9 | 2.2 | 2.3 |
| Federal employee retirement <u>a/</u> | -- | 0.3 | 0.2 | 0.2 | 0.2 |
| Other | -- | 0.2 | 0.4 | 0.4 | 0.6 |
| Subtotal | <u>0.2</u> | <u>1.7</u> | <u>2.5</u> | <u>2.8</u> | <u>3.1</u> |
| Indirectly Indexed Programs | | | | | |
| Medicare and medicaid | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 |
| Other | <u>0.1</u> | <u>0.2</u> | <u>0.2</u> | <u>0.2</u> | <u>0.1</u> |
| Subtotal | <u>0.3</u> | <u>0.4</u> | <u>0.5</u> | <u>0.5</u> | <u>0.5</u> |
| Federal Pay | | | | | |
| Civilian | -- | 0.3 | 0.6 | 0.6 | 0.7 |
| Military | -- | 0.2 | 0.4 | 0.4 | 0.4 |
| Subtotal | -- | <u>0.5</u> | <u>1.0</u> | <u>1.0</u> | <u>1.1</u> |
| Discretionary Programs | | | | | |
| National defense | 0.3 | 0.6 | 0.7 | 0.8 | 0.8 |
| Other | <u>0.7</u> | <u>0.9</u> | <u>1.0</u> | <u>1.2</u> | <u>1.3</u> |
| Subtotal | <u>1.0</u> | <u>1.5</u> | <u>1.7</u> | <u>2.0</u> | <u>2.1</u> |
| Net Interest | <u>-0.2</u> | <u>-0.7</u> | <u>-1.2</u> | <u>-1.6</u> | <u>-2.1</u> |
| Total | 1.3 | 3.4 | 4.5 | 4.7 | 4.7 |

a/ Civilian and military.

TABLE 23. THE EFFECTS ON PROJECTED BASELINE OUTLAYS OF A ONE PERCENTAGE POINT HIGHER UNEMPLOYMENT RATE (By fiscal year, in billions of dollars)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|--|------------|------------|------------|------------|-------------|
| One Percentage Point Higher Unemployment Rate in Calendar Years 1982-1986 | | | | | |
| Unemployment Compensation <u>a/</u> | | | | | |
| Regular programs | 2.0 | 2.8 | 2.8 | 2.8 | 2.8 |
| Extended benefits | 3.1 | 3.9 | 1.7 | 0.8 | 0.4 |
| Subtotal | <u>5.1</u> | <u>6.7</u> | <u>4.5</u> | <u>3.6</u> | <u>3.2</u> |
| Social Security | -- | 0.2 | 0.7 | 0.8 | 0.8 |
| Food Stamps | 0.6 | 0.8 | 0.9 | 0.8 | 0.9 |
| Other Transfer Payments | 0.2 | 0.6 | 0.7 | 0.9 | 0.8 |
| Federal Pay | -- | -0.5 | -1.4 | -1.6 | -1.7 |
| Net Interest | <u>1.1</u> | <u>3.6</u> | <u>6.2</u> | <u>8.5</u> | <u>10.4</u> |
| Total | 7.0 | 11.4 | 11.6 | 13.0 | 14.4 |
| ----- | | | | | |
| One Percentage Point Higher Unemployment Rate in Calendar Year 1982 Only | | | | | |
| Unemployment Compensation <u>a/</u> | | | | | |
| Regular programs | 2.0 | 0.5 | -- | -- | -- |
| Extended benefits | 3.1 | 0.3 | -- | -- | -- |
| Subtotal | <u>5.1</u> | <u>0.8</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Social Security | -- | 0.2 | 0.6 | -- | -- |
| Food Stamps | 0.6 | 0.2 | -- | -- | -- |
| Other Transfer Payments | 0.2 | 0.4 | 0.1 | 0.1 | -- |
| Federal Pay | -- | -0.5 | -1.0 | -0.1 | -- |
| Net Interest | <u>1.1</u> | <u>2.4</u> | <u>2.7</u> | <u>2.6</u> | <u>2.4</u> |
| Total | 7.0 | 3.5 | 2.4 | 2.6 | 2.4 |

a/ Excludes any effect on trade adjustment assistance.

effect may not materialize, and it is therefore not assumed in Table 23. The figures shown do assume that higher unemployment would be accompanied by slightly lower real wage rates as the result of the lower real growth in the economy.

Interest Rates

Higher interest rates primarily affect interest costs for new issues of government securities. Thus, the outlay effect of an interest rate change builds up over time as more and more securities are issued, including the refinancing of previous borrowing. The precise outlay effect can vary, depending on whether only short-term rates are assumed to change or the rates for the entire array of government financing instruments (bills, notes, and bonds). Also, outlay effects for a particular year depend on the timing of the interest rate change during the fiscal year. The earlier in the fiscal year the change is assumed, the greater the outlay effect. Increases in interest costs on federal debt held by the public will be somewhat offset by increased interest receipts from off-budget agencies that borrow through the Federal Financing Bank. (Changes in trust fund interest as a result of changes in rates have no effect on net interest outlays.)

In addition to net interest, projections of certain other federal transactions are affected by interest rate assumptions. The cost of guaranteed student loans, for example, depends on the assumptions for the 91-day Treasury bill rate. Projections of interest receipts for the Exchange Stabilization Fund also vary with changes in interest rate assumptions.

Table 24 shows the estimated effects on the baseline outlay projections of a one percentage point across-the-board increase in all government interest rates beginning in January 1982 for the entire projection period as well as for just calendar year 1982. The table also shows the effect of a one percentage point increase in only the 91-day Treasury bill rate. The effect of higher levels of public debt that could result from higher budget deficits because of increased interest outlays is shown separately for each set of assumptions.

TABLE 24. THE EFFECTS ON PROJECTED BASELINE OUTLAYS OF A ONE PERCENTAGE POINT INCREASE IN ASSUMED INTEREST RATES (By fiscal year, in billions of dollars)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|------------|------------|------------|------------|------------|
| One Percentage Point Increase in All Government Interest Rates in Calendar Years 1982-1986 | | | | | |
| Net Interest | | | | | |
| Caused directly by higher interest rates | 1.8 | 4.2 | 5.1 | 5.5 | 5.9 |
| Caused by resulting increase in deficit | 0.1 | 0.4 | 0.9 | 1.4 | 1.9 |
| Subtotal | <u>1.9</u> | <u>4.6</u> | <u>6.0</u> | <u>6.9</u> | <u>7.8</u> |
| Other Outlays | <u>0.2</u> | <u>0.3</u> | <u>0.4</u> | <u>0.4</u> | <u>0.5</u> |
| Total | 2.1 | 4.9 | 6.4 | 7.3 | 8.3 |
| ----- | | | | | |
| One Percentage Point Increase in Treasury Bill Rates Only in Calendar Years 1982-1986 | | | | | |
| Net Interest | | | | | |
| Caused directly by higher interest rates | 1.2 | 2.6 | 2.7 | 2.7 | 2.8 |
| Caused by resulting increase in deficit | -- | 0.3 | 0.6 | 0.8 | 1.0 |
| Subtotal | <u>1.2</u> | <u>2.9</u> | <u>3.3</u> | <u>3.5</u> | <u>3.8</u> |
| Other Outlays | <u>0.2</u> | <u>0.3</u> | <u>0.4</u> | <u>0.4</u> | <u>0.5</u> |
| Total | 1.4 | 3.2 | 3.7 | 3.9 | 4.3 |
| ----- | | | | | |
| One Percentage Point Increase in All Government Interest Rates in Calendar Year 1982 Only | | | | | |
| Net Interest | | | | | |
| Caused directly by higher interest rates | 1.8 | 2.6 | 1.1 | 0.7 | 0.6 |
| Caused by resulting increase in deficit | 0.1 | 0.3 | 0.5 | 0.6 | 0.6 |
| Subtotal | <u>1.9</u> | <u>2.9</u> | <u>1.6</u> | <u>1.3</u> | <u>1.2</u> |
| Other Outlays | <u>0.2</u> | <u>0.1</u> | -- | -- | -- |
| Total | 2.1 | 3.0 | 1.6 | 1.3 | 1.2 |
| ----- | | | | | |
| One Percentage Point Increase in Treasury Bill Rates Only in Calendar Year 1982 Only | | | | | |
| Net Interest | | | | | |
| Caused directly by higher interest rates | 1.2 | 1.4 | -- | -- | -- |
| Caused by resulting increase in deficit | -- | 0.2 | 0.3 | 0.3 | 0.3 |
| Subtotal | <u>1.2</u> | <u>1.6</u> | <u>0.3</u> | <u>0.3</u> | <u>0.3</u> |
| Other Outlays | <u>0.2</u> | <u>0.1</u> | -- | -- | -- |
| Total | 1.4 | 1.7 | 0.3 | 0.3 | 0.3 |

APPENDIXES

In keeping with this objective, the allocation of budget resolution spending totals is determined by the responsibility for bills and resolutions that provide budget authority or directly affect outlays according to the standing rules of each House. The spending allocation rules were developed by staff of the Appropriations and Budget Committees of both Houses and by the Congressional Budget Office (CBO). They are used by the Budget Committees for developing the budget resolution section 302 crosswalk estimates and by the CBO in its scorekeeping tabulations.

Under the spending allocation rules, the committees that actually provide the budget authority or outlays receive the section 302 allocations.

- o The Appropriations Committees of each House receive allocations for budget authority and outlays that are provided through annual appropriation acts, including outlays resulting from annual appropriations enacted in prior years.
- o Permanent appropriations enacted in prior years that do not require any current Congressional action are generally enacted in legislation other than annual appropriation acts. These include most trust funds, such as social security and unemployment compensation. Budget authority and outlays for these programs are allocated to the authorizing committees that have jurisdiction over them.
- o Where the Congress has established--in law or in practice--a pattern of enacting limitations on spending from trust funds through annual limitations in appropriation acts (for example, an annual limitation on administrative expenses of the social security program), the outlays involved are allocated to the Appropriations Committees.
- o Offsetting receipts, which are recorded as negative budget authority and outlays in the budget, are not allocated to committees except where the budget resolution anticipates that new legislation will increase or decrease the level of offsetting receipts; in such cases, the increase or decrease is allocated to the authorizing committee of jurisdiction.

The basic allocation rules outlined above apply to both the House and the Senate. In addition, the Senate has a further rule for entitlement programs that are funded through annual appropriation acts (such as medicaid or veterans' pensions). In the Senate, budget authority and outlays for annually appropriated entitlements are, under section 302, assigned both

to the Appropriations Committee (the first basic rule above) and to the authorizing committees with jurisdiction over the particular entitlement programs. This is because the basic entitlement legislation, though not directly providing the budget authority and outlays, essentially "locks in" the levels that must be provided through the annual appropriations process.

Tables A-1 and A-2 show the distribution of the baseline spending projections for 1982-1986 by committees with spending jurisdictions. About 50 percent of the baseline budget authority and outlays that are allocated to committees fall under the jurisdiction of the Appropriations Committees throughout the projection period. The House Ways and Means Committee is allocated nearly 40 percent of gross budget authority and outlays (before offsetting receipts are deducted), and the Senate Finance Committee is also allocated about 40 percent of gross budget authority and outlays (before offsetting receipts and annually appropriated entitlements are deducted).

Table A-3 compares the baseline spending projections for fiscal year 1982 with the first budget resolution spending targets allocated to committees with spending jurisdictions. Over 60 percent of the anticipated reductions in outlays from projected baseline levels have been assigned to the Appropriations Committees in both Houses. The first budget resolution, however, contemplates significant reductions in appropriated entitlements over which the Appropriations Committees have little or no control. As discussed in the next section, the basic substantive legislation authorizing these programs must be changed to produce spending savings. Consequently, the reconciliation instructions contained in the 1982 first budget resolution assigned savings in these programs to the authorizing committees. Thus, the figures shown in Table A-3 overstate the responsibility of the Appropriations Committees to reduce spending from projected baseline levels in 1982. Table A-3 correctly states the responsibility of the Senate authorizing committees to achieve savings, since appropriated entitlements are also allocated to the authorizing committees, but it understates the responsibility of the House authorizing committees to achieve savings.

ALLOCATION BY AUTHORIZING JURISDICTION

The first budget resolution for fiscal year 1982 (H. Con. Res. 115) includes reconciliation instructions to 13 Senate authorizing committees and 15 House authorizing committees to recommend legislation to achieve spending savings of approximately \$51 billion in budget authority and \$36 billion in outlays in 1982, and even greater amounts in 1983 and 1984. The savings are to be measured from the baseline spending projections developed by the Congressional Budget Office that are presented in this report.

TABLE A-1. BASELINE PROJECTIONS OF BUDGET AUTHORITY AND OUTLAYS BY HOUSE COMMITTEES WITH SPENDING JURISDICTION a/ (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|---|--------------|-------------|--------|--------|--------|---------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Budget Authority | | | | | | |
| Appropriations Committee | 439.9 | 484.0 | 525.7 | 559.6 | 594.0 | 622.6 |
| Authorizing Committees | | | | | | |
| Ways and Means | 295.3 | 340.6 | 367.5 | 393.3 | 427.9 | 461.5 |
| Post Office and Civil Service | 37.1 | 41.3 | 45.4 | 49.1 | 53.1 | 54.8 |
| Other | 45.5 | 40.5 | 42.0 | 46.8 | 49.3 | 51.7 |
| Subtotal (allocated to authorizing committees) | 377.9 | 422.3 | 454.7 | 489.2 | 530.2 | 567.9 |
| Offsetting Receipts (not allocated to committees) | -94.0 | -110.7 | -121.3 | -131.9 | -143.9 | -152.9 |
| Total | 723.8 | 795.6 | 859.3 | 916.8 | 980.3 | 1,037.7 |
| ----- | | | | | | |
| Outlays | | | | | | |
| Appropriations Committee | 408.6 | 457.2 | 492.7 | 525.5 | 562.3 | 599.7 |
| Authorizing Committees | | | | | | |
| Ways and Means | 290.6 | 329.1 | 354.3 | 378.7 | 400.3 | 421.4 |
| Post Office and Civil Service | 26.6 | 30.0 | 32.8 | 35.3 | 37.6 | 39.6 |
| Other | 27.9 | 33.0 | 33.9 | 35.7 | 38.6 | 42.0 |
| Subtotal (allocated to authorizing committees) | 345.1 | 392.1 | 421.1 | 449.8 | 476.5 | 503.0 |
| Offsetting Receipts (not allocated to committees) | -94.0 | -110.7 | -121.3 | -131.9 | -143.9 | -152.9 |
| Total | 659.8 | 738.7 | 792.5 | 843.3 | 894.9 | 949.9 |

a/ Corresponds to the budget resolution allocations of budget authority and outlays among committees pursuant to section 302 of the Congressional Budget Act.

TABLE A-2. BASELINE PROJECTIONS OF BUDGET AUTHORITY AND OUTLAYS BY SENATE COMMITTEES WITH SPENDING JURISDICTION a/ (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|---|--------------|---------------|---------------|---------------|---------------|---------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Budget Authority | | | | | | |
| Appropriations Committee | 439.9 | 484.0 | 525.7 | 559.6 | 594.0 | 622.6 |
| Authorizing Committees | | | | | | |
| Finance | 344.1 | 390.5 | 420.9 | 446.8 | 485.1 | 521.6 |
| Governmental Affairs | 37.1 | 41.3 | 45.4 | 49.1 | 53.1 | 54.8 |
| Other | <u>75.5</u> | <u>73.4</u> | <u>77.7</u> | <u>84.5</u> | <u>88.8</u> | <u>92.9</u> |
| Subtotal (allocated to authorizing committees) | 456.7 | 505.2 | 544.0 | 580.5 | 627.0 | 669.3 |
| Eliminate Double-Counting <u>b/</u> | -78.8 | -82.9 | -89.1 | -91.3 | -96.8 | -101.3 |
| Offsetting Receipts (not allocated to committees) | <u>-94.0</u> | <u>-110.7</u> | <u>-121.3</u> | <u>-131.9</u> | <u>-143.9</u> | <u>-152.9</u> |
| Total | 723.8 | 795.6 | 859.3 | 916.8 | 980.3 | 1,037.7 |
| ----- | | | | | | |
| Outlays | | | | | | |
| Appropriations Committee | 408.6 | 457.2 | 492.7 | 525.5 | 562.3 | 599.7 |
| Authorizing Committees | | | | | | |
| Finance | 340.0 | 380.6 | 407.3 | 431.8 | 457.1 | 481.1 |
| Governmental Affairs | 26.6 | 30.0 | 32.9 | 35.4 | 37.6 | 39.6 |
| Other | <u>56.9</u> | <u>65.8</u> | <u>69.4</u> | <u>73.3</u> | <u>78.1</u> | <u>83.1</u> |
| Subtotal (allocated to authorizing committees) | 423.6 | 476.4 | 509.6 | 540.5 | 572.8 | 603.9 |
| Eliminate Double-Counting <u>b/</u> | -78.4 | -84.2 | -88.5 | -90.7 | -96.3 | -100.8 |
| Offsetting Receipts (not allocated to committees) | <u>-94.0</u> | <u>-110.7</u> | <u>-121.3</u> | <u>-131.9</u> | <u>-143.9</u> | <u>-152.9</u> |
| Total | 659.8 | 738.7 | 792.5 | 843.3 | 894.9 | 949.9 |

a/ Corresponds to the budget resolution allocations of budget authority and outlays among committees pursuant to section 302 of the Congressional Budget Act.

b/ Annually appropriated entitlements allocated to both appropriations and authorizing committees.

TABLE A-3. COMPARISON OF BUDGET RESOLUTION SPENDING TARGETS FOR FISCAL YEAR 1982 AND BASELINE PROJECTIONS BY COMMITTEES WITH SPENDING JURISDICTION a/ (In billions of dollars)

| | Baseline Projections | | First Budget Resolution | | Difference | |
|---|----------------------|---------------|-------------------------|---------------|-------------|-------------|
| | BA | O | BA | O | BA | O |
| House of Representatives | | | | | | |
| Appropriations Committee | 484.0 | 457.2 | 464.6 | 430.2 | -19.4 | -27.0 |
| Authorizing Committees | | | | | | |
| Ways and Means | 340.6 | 329.1 | 335.5 | 317.5 | -5.0 | -11.6 |
| Post Office Civil Service | 41.3 | 30.0 | 40.2 | 29.6 | -1.1 | -0.4 |
| Other | <u>40.5</u> | <u>33.0</u> | <u>41.6</u> | <u>29.2</u> | <u>1.1</u> | <u>-3.8</u> |
| Subtotal (allocated to authorizing committees) | 422.3 | 392.1 | 417.4 | 376.3 | -5.0 | -15.8 |
| Offsetting Receipts (not allocated to committees) | <u>-110.7</u> | <u>-110.7</u> | <u>-111.1</u> | <u>-111.1</u> | <u>-0.4</u> | <u>-0.4</u> |
| Total | 795.6 | 738.7 | 770.9 | 695.45 | -24.7 | -43.2 |
| ----- | | | | | | |
| Senate | | | | | | |
| Appropriations Committee | 484.0 | 457.2 | 463.7 | 428.9 | -20.4 | -28.4 |
| Authorizing Committees | | | | | | |
| Finance | 390.5 | 380.6 | 380.6 | 363.9 | -9.9 | -16.7 |
| Governmental Affairs | 41.3 | 30.0 | 40.7 | 29.5 | -0.6 | -0.5 |
| Other | <u>73.4</u> | <u>65.8</u> | <u>73.5</u> | <u>61.8</u> | <u>0.1</u> | <u>-4.0</u> |
| Subtotal (allocated to authorizing committees) | 505.2 | 476.4 | 494.8 | 455.2 | -10.4 | -21.2 |
| Eliminate Double-Counting <u>b/</u> | -82.9 | -84.2 | -77.7 | -78.8 | 5.2 | 5.5 |
| Offsetting Receipts (not allocated to committees) | <u>-110.7</u> | <u>-110.7</u> | <u>-109.8</u> | <u>-109.8</u> | <u>0.8</u> | <u>0.8</u> |
| Total | 795.6 | 738.7 | 770.9 | 695.45 | -24.7 | -43.2 |

a/ Committee allocations pursuant to section 302 of the Congressional Budget Act.

b/ Annually appropriated entitlements are allocated to both appropriations and authorizing committees.

The reconciliation instructions are aimed at both authorization levels and direct spending. The term "direct spending" as used for the reconciliation process includes both budget authority that is provided directly in authorizing legislation and appropriated entitlements. The term "entitlement" refers to legislation that requires the payment of benefits (or entitlements) to any person or unit of government that meets the eligibility requirements established by the legislation. Authorizations for entitlements constitute binding obligations on the part of the federal government, and eligible recipients have legal recourse if the obligation is not fulfilled. Budget authority for such payments is not necessarily provided in advance, in which case the subsequent enactment of appropriations is required. These are referred to as "appropriated entitlements." Savings in these programs generally cannot be made through the appropriation process; they must, instead, be achieved through changes in substantive authorizing legislation.

Tables A-4 and A-5 provide a distribution of the CBO baseline spending projections for 1982-1984 by House and Senate committees with authorizing jurisdiction, including direct spending. Over 96 percent of budget authority and outlays that are allocable to committees (offsetting receipts are not allocated to committees) can be assigned to individual committees with sole jurisdiction. The remaining portion is assigned to two or more authorizing committees and is shown in the tables as shared jurisdiction.

Shared jurisdiction covers those spending accounts that provide funds for activities that have been authorized by laws over which more than one committee has jurisdiction. For example, CBO has identified 36 laws that currently, or in the past, have authorized some portion of the operations and research account for the National Oceanic and Atmospheric Administration (NOAA) in the Department of Commerce. Of these 36 laws, 29 were reported by the Senate Commerce Committee, 6 were reported by the Environment Committee, and 1 by the Energy Committee. CBO was not able to subdivide the spending account into amounts for each authorization for these baseline projections. In this case, the baseline projections for this NOAA spending account are allocated to all three Senate authorizing committees. As a result, the sum of the individual committee allocations shown in Tables A-4 and A-5 is greater than the amount of baseline budget authority and outlays allocable to authorizing committees. CBO is working to eliminate the shared jurisdiction allocations in the future by subdividing the affected spending accounts by authorizations.

The major amounts of authorized spending in the House of Representatives fall under the jurisdiction of the Ways and Means, Armed Services, Post Office and Civil Service, and Banking, Finance, and Urban Affairs

Committees. These four House committees have authorizing jurisdiction over three-quarters of the total amount of budget authority allocated to the committees shown in Table A-4. In the Senate, the principal authorizing committees are Finance, Armed Services, Governmental Affairs, and Banking, Housing, and Urban Affairs. These four Senate committees have authorizing jurisdiction over 75 percent of the total budget authority allocated to the committees shown in Table A-5.

TABLE A-4. BASELINE PROJECTIONS OF BUDGET AUTHORITY AND OUTLAYS BY HOUSE COMMITTEES WITH AUTHORIZING JURISDICTION (By fiscal year, in billions of dollars)

| Committee | | 1981 Base | Projections | | |
|-------------------------------------|----|--------------|-------------|-------|-------|
| | | | 1982 | 1983 | 1984 |
| Agriculture | | | | | |
| Sole jurisdiction | BA | 18.9 | 20.5 | 22.3 | 23.0 |
| | O | 16.6 | 21.3 | 22.0 | 23.4 |
| Shared jurisdiction | BA | 4.2 | 4.7 | 4.9 | 5.2 |
| | O | 4.2 | 4.6 | 4.8 | 5.0 |
| Armed Services | | | | | |
| Sole jurisdiction | BA | 174.6 | 198.9 | 219.8 | 238.6 |
| | O | 160.6 | 184.7 | 204.3 | 222.7 |
| Shared jurisdiction | BA | 0.7 | 0.7 | 0.6 | 0.7 |
| | O | 0.8 | 0.8 | 0.6 | 0.7 |
| Banking, Finance, and Urban Affairs | | | | | |
| Sole jurisdiction | BA | 53.0 | 47.7 | 50.3 | 55.1 |
| | O | 16.4 | 20.4 | 21.2 | 23.1 |
| Shared jurisdiction | BA | 1.1 | 1.2 | 1.3 | 1.4 |
| | O | 1.2 | 1.5 | 1.5 | 1.6 |
| District of Columbia | | | | | |
| Sole jurisdiction | BA | 0.7 | 0.7 | 0.8 | 0.8 |
| | O | 0.7 | 0.8 | 0.8 | 0.8 |
| Shared jurisdiction | BA | 1.0 | 1.1 | 1.2 | 1.2 |
| | O | 1.0 | 1.0 | 1.1 | 1.2 |
| Education and Labor | | | | | |
| Sole jurisdiction | BA | 35.1 | 38.6 | 41.7 | 44.8 |
| | O | 34.2 | 37.4 | 40.1 | 42.9 |
| Shared jurisdiction | BA | 3.5 | 4.0 | 4.2 | 4.5 |
| | O | 3.8 | 4.0 | 4.1 | 4.4 |

(Continued)

TABLE A-4. CONTINUED

| Committee | | 1981 Base | Projections | | | |
|------------------------------|---------------------|--------------|-------------|------|------|------|
| | | | 1982 | 1983 | 1984 | |
| Energy and Commerce | Sole jurisdiction | BA | 36.1 | 37.8 | 39.7 | 40.3 |
| | | O | 35.1 | 37.6 | 40.3 | 41.0 |
| | Shared jurisdiction | BA | 10.9 | 12.2 | 12.9 | 13.7 |
| | | O | 13.4 | 14.8 | 16.0 | 17.2 |
| Foreign Affairs | Sole jurisdiction | BA | 20.2 | 21.3 | 22.7 | 24.8 |
| | | O | 18.2 | 19.3 | 20.3 | 21.2 |
| | Shared jurisdiction | BA | 2.2 | 2.4 | 2.5 | 2.5 |
| | | O | 2.2 | 2.4 | 2.5 | 2.5 |
| Government Operations | Sole jurisdiction | BA | 12.1 | 12.6 | 12.9 | 13.9 |
| | | O | 12.6 | 12.6 | 13.0 | 13.8 |
| | Shared jurisdiction | BA | -- | -- | -- | -- |
| | | O | a/ | 0.1 | 0.1 | 0.2 |
| House Administration | Sole jurisdiction | BA | 0.8 | 0.8 | 0.9 | 0.9 |
| | | O | 0.8 | 0.8 | 0.8 | 0.9 |
| | Shared jurisdiction | BA | 0.1 | 0.1 | 0.2 | 0.2 |
| | | O | 0.1 | 0.1 | 0.2 | 0.2 |
| Interior and Insular Affairs | Sole jurisdiction | BA | 6.1 | 5.6 | 6.0 | 6.0 |
| | | O | 5.1 | 5.2 | 5.6 | 6.1 |
| | Shared jurisdiction | BA | 6.9 | 7.4 | 7.7 | 8.1 |
| | | O | 6.9 | 7.3 | 7.5 | 7.9 |

(Continued)

a/ Less than \$50 million.

TABLE A-4. CONTINUED

| Committee | | 1981 Base | Projections | | |
|---------------------------------|----|--------------|-------------|------|------|
| | | | 1982 | 1983 | 1984 |
| Judiciary | | | | | |
| Sole jurisdiction | BA | 3.3 | 3.7 | 3.8 | 3.8 |
| | O | 3.3 | 3.6 | 3.7 | 3.7 |
| Shared jurisdiction | BA | 1.4 | 1.4 | 1.4 | 1.4 |
| | O | 1.6 | 1.6 | 1.4 | 1.4 |
| Merchant Marine and Fisheries | | | | | |
| Sole jurisdiction | BA | 3.4 | 3.4 | 3.6 | 3.8 |
| | O | 3.5 | 3.4 | 3.5 | 3.6 |
| Shared jurisdiction | BA | 2.6 | 2.8 | 2.9 | 3.0 |
| | O | 2.4 | 2.7 | 2.8 | 2.9 |
| Post Office and Civil Service | | | | | |
| Sole jurisdiction | BA | 44.0 | 50.8 | 57.8 | 64.2 |
| | O | 33.5 | 39.5 | 45.2 | 50.4 |
| Shared jurisdiction | BA | a/ | a/ | a/ | a/ |
| | O | a/ | a/ | a/ | a/ |
| Public Works and Transportation | | | | | |
| Sole jurisdiction | BA | 24.5 | 25.7 | 27.8 | 29.7 |
| | O | 27.6 | 27.8 | 29.1 | 30.2 |
| Shared jurisdiction | BA | 6.0 | 6.7 | 7.1 | 7.4 |
| | O | 5.9 | 6.3 | 6.7 | 7.1 |
| Science and Technology | | | | | |
| Sole jurisdiction | BA | 7.4 | 8.0 | 7.9 | 7.9 |
| | O | 7.1 | 7.8 | 7.9 | 7.9 |
| Shared jurisdiction | BA | 7.3 | 7.8 | 8.2 | 8.7 |
| | O | 7.1 | 7.9 | 8.1 | 8.4 |

(Continued)

a/ Less than \$50 million.

TABLE A-4. CONTINUED

| Committee | | 1981 Base | Projections | | |
|-------------------------------|----|--------------|-------------|--------|---------|
| | | | 1982 | 1983 | 1984 |
| Small Business | | | | | |
| Sole jurisdiction | BA | 2.3 | 1.1 | 1.3 | 1.4 |
| | O | 2.5 | 1.7 | 1.1 | 1.3 |
| Veterans' Affairs | | | | | |
| Sole jurisdiction | BA | 23.8 | 25.9 | 27.3 | 28.4 |
| | O | 23.3 | 25.4 | 27.0 | 28.1 |
| Ways and Means | | | | | |
| Sole jurisdiction | BA | 331.0 | 381.1 | 410.9 | 436.7 |
| | O | 329.5 | 375.0 | 401.4 | 426.2 |
| Shared jurisdiction | BA | 4.0 | 4.5 | 4.7 | 5.0 |
| | O | 6.6 | 7.5 | 8.2 | 8.8 |
| Total Allocations | | | | | |
| Sole jurisdiction | BA | 797.3 | 884.1 | 957.3 | 1,024.4 |
| | O | 730.4 | 824.3 | 887.4 | 947.4 |
| Shared jurisdiction <u>b/</u> | BA | 19.9 | 21.9 | 23.0 | 24.0 |
| | O | 22.8 | 24.8 | 26.0 | 27.5 |
| Unallocated to Committees | | | | | |
| Sole jurisdiction | BA | -93.4 | -110.4 | -121.0 | -131.6 |
| | O | -93.4 | -110.4 | -121.1 | -131.6 |
| Grand Totals | | | | | |
| | BA | 723.8 | 795.6 | 859.3 | 916. |
| | O | 659.8 | 738.7 | 792.5 | 843 |

b/ In computing total shared jurisdiction, those dollar values allocated to two or more authorizing committees were counted only once.

TABLE A-5. BASELINE PROJECTIONS OF BUDGET AUTHORITY AND OUTLAYS BY SENATE COMMITTEES WITH AUTHORIZING JURISDICTION (By fiscal year, in billions of dollars)

| Committee | | 1981 Base | Projections | | |
|--|----|--------------|-------------|-------|-------|
| | | | 1982 | 1983 | 1984 |
| Agriculture, Nutrition, and Forestry | | | | | |
| Sole jurisdiction | BA | 24.1 | 26.6 | 28.9 | 30.2 |
| | O | 21.9 | 27.3 | 28.6 | 30.5 |
| Shared jurisdiction | BA | 2.8 | 3.0 | 3.1 | 3.3 |
| | O | 2.7 | 3.0 | 3.1 | 3.2 |
| Armed Services | | | | | |
| Sole jurisdiction | BA | 171.7 | 195.5 | 216.1 | 234.6 |
| | O | 157.8 | 181.1 | 201.0 | 218.8 |
| Shared jurisdiction | BA | 3.7 | 4.0 | 4.3 | 4.6 |
| | O | 3.7 | 4.2 | 4.3 | 4.5 |
| Banking, Housing, and Urban Affairs | | | | | |
| Sole jurisdiction | BA | 46.9 | 47.2 | 49.8 | 54.6 |
| | O | 15.5 | 19.6 | 20.4 | 22.4 |
| Shared jurisdiction | BA | 10.8 | 5.8 | 6.2 | 6.6 |
| | O | 4.7 | 4.8 | 5.0 | 5.2 |
| Commerce, Science, and Transportation | | | | | |
| Sole jurisdiction | BA | 15.8 | 16.0 | 16.2 | 16.0 |
| | O | 15.9 | 15.2 | 15.8 | 15.8 |
| Shared jurisdiction | BA | 9.1 | 9.9 | 10.6 | 11.2 |
| | O | 8.4 | 9.0 | 9.5 | 9.8 |
| Energy and Natural Resources | | | | | |
| Sole jurisdiction | BA | 12.3 | 16.6 | 15.3 | 14.9 |
| | O | 12.6 | 14.8 | 15.7 | 14.9 |
| Shared jurisdiction | BA | 6.7 | 7.2 | 7.6 | 7.9 |
| | O | 6.6 | 7.3 | 7.5 | 7.8 |

(Continued)

TABLE A-5. CONTINUED

| Committee | | 1981 Base | Projections | | |
|-------------------------------------|----|--------------|-------------|-------|-------|
| | | | 1982 | 1983 | 1984 |
| Environment and Public Works | | | | | |
| Sole jurisdiction | BA | 18.5 | 18.5 | 20.1 | 21.5 |
| | O | 21.6 | 21.6 | 22.5 | 23.4 |
| Shared jurisdiction | BA | 3.3 | 3.5 | 3.7 | 3.9 |
| | O | 3.3 | 3.6 | 3.8 | 4.0 |
| Finance | | | | | |
| Sole jurisdiction | BA | 359.8 | 411.7 | 443.5 | 471.9 |
| | O | 360.9 | 408.4 | 437.3 | 465.0 |
| Shared jurisdiction | BA | 10.8 | 12.4 | 13.4 | 14.3 |
| | O | 10.8 | 12.3 | 13.1 | 14.0 |
| Foreign Relations | | | | | |
| Sole jurisdiction | BA | 19.9 | 21.0 | 22.3 | 24.4 |
| | O | 18.3 | 19.3 | 20.2 | 21.0 |
| Shared jurisdiction | BA | 6.6 | 1.1 | 1.1 | 1.0 |
| | O | 0.9 | 1.0 | 1.1 | 1.0 |
| Governmental Affairs | | | | | |
| Sole jurisdiction | BA | 45.4 | 52.3 | 59.3 | 65.8 |
| | O | 34.9 | 41.0 | 46.7 | 52.0 |
| Shared jurisdiction | BA | 0.3 | 0.4 | 0.4 | 0.4 |
| | O | 0.3 | 0.3 | 0.4 | 0.4 |
| Judiciary | | | | | |
| Sole jurisdiction | BA | 4.1 | 4.5 | 4.7 | 4.7 |
| | O | 4.4 | 4.6 | 4.6 | 4.6 |
| Shared jurisdiction | BA | 1.1 | 1.1 | 1.1 | 1.0 |
| | O | 1.0 | 1.1 | 1.1 | 1.1 |

(Continued)

TABLE A-5. CONTINUED

| Committee | | 1981 Base | Projections | | |
|---|----|--------------|-------------|-----------|-----------|
| | | | 1982 | 1983 | 1984 |
| Labor and Human Resources | | | | | |
| Sole jurisdiction | BA | 35.3 | 37.7 | 40.5 | 43.2 |
| | O | 34.6 | 37.3 | 39.5 | 41.9 |
| Shared jurisdiction | BA | 13.5 | 15.2 | 16.2 | 17.1 |
| | O | 13.4 | 15.1 | 16.0 | 16.9 |
| Rules and Administration | | | | | |
| Sole jurisdiction | BA | 0.8 | 0.9 | 0.9 | 0.9 |
| | O | 0.8 | 0.8 | 0.8 | 1.0 |
| Shared jurisdiction | BA | <u>a/</u> | <u>a/</u> | <u>a/</u> | <u>a/</u> |
| | O | <u>a/</u> | <u>a/</u> | <u>a/</u> | <u>a/</u> |
| Small Business | | | | | |
| Sole jurisdiction | BA | 2.3 | 1.1 | 1.3 | 1.4 |
| | O | 2.5 | 1.7 | 1.1 | 1.3 |
| Veterans' Affairs | | | | | |
| Sole jurisdiction | BA | 23.8 | 25.9 | 27.3 | 28.4 |
| | O | 23.3 | 25.5 | 27.1 | 28.1 |
| Shared jurisdiction | BA | 0.3 | 0.4 | 0.4 | 0.4 |
| | O | 0.5 | 0.4 | 0.4 | 0.4 |
| Select Committee on Indian Affairs | | | | | |
| Sole jurisdiction | BA | 1.5 | 1.5 | 1.6 | 1.6 |
| | O | 1.4 | 1.2 | 1.3 | 1.5 |
| Shared jurisdiction | BA | 0.8 | 0.9 | 0.9 | 1.0 |
| | O | 0.8 | 0.9 | 0.9 | 0.9 |

(Continued)

a/ Less than \$50 million.

TABLE A-5. CONTINUED

| Committee | | 1981 Base | Projections | | |
|-------------------------------|----|--------------|-------------|--------|---------|
| | | | 1982 | 1983 | 1984 |
| Total Allocations | | | | | |
| Sole jurisdiction | BA | 782.3 | 877.0 | 947.8 | 1,014.2 |
| | O | 726.5 | 810.4 | 882.7 | 942.2 |
| Shared jurisdiction <u>b/</u> | BA | 34.9 | 29.0 | 32.5 | 34.2 |
| | O | 26.7 | 38.7 | 30.8 | 32.7 |
| Unallocated to Committees | | | | | |
| Sole jurisdiction | BA | -93.4 | -110.4 | -121.0 | -131.6 |
| | O | -93.4 | -110.4 | -121.0 | -131.6 |
| ----- | | | | | |
| Grand Totals | BA | 723.8 | 795.6 | 859.3 | 916.8 |
| | O | 659.8 | 738.7 | 792.5 | 843.3 |

b/ In computing total shared jurisdiction, those dollar values allocated to two or more authorizing committees were counted only once.

APPENDIX B. FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS

The unified budget and the federal sector of the national income accounts (NIA) both measure receipts and expenditures of the federal government. The national income accounts have as their special focus current income and production, and are the most widely used indicator of aggregate economic activity. In general, the unified budget is used for budgetary analysis while the NIA federal sector is used for fiscal policy analysis.

The principal distinction between the two sets of accounts is that the unified budget records transactions on a cash basis while the NIA federal sector does not. Recording transactions on a cash basis means that transactions are recorded when receipts are actually deposited in and checks are issued by the Treasury. The NIA federal sector records transactions on a variety of bases that depend on the nature of the individual transaction. These include: when liability is accrued; when payments are made either by the taxpayer or by the government; or, as in the case of national defense items, when delivery is taken.

DIFFERENCES BETWEEN THE UNIFIED BUDGET AND THE FEDERAL SECTOR IN THE NATIONAL INCOME ACCOUNTS

Differences between the unified budget and the NIA federal sector can be classified in four categories: timing differences, netting and grossing differences, coverage differences, and differences resulting from the exclusion of financial transactions from the NIA.

Timing differences occur when the two sets of accounts record a transaction at different times. For example, the NIA federal sector records the corporate income tax as corporations earn income and accrue tax liability. The unified budget, on the other hand, records this tax when money is actually deposited in the Treasury--an act that may take place several months to several years after the liability has accrued.

Netting and grossing differences arise because some government revenues are recorded as offsets against expenditures in the unified budget, but as positive receipts in the NIA. Government contributions for employee retirement are one example of a netting adjustment. These contributions

are not reflected in the unified budget totals since they are offset by intragovernmental transactions. In the NIA, however, contributions to government employee retirement are regarded as part of employee compensation and are included in contributions for social insurance. Other netting and grossing items include imputed contributions for social insurance, unemployment compensation, and workmen's compensation.

Coverage differences arise from the NIA's geographical exclusion of transactions with Puerto Rico, the Virgin Islands, and other U.S. territories, and inclusion of certain foreign currency transactions not recorded in the unified budget. The NIA federal sector also includes the transactions of certain off-budget agencies.

The final difference is the exclusion of financial transactions from the NIA. Since the national income accounts measure current income and the production of goods and services, it excludes transactions, such as lending and borrowing, that are transfers of existing assets and liabilities. The interest expended or earned as a result of financial transactions is, however, included in the NIA as net interest.

TRANSLATION OF UNIFIED BUDGET ESTIMATES TO THE NIA FEDERAL SECTOR BASIS

The federal government's receipts in the NIA are divided into four categories: personal tax and nontax receipts, corporate profits tax accruals, indirect business tax and nontax accruals, and contributions for social insurance. The Congressional Budget Office translates each category separately by aggregating the appropriate accounts from the unified budget and then adding estimates of the timing, netting, and coverage differences.

Expenditures in the NIA are also divided into several categories: defense and nondefense purchases, domestic and foreign transfers, grants-in-aid to state and local governments, domestic and foreign interest, and subsidies less current surplus of government enterprises. CBO has developed a model that distributes federal-sector outlays among these categories on the basis of their composition in previous years. This model is based on the assumption that previous years' relationships between the unified budget and the NIA federal sector will continue to hold in the future.

Table B-1 contains the CBO translation of the unified budget baseline projections presented in this report to the NIA federal sector basis. Table B-2 contains a similar translation of the revenue and outlay targets of the First Concurrent Resolution on the Budget for Fiscal Year 1982.

TABLE B-1. PROJECTIONS OF BASELINE REVENUES AND OUTLAYS ON A NATIONAL INCOME ACCOUNTS BASIS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Receipts | | | | | | |
| Personal Tax and Nontax Receipts | 293.5 | 347.5 | 408.2 | 477.1 | 548.1 | 629.2 |
| Corporate Profits Tax Accruals | 71.0 | 82.0 | 96.5 | 110.8 | 127.2 | 146.0 |
| Contributions for Social Insurance | 199.5 | 229.1 | 254.2 | 278.9 | 312.2 | 244.5 |
| Indirect Business Tax and Nontax Accruals | <u>60.1</u> | <u>67.7</u> | <u>70.3</u> | <u>73.2</u> | <u>72.2</u> | <u>73.8</u> |
| Total | 624.1 | 726.3 | 829.2 | 940.0 | 1,059.7 | 1,093.5 |
| ----- | | | | | | |
| Expenditures | | | | | | |
| Purchases of Goods and Services | | | | | | |
| Defense | 146.3 | 168.1 | 186.2 | 203.3 | 218.8 | 232.7 |
| Nondefense | 71.0 | 77.3 | 82.4 | 85.3 | 89.4 | 95.4 |
| Transfer Payments | | | | | | |
| Domestic | 276.1 | 310.5 | 335.8 | 361.7 | 389.6 | 417.4 |
| Foreign | 5.1 | 5.8 | 6.0 | 6.5 | 6.9 | 7.3 |
| Grants-in-Aid to State and Local Governments | 91.3 | 96.8 | 102.0 | 107.4 | 113.3 | 119.8 |
| Net Interest Paid | 67.0 | 74.8 | 77.8 | 76.3 | 70.8 | 64.4 |
| Subsidies less Current Surplus of Government Enterprises | <u>12.3</u> | <u>12.9</u> | <u>13.5</u> | <u>14.0</u> | <u>14.5</u> | <u>15.0</u> |
| Total | 669.1 | 746.2 | 803.7 | 854.5 | 903.3 | 952.0 |

TABLE B-2. ESTIMATES OF RECOMMENDED REVENUES AND OUTLAYS CONTAINED IN THE FIRST BUDGET RESOLUTION FOR 1982 ON A NATIONAL INCOME ACCOUNTS BASIS (By fiscal year, in billions of dollars)

| | 1980 Actual | Budget Resolution | | | |
|--|----------------|-------------------|-------------|-------------|-------------|
| | | 1981 | 1982 | 1983 | 1984 |
| Receipts | | | | | |
| Personal Tax and Nontax Receipts | 251.4 | 284.5 | 301.8 | 324.1 | 354.3 |
| Corporate Profits Tax Accruals | 70.6 | 71.5 | 73.0 | 80.7 | 85.1 |
| Contributions for Social Insurance | 168.3 | 197.2 | 226.0 | 252.8 | 279.0 |
| Indirect Business Tax and Nontax Accruals | <u>35.8</u> | <u>60.6</u> | <u>69.8</u> | <u>72.7</u> | <u>76.0</u> |
| Total | 526.0 | 613.8 | 670.6 | 730.2 | 794.4 |
| ----- | | | | | |
| Expenditures | | | | | |
| Purchases of Goods and Services | | | | | |
| Defense | 125.9 | 148.9 | 173.1 | 204.5 | 230.7 |
| Nondefense | 64.5 | 70.9 | 65.6 | 60.8 | 60.7 |
| Transfer Payments | | | | | |
| Domestic | 233.5 | 273.9 | 293.7 | 308.1 | 325.5 |
| Foreign | 4.5 | 5.3 | 5.6 | 5.6 | 5.6 |
| Grants-in-Aid to State and Local Governments | 86.3 | 89.8 | 82.4 | 79.1 | 78.5 |
| Net Interest Paid | 50.6 | 67.4 | 72.2 | 74.2 | 72.5 |
| Subsidies less Current Surplus of Government Enterprises | <u>11.1</u> | <u>12.6</u> | <u>12.1</u> | <u>11.5</u> | <u>11.0</u> |
| Total | 576.4 | 668.7 | 704.6 | 743.8 | 784.5 |

APPENDIX C. THE DEFENSE BASELINE PROGRAM

The defense baseline is a five-year projection of the explicit force structure and investment programs approved during the second session of the 96th Congress. The outyear force structure reflects announced changes in force level, the introduction of new weapon systems purchased in the current and prior years, and the planned deactivation of obsolete or worn-out systems. The outyear investment programs thus represent the Carter Administration's 1981 program adjusted to reflect the outyear effects of Congressional appropriation decisions. The Reagan Administration has not yet announced its outyear investment plans for defense programs.

The baseline is costed in 1981 dollars, assuming the same per unit level of force activity in the outyears as Congressionally approved in the regular 1981 appropriation bills and the same level of efficiency over the six-year period. The outyear costs in 1981 dollars are adjusted for inflation using the economic assumptions of the First Concurrent Resolution on the Budget for Fiscal Year 1982 (see Chapter II).

SUMMARY OF THE CBO DEFENSE BASELINE

Table C-1 shows baseline budget authority and outlays in constant 1981 dollars and in current dollars (that is, with adjustments for inflation). Real budget authority measured in constant 1981 dollars grows at an average annual rate of about 1 percent over the projection period. Increases between 1981 and 1984 averaging nearly 3 percent annually are partially offset by a 3.5 percent decline between 1985 and 1986, when many major procurement programs (for example, Trident submarines) will have ended or passed peak production levels. Real growth in outlays over the five-year projection period is larger--an average annual rate of over 3 percent--primarily because of spending from 1981 and earlier procurement appropriations. The real growth in outlays is particularly high in 1982 and 1983, but then falls to less than 2 percent annually in 1985 and 1986.

Table C-2 shows the baseline budget authority by Defense Planning and Programming Category (DPPC) in current dollars; Table C-3 shows the same data in constant 1981 dollars. These are the amounts required to keep the approved 1981 program on track including full adjustment for projected inflation.

TABLE C-1. CBO DEFENSE BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|------------------------------|--------------|-------------|-------|-------|-------|-------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Constant 1981 Dollars | | | | | | |
| Budget authority | 173.7 | 179.4 | 184.9 | 188.9 | 189.2 | 182.6 |
| Outlays | 159.6 | 169.7 | 176.7 | 181.4 | 184.5 | 186.5 |
| Current Dollars | | | | | | |
| Budget authority | 173.7 | 198.1 | 219.0 | 238.0 | 252.0 | 256.6 |
| Outlays | 159.6 | 183.8 | 203.5 | 222.0 | 238.8 | 254.0 |

TABLE C-2. CURRENT-DOLLAR CBO DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY (By fiscal year, budget authority in billions of current dollars)

| | 1981 Base | Projections | | | | |
|---------------------------------|--------------|-------------|-------|-------|-------|-------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Strategic Forces | 14.0 | 17.6 | 26.0 | 32.1 | 35.9 | 34.7 |
| Tactical/Mobility Forces | | | | | | |
| Land forces | 20.9 | 24.0 | 26.2 | 27.8 | 28.8 | 29.6 |
| Air Force Tac Air | 13.8 | 15.3 | 16.5 | 16.3 | 16.6 | 16.1 |
| Navy Tac Air | 8.1 | 8.6 | 9.0 | 8.9 | 10.2 | 9.7 |
| Marine Corps Tac Air | 1.4 | 1.9 | 2.0 | 2.5 | 2.5 | 2.6 |
| Naval forces | 20.1 | 23.4 | 24.0 | 27.0 | 27.2 | 25.9 |
| Mobility | 2.8 | 3.0 | 3.1 | 3.4 | 3.3 | 3.5 |
| Auxiliary Forces | 14.2 | 15.4 | 16.8 | 17.7 | 18.9 | 19.7 |
| Mission Support Forces | 14.0 | 15.5 | 17.1 | 18.3 | 19.5 | 20.7 |
| Central Support Forces | 40.2 | 44.3 | 48.8 | 52.5 | 55.9 | 59.3 |
| Miscellaneous | 20.5 | 25.0 | 25.1 | 26.6 | 27.9 | 29.3 |
| Subtotal, DoD-Military | 169.9 | 194.0 | 214.6 | 233.1 | 246.8 | 251.1 |
| Other National Defense | 3.7 | 4.1 | 4.5 | 4.9 | 5.2 | 5.5 |
| Total | 173.7 | 198.1 | 219.0 | 238.0 | 252.0 | 256.6 |

TABLE C-3. CONSTANT-DOLLAR CBO DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY (By fiscal year, budget authority in billions of constant 1981 dollars)

| | 1981 Base | Projections | | | | |
|--------------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Strategic Forces | 14.0 | 16.2 | 22.3 | 26.2 | 27.8 | 25.4 |
| Tactical/Mobility Forces | | | | | | |
| Land Forces | 20.9 | 21.8 | 21.9 | 21.7 | 21.1 | 20.5 |
| Air Force Tac Air | 13.8 | 14.2 | 14.2 | 13.2 | 12.7 | 11.6 |
| Navy Tac Air | 8.1 | 8.0 | 7.7 | 7.2 | 7.8 | 7.1 |
| Marine Corps Tac Air | 1.4 | 1.8 | 1.7 | 2.0 | 1.9 | 1.9 |
| Naval Forces | 20.1 | 21.6 | 20.5 | 21.8 | 20.7 | 18.6 |
| Mobility | 2.8 | 2.7 | 2.6 | 2.6 | 2.4 | 2.4 |
| Auxiliary Forces | 14.2 | 14.2 | 14.2 | 14.1 | 14.2 | 14.1 |
| Mission Support Forces | 14.0 | 14.1 | 14.1 | 14.2 | 14.2 | 14.2 |
| Central Support Forces | 40.2 | 40.2 | 40.4 | 40.5 | 40.6 | 40.6 |
| Miscellaneous | <u>20.5</u> | <u>20.9</u> | <u>21.4</u> | <u>21.7</u> | <u>22.1</u> | <u>22.5</u> |
| Subtotal, DoD-Military | 169.9 | 175.7 | 181.2 | 185.2 | 185.5 | 178.9 |
| Other National Defense | <u>3.7</u> | <u>3.7</u> | <u>3.7</u> | <u>3.7</u> | <u>3.7</u> | <u>3.7</u> |
| Total | 173.7 | 179.4 | 184.9 | 188.9 | 189.2 | 182.6 |

Higher force levels in the projection period require higher military and civilian strengths under the CBO costing assumptions. Table C-4 shows personnel requirements for each fiscal year.

TABLE C-4. ACTIVE MILITARY AND CIVILIAN PERSONNEL IN THE CBO DEFENSE BASELINE (By fiscal year, end-strengths in thousands)

| | 1981 Base | Projections | | | | |
|-----------------|--------------|-------------|-------|-------|-------|-------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Active Officers | 280 | 282 | 283 | 283 | 283 | 284 |
| Active Enlisted | 1,785 | 1,797 | 1,806 | 1,810 | 1,811 | 1,820 |
| Civilians | 986 | 992 | 994 | 996 | 996 | 999 |

The major results of the baseline projections by Defense Planning and Programming Category are discussed below.

Strategic Forces

The baseline provides significant real dollar growth in strategic forces over the projection period. Budget authority in 1986 is about 81 percent higher in real terms than in 1981. Additions to deployed forces are relatively small, with 9 additional Trident submarines and 12 new strategic bombers being the major changes. Investment programs account for most of the growth as major funding increases are made for the MX missile, Trident II missile, KC-135 reengining, and the new strategic aircraft. These increases are partially offset by the projected termination of the Trident submarine procurement program consistent with original program goals.

Tactical/Mobility Forces

Land Forces. Budget authority for land forces declines slightly in real dollar terms. The only significant changes occur in the investment program, where production rates are at their highest levels by 1986, but learning-curve effects have lowered unit costs; in other words, there is little, if any, real decline in effort. Deployed force levels do not change at all.

Air Force Tac Air. The number of deployed combat aircraft is about 14 percent higher in 1986 than 1981. The increases in budget authority supporting the higher force levels are offset in real terms by reductions in investment for all tactical aircraft procurement. The A-10, F-15, KC-10, and E-3A (AWACS) all reach the end of their planned procurement by 1985. The F-16 program ends at its lowest production rate (for this period) in 1986.

Navy Tac Air. The Navy is projected to operate about 7 percent more combat aircraft and two more aircraft carriers in 1986 than 1981. The investment program in 1986 is lower than that in 1981 because F-14 procurement has ended; there is no funding for a carrier service-life extension; and procurement of tactical missiles is also reduced. In 1986, 191 F-18s are procured compared to 60 in 1981.

Marine Corps Tac Air. The CBO baseline shows that F-18s replace F-4s and AV-8Bs replace AV-8As as deployed aircraft. Procurement of the AV-8B begins in 1982 with 12 aircraft, rising to 54 aircraft per year in 1984 through 1986.

Naval Forces. Deployed major combatants increase 17 percent by 1986 over 1981. Nuclear attack submarines and guided missile frigates show the largest increases. The baseline contains procurement of 12 attack submarines, 21 AEGIS cruisers, and 24 guided missile frigates during the six-year period.

Mobility Forces. By 1986, the Air Force is operating all of its stretched C-141s. The only CX funding in the baseline occurs in 1981 (\$34 million for research and development), consistent with Congressional action on this program.

Auxiliary Forces

Funding for the basic research, communications and intelligence, and geophysical activities included in auxiliary forces is essentially constant in real terms.

Mission and Central Support Forces

Higher force and personnel levels require real funding increases for various base operations, training, medical support, personnel support, command, and logistic functions.

Miscellaneous

Military retired pay, the largest part of this category, increases with the cost of living and a larger population of military retirees.

Other National Defense

Defense programs of the Department of Energy, the General Services Administration, the Selective Service System, and the Intelligence Community Oversight Staff are held constant in real terms.

PROJECTION METHOD

The CBO baseline focuses on the main determinant of the defense budget, force structure, by addressing changes in the forces operated each year and the investment programs contributing to future force changes. The defense baseline is not a forecast of future forces and budgets. Rather, it is

a budget projection based on current and anticipated force levels and on investment plans as reflected in appropriation and authorization bills enacted to date for 1981.

Force Levels

Force levels change during the projection period because weapon systems currently on order will be delivered and some systems now in operation will be phased out. For example, the Navy will operate 85 nuclear attack submarines (SSNs) by the end of fiscal year 1981. CBO estimates, however, that on the basis of age and obsolescence 5 of these will be decommissioned or retired over the next five years. CBO also estimates that 20 new SSNs that are now under construction will enter active service. Table C-5 shows the net change to SSN force levels in each fiscal year.

TABLE C-5. COMPUTATION OF NUCLEAR-POWERED ATTACK SUBMARINE (SSN) FORCE LEVELS (By fiscal year, in numbers of ships)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|----------------------------------|------|------|------|------|------|
| SSN Force Level at Start of Year | 85 | 89 | 94 | 98 | 97 |
| Projected Retirements | -- | -- | 1 | 2 | ~ |
| Projected Deliveries | 4 | 5 | 5 | 1 | 5 |
| SSN Force Level at End of Year | 89 | 94 | 98 | 97 | 100 |

Force levels are translated into budget authority requirements by assuming the same per unit level of force activity (for instance, steaming hours per ship) approved in the base year, 1981, and by assuming a constant level of overall efficiency during the projection period. CBO computes all costs in constant base-year dollars and then adjusts these estimates for inflation.

Table C-6 depicts the overall force levels used in making the funding projections. As in the SSN example, these force levels are the net result of

TABLE C-6. MAJOR ACTIVE FORCE LEVELS USED IN THE CBO DEFENSE BASELINE (By fiscal year, in units of equipment)

| | 1981 Base | Projections | | | | |
|---------------------------------|--------------|-------------|-------|-------|-------|-------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Strategic Forces | | | | | | |
| Titan | 54 | 54 | 54 | 54 | 54 | 54 |
| Minuteman | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| SSBN | 35 | 34 | 35 | 37 | 38 | 40 |
| B-52 | 316 | 316 | 316 | 316 | 316 | 316 |
| FB-111 | 60 | 60 | 60 | 60 | 60 | 60 |
| New strategic aircraft | -- | -- | -- | -- | -- | 12 |
| Tactical/Mobility Forces | | | | | | |
| Land forces | | | | | | |
| Army divisions | 16 | 16 | 16 | 16 | 16 | 16 |
| Marine Corps divisions | 3 | 3 | 3 | 3 | 3 | 3 |
| Air Force Tac Air | | | | | | |
| A-10 | 252 | 288 | 312 | 336 | 360 | 360 |
| F-4 | 666 | 504 | 456 | 312 | 168 | 48 |
| F-15 | 360 | 432 | 432 | 432 | 432 | 432 |
| F-16 | 168 | 312 | 432 | 552 | 672 | 792 |
| F-111 | 252 | 240 | 240 | 240 | 240 | 240 |
| Navy Tac Air | | | | | | |
| Aircraft carriers | 12 | 13 | 13 | 13 | 13 | 14 |
| A-7 | 288 | 288 | 288 | 288 | 288 | 288 |
| F-4 | 96 | 72 | 48 | 24 | -- | -- |
| F-14 | 192 | 216 | 216 | 216 | 216 | 240 |
| F-18 | -- | -- | 24 | 48 | 72 | 96 |
| Marine Corp Tac Air | | | | | | |
| AV-8 | 45 | 45 | 45 | 45 | 45 | 45 |
| F-4 | 153 | 153 | 141 | 105 | 81 | 57 |
| F-18 | -- | -- | 12 | 48 | 72 | 96 |
| Naval forces | | | | | | |
| Attack submarines | 89 | 93 | 98 | 102 | 101 | 104 |
| Destroyers | 83 | 83 | 84 | 84 | 84 | 84 |
| Frigates | 80 | 89 | 97 | 103 | 107 | 111 |
| Cruisers | 27 | 27 | 28 | 29 | 30 | 32 |

the introduction of new systems and the phasing out of obsolete systems. The force-level analysis is straightforward: once a weapon system is procured, it is delivered and becomes operational according to a predictable schedule. Similarly, retirements are a function of the obsolescence or age of the weapon system. The age of current forces and the backlog of undelivered items are critical to the analysis.

Investment Profile

The investment profile is based primarily on the five-year procurement program contained in the budget justification materials for fiscal year 1981 and modified by the 1981 defense appropriation bill. President Carter's budget request for 1981 was supported by detailed estimates of the five-year investment costs of proposed weapon system acquisitions. The baseline projections are based on that 1981 program as changed to reflect the outyear effects of 1981 Congressional action. In some cases, the change is substantial; for example, although President Carter's program included \$6.8 billion for the CX aircraft over the projection period, the baseline includes only the \$34 million appropriated for 1981 because the appropriation bill did not represent a commitment to the CX program. Conversely, the baseline includes all of the Carter Administration's planned outyear funding for the MX strategic missile because the appropriations bill did not differ from the Air Force program. Table C-7 shows the budget authority included in the projections for major investment programs.

Other Programs

Some programs in the 1981 base reflect a desired level of effort that is not affected by force changes or major investment decisions. Examples include minor military construction and basic research, which are projected to be constant in real terms--that is, adjusted for inflation only. Other parts of the base, such as the intelligence and atomic energy defense activities, have a very specific program content, but unless the variation in these programs was obtainable in unclassified form they were projected to be constant in real terms.

TABLE C-7. MAJOR INVESTMENT PROGRAMS CONTAINED IN THE NATIONAL DEFENSE BUDGET PROJECTIONS (By fiscal year, in billions of dollars)

| | 1981 Base | Projections | | | | |
|--|--------------|-------------|------|------|------|------|
| | | 1982 | 1983 | 1984 | 1985 | 1986 |
| Strategic Forces | | | | | | |
| MX | 1.5 | 2.8 | 5.9 | 8.1 | 9.9 | 10.0 |
| Trident I missile | 0.9 | 0.8 | 0.8 | 0.8 | 0.5 | -- |
| Trident II missile | 0.1 | 0.6 | 1.3 | 1.8 | 2.8 | 3.8 |
| Trident submarine | 1.1 | 1.4 | 1.6 | 1.4 | 2.6 | -- |
| B-52 mods | 0.5 | 0.6 | 0.5 | 0.3 | 0.1 | 0.1 |
| Air-launched cruise missiles ^{a/} | 1.0 | 1.0 | 0.8 | 0.7 | 0.6 | 0.5 |
| New strategic aircraft | 0.3 | 1.0 | 3.9 | 6.7 | 6.0 | 6.3 |
| KC-135 reengining | 0.1 | 0.3 | 1.1 | 1.3 | 1.4 | 1.4 |
| Tactical/Mobility Forces | | | | | | |
| Land forces | | | | | | |
| Army aircraft | 0.9 | 1.1 | 1.5 | 1.5 | 1.4 | 1.2 |
| M-1 tanks | 1.2 | 1.3 | 1.6 | 1.7 | 1.6 | 1.6 |
| Other tracked vehicles | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 0.9 |
| Missiles | 1.8 | 2.3 | 2.2 | 2.0 | 1.9 | 1.9 |
| Air Force Tac Air | | | | | | |
| A-10 | 0.6 | 0.4 | 0.4 | 0.4 | -- | -- |
| F-15 | 1.1 | 1.0 | 0.4 | -- | -- | -- |
| F-16 | 2.0 | 2.0 | 2.2 | 2.1 | 2.2 | 0.9 |
| KC-10A | 0.3 | 0.3 | 0.4 | -- | -- | -- |
| E-3A (AWACS) | 0.3 | 0.3 | 0.3 | -- | -- | -- |
| Navy Tac Air | | | | | | |
| CV-SLEP | 0.5 | 0.1 | 0.6 | 0.1 | 0.6 | 0.1 |
| F-14 | 0.9 | 1.0 | 0.3 | 0.1 | -- | -- |
| F-18 | 1.8 | 2.4 | 2.6 | 2.7 | 3.0 | 3.1 |
| Marine Corps Tac Air | | | | | | |
| F-18 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| AV-8B | 0.3 | 0.7 | 0.6 | 1.0 | 0.9 | 1.0 |
| Naval forces | | | | | | |
| SSN-688 | 1.2 | 1.1 | 1.1 | 1.3 | 1.3 | 1.1 |
| CG-47 | 1.8 | 3.4 | 2.6 | 3.6 | 3.7 | 3.9 |
| FFG-7 | 1.6 | 1.2 | 1.2 | 1.3 | 1.2 | 0.7 |

^{a/} Air Force ALCM and Navy Tomahawk.

