

**AN ANALYSIS OF PRESIDENT BUSH'S
BUDGETARY PROPOSALS
FOR FISCAL YEAR 1990**

April 1989

PREFACE

This analysis of President Bush's budget for fiscal year 1990 was prepared at the request of the Senate Committee on Appropriations. The report discusses the President's policy proposals as summarized in the document *Building a Better America*, released on February 9. Because President Bush's budget proposals have not been presented in the usual detail, the estimates in this report update those released earlier and are subject to further change if new information becomes available.

In February, the Congressional Budget Office (CBO) published *An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990*. Because the Bush proposals are largely the same as those in the Reagan budget, most of the analysis in CBO's earlier report remains pertinent. The contributors to this new analysis were listed in the previous report.

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INTRODUCTION AND SUMMARY

The Congressional Budget Office (CBO) finds that the Administration has understated the deficits that would result from adopting its proposed policies. The size of this gap depends on the budgetary treatment of the proposed savings and loan Resolution Financing Corporation (REFCORP). The Administration proposes that REFCORP be an off-budget, government-sponsored enterprise. CBO believes, however, that REFCORP has all the earmarks of a government entity and should be included in the budget totals.

The Administration estimates that the federal deficit would decline from \$163 billion in 1989 to \$91 billion in 1990. Including REFCORP in the budget, however, would increase the estimated 1990 deficit by \$22 billion, as shown in Table 1. Incorporating CBO's assumptions of lower economic growth and higher interest rates would add another \$9 billion to the deficit estimate. CBO also believes that the Administration's use of technical estimating assumptions has understated the deficit by \$8 billion. Taking into account all of these factors, CBO estimates that the 1990 deficit would be \$130 billion if all of the Administration's proposals were adopted.

One can make a good case, however, that the spending made possible by REFCORP borrowing can be distinguished from most government spending and should not be counted under the Balanced Budget Act. Excluding these expenditures for resolving the savings and loan crisis from the deficit calculations would be consistent with the way asset sales are already treated under the act. Excluding both asset sales and REFCORP, CBO estimates that President Bush's proposals would result in a 1990 deficit of \$109 billion--only \$9 billion above the Balanced Budget Act target of \$100 billion.

CBO ECONOMIC ASSUMPTIONS

CBO estimates that the long-run growth rate of the economy's productive capacity is about 2½ percent a year. In the aftermath of a recession, when much capacity is unused, the economy can easily grow more rapidly than this trend. But when almost all of the economy's capacity is being used, as is the case after six years of expansion, such

growth is not possible. If the economy were to continue growing at its recent rapid rate, inflation would probably increase. The Federal Reserve has therefore sought to slow economic growth to a pace that is sustainable over the long haul.

TABLE 1. CBO AND ADMINISTRATION ESTIMATES OF THE BUDGET DEFICIT UNDER BUSH ADMINISTRATION POLICIES (By fiscal year, in billions of dollars)

	1989	1990	1991	1992	1993
Administration Estimate, Including Asset Sales	164	91	62	27	-4
CBO Reestimates					
Economic differences	-4	9	33	55	78
Technical differences	-3	8	17	22	22
REFCORP ^a	<u>9</u>	<u>22</u>	<u>12</u>	<u>0</u>	<u>0</u>
Subtotal	2	39	62	77	100
CBO Estimate, Including Asset Sales and REFCORP	166	130	124	104	96
Adjustments					
Asset sales	5	3	2	1	-1
REFCORP	<u>-10</u>	<u>-25</u>	<u>-15</u>	<u>0</u>	<u>0</u>
Subtotal	-5	-22	-13	1	-1
CBO Estimate, Excluding Asset Sales and REFCORP	161	109	111	105	96
Balanced Budget Act Targets	136	100	64	28	0

SOURCES: Office of Management and Budget; Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

- a. The proposed Resolution Financing Corporation (REFCORP) would borrow money in private credit markets to assist in resolving troubled savings and loan institutions.
- b. Less than \$0.5 billion.

Forecast for 1989 and 1990

CBO's short-term economic forecast is shown in Table 2. The forecast assumes that the Federal Reserve will be successful in holding the economy's growth to a rate that will avoid a sharp increase in inflation, and that the 1990 deficit will be reduced to satisfy the Balanced Budget Act's requirements.

The growth rate of real gross national product, which was 2.7 percent in 1988, is expected to rise to 2.9 percent in 1989 and drop back to 2.2 percent in 1990. Excluding the farm sector, which was hard hit by last summer's drought, the growth rate declines from 3.5 percent in 1988 to 2.1 percent in 1989 and 2.2 percent in 1990. Un-employment should remain near its current level of about 5½ percent. Net exports and business fixed investment are expected to be the major sources of economic expansion in the next two years. Because of the strength of the dollar in mid-1988 and early 1989, however, the rate of improvement in real net exports is likely to be slower in 1989 and 1990 than it was in 1988.

CBO projects that increases in the prices of food and imports will push up consumer price inflation from 4.3 percent in 1988 to 5.0 percent in 1989. Because wage growth is likely to accelerate, inflation is not expected to subside much in 1990. Interest rates are projected to remain high in the first half of 1989, as monetary restraint continues. Rates are forecast to ease somewhat later in 1989 and in 1990, reflecting the expectation that the central bank will be successful in its effort to hold growth within the 2 percent to 2½ percent range.

Uncertainty in the Forecast

CBO's short-run forecast represents only one of the possible paths that the economy might take over the next two years. We believe, however, that the forecast lies roughly in the middle of the possible outcomes and is a prudent guide to budgetary planning. It is also close to the average of the 50 private-sector forecasts summarized in the *Blue Chip Economic Indicators*, as shown in Table 2.

TABLE 2. COMPARISON OF ADMINISTRATION, CBO, AND
BLUE CHIP SHORT-RUN ECONOMIC FORECASTS

	Actual	Forecast	
	1988	1989	1990
Fourth Quarter to Fourth Quarter (Percent change)			
Real GNP			
Administration	2.6	3.5	3.4
CBO	2.6	2.9	2.2
<i>Blue Chip</i>	2.7	2.4	1.8
Nominal GNP			
Administration	6.8	7.3	7.0
CBO	6.7	6.9	6.6
<i>Blue Chip</i>	6.9	6.8	6.2
Consumer Price Index^a			
Administration	4.2	3.6	3.5
CBO	4.3	5.0	4.8
<i>Blue Chip</i>	4.2	4.7	4.7
Calendar Year Averages (Percent)			
Three-Month Treasury Bill Rate			
Administration	6.7	7.4	5.5
CBO	6.7	7.9	7.1
<i>Blue Chip</i>	6.7	8.1	7.5
Ten-Year Government Bond Rate			
Administration	8.9	8.6	7.2
CBO	8.9	9.3	9.0
<i>Blue Chip^b</i>	8.9	8.9	8.5
Civilian Unemployment Rate			
Administration ^c	5.4	5.2	5.1
CBO	5.5	5.5	5.5
<i>Blue Chip^b</i>	5.5	5.4	5.6

SOURCES: Congressional Budget Office; Office of Management and Budget; Eggert Economic Enterprises, Inc., *Blue Chip Economic Indicators* (February 10, 1989).

- a. Consumer Price Index for urban wage earners and clerical workers.
- b. *Blue Chip* does not project a ten-year note rate. The values shown here are based on the *Blue Chip* projection of the AAA bond rate, adjusted by CBO to reflect the estimates spread between AAA bonds and ten-year government notes.
- c. The Administration's projection is for the total labor force, including armed forces residing in the United States, while the CBO and *Blue Chip* projections are for the civilian labor force excluding

Most forecasters agree that the Federal Reserve's effort to control inflation is the key source of uncertainty in the economy today. Even under the best of circumstances, it is difficult for monetary policy to slow the economy gradually. The economy may continue to grow rapidly in spite of monetary tightening, thereby provoking higher inflation, further tightening, a rapid increase in interest rates, and eventually a recession. Today, the Federal Reserve's task is also complicated by the volatility of the dollar, the shaky condition of a number of thrift institutions and banks, the debt problems of developing countries, and the high degree of corporate financial leveraging. Although CBO forecasts a smooth slowing of growth through 1989, a number of private forecasters expect a recession to begin this year.

The Bush Administration's forecast is considerably more optimistic than CBO on the outlook for inflation and economic growth. The Administration forecasts fourth-quarter-to-fourth-quarter growth rates that exceed CBO's by 0.6 percentage point in 1989 and 1.2 percentage points in 1990 (see Table 2). Inflation is more than a percentage point lower than CBO projects. Interest rates are about one-half of a percentage point lower in 1989 and about one and one-half percentage points lower in 1990. This more favorable outlook assumes that the potential for noninflationary growth is greater than estimated by CBO. The Administration projects that productivity will grow about 2 percent a year. While this is near the post-World War II average, the growth of productivity since mid-1981 has been only 1.4 percent a year. The CBO forecast assumes that growth of productivity will continue at the slower recent rate.

Projections for 1991 through 1993

For 1991 through 1993, CBO's economic assumptions are not a forecast of future conditions but are projections based on past trends. As shown in Table 3, CBO projects that real GNP will grow at an average annual rate of 2.2 percent, and that the unemployment rate will remain close to current levels. Consumer price inflation is projected to decline moderately after 1990 and stabilize around 4 percent. Interest rates are projected to decline throughout the period until they reach levels near the average of inflation-adjusted interest rates since 1973.

**TABLE 3. COMPARISON OF ADMINISTRATION AND CBO
ECONOMIC ASSUMPTIONS, 1989-1993 (By calendar year)**

Variable	Actual	Forecast		Projected		
	1988	1989	1990	1991	1992	1993
Nominal GNP						
(Billions of dollars)						
Administration	4,860	5,219	5,577	5,947	6,304	6,648
CBO	4,859	5,209	5,542	5,902	6,281	6,685
Real GNP (Percent change, year over year)						
Administration	3.8	3.3	3.2	3.3	3.2	3.2
CBO	3.8	2.9	2.1	2.2	2.2	2.3
Consumer Price Index^a						
(Percent change, year over year)						
Administration	4.0	3.8	3.7	3.2	2.7	2.2
CBO	4.0	4.9	4.9	4.6	4.4	4.4
GNP Deflator (Percent change, year over year)						
Administration	3.4	4.0	3.6	3.2	2.7	2.2
CBO	3.4	4.2	4.2	4.2	4.1	4.1
Three-Month Treasury Bill Rate (Percent)						
Administration	6.7	7.4	5.5	4.5	4.0	3.5
CBO	6.7	7.9	7.1	6.7	6.4	6.1
Ten-Year Government Bond Rate (Percent)						
Administration	8.9	8.6	7.2	6.0	5.0	4.5
CBO	8.9	9.3	9.0	8.6	8.1	7.7
Civilian Unemployment Rate						
Administration ^b	5.4	5.2	5.1	5.0	5.0	5.0
CBO	5.5	5.5	5.5	5.5	5.6	5.6
Tax Bases						
Wage and salary disbursements						
Administration	2,436	2,609	2,783	2,973	3,163	3,347
CBO	2,435	2,615	2,787	2,969	3,163	3,370
Other personal income^c						
Administration	1,625	1,724	1,856	1,958	2,045	2,121
CBO	1,626	1,754	1,870	1,977	2,090	2,211
Corporate Profits^d						
Administration	302	352	399	442	475	499
CBO	299	328	351	378	390	401

In 1993, the three-month Treasury bill rate is assumed to be 6.1 percent, and the ten-year government note rate is projected to be 7.7 percent.

The Administration's long-run assumptions, on the other hand, are substantially more optimistic than seems likely based on recent experience. The Administration assumes that unemployment during the 1991-1993 period will remain at 5 percent and that the economy will achieve an average growth rate of 3.2 percent a year. The Administration projects that inflation will fall to 2.2 percent in 1993, even though the economy is assumed to grow rapidly. Short-term interest rates are projected to drop to 3.5 percent in 1993 and long-term rates to 4.5 percent.

CBO BUDGET ESTIMATES

CBO's estimates of the deficit, assuming that REFCORP is treated as an on-budget entity, exceed the Administration's figures by \$39 billion in 1990 and increasing amounts in later years. In 1990, \$22 billion of the \$39 billion in reestimates is attributable to REFCORP. In 1991 through 1993, most of the reestimates are economic.

Effects of Economic Assumptions

The differences between CBO's economic assumptions and those of the Administration lead to substantially different budget estimates, primarily on the outlay side. The combination of lower real growth and higher inflation in CBO's assumptions produces nominal incomes and tax receipts close to the Administration's. Despite lower nominal GNP projections, CBO projects slightly higher tax receipts in 1989 and 1990 than does the Administration; projected receipts are higher because CBO assumes more income in the form of wages and salaries and capital gains. CBO projects, however, somewhat lower tax receipts than the Administration in 1991 through 1993, largely because of a smaller corporate income-tax base.

CBO's economic assumptions increase outlays by \$13 billion in 1990 and \$72 billion in 1993, as shown in Table 4. CBO's projection of

higher inflation leads to higher outlays for federal retirement programs, Medicare and Medicaid, and other benefit programs. CBO's higher interest rates increase the cost of federal borrowing. Finally, economic reestimates of revenues and outlays increase debt service costs. In total, CBO's economic assumptions increase the estimated deficit by \$9 billion in 1990, growing to \$78 billion in 1993.

Effects of Technical Estimating Assumptions

CBO's technical reestimates of the Bush budget increase the estimated 1990 deficit by \$8 billion, the result of \$11 billion in higher outlays offset by \$3 billion in higher revenues (see Table 5). CBO expects that the 1990 proceeds from the Administration's proposals to sell oil and gas leases in the Arctic National Wildlife Refuge and to accept competitive bids for use of the unassigned radio spectrum will

TABLE 4. EFFECTS OF CBO ECONOMIC ASSUMPTIONS ON ESTIMATES OF THE ADMINISTRATION'S BUDGET
(By fiscal year, in billions of dollars)

	1989	1990	1991	1992	1993
Revenues	5	4	-1	-3	-7
Outlays					
Benefit programs	a	4	9	15	24
Net interest					
As a result of interest rates	1	9	21	31	38
Debt service	<u>a</u>	<u>a</u>	<u>2</u>	<u>5</u>	<u>10</u>
Total Outlays	1	13	32	51	72
Deficit	-4	9	33	55	78

SOURCE: Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

a. Less than \$0.5 billion.

be \$4 billion less than the Administration assumes. CBO's estimates of spending for defense and for the Federal Deposit Insurance Corporation are also higher by \$4 billion and \$3 billion, respectively.

After 1990, technical estimating differences between CBO and the Administration average \$20 billion a year. Almost half of this disparity stems from differing estimates of the Administration's capital gains proposal. The Administration contends that reducing the tax rate on capital gains will permanently increase realizations of

TABLE 5. EFFECTS OF CBO TECHNICAL ASSUMPTIONS ON ESTIMATES OF THE ADMINISTRATION'S BUDGET
(By fiscal year, in billions of dollars)

	1989	1990	1991	1992	1993
Revenues					
Current law	-1	5	3	2	7
Capital gains tax reduction	0	-2	-9	-10	-9
Other proposals	<u>a</u>	<u>a</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>
Total Revenues	-1	3	-7	-9	-2
Outlays					
National defense	-2	4	4	4	4
Leasing of Arctic National Wildlife Refuge	0	2	-2	0	a
Farm price supports	-1	-1	-1	-1	-1
FDIC	a	3	3	4	4
Medicaid and Medicare	a	1	1	-1	2
Income security	a	2	3	3	3
Social Security	a	a	-1	-2	-3
Net interest	-1	-1	2	4	5
Federal Communications Commission auction receipts	0	2	1	0	0
Proposed asset sales	0	a	a	2	2
Other outlays	<u>-1</u>	<u>-1</u>	<u>a</u>	<u>1</u>	<u>3</u>
Total Outlays	-3	11	10	13	19
Deficit	-3	8	17	22	22

SOURCE: Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

gains by enough to offset the revenue loss from the lower rate. CBO and the Joint Committee on Taxation (JCT) judge that, after an initial surge in 1990, the increase in realizations will not be sufficient to offset the rate reduction. While the Administration estimates that its capital gains proposal would raise revenues by \$5 billion in 1991, CBO and JCT estimate a revenue loss of \$4 billion. Similar estimating differences prevail in 1992 and 1993.

The Savings and Loan Problem

The Administration's plan to resolve the savings and loan crisis involves spending \$205 billion over the 1989-1999 period, as shown in Table 6. By the Administration's estimates, the plan would provide about \$136 billion in cash over this period for use by the Federal Savings and Loan Insurance Corporation (FSLIC) and the new Resolution Trust Corporation (RTC), which would resolve the insolvent thrifts insured by FSLIC. Of this \$136 billion, \$105 billion would go for case resolution costs, \$12 billion for administrative expenses and interest on existing FSLIC obligations, and \$19 billion to pay off outstanding FSLIC notes. The remaining \$69 billion would be paid to service the debt incurred in financing the plan.

Over the 1989-1999 period, sources other than borrowing will account for receipts of only \$64 billion, compared with the \$205 billion of disbursements. These other sources consist of savings and loan assessments (\$31 billion), liquidation proceeds (\$22 billion), the Federal Home Loan Banks (\$6 billion), and other FSLIC income (\$5 billion). The bulk of the needed funds--\$141 billion--would be raised through borrowing. A new entity, the Resolution Financing Corporation, would borrow \$50 billion in private credit markets to help finance near-term resolutions, and the existing Financing Corporation (FICO) would raise \$7 billion. CBO estimates that Treasury borrowing would fund the remaining \$84 billion.

Treasury borrowing would finance \$32 billion out of the \$129 billion in spending during the 1989-1994 period and \$52 billion out of the \$75 billion in spending for 1995-1999. Over the entire life of the Administration's savings and loan plan, the Treasury would provide about 70 percent of the resources.

TABLE 6. ESTIMATED USES AND SOURCES OF CASH UNDER THE ADMINISTRATION'S SAVINGS AND LOAN PLAN
(By fiscal years, in billions of dollars)

	1989-1994	1995-1999	Total 1989-1999
Uses of Cash			
FSLIC/RTC Activity			
Case resolutions	85	19	105
Administrative expenses and interest on FSLIC obligations	8	4	12
Repayment of FSLIC notes	<u>2</u>	<u>17</u>	<u>19</u>
Subtotal	95	40	136
Debt Service			
Interest on REFCORP bonds	17	19	36
Purchase of REFCORP zero coupon bonds	6	0	6
Debt service on FICO bonds	6	5	11
Interest on Treasury borrowing	<u>5</u>	<u>11</u>	<u>16</u>
Subtotal	34	35	69
Total	129	75	205
Sources of Cash			
Income			
Assessments on thrifts by FSLIC, REFCORP, and FICO	15	16	31
Liquidation proceeds	18	4	22
Contributions by FHLBs	4	2	6
Miscellaneous income	<u>3</u>	<u>2</u>	<u>5</u>
Subtotal	40	23	64
Borrowing			
REFCORP bonds	50	0	50
FICO bonds	7	0	7
Treasury borrowing	<u>32</u>	<u>52</u>	<u>84</u>
Subtotal	89	52	141
Total	129	75	205

SOURCE: Congressional Budget Office, based on Administration projections.

NOTES: This table includes the aspects of the Administration's plan involving the savings and loan industry. The effects of increasing FDIC assessments on commercial banks are therefore not reflected in the table.

The figures in the table represent Administration estimates, except for the interest on Treasury borrowing, which was projected by CBO using the Administration's economic

The Administration proposes that REFCORP be treated as an off-budget entity. In CBO's view, however, REFCORP would not truly be privately owned and should be included in the budget. Moreover, CBO believes that the Treasury should do all borrowing, which would be less costly and quicker than borrowing through a new funding agency.

Spending the \$50 billion in borrowed funds, however, would have virtually no macroeconomic impact. Thus, one can make a good case for excluding such spending from Balanced Budget Act calculations in the same manner as asset sales and loan prepayments are now excluded. Excluding spending from Balanced Budget Act calculations may set unfortunate precedents, but so does creating off-budget entities to perform governmental functions. Ultimately, the appropriate budgetary treatment for financing a solution to the savings and loan problem is a policy matter that should be settled by the Congress and the President.

THE ADMINISTRATION'S BUDGET PROGRAM

The Bush Administration's budget program divides the spending side of the budget into two categories. For most of the budget--just over \$1 trillion in 1990--the Administration makes specific spending proposals. Another \$136 billion in spending, however, is subject to what the Administration refers to as a flexible freeze. The Administration proposes that total outlays for this residual category be held to their 1989 level and that decisions about spending for specific residual programs be determined through negotiations involving the Congress and the Administration. In the meantime, however, the Office of Management and Budget has told the agencies that "the Reagan budget proposals within the residual category are to be treated as if they were the Bush Administration proposals for purposes of starting the budget process with the Congress."

CBO's analysis of the Bush proposals follows the same format. For programs where the Administration has made specific proposals, we have priced them out. For the residual programs, we have taken the Bush Administration's figure of \$136 billion as a target. The Reagan Administration's proposals for these same programs, however, would have resulted in spending of \$138 billion in 1990. Thus, just

over \$2 billion in unspecified spending reductions beyond those contained in the Reagan budget would be required to reach President Bush's target.

CBO's baseline budget projections provide a benchmark against which one can measure the Administration's budget program. The baseline projects the course of the budget on the assumption that current taxing and spending policies continue unchanged. It generally assumes that tax and entitlement laws now on the statute books will continue. National defense and nondefense discretionary appropriations are assumed to keep pace with inflation. Because the baseline and the CBO estimate of the budget employ the same economic and technical estimating assumptions, differences between the two are solely the result of proposed policy changes. CBO estimates that the Bush Administration's budget proposals would reduce the deficit by \$16 billion in 1990 and \$39 billion in 1993, as shown in Table 7.

Revenues

Compared with the CBO baseline, the Bush Administration's revenue proposals would reduce the deficit by \$4 billion in 1990 but would increase it slightly thereafter, as shown in Table 8. This pattern follows that of the proposed reduction in the capital gains tax rate, which CBO and JCT estimate would increase revenues by \$3.3 billion in 1990 and reduce tax collections in 1991 through 1993. In addition to the capital gains proposal, the Bush Administration has proposed the establishment of enterprise zones, extension of the excise tax on telephone use, a child care credit, and additional incentives for oil and gas exploration. Otherwise, President Bush has endorsed the tax proposals contained in the Reagan budget, including extension of Medicare taxes and coverage to all employees of state and local governments, maintenance of airport and airway taxes at 1989 rates, increased Internal Revenue Service funding to enforce tax laws, and inducements for research and experimentation.

National Defense

President Bush's defense request is intended to provide a constant level of real budget authority for the military activities of the Depart-

ment of Defense in 1990. It would provide real increases of 1 percent in 1991 and 1992 and 2 percent in 1993, using the Administration's economic assumptions. It would provide little if any real growth, however, under CBO's higher inflation assumptions. The Administration also proposes more spending to clean up and modernize nuclear weapons facilities. While details of the defense program are not yet available, CBO estimates that it would increase outlays slightly in 1990 compared with the baseline and reduce them in later years.

Entitlements and Offsetting Receipts

The Bush Administration's budget for 1990 proposes policies that would raise entitlement spending relative to CBO's baseline by \$0.8

TABLE 7. THE BUSH ADMINISTRATION'S BUDGET PROGRAM AS ESTIMATED BY CBO (By fiscal year, in billions of dollars)

	1990	1991	1992	1993
CBO Baseline Deficit	146	146	140	135
Proposed Changes				
Revenues ^a	-4	b	2	3
National defense	1	-2	-5	-6
Nondefense discretionary spending	1	3	3	3
Entitlements and other				
mandatory spending	1	-6	-17	-18
Offsetting receipts	-1	-5	-3	-5
Asset sales and prepayments	-3	-2	-1	1
Net interest	-1	-3	-5	-7
Residual programs	<u>-10</u>	<u>-8</u>	<u>-10</u>	<u>-10</u>
Total Proposed Changes	-16	-22	-36	-39
Deficit, Bush Administration Budget as Estimated by CBO^c	130	124	104	96

SOURCE: Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

- a. Revenue increases are shown with a negative sign because they reduce the deficit.
- b. Less than \$0.5 billion.
- c. Including asset sales and REFCORP.

TABLE 8. THE BUSH ADMINISTRATION'S PROPOSALS--REVENUES
(By fiscal year, in billions of dollars)

	1990	1991	1992	1993
CBO Baseline	1,068.6	1,140.2	1,208.7	1,280.5
Proposed Changes				
Reduce capital gains tax rate	3.3	-4.0	-6.4	-6.9
Establish enterprise zones	-0.2	-0.2	-0.3	-0.4
Increase incentives for oil and gas exploration	-0.3	-0.4	-0.4	-0.5
Extend telephone excise tax	--	1.6	2.7	2.9
Extend research and experimentation provisions	-2.1	-1.4	-1.8	-2.0
Extend Medicare coverage to all state and local employees	1.7	1.9	1.9	1.9
Increase IRS enforcement	0.3	0.6	0.7	0.7
Repeal reduction in airport and airway taxes	0.9	1.5	1.6	1.8
Other	<u>a</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.4</u>
Total Proposed Changes	3.7	-0.4	-2.1	-2.9
Bush Administration's Budget, as Estimated by CBO	1,072.3	1,139.7	1,206.6	1,277.6

SOURCES: Office of Management and Budget; Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

a. Less than \$50 million.

billion in 1990 and reduce it by \$17.4 billion in 1993, as shown in Table 9. The Bush Administration's proposals for spending on entitlements and other mandatory programs differ from the Reagan budget in three major respects. First, the Administration would substantially increase spending to resolve the savings and loan crisis, as previously described. Second, President Bush proposes no specific reductions in Medicaid or other means-tested benefits. Third, he recommends a new tax credit for each child under age four in low-income working families. The refundable portion of the credit would be recorded as a budget outlay, like the existing Earned Income Tax Credit.

President Bush's budget assumes Medicare and farm price support savings of the same size as recommended in the Reagan budget, although the Administration has not endorsed the specific mechanisms the Reagan budget proposed for achieving those savings. President Bush adopts the Reagan proposals to reduce cost of living adjustments for federal civilian and military retirees, eliminate the lump-sum payment option in the Civil Service Retirement System, and reduce spending on health benefits for annuitants. The President proposes to continue the 1 percent origination fee currently charged to

**TABLE 9. THE BUSH ADMINISTRATION'S PROPOSALS--
ENTITLEMENTS AND OTHER MANDATORY SPENDING**
(By fiscal year, in billions of dollars)

	1990	1991	1992	1993
CBO Baseline	583.1	630.8	670.9	717.9
Proposed Changes				
Deposit insurance	12.8	6.8	-1.8	-1.0
Child care credit	0.3	3.0	3.3	3.6
Medicare	-4.8	-6.4	-7.9	-9.1
Federal retiree benefits				
Civilian retirement	-2.9	-3.6	-3.9	-4.3
Military retirement	-0.8	-1.2	-1.5	-1.8
Annuitants' health benefits	<u>-1.0</u>	<u>-1.2</u>	<u>-1.3</u>	<u>-1.5</u>
Subtotal	-4.6	-6.0	-6.8	-7.7
Federal price supports	-1.6	-1.7	-1.4	-1.1
Veterans' loans	-0.7	-0.7	-0.8	-0.8
Other	<u>-0.7</u>	<u>-1.0</u>	<u>-1.5</u>	<u>-1.7</u>
Total Proposed Changes	0.6	-6.0	-16.9	-17.7
Bush Administration's Budget as Estimated by CBO^a	583.7	624.8	654.0	700.2

SOURCE: Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

a. The figures do not include possible changes to residual programs.

veterans on federally guaranteed housing loans; the Reagan Administration had proposed to raise the fee to 3.8 percent.

The federal government collects over \$60 billion a year in user fees and other receipts that are counted as offsets to spending. The Bush Administration proposes several changes--all included in the Reagan budget--that would increase offsetting receipts by \$0.6 billion in 1990 and \$4.6 billion in 1993. The budget would extend the provision requiring that the Supplementary Medical Insurance premium be large enough to finance 25 percent of the program's costs. Raising the premium would bring in \$0.2 billion in 1990 and \$2.2 billion in 1993, as Table 10 shows. The budget also proposes fees for the right to produce or import chlorofluorocarbons, the use of certain bands of the radio spectrum, and the issuance of securities by government-sponsored enterprises. In addition, leases would be sold for oil and gas production in the Arctic National Wildlife Refuge.

Other Spending

The Bush Administration makes specific proposals for about 40 percent of nondefense discretionary spending. Increases over baseline levels are requested in 1990 for international affairs, science and space, the decennial census, Federal Aviation Administration and Coast Guard operations, certain education initiatives, health research, and drug control and enforcement. The Administration proposes to reduce spending by eliminating direct loans by the Farmers Home Administration and Rural Electrification Administration and replacing them in part by guaranteed loans and vouchers. On balance, outlays for enumerated discretionary programs would be \$1 billion higher than the CBO baseline in 1990.

Over \$9 billion of the \$15 billion reduction in the 1990 deficit would come out of the residual programs, for which President Bush has made no specific proposals. The residual category consists almost entirely of programs within the spending jurisdiction of the Appropriations Committee, although some of these are mandatory programs, such as payments to the states for foster care and the administrative expenses of food stamps and family support. In addition, the residual category contains a number of offsetting receipts and permanent appropriations, notably the Postal Service fund. The \$2

billion in unspecified savings needed to hold residual programs to \$136 billion in outlays arises primarily because the outlays of the Postal Service will grow by about \$2 billion from 1989 to 1990.

The Bush Administration continues the Reagan Administration's policy of privatizing federal commercial activities by selling certain federal assets. CBO estimates that a total of \$3.2 billion in receipts will be generated from the sale of loan and real assets in 1990. Proceeds from these sales, however, may not be counted toward meeting the Balanced Budget Act targets.

TABLE 10. THE BUSH ADMINISTRATION'S PROPOSALS--
OFFSETTING RECEIPTS (By fiscal year, in billions of dollars)

	1990	1991	1992	1993
CBO Baseline	-61.2	-64.0	-68.0	-71.6
Proposed Changes				
Medicare	-0.2	-0.7	-1.3	-2.2
Chlorofluorocarbons production rights	-0.4	-1.4	-0.6	-0.6
Unassigned spectrum auction	-0.3	-0.3	0	0
Government enterprises	-0.1	-0.2	-0.6	-0.8
Arctic National Wildlife Refuge	0	-1.6	a	-1.0
Power marketing reforms ^b	a	-0.4	-0.3	-0.4
Other	<u>0.3</u>	<u>-0.3</u>	<u>-0.1</u>	<u>0.4</u>
Total Proposed Changes	-0.6	-4.8	-2.8	-4.6
Bush Administration's Budget as Estimated by CBO ^c	-61.9	-68.8	-70.8	-76.2

SOURCE: Congressional Budget Office.

NOTE: The totals include Social Security, which is off-budget.

- a. Less than \$50 million.
- b. Portions of the proposed power marketing reforms are included in the category of "Entitlements and Other Mandatory Spending."
- c. The figures do not include possible changes to residual programs.

Table 11 lists the assets selected for sales. Half of the 1990 proceeds--\$1.6 billion--would derive from the sale of loan assets, primarily rural and other housing loans. Incentives to borrowers from the Rural Electrification Administration and Rural Telephone Bank to prepay their loans would yield an estimated \$0.5 billion. Sales of other assets would raise \$1.1 billion, mostly from selling the naval petroleum reserves at Elk Hills, California, and Teapot Dome, Wyoming.

Implications for the Appropriations Committee

What are the implications of the Bush budget proposals for the programs in the jurisdiction of the Appropriations Committee? Table 12

**TABLE 11. THE BUSH ADMINISTRATION'S PROPOSALS--
ASSET SALES AND PREPAYMENTS**
(By fiscal year, in billions of dollars)

	1990	1991	1992	1993
Loan Asset Sales				
Rural housing	-0.5	a	-1.0	0.1
Housing for elderly and handicapped	-0.5	-0.6	-0.5	0.2
Small Business Administration	-0.2	-0.1	-0.1	a
College housing and facilities	-0.3	a	a	a
Other	-0.2	-0.1	-0.1	a
Subtotal	-1.6	-0.7	-1.6	0.2
Prepayments				
Rural Electrification Administration and Rural Telephone Bank	-0.5	-0.1	-0.3	a
Other Asset Sales				
Naval petroleum reserves	-1.0	0.4	0.4	0.4
Power marketing administrations	-0.1	-1.2	0.1	0.1
Other	2	0	0	0
Subtotal	-1.1	-0.8	0.5	0.5
Total	-3.2	-1.6	-1.4	0.7

SOURCE: Congressional Budget Office.

a. Less than \$50 million.

compares the allocation of budget authority and outlays to the Appropriations Committee under four different alternatives in the categories used for the 1987 budget summit. First is the CBO baseline, which increases discretionary budgetary resources--budget authority, obligation limitations, and credit limitations--by the rate of inflation. Second is a resource freeze, which holds discretionary budget authority and other budgetary resources constant at their 1989

TABLE 12. PROGRAMS IN THE SPENDING JURISDICTION OF THE APPROPRIATIONS COMMITTEE, FISCAL YEAR 1990
(In billions of dollars)

	Mandatory	Defense Discre- tionary	Nondefense Discre- tionary	Total
Budget Authority				
CBO Baseline	158.7	310.0	181.8	650.4
Resource Freeze	158.7	299.6	173.1	631.3
Reagan Budget, as Estimated by CBO	152.0	315.9	173.9	641.9
Bush Budget, as Estimated by CBO ^a	155.5	310.0	175.0	640.5
Outlays				
CBO Baseline	157.7	304.1	199.8	661.7
Resource Freeze	157.7	298.5	194.1	650.3
Reagan Budget, as Estimated by CBO	150.8	307.2	195.1	653.1
Bush Budget, as Estimated by CBO ^a	154.2	304.8	196.1	655.1

SOURCE: Congressional Budget Office.

a. These figures do not include \$2.2 billion in unspecified outlay savings and the corresponding reductions in budget authority.

levels. The third and fourth alternatives are the Reagan and Bush budgets, as estimated by CBO.

The Bush budget would cut budget authority for mandatory appropriations compared with current law, but by less than the Reagan budget. These mandatory programs are effectively controlled by other committees, however, and the Appropriations Committee is held harmless for their actions or inactions.

The story for discretionary appropriations is complicated by the presence of \$2.2 billion in unspecified outlay savings in the Bush budget. Table 12 shows what would happen if none of these unspecified savings came from discretionary appropriations. In that case, defense discretionary budget authority would total \$310.0 billion--the same as the CBO baseline and \$5.9 billion less than the Reagan request. Nondefense budget authority would amount to \$175.0 billion--\$6.8 billion below the baseline but \$1.1 billion more than the Reagan budget. If any of the unspecified reductions were taken out of discretionary appropriations, the budget authority figures would be correspondingly lower. If the cuts were spread in a typical fashion, about \$165 million in budget authority reductions would be required to reduce 1990 outlays by \$100 million. If half the unspecified cuts were taken from nondefense discretionary appropriations, the total required reductions would be similar to those resulting from a freeze on budgetary resources.

On- and Off-Budget Totals

Accurately measuring the government's borrowing needs and its impact on the economy requires counting all revenues and spending. Recognizing this, the Balanced Budget Act adopted the total deficit--including off-budget programs--as the key measure in judging progress toward reducing the deficit. At the same time, the Balanced Budget Act requires that the revenues and outlays of the two Social Security trust funds--Old-Age and Survivors Insurance and Disability Insurance--be shown as off-budget.

CBO's estimates of the on- and off-budget totals for President Bush's budget are shown in Table 13. Because the Bush budget proposes no changes in Social Security benefits, the projected Social

Security surpluses are the same as in the CBO baseline--\$56 billion in 1989, growing to \$103 billion in 1993. President Bush's proposed reductions in non-Social Security activities are sufficient to hold the on-budget deficit to about \$200 billion per year in 1990 through 1993.

TABLE 13. ON- AND OFF-BUDGET TOTALS FOR PRESIDENT BUSH'S BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1989	1990	1991	1992	1993
Off-Budget (Social Security)					
Revenues	267	290	312	333	355
Outlays	211	222	234	243	252
Surplus	56	68	79	90	103
On-Budget (All other programs)					
Revenues	716	783	827	874	922
Outlays	938	981	1,030	1,067	1,122
Deficit	-222	-198	-203	-194	-200
Total					
Revenues	984	1,072	1,140	1,207	1,278
Outlays	1,150	1,203	1,264	1,310	1,374
Deficit	-166	-130	-124	-104	-96

SOURCE: