

**An Analysis of
President Reagan's Budget Revisions
for Fiscal Year 1982**

**Staff Working Paper
March 1981**

Prepared at the Request of the
**Committee on Appropriations
House of Representatives**

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CONGRESS OF THE UNITED STATES



CONGRESSIONAL BUDGET OFFICE

**AN ANALYSIS OF
PRESIDENT REAGAN'S BUDGET REVISIONS
FOR FISCAL YEAR 1982**

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

**For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402**

NOTES

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

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



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

ERRATA SHEET

AN ANALYSIS OF PRESIDENT REAGAN'S BUDGET
REVISIONS FOR FISCAL YEAR 1982

Page 22: In Table 8, the percentage amounts in the column labeled "Administration Proposal" should read:

3.4
15.1
21.2
30.4
17.8
12.0
100.0

Correspondingly, the text on page xix (second paragraph) and page 20 (second paragraph) should be changed. As shown by the numbers above, under the Administration's tax cut proposal, those with incomes above \$100,000 would receive somewhat less in tax savings in calendar year 1981 than their current share of tax payments, and those with incomes between \$10,000 and \$20,000 would receive somewhat more.

Page A-4: The first line of the second full paragraph should read: "The direct loan program imposes additional interest costs of \$200 million to \$900 million annually on U.S. citizens."

Page A-18: The last sentence in the third paragraph should read: "Funding would be provided for treatment plants, but not for collector sewers."

Page A-39: In the first full paragraph, the second and third sentences--upon closer examination, CBO has determined that the reference to the GAO estimates of administrative costs as a percent of the total costs were misconstrued and are not germane to the discussion.

In the second full paragraph, the end of the second sentence should read: "which constitute about 64 percent of the funds to be included in the block grant."

Page A-42: The top line should read: "CBO estimates that this proposal would save approximately \$100 million in fiscal year 1981 and \$900 million in fiscal year 1982."

PREFACE

An Analysis of President Reagan's Budget Revisions for Fiscal Year 1982 was prepared at the request of the House Committee on Appropriations to update an earlier Congressional Budget Office (CBO) analysis of the 1982 budget submitted by President Carter in January. This report analyzes the possible economic impact of President Reagan's budget proposals, examines the major features of the President's revenue and spending proposals for 1982, and presents CBO reestimates of those proposals based on alternative economic assumptions and on CBO's estimating methods and assumptions. It briefly describes the federal credit budget, off-budget outlays, and the federal debt. Finally, the report analyzes in some detail the major budget increases proposed in national security programs and the proposed spending reductions in other federal activities.

The report was prepared by the staff of all CBO divisions under the supervision of William J. Beeman, James L. Blum, David S. C. Chu, Nancy M. Gordon, Stanley L. Greigg, Raymond C. Scheppach, and James M. Verdier. Robert L. Faherty, Patricia H. Johnston, Francis S. Pierce, and Johanna Zacharias edited the manuscript. It was typed for publication by the Budget Analysis and Natural Resources and Commerce Divisions.

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March 1981

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SUMMARY

The President's budget revisions propose a dramatic change in government policies designed to slow inflation, encourage saving and investment, stimulate economic growth, and strengthen national defense. Toward these ends the President proposes to reduce sharply the growth of federal budget outlays over the next five years, cut personal taxes over the next three years, reduce business taxes through accelerated depreciation, and increase significantly the relative share of the budget allocated to national defense.

The Administration aims at achieving a balanced budget by 1984. It proposes to cut spending and taxes in 1981-1984 substantially below the levels called for in the January budget submitted by the previous Administration (see Summary Table 1). The cuts would be moderate in 1981 and increase in subsequent years. The result would be to hold the growth of federal outlays during the next three years to less than 6 percent annually, compared to an average growth of about 13 percent per year since 1977. This would reduce the size of the federal budget relative to the total economy from 23.0 percent of Gross National Product (GNP) in 1981 to 19.3 percent in 1984 (see Summary Table 2). At the same time, the tax cuts proposed by the President would lower federal revenues relative to GNP from 21.1 percent in 1981 to 19.3 percent in 1984.

SUMMARY TABLE 1. FEDERAL BUDGET TOTALS FOR FISCAL YEARS 1980-1984 (In billions of dollars)

	Actual 1980	Estimates			
		1981	1982	1983	1984
Revenues					
January budget	520.0	607.5	711.8	809.2	922.3
March revisions	520.0	600.3	650.3	709.1	770.7
Outlays					
January budget	579.6	662.7	739.3	817.3	890.3
March revisions	579.6	655.2	695.3	732.0	770.2
Budget Surplus or Deficit (-)					
January budget	-59.6	-55.2	-27.5	-8.0	32.0
March revisions	-59.6	-54.9	-45.0	-22.8	0.5

The Administration also proposes to increase the share of defense in the budget from 23.4 percent in 1980 to 33.2 percent in 1984. Defense spending would grow by an average of 17.1 percent annually between 1980 and 1984, while nondefense spending would be held to an increase of about 1 percent per year after 1981. In real terms, adjusting for inflation, defense spending would grow by an average of over 8 percent per year between 1980 and 1984, but nondefense spending would fall to a level 15 percent lower in 1984 than in 1980.

SUMMARY TABLE 2. FEDERAL BUDGET TRENDS (By fiscal year)

	Actual 1980	Administration Estimate			
		1981	1982	1983	1984
Percentage Growth					
Revenues	11.6	15.4	8.3	9.0	8.7
Outlays	17.4	13.0	6.1	5.3	5.2
Defense	18.2	19.3	16.5	19.7	13.1
Nondefense	17.2	11.1	2.7	-0.1	1.7
Percent of GNP					
Revenues	20.3	21.1	20.4	19.7	19.3
Outlays	22.6	23.0	21.8	20.3	19.3
Defense	5.3	5.7	5.9	6.3	6.4
Nondefense	17.3	17.3	15.9	14.1	12.9
Relative Composition of Budget Outlays (percent)					
Defense	23.4	24.7	27.2	30.9	33.2
Nondefense	76.6	75.3	72.8	69.1	66.8

ADMINISTRATION'S BUDGET PROPOSALS

The President's budget revisions contain four major changes from current policies:

- o A 30 percent reduction in marginal tax rates on personal income, phased in over three years;
- o Much faster tax depreciation of capital expenditures;

- o A large cutback in nondefense spending; and
- o A substantial increase in defense spending.

Tax Changes

The President proposes to cut individual income taxes by 10 percent a year for three years, starting on July 1, 1981. This proposal is essentially the same as the Roth-Kemp bill, but without its indexing for inflation after the third year. The President's proposed income tax cut would reduce federal revenues by \$44 billion in fiscal year 1982, and by \$118 billion in 1984. While large by historical standards, the proposed tax cut approximately offsets the higher taxes resulting from the effects of inflation and from the past-1980 increases in Social Security taxes that were enacted in 1977.

The Administration's proposal to increase business depreciation allowances retroactive to January 1, 1981, would reduce tax revenues by \$10 billion in 1982 and by \$30 billion in 1984. The accelerated depreciation proposal is a slightly modified version of the 10-5-3 plan initiated by Congressmen Jones and Conable. It also includes provisions for real estate depreciation similar to those approved last year by the Senate Committee on Finance in its 2-4-7-10 depreciation proposal. The revenue losses from the President's proposal would be relatively low at first, because the changes would be phased in over five years, but the losses of federal revenue would then rise to an annual level of about \$85 billion by 1989.

Spending Changes

The Administration is proposing program decreases that would lower projected budget outlays for 1981-1984 by about \$250 billion from the levels contained in the January budget. Almost 30 percent--\$74 billion--of the program reductions, however, are yet to be identified.

The Administration exempted selected benefit payments, defined as the "social safety net," from any major spending reductions. These include basic Social Security benefits for the elderly, Medicare, railroad retirement, Supplemental Security Income, basic unemployment insurance, and certain veterans' benefits. The budget outlays for these programs are projected to increase by 50 percent between 1980 and 1984, and would constitute about 40 percent of total spending by 1984.

With defense spending also increasing by an even faster rate (by 88 percent between 1980 and 1984), and net interest costs remaining about the same, the brunt of the spending reductions falls upon the rest of the budget. About one-half of the proposed reductions that are identified in the

March budget revisions are for grants to state and local governments and for benefit payments to individuals. The major cuts in grant programs include the elimination of public service employment programs together with a consolidation and reduction in funding levels of various health and social services programs, state and local education grant programs, and youth training and employment programs. Other grants for energy, environment, transportation, and community development would also be cut.

Reductions are also proposed in several benefit payment programs that are administered by state and local governments, such as Medicaid, child nutrition programs, and assistance payments (AFDC). Other benefit payments that are directly administered by the federal government would also be cut, including certain Social Security benefits (the \$122 monthly minimum payment, student benefits, disability benefits, and certain death benefits), food stamps, trade adjustment benefits, and other unemployment benefits.

Somewhat more than 10 percent of the spending reductions from the January budget represent withdrawal of the previous Administration's proposals for a new youth education and training initiative, for a refundable investment tax credit, and for an 8 percent Social Security tax credit. The remaining reductions from the January budget include various energy, transportation, agriculture, and other subsidies and aid to business and industry; greater levels of offsetting receipts to be derived from stockpile sales and mineral leasing; and various administrative reductions, personnel adjustments, pay revisions, and other changes in government services. In addition, the President has endorsed a number of spending cuts proposed by the previous Administration in the January budget. These include annual rather than semiannual cost-of-living adjustments for federal employee retirement benefits, annual rather than semiannual adjustments for dairy price supports, and reductions for impact aid and other education programs.

The Administration has proposed substantial added funds for defense, not only increasing the amounts requested in the appropriation supplemental for fiscal year 1981, but asking for substantially more spending authority in 1982 than proposed by the previous Administration. Most of the added funds are for procurement programs for all of the military services, almost entirely for weapons already in production. In addition, the Administration proposes a 5.3 percent pay raise for all military personnel in July 1981 in addition to the 9.1 percent October 1981 pay raise assumed in the January budget. Large increases in defense funds are also projected for 1983 and 1984, but few details have been provided about how these additional funds would be used.

ECONOMIC IMPACT OF THE ADMINISTRATION'S PROPOSALS

The economic assumptions that underlie the President's March revisions are more optimistic than those used for the January budget. The differences in 1981 are slight, but after that they become substantial. The Administration's scenario shows real economic growth averaging 0.8 percentage points higher over the 1982-1986 period than does the January budget, and inflation averaging 1.5 percentage points lower.

The Congressional Budget Office (CBO) has estimated the economic effects of the Administration's policies in the light of historical experience. Estimates of the economy, even without major policy changes, cannot be projected with a high degree of reliability, and the effects of policy changes are subject to even more uncertainty. Thus, the CBO estimates of the economic effects of the Administration's budget proposals are subject to a large margin of error. These projections, which are shown as the "CBO Alternative" in Summary Table 3, show generally higher inflation and unemployment and less real economic growth than the Administration's over the 1981-1984 period.

There are four possible explanations of why the CBO economic projections based on historical experience may be more pessimistic than the Administration's projection.

- o The economic baselines may differ. The Administration has not provided the Congress with its assessment of how the economy would behave absent its proposed fiscal policy changes. It may be more optimistic in its assumptions about world oil prices, weather, international economic relations, and so on, than is the CBO.
- o The Administration's fiscal policies, especially the tax cuts, could have a more favorable effect on economic growth and inflation than historical experience suggests. Such an effect would come largely from a sharper increase in labor supply and/or a larger increase in saving and investment than has occurred in the past.
- o The monetary policy assumed in CBO's alternative projection differs from that of the Administration's scenario. In addition, the Administration assumes a much quicker impact of tight money on inflation than indicated by past experience.
- o The Administration is assuming substantial changes in government regulations. CBO was unable to estimate their economic impact since they have not yet been specified.

SUMMARY TABLE 3. A COMPARISON OF ECONOMIC ASSUMPTIONS (By calendar year)

Economic Variable	1981	1982	1983	1984	1985	1986
GNP (percent change, year over year)						
January Budget	11.4	13.1	12.3	11.8	11.0	10.2
Administration	11.1	12.8	12.4	10.8	9.8	9.3
CBO Alternative <u>a/</u>	11.8	11.9	11.5	11.4	11.7	10.9
Real GNP (percent change, year over year)						
January Budget	0.9	3.5	3.5	3.7	3.7	3.7
Administration	1.1	4.2	5.0	4.5	4.2	4.2
CBO Alternative <u>a/</u>	1.3	2.5	2.7	3.0	3.8	3.7
GNP Deflator (percent change, year over year)						
January Budget	10.5	9.3	8.5	7.8	7.0	6.3
Administration	9.9	8.3	7.0	6.0	5.4	4.9
CBO Alternative <u>a/</u>	10.3	9.2	8.6	8.1	7.5	7.0
CPI (percent change, year over year)						
January Budget	12.5	10.3	8.7	7.7	7.0	6.3
Administration	11.1	8.3	6.2	5.5	4.7	4.2
CBO Alternative <u>a/</u>	11.3	9.5	8.9	8.2	7.7	7.1
Unemployment Rate (percent, annual average)						
January Budget	7.8	7.5	7.1	6.7	6.3	6.0
Administration	7.8	7.2	6.6	6.4	6.0	5.6
CBO Alternative <u>a/</u>	7.8	7.9	7.8	7.7	7.5	7.2
91-Day Treasury Bills (percent, annual average)						
January Budget	13.5	11.0	9.4	8.5	7.7	6.8
Administration	11.1	8.9	7.8	7.0	6.0	5.6
CBO Alternative <u>a/</u>	12.6	13.7	11.5	10.2	9.7	9.3

a/ Based on the Administration's budget assumptions, derived by removing from the current policy baseline all tax changes not already legislated, and then incorporating the effects of the Administration's proposals.

NOTE: These projections were prepared using the Commerce Department's preliminary estimates of data for 1980.

On the other hand, there are at least three factors that could make the next five years turn out to be even worse than historical experience would suggest.

- o World commodity prices--especially for oil and food--may rise more rapidly than assumed. Poor weather, political unrest in the Middle East, or other adverse events could push inflation higher than projected.
- o The CBO estimates make no allowance for a variety of secondary effects that might result from the proposed spending cuts, such as an increase in state and local taxes to offset lost federal funds, or increased claims on welfare entitlement programs by persons losing other benefits under the spending cuts.
- o CBO has made no allowance for the possibility that phasing in the Administration's accelerated depreciation proposal may initially result in some postponement of investment as businesses wait for the arrival of larger tax benefits.

THE ADMINISTRATION'S TAX PROPOSAL

The cuts in marginal income tax rates over three years as proposed by the Administration should result in some increase in incentives to save and to work and reduce some of the distortions in investment that result from very high marginal tax rates. The tax savings for different income groups under the Administration's proposal are roughly proportional to their tax payments under present law. Taxpayers with incomes over \$100,000, however, do receive a somewhat larger share of the total savings than their share of current payments, while those with incomes between \$10,000 and \$20,000 receive somewhat less. Increases in the standard deduction, personal exemption, and other provisions that provide greater tax savings to lower-income taxpayers than rate cuts could be used to modify the distribution of the tax cut.

The Administration's depreciation reform proposal is intended to stimulate capital formation and long-term productivity growth. As proposed, the program would reduce tax revenues by approximately \$10 billion in fiscal year 1982 but increase them to about \$85 billion by 1989. If the Congress wanted to scale down the future-year revenue losses from depreciation reform, a provision similar to the 2-4-7-10 plan approved last year by the Senate Committee on Finance is one option. The revenue loss from that proposal would be about \$20 billion by fiscal year 1986 compared to \$50 to \$60 billion from the Administration's proposal. The business share

of the tax could also be expanded in order to provide more stimulus to capital investment and productivity. Evidence suggests that corporations save more than 50 percent of increases in their after-tax income, much more than the percentage saved by individuals. The business share of the cut could be increased by putting the depreciation changes into effect immediately rather than phasing them in, by adding a cut in the top 46 percent corporate tax rate, or making the 10 percent investment tax credit partially refundable.

CBO BUDGET REESTIMATES

Inflation, unemployment, and other levels of economic activity have major effects on federal revenues and outlays. Although the differences between the Administration and CBO economic projections are within the range of forecasting error, the more pessimistic CBO projection implies sizable additional spending for indexed benefit payments, unemployment compensation, and net interest costs. In addition, use of CBO's spending rates and programmatic assumptions would also add significant amounts to the Administration's spending estimates. CBO's repricing of the March budget indicates that, if all of the Administration's spending proposals were approved by the Congress, outlays could be over \$6 billion higher in 1981, over \$25 billion higher in 1982, and \$45-\$50 billion higher in 1984 than projected by the Administration.

More than half of the differences in outlay estimates can be attributed to differences in the economic assumptions used for making the budget estimates. In the CBO projection, higher interest rates are estimated to add about \$8 billion to 1982 outlays and over \$12 billion to projected outlays in 1984 for net interest costs (see Summary Table 4). The effects of higher projected inflation would add about \$1 billion to 1982 outlays for Social Security and other indexed benefit payments, and \$9 billion by 1984. Higher inflation would also mean higher prices paid by hospitals for food, fuel, equipment, and other supplies, which results in higher Medicare outlays. Higher inflation would also affect Medicaid outlays, since the Administration proposes to limit federal Medicaid expenditures after 1982 by the increase in the GNP deflator. As a result, CBO estimates that Medicare and Medicaid outlays would be \$1.6 billion higher by 1984 than projected by the Administration. CBO's projection of higher oil prices would also add an estimated \$1.4 billion to defense fuel costs in 1982 and \$3.4 billion by 1984.

Higher unemployment would also add about \$2 billion to 1982 outlays for unemployment compensation, and \$6 billion by 1984. Higher unemployment, inflation, and interest rates would also raise federal outlays for food stamps, assistance payments, and interest costs for the guaranteed student loan program by over \$1 billion in 1982 and almost \$3 billion by 1984.

SUMMARY TABLE 4. CBO BUDGET OUTLAY REESTIMATES OF ADMINISTRATION SPENDING PROPOSALS BASED ON ALTERNATIVE ECONOMIC ASSUMPTIONS AND OTHER FACTORS (By fiscal year, in billions of dollars)

	1981	1982	1983	1984
Alternative Economic Assumptions				
Net interest	1.2	8.1	13.3	12.5
Social Security and other indexed benefit payments	0.2	0.9	3.0	9.3
Medicare and Medicaid	---	0.1	0.7	1.6
Defense fuel costs	0.3	1.4	2.4	3.4
Unemployment compensation	-0.7	1.9	4.6	6.0
Other programs	0.2	1.1	2.4	2.8
Subtotal	<u>1.1</u>	<u>13.5</u>	<u>26.3</u>	<u>35.6</u>
Alternative Programmatic Assumptions, Spending Rates, and Other Factors				
Defense programs	0.5	5.1	2.1	7.3
Farm price supports	1.6	0.8	1.0	0.7
Social Security and other income security programs	-0.1	1.8	2.6	2.7
OCS rents and royalties	0.9	-0.3	-1.5	-2.9
Other programs	2.5	5.3	3.5	4.2
Subtotal	<u>5.3</u>	<u>12.8</u>	<u>7.6</u>	<u>12.0</u>
Total Reestimates	6.5	26.3	33.9	47.6

CBO also estimates that 1982 defense purchases are underfunded by \$6.7 billion in the Administration's budget. As a result of higher inflation assumptions for defense purchases than those used by the Administration, CBO estimates that an additional \$1.6 billion in new budget authority would be required for projected fuel consumption, \$2.7 billion for full funding of proposed weapons purchases, and \$2.4 billion for defense supplies and other purchases.

In addition to the differences in economic assumptions discussed above, CBO in a number of instances makes different programmatic assumptions, and uses different spending rates, than those of the

Administration. CBO bases its assumed spending patterns on analyses of historical outlay trends and careful monitoring of actual outlays as they are reported monthly by the Treasury Department. Similarly, CBO's programmatic assumptions are based on its own analyses of trends in the growth of benefit populations and the utilization of federal benefits, and other factors. As shown in Summary Table 4, the use of these different spending rate and programmatic assumptions result in rather sizable reestimates of the Administration's projected outlays.

The largest CBO reestimate of Administration outlay projections resulting from the use of different spending patterns is for defense programs. CBO estimates that 1982 defense outlays will be about \$5 billion higher than projected by the Administration, primarily because of higher spending from prior-year obligations and contracts for procurement of weapons. CBO also projects higher defense outlays in 1984 using historical patterns of spending in relation to increases in budget authority.

CBO also projects higher spending for farm price supports, Social Security and other benefit payments, and higher rents and royalties on the Outer Continental Shelf. This results from using different programmatic assumptions about farm production, the growth in benefit populations, and the level of royalty payments and lease sales.

On the revenue side of the budget, the differences between the two projections are slight. CBO's projection of lower real growth through 1984 is offset by higher inflation, so that CBO's projection of nominal incomes is very close to the Administration's.

The combined effects of CBO's outlay and revenue reestimates would add \$8 billion to the Administration's projected budget deficit for fiscal year 1981 and \$22 billion to the 1982 deficit. They would also result in a projected budget deficit of almost \$50 billion in 1984 instead of a small surplus (see Summary Table 5).

PROGRAMMATIC IMPACTS OF THE ADMINISTRATION'S BUDGET REDUCTIONS

Almost all of the reductions focus on that portion of the budget that remains after expenditures for defense, the social safety net, and interest are excluded. This portion, which represents approximately 30 percent of the budget, consists mainly of programs in the fields of education, employment and training, food, nutrition, health, social services, energy, and transportation. Approximately one-third of the budget reductions for these programs are in grants to state and local governments. The reductions

SUMMARY TABLE 5. CBO ESTIMATES OF BUDGET TOTALS BASED ON ADMINISTRATION TAX AND SPENDING PROPOSALS (By fiscal year, in billions of dollars)

	1981	1982	1983	1984
Revenues				
Administration	600	650	709	771
CBO	599	654	707	769
Outlays				
Administration	655	695	732	770
CBO	662	721	766	818
Surplus or Deficit (-)				
Administration	-55	-45	-23	1
CBO	-63	-67	-59	-49

are to be made by tightening eligibility criteria, eliminating and reducing some programs, and consolidating outlays for others into block grants to state and local authorities.

An effort is being made to redesign some programs so as not to jeopardize the "truly needy." The proposals affecting child nutrition, food stamps, and postsecondary student assistance are illustrative of this approach. Reductions in Aid to Families with Dependent Children (AFDC), housing assistance, Medicaid, and public service employment (PSE) would, however, fall more heavily on the poor. Although in general the impacts may not be large, some people may be affected by more than one program cutback, raising the possibility that some would experience substantial reductions in their total benefits. For example, a parent of two children with relatively high work-related expenses could experience cuts in AFDC, food stamps, and child nutrition benefits; together they could reduce the family's disposable income by 10 to 25 percent.

The interrelations between programs may result in a number of secondary and offsetting budget effects from the proposed cuts. For example, eliminating PSE jobs would increase spending for public assistance and food stamps while decreasing revenues from Social Security payroll

taxes and federal income taxes. Preliminary estimates indicate that federal spending for public assistance and food stamps might increase by 3 to 5 percent of total PSE costs while federal taxes might decrease by 6 to 10 percent of total PSE cost.

The transportation budget reductions are primarily in the area of state and local operating grants and capital grants for transit and highways, and reductions in federal programs such as Amtrak and Conrail that are not cost-effective. Although many of the cuts in federal funding would be offset by higher fees or contributions from state and local governments, some reductions in service are likely. This would probably be the case for all passenger rail service, for rail freight service in the Northeast, and for small-town transit services. Relatively few users would be severely disadvantaged; the most severe impacts would be felt by firms forced to relocate or to pay more for transportation.

The Congress may wish to consider additional or different spending cuts. Some options covered in this report include changing the way benefits from entitlement programs are indexed for inflation, providing incentives to states for hospital rate setting, and increasing transportation user fees. Others include private financing of the Strategic Petroleum Reserve, eliminating or reducing the breeder reactor program, and eliminating maritime industry subsidies and agriculture deficiency payments.

CHAPTER I. THE ECONOMIC OUTLOOK AND THE ADMINISTRATION'S FISCAL POLICY

The Administration has proposed a dramatic change in government policies designed to slow inflation, encourage saving and investment, and stimulate economic growth. The Administration's fiscal policy consists of a sharp reduction in the growth of federal outlays beginning in 1982 and continuing for the next four years, together with large federal tax cuts over the next several years. The budget estimates (Table 1) show a balanced budget by 1984.

TABLE 1. ADMINISTRATION'S BUDGET TOTALS (By fiscal year, in billions of dollars)

	Actual 1980	1981	1982	1983	1984
Revenues	520.0	600.3	650.3	709.1	770.7
Target Outlay Ceiling	579.6	655.2	695.3	732.0	770.2
Target Surplus or Deficit (-)	-59.6	-54.9	-45.0	-22.8	0.5
Percent of GNP					
Revenues	20.3	21.1	20.4	19.7	19.3
Target outlay ceiling	22.6	23.0	21.8	20.3	19.3
Percent Growth					
Revenues	11.6	15.4	8.3	9.0	8.7
Outlays	17.4	13.0	6.1	5.3	5.2

Assuming enactment of the Administration's program, attainment of the fiscal and economic objectives depends to a large degree on the reaction of the economy. Estimates of the economic effect of policy changes are always difficult to make. The course of the economy, even without policy changes, cannot be predicted with a high degree of reliability, and the effects of policy changes are subject to even more uncertainty. Forecasting the effects at this time is particularly difficult for at least two reasons:

- o The unusual economic conditions we are now experiencing--a sustained high level of inflation together with high unemployment, relatively low capacity utilization, and record high interest rates--have raised some questions about using historical experience as a guide to the future; and
- o The policy changes proposed by the Administration, particularly the multiyear cut in personal income taxes, are unusually large.

Hence, the estimates presented below are subject to a large margin of error.

THE ADMINISTRATION'S FISCAL POLICY

The Administration's proposals involve a shift in federal priorities from nondefense to defense spending and from public allocation of resources to increased private allocation. The spending proposals include:

- o A sharp increase in defense spending, averaging about 9 percent per year in real terms during the 1980-1986 period; and
- o Large reductions in nondefense spending, building from about \$48 billion in fiscal year 1982 to \$138 billion in 1984, relative to the January spending proposals. The spending cuts are mostly concentrated in grants to state and local governments and in transfer programs.

Individuals and businesses would receive substantial tax cuts. Specifically, the Administration's major tax proposals are:

- o For individual income taxes, rate cuts of 10 percent in July 1981, July 1982, and July 1983; and
- o For business, much faster tax depreciation of capital and some liberalization of the investment tax credit. The depreciation proposal is similar to the well-known "10-5-3" proposal (with somewhat longer depreciation lives for structures). The first phase of the business tax cuts would be retroactive to January 1, 1981, followed by additional phases in 1982 through 1985.

THE ADMINISTRATION'S AND THE JANUARY BUDGETS COMPARED

In comparison to the January budget, the Administration's budget recommends much slower growth in outlays in coming years, greater

emphasis on defense spending, larger tax reductions, and a larger deficit in 1982. On the outlay side, the Administration's recommendation is \$7.5 billion lower in fiscal year 1981, \$44.0 billion lower in 1982, and \$120.1 billion lower in 1984. On the receipts side, the Administration's recommendations are \$7.2 billion lower in 1981, \$61.5 billion lower in 1982, and \$151.6 billion lower in 1984. The revised budget calls for a slower decline in the deficit--to \$45.0 billion for 1982, compared with \$27.5 billion in the January budget. (A detailed comparison of the January budget and the Administration's budget is provided in Chapter III.)

The economic assumptions that underly the Administration's budget are more optimistic than those underlying the January budget (see Table 2). The differences in 1981 are slight, but after that they become substantial. The Administration's scenario shows real growth averaging 0.8 percentage points per year higher over the 1982-1986 period, and inflation averaging 1.5 percentage points lower.

THE CBO BASELINE PROJECTION

Estimates of the performance of the economy under alternative policy options require an assumption about the baseline economic conditions--that is, the economic path that would be followed without the specific policy changes being studied. The baseline used here is the CBO baseline projection. For 1981 and 1982, that projection is a forecast of economic activity assuming the continuation of the tax and spending policies of the Second Concurrent Resolution on the Budget for Fiscal Year 1981. The baseline projection includes no spending cuts below current policies. The tax reductions in the resolution were assumed to include a 10 percent personal income tax cut effective July 1, 1981, and accelerated depreciation (the Senate Finance Committee proposal) retroactive to January 1, 1981.

For 1983 through 1986, the CBO projection assumes a moderate growth of real nonfederal spending and productive capacity, which on the basis of postwar experience implies tax cuts sufficient to prevent a rise in effective tax rates--that is, tax increases resulting from the interaction of the progressive tax system and rising nominal incomes. These additional tax reductions accumulate to roughly \$110 billion by 1986 (see Table 3). Without such adjustments, the rising tax burden would slow economic activity substantially.

TABLE 2. A COMPARISON OF ECONOMIC ASSUMPTIONS (By calendar year)

Economic Variable	1981	1982	1983	1984	1985	1986
GNP (percent change, year over year)						
Administration	11.1	12.8	12.4	10.8	9.8	9.3
January Budget	11.4	13.1	12.3	11.8	11.0	10.2
CBO Baseline	11.9	12.3	11.8	11.7	11.2	10.8
CBO Alternative <u>a/</u>	11.8	11.9	11.5	11.4	11.7	10.9
Real GNP (percent change, year over year)						
Administration	1.1	4.2	5.0	4.5	4.2	4.2
January Budget	0.9	3.5	3.5	3.7	3.7	3.7
CBO Baseline	1.4	2.9	2.9	3.3	3.4	3.5
CBO Alternative <u>a/</u>	1.3	2.5	2.7	3.0	3.8	3.7
GNP Deflator (percent change, year over year)						
Administration	9.9	8.3	7.0	6.0	5.4	4.9
January Budget	10.5	9.3	8.5	7.8	7.0	6.3
CBO Baseline	10.3	9.2	8.6	8.1	7.6	7.1
CBO Alternative <u>a/</u>	10.3	9.2	8.6	8.1	7.5	7.0
CPI (percent change, year over year)						
Administration	11.1	8.3	6.2	5.5	4.7	4.2
January Budget	12.5	10.3	8.7	7.7	7.0	6.3
CBO Baseline	11.3	9.5	9.0	8.3	7.7	7.2
CBO Alternative <u>a/</u>	11.3	9.5	8.9	8.2	7.7	7.1
Unemployment Rate (percent, annual average)						
Administration	7.8	7.2	6.6	6.4	6.0	5.6
January Budget	7.8	7.5	7.1	6.7	6.3	6.0
CBO Baseline	7.7	7.6	7.5	7.4	7.2	7.0
CBO Alternative <u>a/</u>	7.8	7.9	7.8	7.7	7.5	7.2
91-Day Treasury Bills (percent, annual average)						
Administration	11.1	8.9	7.8	7.0	6.0	5.6
January Budget	13.5	11.0	9.4	8.5	7.7	6.8
CBO Baseline	12.7	13.8	11.6	10.3	9.8	9.6
CBO Alternative <u>a/</u>	12.6	13.7	11.5	10.2	9.7	9.3

a/ Based on the Administration's budget assumptions, derived by removing from the current policy baseline all tax changes not already legislated, and then incorporating the effects of the Administration's proposals.

NOTE: These projections were prepared using the Commerce Department's preliminary estimates of data for 1980.

TABLE 3. TAX REDUCTIONS IMPLICIT IN THE CBO BASELINE PROJECTION (By calendar year, in billions of dollars, on an NIA basis)

	1981	1982	1983	1984	1985	1986
Specified Tax Cuts	-18	-47	-55	-64	-74	-85
Unspecified Tax Cuts	--	--	-30	-50	-80	-110
Total	-18	-47	-85	-114	-154	-195

ESTIMATES OF THE IMPACT OF THE ADMINISTRATION'S BUDGET PROPOSALS--BASED ON HISTORICAL EXPERIENCE

Economists have developed several large-scale econometric models based on the history of the U.S. economy since World War II. These models can be used to answer the question: What does past experience tell us about the likely effect of a given policy change? Since the models differ in structure, they tend to give somewhat different answers. CBO has developed techniques for averaging their results. ^{1/}

CBO's estimates indicate that the effects of the Administration's proposed budget changes on Gross National Product, prices, and unemployment in the first five years would not be greatly different from the effects of the policies assumed in the CBO baseline projection. The comparison is shown in Table 2, in the projections for "CBO Baseline" and "CBO Alternative." While the annual rates of growth would differ, the cumulative difference over the projection period would be negligible. (The Administration's changes would, of course, make a difference in the future size of the federal sector and in the allocation of resources.) The CBO projection has assumed tax cuts that are smaller than those specified by the Administration, but the Administration is recommending less spending than assumed in the CBO current policy projection. Since the Administration's additional tax cuts would be approximately offset by its spending cuts, it is not surprising that the macroeconomic effects of the two policies are similar.

^{1/} See Congressional Budget Office, The Multipliers Project: A Methodology for Analyzing the Effects of Alternative Economic Policies (August 1977).

Relative to a baseline with no tax cuts, the Administration's proposals would significantly increase real economic growth and lower the unemployment rate while causing some upward push on inflation in the outyears. The delayed inflationary impact is reduced by the increases in productive capacity in the later years that result largely from the cuts in business taxes.

ADMINISTRATION AND CBO ALTERNATIVE PROJECTIONS COMPARED

The CBO estimate of the economic impact of the Administration's budget derived from postwar experience ("CBO Alternative" in Table 2) may also be compared with the Administration's economic scenario ("Administration" in Table 2). There are only minor differences in 1981. Both foresee lackluster real growth and continued high inflation. Between 1982 and 1986, the differences are more substantial. In the CBO estimate, real GNP growth averages 1 1/4 percent a year less than in the Administration's estimate, inflation averages 1 3/4 percent a year higher, and the Treasury bill rate averages 3 3/4 percentage points higher. Economic growth is slower in the early years of the CBO alternative projection perhaps because supply effects occur later, as suggested by the convergence of growth rates in outyears. At the same time, inflation responds more slowly to monetary policy in the CBO alternative, as suggested by historical experience.

Although the differences between the economic projections of the Administration and CBO are within the range of forecasting error, the differences have significant budget implications. A reestimate of the Administration budget outlays to take account of the effects of the more pessimistic CBO projection shows sizable increases in indexed benefit payments, unemployment insurance, and net interest costs (see Chapter III). The CBO economic projection applied to Administration policies adds about \$35 billion to outlays by fiscal year 1984.

There are four possible, not mutually exclusive, explanations of why the CBO economic projection derived from historical experience may be more pessimistic than the Administration's projection of the economy under its program:

- o The economic baselines from which the effects of changed fiscal policies have been calculated may differ. The Administration has not provided the Congress with its assessment of how the economy would behave absent its proposed fiscal policy changes, but its baseline projection may be more optimistic in its assumptions about world oil prices, weather, international economic relations, and so on, than is the CBO five-year projection.

- o The proposed fiscal policy changes, especially the tax reductions, may have a greater impact on total productive capacity than postwar experience suggests.
- o The monetary policy assumed in CBO's estimates differs from the monetary policy assumed in the Administration's scenario. In addition, the latter assumes a much quicker impact of tight money on inflation than is indicated by previous episodes of restrictive monetary policy.
- o The Administration is assuming unspecified, but apparently substantial, changes in government regulations, which could affect prices, resource allocation, and economic growth. The CBO estimates assumed no regulatory changes.

The first explanation cannot be assessed until the Administration's baseline projection is made available to the Congress. More can be said about the last three possible explanations.

Fiscal Policy Changes and Total Productive Capacity

The Administration's economic policies could have a more favorable effect on the growth of real output and on inflation than indicated in Table 2. This could happen if the tax cuts were to have a larger effect on total productive capacity than is suggested by historical experience. If such an effect occurred, it would come largely from a sharper increase in labor supply and/or a larger increase in saving and investment than has been seen in the past.

Labor Supply. A personal income tax cut could generate a large increase in labor supply if a substantial portion of the population responded to the increased take-home pay by working more hours. A cut in marginal tax rates, such as proposed in Roth-Kemp, might have this effect.

A 1978 review of the literature in this area concluded that a 10 percent rise in disposable wages might induce a net increase in the labor supply of 1 to 3 percent. ^{2/} The evidence indicates that most of the

^{2/} Congressional Budget Office, An Analysis of the Roth-Kemp Tax Cut Proposal (October 1978). In his more recent review of the literature, Donald Fullerton concluded that a 1 1/2 percent net increase in labor supply from a 10 percent rise in the disposable wage was most reasonable. Donald Fullerton, "On the Possibility of an Inverse Relationship Between Tax Rates and Government Revenues," NBER Working Paper No. 467.

sensitivity of work/leisure choices is concentrated among second earners in households, especially married women.

Those findings illustrate the possible impact of the proposed tax cut on labor supply. If one generously assumes that the average marginal tax rate is 30 percent, three 10 percent cuts would eventually reduce that rate by about 8 percentage points. That change in after-tax earnings, combined with the more optimistic labor-supply elasticity (0.3), implies that the labor supply could grow by an additional two-thirds percentage point per year through 1986 as a result of the tax reductions.

Saving and Investment. Another possible supply-side response to decreased marginal personal income tax rates would be an increase in saving and investment. The Administration's proposed personal income tax cut could boost savings more than past tax cuts because a larger portion of the benefit of the tax cut would accrue to persons with above-average incomes. Moreover, some empirical studies have found a positive relationship between saving and the after-tax rate of return. One study found that a 1 percent increase in the return on capital led to a 0.4 percent increase in saving. ^{3/} But even with such an optimistic estimate of saving response, a doubling in the after-tax rate of return would increase the capital stock by less than 1.5 percent in the first year. ^{4/}

Three 10 percent tax cuts would not, by themselves, double the after-tax rate of return. Assuming an average marginal rate of 40 percent on income from savings, the tax reductions would reduce that rate by about 11 percentage points. Assuming--again very generously--that current saving equals one-tenth of the capital stock and that all additional saving is channeled into productive investment, the capital stock could increase by an additional one-half of a percentage point a year through 1986. Even this rate of growth may be overly optimistic. Major capital projects typically require several years to plan, design, finance, and implement. The full impact of tax changes designed to promote capital formation would probably not be felt during the first few years.

^{3/} Michael Boskin, "Taxation, Saving, and the Rate of Interest," Journal of Political Economy, vol. 86 (April 1978).

^{4/} In 1979, given personal saving (flow-of-funds basis) of \$121 billion, a 100 percent increase in after-tax return would have increased savings by about \$48.4 billion, which was less than 1.5 percent of the capital stock including housing and consumer durables. Congressional Budget Office, The Productivity Problem: Alternatives for Action (January 1981).

The first few years, of course, are only the beginning. The effects of greater saving and investment are cumulative and become increasingly important in the longer run. If, for example, the stock of business fixed capital were to grow at a rate one percentage point higher than the average of the 1970s (about 2.5 percent per year), it would become one-third larger by the end of the century--enough to increase labor productivity 5 to 10 percent by the year 2000. Such a change would make an important contribution to the growth of living standards.

Overall Effect. The effect of lower tax rates on productive capacity and real output could be substantial. Using generous assumptions about the ways in which people respond to tax cuts, the cuts could increase the productive capacity of the economy by about 3 percent in 1986, which means that the average annual growth of real output could increase by one-half of a percentage point per year through 1986 as a result of such supply responses. 5/

Monetary Policy

The Administration's projection is based on the assumption of a steady reduction in money-supply growth during the forecast period: "To that end, the economic scenario assumes that the growth rates of money and credit are steadily reduced from the 1980 levels to one-half of those levels by 1986." 6/

The monetary policy assumptions raise two major questions. Is the assumption of halving the growth of money consistent with the rest of the Administration's projection, especially the near double-digit growth of nominal GNP through 1986? Can the assumed monetary policy slow the momentum of inflation without causing lost production and jobs?

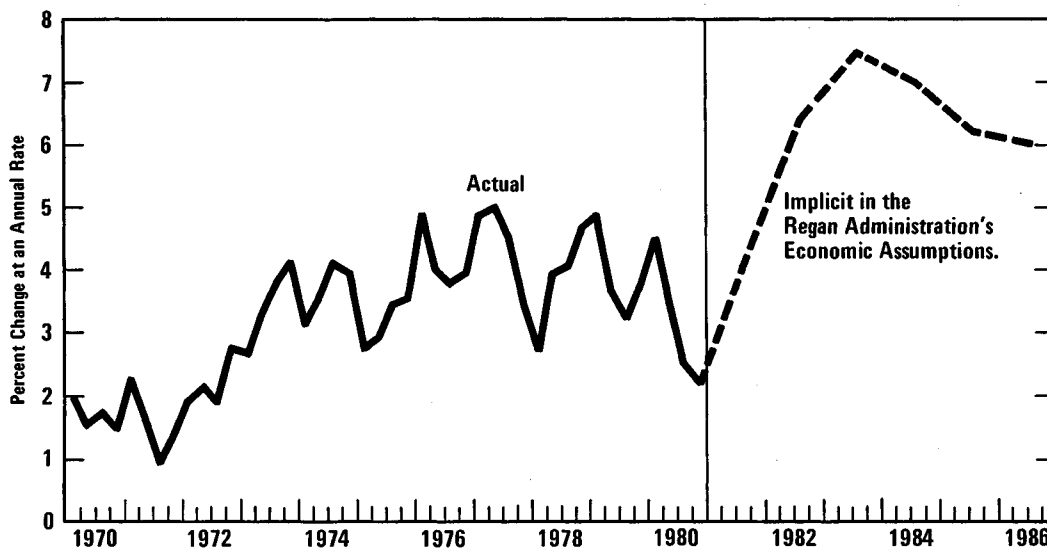
Consistency. Halving the growth of the money supply while increasing the rate of economic growth would require an increase in the rate at which money turns over--that is, its velocity. The two-year annual rate

5/ The additional assumptions used to derive this estimate include constant returns to scale, market-clearing factor prices, and a homogeneous labor supply.

6/ A Program for Economic Recovery, p. 23.

of growth of M1B income velocity is shown in the chart below. The chart is divided into two parts, showing actual performance from 1970 to 1980 and the Administration's assumptions from 1980 to 1986. As can be seen, the assumed growth rates in the velocity of money exceed previous experience.

Percent Change in the Velocity of M1B from Two Years Earlier



SOURCES: Federal Reserve System, Board of Governors, Executive Office of the President, Office of Management and Budget.

More troublesome, the rapid rise in money velocity is assumed to occur simultaneously with a substantial drop in interest rates. Since velocity growth is a rough measure of the demand for money relative to supply, the assumption is that the price of money--interest rates--will fall while the relative demand for money is increasing.

Inflation. An important characteristic of monetary policy assumed in the Administration's projection is that it can induce a substantial slowdown in inflation without also causing a reduction in output and employment. Such a favorable outcome would be a sharp break with the past. Inflation, once started, appears to develop substantial momentum. Because of that momentum, previous attempts to reduce inflation with tight money have initially resulted in higher unemployment and decreased output, and only subsequently in lower inflation.

In a review of periods of restrictive monetary policies through the 1969-1970 recession, Milton Friedman concluded that "... prices reacted decidedly later than production, and reacted with a lag varying from eleven to thirty-one months." ^{7/} Professor Friedman was examining the initial reaction of prices; others have estimated that the full impact of tight money on prices occurs with a lag of perhaps five to ten years. The experience of the most recent recessions in 1973-1975 and in 1980 does not suggest that the costs in output and jobs were any smaller than in earlier downturns.

The stubborn momentum of inflation, even when product and labor markets are slack, is a historical fact that has been built into the large econometric models. The momentum of inflation may, however, be the result of widespread expectations that future government policies, most notably monetary policy, will continue to feed inflation. Thus, a credible change in monetary policy could change expectations as to future inflation, which in turn could reduce the upward bias of wage and price decisions, sharply slowing inflation without sacrificing output and employment.

Unfortunately, it is by no means certain that tight monetary policy--however steadfast and credible--will translate wholly and quickly into reduced inflation. Previous Federal Reserve announcements of restrictive policies--as in the autumn of 1979--have not brought significant immediate reductions in inflation. More important, there may be other reasons for the stubborn momentum of inflation even during periods of slack product and labor markets. Particularly relevant in the 1970s was the ability of some individuals and groups to maintain their customary growth in real income in the face of adverse changes in prices--as when the doubling of world oil prices in 1979 brought an upward adjustment of many other prices and wages.

It must be recognized, however, that the policies proposed by the Administration are a sharp departure from the recent past. No one can be certain that a restrictive monetary policy cannot reduce inflation more quickly, and with less cost, in this new environment. Certainly the Administration's projected inflation rates are possible. If they turn out to be correct, the prospects for the entire policy package are favorable. But as yet there is no empirical basis for assuming such an outcome. ^{8/}

^{7/} Milton Friedman, "Have Monetary Policies Failed?" American Economic Review (May 1972), p. 14.

^{8/} Robert J. Gordon, "Why Stopping Inflation May Be Costly: Evidence from Fourteen Historical Episodes," National Bureau of Economic Research Inc., working paper (February 27, 1981).

Regulatory Change

The Administration's economic package includes the promise of substantial changes in the government regulation of prices, resource allocation, environment, health, and safety. Large econometric models typically assume that the regulatory environment remains unchanged. Consequently, the impact of such changes would have to be estimated independently of those models and factored into their projections.

Clearly, the economic impact of regulatory change can be large. For example, CBO estimated that trucking deregulation could lower the Consumer Price Index by 0.3 to 0.5 percentage points by 1985. ^{9/} The deregulation of airlines over the past four years has led to significant operating economies, thus moderating the price increases resulting from sharply increased fuel costs. The deregulation of railroads (the Staggers Rail Act of 1980) will also lead to significant operating economies, improving the financial condition of the railroads (although the net effect on prices will be related to price increases on goods such as coal and wheat, for which rail is the only transportation alternative). Furthermore, although decontrol of domestic crude oil prices is expected to raise the Consumer Price Index by 4.3 to 4.6 percentage points between 1979 and 1983, ^{10/} this change, like the others just mentioned, will improve resource allocation, increasing the overall productive capacity of the economy.

It is not possible at this time to estimate the impact of the Administration's regulatory changes, since they have not yet been specified. As they are spelled out, their effects should be estimated and the projections adjusted accordingly.

OTHER FACTORS INFLUENCING THE ESTIMATES

The foregoing discussion has focused on reasons why the outcome of the Administration's economic policies could be more favorable than indicated by postwar experience. On the other hand, there are at least three factors that could make the next five years, even with enactment of the Administration's policies, significantly worse than history suggests.

First, world commodity prices--especially for oil and food--may rise more rapidly than assumed. Poor weather, political unrest in the Middle

^{9/} Inflation Impact Analysis for S. 2245, March 27, 1980.

^{10/} CBO, Letter to Senator Kennedy, June 13, 1980.

East, or other adverse events could push inflation significantly higher than projected. The CBO estimates simply assume that there will be no such adverse price "shocks" through 1986--an assumption that caused projections made in the 1970s persistently to underestimate future inflation.

Second, the CBO estimates have made no allowance for a variety of secondary effects resulting from the proposed spending cuts. To the extent that state and local governments would raise taxes to offset lost federal funds, or that persons losing benefits would make claims on welfare entitlement programs, or that exports would be lost as a result of cuts in Export-Import Bank funding, and so on, the budget cuts would have a negative effect on the economic outlook. Moreover, to the extent that the budget cuts would reduce government capital spending, overall capital formation--and consequently the future growth of productivity--could be less than projected by CBO.

Third, the CBO estimates have made no allowance for the possibility that phasing in the Administration's accelerated depreciation proposal may initially have an inhibiting effect on investment. The phasing in could result in some postponement of investment as businesses wait for the arrival of larger tax benefits. If this were to happen on a large scale, the short-run benefits would be reduced. Once the program was fully in place, however, there could be a surge of investment, reflecting purchases that had been previously postponed. 11/

CONCLUSION

The Administration has proposed major changes in budget policies that would shift priorities from nondefense to defense spending and from public to private allocation of resources. It is the Administration's expectation that these policies will promptly produce a large favorable effect on inflation and economic growth. CBO's analysis indicates that, on the basis of historical experience, the Administration's economic scenario is optimistic, but certainly not impossible.

11/ Congressional Budget Office, Entering the 1980s: Fiscal Policy Choices (January 1980), pp. 74-80.

CHAPTER II. REVENUE ESTIMATES AND TAX PROPOSALS

The Reagan Administration budget for fiscal year 1982 projects revenues of \$650.3 billion, including an individual income tax cut of \$44.2 billion, a business tax cut of \$9.7 billion from accelerated depreciation, and \$2.6 billion in tax increases from user charges and other legislative and administrative changes.

The Administration's proposed individual and business tax cuts would grow sharply in future years as part of its multiyear budget program. The individual income tax cuts would approximately offset the effects of "bracket creep" from inflation and of higher social security taxes scheduled for those years.

Using somewhat less optimistic economic assumptions, CBO estimates that revenues after the Administration's proposed tax cut would be slightly above those estimated by the Administration in fiscal year 1982, slightly lower in fiscal years 1983 and 1984, and somewhat higher thereafter.

A number of alternative revenue proposals have been made in the Congress, including those to scale back the size of the Administration's proposed individual income tax cut; to provide more tax relief to lower-income taxpayers; to focus more of the cut on specific incentives for increased saving, investment, and work; and to modify and expand the business tax cut portion of the package. This chapter discusses the Administration's and CBO's revenue estimates and presents some of these alternative proposals.

While the Administration does not propose any reductions in special-purpose tax subsidies, many of the spending cuts it has proposed are justified in part by the argument that tax subsidies serving the same purpose will be continued. This chapter notes a number of other instances in which spending cuts and tax subsidies could usefully be considered together.

ADMINISTRATION AND CBO ESTIMATES OF REVENUES, FISCAL YEARS 1981-1986

The Administration estimates that revenues under current law would increase from \$608.8 billion in fiscal year 1981 to \$1,153.9 billion in fiscal

year 1986. The Administration's large proposed tax cuts, combined with increases in user charges and other small increases, are estimated to reduce taxes by \$51.3 billion in fiscal year 1982, and \$213.7 billion by fiscal year 1986 (see Table 4).

TABLE 4. ADMINISTRATION AND CBO ESTIMATES OF REVISED REVENUE REQUEST (By fiscal year, in billions of dollars)

	1981	1982	1983	1984	1985	1986
Administration						
Current Law <u>a/</u>	608.8	701.6	806.2	915.5	1,028.1	1,153.9
Tax Cuts						
Individual	-6.4	-44.2	-81.4	-118.1	-141.5	-162.4
Business	-2.5	-9.7	-18.6	-30.0	-44.2	-59.3
Other	<u>0.2</u>	<u>2.6</u>	<u>3.0</u>	<u>3.3</u>	<u>7.6b/</u>	<u>8.0b/</u>
Total	600.3	650.3	709.1	770.7	849.9	940.2
CBO						
Current Law <u>a/</u>	607.6	706.5	805.1	915.7	1,040.3	1,187.0
Tax Cuts						
Individual	-6.4	-43.9	-80.8	-119.9	-146.7	-172.6
Business	-2.5	-10.8	-20.3	-30.2	-40.5	-51.2
Other	<u>0.2</u>	<u>2.6</u>	<u>3.0</u>	<u>3.3</u>	<u>7.6b/</u>	<u>8.0b/</u>
Total	598.9	654.4	707.0	768.9	860.7	971.2

SOURCE: Treasury Department, CBO, Joint Committee on Taxation.

a/ Current law receipts are the receipts that would be generated under current (1981) law at the level of economic activity resulting from the proposed budget.

b/ Includes \$3.9 billion in 1985 and \$4.0 billion in 1986 from extension of expiring highway trust fund taxes.

Projecting less economic growth and more persistent inflation than the Reagan Administration, CBO estimates that receipts after the Administration's proposed tax cut will be \$4.1 billion higher than the Administration estimate for fiscal year 1982 (Table 4). In this year, CBO's estimate of

higher prices (including higher oil prices) and higher interest rates pushes up receipts more than the CBO estimate of lower incomes depresses them.

CBO's receipts estimates are slightly below the Administration's for fiscal years 1983 and 1984--\$2.1 billion lower in 1983 and \$1.8 billion lower in 1984. In these years, the effects on receipts of the lower incomes projected by CBO outweigh the effects of the higher prices. After 1984, CBO projects real growth rates approaching those in the Administration projection. These increasing real growth rates, coupled with the continued higher rates of inflation, push the CBO estimates of receipts for fiscal years 1985 and 1986 above those of the Reagan Administration. By 1986, CBO's revenue estimate is \$31.0 billion higher than that of the Administration.

Most of the difference between the CBO and the Administration estimates is the result of different economic assumptions. Only minor differences result from technical variations in revenue estimating techniques.

ADMINISTRATION REVENUE PROPOSALS AND OTHER OPTIONS

Table 5 gives a detailed breakdown of the Administration's proposed tax changes for fiscal years 1981-1986, including the increases in user charges and other small legislative and administrative tax increases.

The following issues concerning the Administration's tax proposals have received the most attention to date:

- o Should a large multiyear tax cut be enacted before corresponding spending cuts have been put in place, or should future tax cuts depend on future spending cuts and the future course of the economy?
- o Should a greater share of the total income tax savings than the Administration proposes be given to lower-income taxpayers, and if so, how would this affect incentives to save?
- o Will cuts in marginal income tax rates provide sufficient incentives for increased saving and work effort, or should provisions be included in the tax cut that are more narrowly focused on those goals?
- o Can modifications be made in the Administration's depreciation reform proposal that would make it less costly in future years and more effective per dollar of reduced taxes in stimulating productive investment?

TABLE 5. ADMINISTRATION LEGISLATIVE AND ADMINISTRATIVE PROPOSALS FOR REVENUES (By fiscal year, in billions of dollars)

Proposal	1981	1982	1983	1984	1985	1986
Individual Income Tax Rate Reductions	-6.4	-44.2	-81.4	-118.1	-141.5	-162.4
Accelerated Depreciation						
Individual	-0.3	-2.1	-3.7	-5.7	-8.3	-11.3
Corporate	-2.2	-7.6	-15.0	-24.4	-36.0	-48.0
User Charges						
Inland waterways	---	0.2	0.3	0.3	0.3	0.3
Highways	---	---	---	---	3.8	4.0
Airport and airways	0.2	1.9	2.2	2.4	2.8	3.1
Land and water conservation fund	---	---	---	---	a/	a/
Taxation of Federal Employee Injury Payments	a/	0.1	0.1	0.1	0.1	0.1
Increase in Passport and Visa Fees	a/	0.1	0.1	0.1	0.1	0.1
Increase in Railroad Retirement Payroll Taxes	---	0.3	0.4	0.4	0.4	0.4
Other	---	---	---	a/	a/	a/
Total	-8.6	-51.3	-97.1	-144.8	-178.3	-213.7

SOURCE: Treasury Department.

a/ Less than \$50 million.

- o Should the business tax cut portion of the package be enlarged by adding reductions in corporate tax rates, increases in the investment tax credit, or reductions in payroll taxes?

A discussion of these issues follows, beginning with the Administration's proposed individual income tax cut and some alternative proposals, and concluding with business tax cuts.

INDIVIDUAL INCOME TAX CUTS

One-Year Versus Three-Year Cuts

The Administration proposes to cut individual income tax rates by 10 percent a year for three years, starting on July 1, 1981. Compared with present law, this would reduce rates by 5 percent in calendar year 1981, 15 percent in calendar year 1982, 25 percent in calendar year 1983, and 30 percent in calendar year 1984. While the Administration proposal would reduce revenues by large amounts in those years, it is important to keep in mind that, without a tax cut, income taxes rise continually because of the effects of inflation on the graduated income tax rate schedule--the so-called "bracket creep." In addition, Social Security payroll tax increases enacted in 1977 will push up payroll taxes over the next five years by substantial amounts. Thus, as shown in Table 6, a large share of the Administration's proposed tax cut would simply offset these tax increases.

TABLE 6. ADMINISTRATION INCOME TAX CUT COMPARED TO INFLATION-INDUCED INCOME TAX INCREASES AND SOCIAL SECURITY TAX INCREASES (By fiscal year, in billions of dollars)

	1981	1982	1983	1984	1985	1986
Administration Income Tax Cut <u>a/</u>	-6.4	-43.9	-80.8	-119.9	-146.7	-172.6
Tax Increases from						
Income tax "bracket creep" <u>b/</u>						
Since 1979	15	30	55	85	115	160
Since 1981	--	15	35	60	95	135
1977 Social Security legislation (starting January 1, 1981)	10	22	25	27	39	45

a/ CBO estimate.

b/ Estimated by holding income taxes constant as a percentage of personal income, starting in the base year.

Locking in a three-year tax cut now would impose a strong discipline on future spending. But if the Congress is unable to cut spending by amounts that roughly correspond to the size of those tax cuts, the result could be continuing large deficits into the indefinite future. To reduce this risk, the Congress could approve just the first-year 10 percent installment now, reserving for the future any decision on additional installments. Table 9 later in this chapter shows the effect of a 10 percent rate cut, effective October 1, 1981.

Distribution of the Tax Cut by Income Class

Table 7 shows the distribution by income class of the tax savings from the Administration's proposal in detail, including the percentage reduction in tax liability and the percentage increase in after-tax income in each income class. Table 8 compares the distribution of the total tax savings from the Administration's proposal with the total distribution of tax payments under current law. Those with incomes above \$100,000 would receive a somewhat greater share of the total tax savings than their share of total current tax payments, while the share of total tax savings received by those with incomes between \$10,000 and \$20,000 would be less than their share of tax payments under current law, since rate cuts have relatively small effects in those income brackets.

Table 8 also shows the distribution of tax savings by income class from a number of commonly suggested alternatives to the Administration's proposed rate cut. Each of them would concentrate more of the tax savings on those with lower incomes. With the exception of bracket widening and the increase in the earned income tax credit, these alternatives do not reduce marginal rates. They would, therefore, not increase the after-tax rate of return to saving and work in the same way that a marginal rate cut does.

Providing a greater share of the tax savings to lower-income groups might lead to a lesser increase in savings, since lower-income people might save less of their increases in income than would higher-income people. The evidence on this is not conclusive, however. Saving tends to vary more with age than it does with income, and many economists believe that, on the average, people in all income classes save about the same percentage of increases in their disposable income.

Incentives for Saving, Work, and Investment

Cuts in marginal income tax rates could increase savings in two ways. First, taxpayers would have more disposable income, and some portion of

TABLE 7. EFFECTS OF PROPOSED ADMINISTRATION INCOME TAX RATE CUT BY INCOME CLASS, CALENDAR YEAR 1982 AT 1981 INCOME LEVELS a/

Expanded Income Class	Total Returns <u>b/</u> (In millions)	Total Current Law Tax Liability (In billions of dollars)	Total Tax Reduction From Proposed Rate Cut (In billions of dollars)	Average Tax Reduction (In dollars)	Percentage Reduction in Tax Liability	Percentage Increase in After-Tax Income
0-5,000	18.1	-0.2	-0.1	-4	<u>c/</u>	0.2
5-10,000	16.1	6.4	-1.1	-69	17.4	1.0
10-15,000	13.4	16.3	-2.5	-184	15.1	1.7
15-20,000	10.9	23.0	-3.5	-323	15.3	2.1
20-30,000	17.0	58.6	-8.6	-509	14.8	2.4
30-50,000	13.7	85.7	-12.8	-937	14.9	3.1
50-100,000	3.6	51.6	-7.7	-2,126	14.9	4.5
100-200,000	0.6	24.1	-3.0	-4,667	12.3	5.7
200,000 and over	<u>0.2</u>	<u>21.1</u>	<u>-2.2</u>	<u>-13,346</u>	<u>10.5</u>	<u>7.0</u>
Total	93.6	286.6	-41.5	-443	14.5	1.8

SOURCE: Joint Committee on Taxation and CBO.

a/ The Administration proposes to reduce tax rates by 10 percent a year, starting July 1, 1981. The reduction in rates for calendar year 1982 would thus be approximately 15 percent.

b/ Includes taxable and nontaxable returns. The 17.6 million nontaxable returns are concentrated in the income classes below \$10,000.

c/ Greater than 100 percent.

TABLE 8. DISTRIBUTION BY INCOME CLASS OF TOTAL TAX SAVING FROM PERSONAL TAX CUT OPTIONS
(In Percents)

Expanded Income Class	Share of Total		Share of Tax Savings From					
	Number of Returns	Tax Pay- ments Under Current Law	Adminis- tration Proposal	10 Percent Social Security Credit	10 Percent Bracket Widening	\$100 Personal Exemption Increase	\$100-\$200 Standard Deduction Increase <u>a/</u>	EITC In- crease <u>b/</u>
0-10,000	36.6	2.2	3.3	6.7	5.4	8.7	18.3	90.5
10-20,000	25.9	13.7	8.7	24.1	18.1	22.2	35.4	9.5
20-30,000	18.1	20.4	21.1	28.4	21.3	25.3	28.3	0.0
30-50,000	14.6	29.9	31.0	31.0	31.5	29.9	16.3	0.0
50-100,000	3.9	18.0	18.0	8.2	16.0	11.0	1.8	0.0
100,000 and over	<u>0.9</u>	<u>15.8</u>	<u>17.9</u>	<u>1.6</u>	<u>7.8</u>	<u>3.0</u>	<u>0.0</u>	<u>0.0</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Joint Committee on Taxation and CBO.

NOTE: The table reflects 1981 income levels.

a/ Increase from \$2,300 to \$2,400 for individuals, and from \$3,400 to \$3,600 for joint returns.

b/ The earned income tax credit (EITC) would increase from 10 to 11 percent of first \$5,000 of earnings, with phase-out at \$14,000 of earnings rather than at \$10,000.

that would be saved. This result occurs from any kind of tax cut, although, as just noted, the increase in saving might be somewhat larger if more of the tax cut went to higher-income taxpayers who might save more of their additional income.

Second, cuts in marginal rates increase the after-tax rate of return to saving, which could in turn increase the total amount that is saved. In theory, however, the effects of this higher rate of return could be offset if people save for specific goals, since, with lower taxes and higher retained income, people could meet their future needs with less saving. The net effect on total saving is uncertain, since the available evidence is inconclusive, but it is probably reasonable to assume some positive effect.

Cuts in marginal rates would also increase the after-tax return from additional hours of work. The overall effect on hours worked, like the effect on saving, is in theory ambiguous because the rate cut gives incentives both to work more because the reward is greater, and to work less because financial needs can be met with less work and some people prefer to do other things with their extra time. The available evidence indicates that, on the average, primary workers in a family may increase their hours worked by perhaps 1 percent in response to a 10 percent increase in disposable wages, while secondary workers--mostly married women--may increase their hours worked by as much as 4 percent.

Additional Saving Incentives. Because of uncertainty about the extent to which ~~across-the-board~~ reductions in marginal tax rates would increase saving, many in the Congress have proposed tax changes that are aimed more narrowly at that objective.

In evaluating alternative tax cuts intended to stimulate saving, it is important to distinguish between proposals that merely increase one kind of saving at the expense of others, and those that may add to total savings. Proposals to exclude some dollar amount of interest income from tax, for example, or to provide special incentives for education or housing accounts, are unlikely to encourage much additional saving beyond what would otherwise take place. Furthermore, they increase the incentive to "game" the tax system by borrowing money, deducting the interest, and putting the proceeds in tax-favored savings accounts. The sharp increase in second mortgages in recent years illustrates the potential for this kind of activity.

One variant of the interest-exclusion proposals may be more promising, however. It would allow all savers to exclude the same percentage of their interest income from tax, rather than allowing a flat dollar exclusion for everyone. This would reduce taxes on increases in saving in all income

classes and at all levels of saving. While a large share of the tax cut would still be simply a reward for existing levels of savings, there would always be a small reward for increases in saving as well. To lessen incentives to game the system by borrowing elsewhere and putting the money in savings accounts, allowable interest deductions could be reduced by the same percentage amount as the exclusion.

Another promising possibility is to increase the tax incentives for IRA and Keough retirement savings plans. Because of the large penalties for early withdrawal, these plans are more likely to stimulate saving that would not otherwise take place than are proposals that encourage only short-term savings that can readily be withdrawn for other uses. They also represent a more stable and reliable source of funds for investment. Increases in private saving for retirement could also reduce future demands on the Social Security system.

Investment Incentives. While increased saving is an important goal, savings must be put to productive use if they are to enhance long-run productivity and reduce inflation. A discussion of all of the institutional and other barriers to the effective use of savings is beyond the scope of this chapter, but some personal tax cut changes have been suggested that could encourage more efficient and productive investment. Reducing the top 70 percent tax rate on investment income to 50 percent immediately, rather than waiting for three years as the Administration has proposed, would reduce the present diversion of resources into tax shelters and other speculative and unproductive investments. It would also reduce the top rate on capital gains from 28 percent to 20 percent, thus increasing the mobility of capital and making it easier for investors to shift their assets into more productive areas. Capital gains taxes could also be reduced by increasing the amount that is excluded from tax from 60 percent to 70 or 75 percent, or by indexing the base price for inflation. There is no guarantee, of course, that cutting capital gains taxes would cause investment resources to flow only into productive areas. Investors in gold coins, real estate, corporate stock, and venture capital would all be similarly benefited.

The Marriage Penalty and Incentives to Work

The President's proposed reductions in marginal tax rates would leave relatively unchanged the additional tax a working married couple pays compared to what the couple would pay if not married. This extra tax, called the marriage penalty, generally applies when the second worker earns

at least 20 percent of the couple's total income, and reaches its maximum when each spouse earns 50 percent of the total.

The rate reductions would, however, alleviate one of the problems currently associated with the marriage penalty--the discouraging effect high marginal tax rates can have on the labor force participation of secondary workers. As noted earlier, the work versus leisure decisions of married women are especially sensitive to changes in marginal tax rates.

The favorable effects of the total tax cut on incentives to work could be enhanced, however, if some portion of the tax cut were devoted to reducing the marriage penalty, since this would concentrate the tax savings on secondary workers whose work response is likely to be greatest.

One proposal to reduce the marriage penalty would allow married couples to deduct 10 percent of the first \$30,000 of earnings of the lesser-earning spouse. This proposal only roughly compensates for the marriage penalty--some couples would get less than the penalty, some more. It would, however, effectively reduce the marginal tax rates facing secondary workers by 10 percent over and above the reduction they would get from a general rate cut.

Another proposal would give married couples a tax credit for the full amount of their marriage penalty, exactly offsetting the marriage penalty for most couples. This would result in an even greater reduction in marginal tax rates for most second earners than the proposal for a 10 percent deduction, leading to an even greater increase in total hours worked.

The tax reductions from both proposals for fiscal years 1982-1986 are shown in Table 9.

BUSINESS TAX CUTS

While there is controversy and uncertainty over the share of personal tax cuts that may go into savings, it is clear that a very large share of business tax cuts would be saved, mainly in the form of higher retained corporate earnings. Evidence suggests that corporations save more than 50 percent of increases in their after-tax income, much more than the percentage saved by individuals. Thus, one certain way of ensuring that a large portion of the tax cut goes into saving would be to increase the share devoted to business cuts. This could be done by adding corporate rate cuts or increases in the investment tax credit to the tax cut package. The business tax cut could also be increased in the early years by eliminating the

TABLE 9. REVENUE EFFECTS OF INDIVIDUAL AND BUSINESS TAX CUT OPTIONS (By fiscal year, in billions of dollars)

Option	1982	1983	1984	1985	1986
10 Percent Reduction in Individual Income Tax Rates	-33	-39	-46	-55	-64
Marriage Penalty <u>a/</u>					
10 Percent Deduction	-4	-7	-9	-10	-12
Tax Credit	-10	-12	-15	-17	-20
Administration Depreciation without Phase-in	-18	-32	-42	-50	-56
2-4-7-10 Depreciation	-13	-18	-18	-19	-20
First-Year Depreciation, with 5-Year Phase-in <u>b/</u>	-9	-15	-19	-23	-20
Reduction in Top Corporate Rate from 46 to 44 Percent	-4	-4	-4	-5	-5
Partially Refundable Investment Tax Credit <u>c/</u>	-3	-3	-4	-4	-5
Refundable 8 Percent Credit Against Payroll Taxes <u>d/</u>	-6	-7	-8	-9	-10

SOURCE: Joint Committee on Taxation and CBO.

a/ The revenue losses in 1982 do not fully reflect the relative costs of the deduction and the credit, since the credit has an earlier effective date (January 1, 1981), and the deduction starts at 5 percent of the first \$30,000 of income on July 1, 1981, and rises to 10 percent only on January 1, 1982.

b/ Includes elimination of investment tax credit.

c/ Includes outlays.

d/ Employer share only; includes outlays.

gradual phase-in of accelerated depreciation proposed by the Administration and effecting the total change immediately. There are other possible changes in depreciation that might result in somewhat greater increases in productivity than the Administration's plan. They are discussed below.

Accelerated Depreciation

Increases in depreciation allowances are intended to encourage additional investment, and to offset the effects of inflation on the real value of depreciation deductions. The higher deductions for depreciation make new investments more attractive to businesses, increasing investment and ultimately improving productivity and reducing inflationary pressures.

The Administration's depreciation proposal is a modified version of the 10-5-3 plan that has been sponsored by a large number of Congressmen and Senators. The 10-5-3 plan would assign depreciable lives of 10 years to most industrial buildings, three years to cars and light trucks, and five years to other equipment, while liberalizing the investment tax credit for equipment. The Administration's proposal is essentially the same except that it puts equipment used for research and development in the three-year category, and gives lives of 15 years to offices, leased stores and factories, and low-income rental housing, and 18 years to other rental housing.

The other major depreciation proposal is the 2-4-7-10 plan passed last fall by the Senate Committee on Finance. This proposal assigns lives of two, four, seven, or ten years to equipment other than public utility property, and gives optional audit-proof lives of 15 years to low-income rental housing and owner-occupied commercial and industrial buildings, and 20 years to other buildings. The bill also simplifies depreciation accounting and modifies investment tax credit rates for equipment.

One concern with the Administration's plan is that it may fail to stimulate investment as much as it might during the first five years, because it is phased in. This gives businesses an incentive to postpone investments in anticipation of the greater tax savings that will be available later. This could be avoided if the plan were put fully into effect right away. While this would increase the revenue loss in the early years (see Table 9), this might be considered desirable if the Congress decides to increase the business share of the tax cut.

Another possible concern with the Administration's depreciation proposal is the very large revenue losses that could result in future years, reaching \$50 to \$60 billion by fiscal year 1986 and rising to about \$85 billion before leveling off around 1989. The Finance Committee's 2-4-7-10 proposal would result in lower revenue losses in future years, reaching only about \$20 billion by fiscal year 1986.

A broader concern with all depreciation proposals, as well as with current law, is that the effective tax rate can vary significantly from asset

to asset, and that these rates can change substantially depending on the future rate of inflation. The effective rate of tax on the income from investments depends on how closely the depreciation deductions allowed under the tax law correspond to the actual depreciation of the asset. If this correspondence is closer for some assets than for others, the law taxes some assets more heavily than others, and this impairs the efficiency of the investment process. The magnitude of the inefficiency that is implied by varying effective tax rates has not been estimated precisely, but at current rates of inflation it is probably not more than a few billion dollars in lost production. If inflation stays at current high levels or increases, however, the problem could become more serious.

The Administration proposal implies especially large variations in effective tax rates. Under present rates of inflation, the Administration proposal has much lower effective rates for short-lived assets than it has for long-lived assets. This is because of the combined effects of accelerated depreciation and a liberalized investment tax credit. If the inflation rate were to fall substantially, short-lived assets would actually receive a subsidy in excess of the income from the assets.^{1/} The tax rates also vary under the 2-4-7-10 plan from asset to asset, and with different inflation rates, but the variations are much smaller than with the Administration's plan.

One way of reducing the sensitivity of depreciation allowances to future rates of inflation would be to allow assets to be written off entirely, or "expensed," in the first year. Since prices would not change significantly during that year, inflation could not erode the value of depreciation allowances before the asset is completely written off, as happens now. In order to prevent longer-lived assets from having a disproportionate advantage in the competition for funds, however, the first year write-offs could be 90 to 95 percent of the price of a very short-lived asset, but less, perhaps 70 to 75 percent, for longer-lived assets. No additional write-offs would be permitted after the first year. This is the essence of the Jorgenson-Auerbach "First-Year Plan" for capital recovery that has received some discussion during the past year. The revenue loss from the First-Year Plan would be quite large in the first year or two, but that could be avoided by phasing it in, as shown in Table 9. An alternative way of reducing the sensitivity of depreciation to inflation would be explicitly to index depreciation allowances, but that would be quite complicated.

^{1/} For a more detailed explanation, see Jane Gravelle, Depreciation Policy Options, Congressional Research Service Report 80-182E, (October 10, 1980), pp. 15-22.

Corporate Rate Cut

Reducing the top corporate tax rate from 46 percent to 44 percent would reduce corporate taxes by about \$4 billion a year (see Table 9). While only about 13 percent of all businesses are incorporated, they account for about 85 percent of all business income. A corporate rate cut would add to business saving and increase business investment, although the direct stimulus to investment would be less than from increases in depreciation allowances or investment tax credits in which the tax cut is tied directly to new investment. One way to increase the stimulus effect of a rate cut, and also offset the investment-detering effect of the Administration's proposed phase-in of depreciation, would be to enact the rate cut with an effective date several years hence. This would encourage firms to accelerate some of their capital purchases because the value of their depreciation allowances would be less once the rate cut took effect.

A cut in the top corporate rate would also reduce somewhat the double taxation of dividends, and allow corporations to compete more effectively for investment funds with more lightly taxed sectors of the economy, such as housing. Cuts in the lower 17 to 40 percent rates that apply to the first \$100,000 of corporate income would have little effect on investment, since only a very small share of total investment is accounted for by these smaller corporations. Lowering the rates for small corporations would also increase the existing incentives to use small corporations as tax shelters, since the rates are already much lower than the rates on comparable levels of personal income.

Investment Tax Credit Increase

Increasing the present 10 percent investment tax credit would also increase business saving and investment. Many firms would not be able to use the additional credit in the year eligible investments were made, however, since their tax liability would be less than the amount of the credit. Currently, all firms combined would claim only about half of a one percentage point increase in the credit in the first year.

An alternative, suggested by the Carter Administration in its fiscal year 1982 budget, would be to make the existing 10 percent credit partially refundable, that is, payable in cash if it exceeded a firm's tax liability. Under the Carter proposal, 30 percent of the credit would have been refundable if the tax liability was less than the credit, with the rest carried back or forward to other years as under present law. The main beneficiaries

of such a proposal would be firms with low tax liability and/or high levels of investment. At the present time, this would include auto and steel companies, railroads, airlines, and utilities, as well as rapidly growing firms, such as new high-technology companies.

The Reagan Administration has withdrawn the Carter proposal, resulting in a reduction in outlays in function 370 of \$2.3 billion in fiscal year 1982.

Payroll Tax Cut

Cutting Social Security payroll taxes paid by employers is another way of reducing business taxes. While it would help small labor-intensive firms and many financial and service-industry firms that would not benefit significantly from liberalized depreciation allowances, it would have relatively little effect on business investment. It would reduce labor costs, however, thereby increasing employment and reducing future inflation by modest amounts.

The Carter Administration proposed that employers and employees be given an income tax credit equal to 8 percent of their Social Security payroll taxes, which is approximately equivalent to cutting payroll taxes directly. The income tax credit would have been refundable to employers if it exceeded their income tax liability. Table 9 shows the revenue and outlay effects. The main beneficiaries of the refundability feature would have been nonprofit organizations and state and local governments, which pay no federal taxes, and firms with little or no tax liability. The Reagan Administration has also withdrawn this proposal, reducing outlays below the Carter budget by an estimated \$1.2 billion in function 370, \$0.2 billion in function 500, and \$0.5 billion in function 850.

TAX SUBSIDIES AND SPENDING CUTS

The Reagan Administration has not proposed any reduction in special-purpose tax subsidies--so-called "tax expenditures." Cuts in tax subsidies can reduce future deficits or make more funds available for broad, across-the-board tax cuts, just as spending cuts can. Reducing tax subsidies and using the extra revenue to fund general tax cuts would extend tax relief more broadly, and would give taxpayers more discretion in how they use their tax savings. Tax expenditures provide tax savings only to those in special circumstances, or those who act in specified ways.

Considering changes in tax subsidies along with changes in related spending and loan programs could make it easier to determine the best use of scarce resources. If spending and loan programs are being cut because the activity that is subsidized does not have a high national priority, for example, the tax subsidy might be eliminated as well. If, on the other hand, some level of federal support is considered necessary, examining the tax and spending programs together would enable the Congress to determine which form of subsidy was more cost effective.

Some comparisons of this kind occur in the Administration's February 18 and March 10 budget revision documents, in which the existence of tax subsidies is sometimes cited as one of the justifications for cutting back spending programs. Examples include:

- o Cuts in grants and loans for energy conservation and solar energy (tax credits will be continued);
- o Cuts in trade adjustment assistance (benefits are partly tax-free);
- o Cuts in Farmers Home Administration and Department of Energy gasohol subsidies (excise tax exemption and tax credits will be continued);
- o Elimination of Department of Energy hydropower subsidies (21 percent investment tax credit will be continued); and
- o Elimination of National Consumer Cooperative Bank (special tax treatment for co-ops will be continued).

Similar comparative evaluations might be made of other tax subsidies and direct spending and loan programs slated for large cuts. Some examples include:

<u>Tax Subsidy</u>	<u>Proposed Cut</u>
Domestic International Sales Corporation (DISC) export subsidy	Export-Import Bank loans
Targeted jobs tax credit	CETA public service jobs
Tax incentives for historic preservation	Interior Department historic preservation grant program
Tax-exempt small issue industrial revenue bonds	Economic Development Administration grants and loans

Tax Subsidy

Special tax treatment of low-income rental housing

Parental personal exemption for students age 19 or over

Proposed Cut

Department of Housing and Urban Development Section 8 rental housing subsidy program

Department of Education grants and loans to college students

CHAPTER III. SPENDING PROPOSALS AND REESTIMATES

President Reagan's budget revisions for fiscal year 1982 propose a sharp reduction in the growth of federal budget outlays beginning in 1982 and continuing for the next several years. The new Administration plans to hold the growth of federal outlays during 1982-1984 to less than 6 percent annually, compared to an average growth of about 13 percent per year since 1977. The effect of slower spending growth would be to reduce the size of the federal budget relative to the total economy from 23.0 percent of Gross National Product (GNP) in 1981 to 19.3 percent in 1984.

The President also proposes to change significantly the relative composition of the federal budget by increasing the share of the budget allocated to defense spending from 24.7 percent in 1981 to 33.2 percent in 1984. As shown in Table 10, the spending proposals for the next three years stand in sharp contrast to the trends since 1977.

TABLE 10. FEDERAL SPENDING TRENDS (By fiscal year)

	Actual		March Budget Revisions			
	1977	1980	1981	1982	1983	1984
Budget Outlays (in billions of dollars)						
National defense	97.5	135.9	162.1	188.8	226.0	255.6
Nondefense	<u>305.2</u>	<u>443.7</u>	<u>493.1</u>	<u>506.5</u>	<u>506.0</u>	<u>514.6</u>
Total	402.7	579.6	655.2	695.3	732.0	770.2
Relative Composition (percent)						
National defense	24.2	23.4	24.7	27.2	30.9	33.2
Nondefense	<u>75.8</u>	<u>76.6</u>	<u>75.3</u>	<u>72.8</u>	<u>69.1</u>	<u>66.8</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0
Shares of GNP (percent)						
National defense	5.2	5.3	5.7	5.9	6.3	6.4
Nondefense	<u>16.4</u>	<u>17.3</u>	<u>17.3</u>	<u>15.9</u>	<u>14.1</u>	<u>12.9</u>
Total	21.6	22.6	23.0	21.8	20.3	19.3

The budget proposals submitted March 10 also diverge significantly from those made by the Carter Administration in January. As shown in Table 11, President Reagan's budget estimates project outlays of \$655.2 billion in 1981 and \$695.3 billion in 1982. These estimates represent reductions in total outlays of \$7.5 billion in 1981 and \$44.0 billion for 1982 from the levels recommended by President Carter. Since President Reagan recommends higher defense spending for both 1981 and 1982, the reductions in nondefense programs are even larger than the reductions in total outlays.

TABLE 11. COMPARISON OF JANUARY AND MARCH SPENDING PROPOSALS FOR FISCAL YEARS 1981 AND 1982 (Outlays in billions of dollars)

Major Category	1980 Actual	1981 Estimate		1982 Estimate	
		January Budget	March Revisions	January Budget	March Revisions
National Defense	135.9	161.1	162.1	184.4	188.8
Payments for Individuals	271.2	319.2	317.4	353.4	337.3
Net Interest	52.5	67.0	64.1	74.8	68.2
All Other	<u>120.1</u>	<u>115.5</u>	<u>111.5</u>	<u>126.8</u>	<u>100.9</u>
Total	579.6	662.7	655.2	739.3	695.3

This chapter provides an overview for federal spending of President Reagan's revisions to the 1982 budget prepared by the Carter Administration. The next section gives a brief description of the major new proposals and changes to the budget estimates submitted by President Carter. The chapter then moves to a discussion of CBO's repricing of the Reagan Administration spending estimates, using an alternative set of economic assumptions described in Chapter I and CBO's estimating methods and programmatic assumptions. It concludes with a discussion of off-budget outlays and the federal debt.

PRESIDENT REAGAN'S BUDGET REVISIONS

The Reagan Administration March budget revisions can be divided into three categories: (1) reestimates of the January budget based on new economic assumptions and other factors; (2) proposed program increases, largely for defense spending; and (3) proposed spending reductions for almost

all nondefense programs. Table 12 shows the magnitude of each category for 1981-1984. In addition, the Administration plans to make further spending reductions in 1983 and subsequent years, in order to achieve a balanced budget by 1984. These further reductions amount to \$30 billion in 1983 and \$44 billion in 1984, and are to be identified in later messages and budgets.

TABLE 12. MARCH BUDGET REVISIONS FOR FISCAL YEARS 1981-1984
(In billions of dollars)

Category	1981	1982	1983	1984
January Outlay Projections	662.7	739.3	817.3	890.3
Administration revisions				
Reestimates and				
technical adjustments	-7.0	-14.4	-20.9	-33.4
Program increases	5.6	10.7	23.5	29.1
Program decreases	-6.1	-40.3	-58.1	-71.6
Other reductions to be				
proposed later	---	---	-29.8	-44.2
March Outlay Targets	655.2	695.3	732.0	770.2

Administration Spending Reestimates

A significant part of the outlay reductions in President Reagan's budgets for 1981-1984 result from Administration reestimates based on a new set of economic assumptions and other factors. As shown in Table 13, the March budget revisions assume a somewhat lower unemployment rate and sharply lower inflation and interest rates than were used for the January budget estimates. As a result, the Administration now projects net interest costs to be almost \$3 billion lower in 1981 and \$6.6 billion lower in 1982 than estimated earlier. Outlays for unemployment compensation benefits under current law also are now expected to be lower than projected in January--by \$0.7 billion in 1981 and by \$1.4 billion in 1982. The July 1981 Social Security cost-of-living adjustment (COLA) is projected by the Administration to be 11.2 percent (compared to 12.3 percent in the January budget), and the July 1982 COLA is projected to be 9.2 percent (compared

with 11.3 percent in January). Estimated outlays for Social Security and other indexed retirement and disability benefits under existing law have been revised downward accordingly by \$0.5 billion in 1981 and by \$2.3 billion in 1982 (see Table 14).

TABLE 13. COMPARISON OF JANUARY AND MARCH ECONOMIC ASSUMPTIONS USED FOR ADMINISTRATION SPENDING ESTIMATES (By calendar year)

Economic Variable	1981	1982	1983	1984
Prices				
GNP deflator (percent change, year over year)				
January budget	10.5	9.3	8.5	7.8
March revisions	9.9	8.3	7.0	6.0
Consumer Price Index (percent change, year over year)				
January budget	12.5	10.3	8.7	7.7
March revisions	11.1	8.3	6.2	5.5
Unemployment Rate (percent, annual average)				
January budget	7.8	7.5	7.1	6.7
March revisions	7.8	7.2	6.6	6.4
Interest Rate, 91-Day Treasury Bills (annual average)				
January budget	13.5	11.0	9.4	8.5
March revisions	11.1	8.9	7.8	7.0

The Administration also reestimated defense outlays downward for both 1981 and 1982 by \$2.6 billion and \$3.6 billion, respectively. The bulk of these reestimates are for outlays under existing contracts.

Rents and royalties on the Outer Continental Shelf (OCS) were revised upward by \$1.6 billion in 1981 and \$0.4 billion in 1982 because of technical reestimates and revised oil price projections. These rents and royalties are recorded in the budget as offsetting receipts, and thus have the effect of reducing net budget outlays.

Under the revised interest rate assumptions, the interest subsidy provided to students through the guaranteed student loan program is expected to be lower than was assumed for the January budget. As a result, the March outlay estimates have been revised downward by \$0.3 billion in 1981 and \$0.5 billion in 1982. Outlays have also been reestimated for the Government National Mortgage Association (GNMA) tandem programs to reflect the new interest rate assumptions and recent mortgage sales experience. Outlays for the Federal Housing Administration (FHA) and the National Credit Union Administration (NCUA) also were reestimated to reflect recent program experience and other factors. The GNMA, FHA, and NCUA reestimates add \$0.2 billion to outlays in 1981 and lower 1982 outlays by \$0.7 billion.

TABLE 14. MAJOR ADMINISTRATION OUTLAY REESTIMATES, FISCAL YEARS 1981 AND 1982 (In billions of dollars)

Factor	1981	1982
Lower Interest Rates		
Net interest	-2.9	-6.6
Student loan guarantees	-0.3	-0.5
Lower Cost-of-Living Adjustments		
Social Security	-0.4	-2.0
Other indexed retirement and disability benefits	-0.1	-0.3
Lower Unemployment		
Unemployment compensation	-0.7	-1.4
Other Factors		
Defense programs	-2.6	-3.6
OCS rents and royalties	-1.6	-0.4
GNMA, FHA, and NCUA	0.2	-0.7
Medicare and Medicaid	0.7	1.3
Mass transit	0.4	0.2
All other	0.3	-0.4
Total	-7.0	-14.4

SOURCE: Fiscal Year 1982 Budget Revisions (March 10, 1981).

While most of the reestimates have the effect of lowering outlay estimates for both 1981 and 1982, a few reestimates have the opposite effect. Projected outlays for Medicare and Medicaid, for example, were increased by \$0.7 billion in 1981 and \$1.3 billion in 1982. The March 10 budget revisions state that a major source of the 1982 increase was the deletion of the Carter Administration's assumption that issuance of voluntary cost increase guidelines for hospitals would significantly lower the rate of hospital cost inflation. Removing this assumption had the effect of increasing 1982 outlays by \$0.8 billion. Estimated mass transit outlays also were increased from the January budget levels by \$0.4 billion in 1981 and \$0.2 billion in 1982, because of higher than anticipated obligations in 1980 and early 1981.

Program Increases

The Administration proposes program increases, largely for defense spending, that would add \$69 billion to the level of outlays projected for the period 1981-1984 in the January budget. The program additions for the Department of Defense are estimated to add \$62 billion to budget outlays during this period. Most of the added Defense funds for 1982 are for procurement of weapons already in production as well as spare parts, ammunition, and other military equipment. Other principal defense spending increases are for research and development activities, and for operations and maintenance.

The Administration also proposes a 5.3 percent pay raise for all military personnel in July 1981, in addition to the 9.1 percent October 1981 pay raise assumed in the January budget. The purpose of the additional pay raise is to help reduce the outflow of experienced enlisted personnel from the armed services. The July pay raise adds \$1.9 billion in budget authority and outlays to the 1982 defense budget recommended by the Carter Administration.

All of the military services would receive added funding so that their relative allocations of the defense budget remain the same. Few details have been provided about how the additional funds in 1983 and 1984 would be used. A further discussion of the Administration's defense budget proposals is contained in Chapter V.

As shown in Table 15, other programmatic increases to the January budget are quite small, and are concentrated largely in the areas of international security assistance and energy programs. The Administration is proposing to increase security assistance to Egypt and Israel. Direct credits for foreign military sales would also be increased by \$632 million by shifting several country programs from guaranteed sales and increasing

overall financing by \$274 million. In addition, the Administration is requesting an additional \$250 million military and economic assistance contingency funds for the creation of a revolving fund for procuring military equipment for eventual transfer to other countries.

The Administration also proposes to add funds for atomic energy defense activities and for nuclear energy programs. Funds are included in the revised budget to build the Clinch River breeder reactor and to start design studies for a large, commercial-size breeder reactor. Additional funds are also included for the Strategic Petroleum Reserve to offset the loss of receipts from the termination of the crude oil entitlements program resulting from the decontrol of domestic oil prices.

TABLE 15. PROGRAMMATIC INCREASES TO THE JANUARY BUDGET
(By fiscal year, outlays in billions of dollars)

Program	1981	1982	1983	1984
Department of Defense-Military				
Military pay	0.4	1.9	2.0	1.9
Other programs	<u>3.5</u>	<u>7.6</u>	<u>19.7</u>	<u>25.3</u>
Subtotal	<u>3.9</u>	<u>9.5</u>	<u>21.7</u>	<u>27.2</u>
International Security				
Assistance	---	0.4	0.8	1.0
Strategic Petroleum Reserve	1.3	0.3	<u>a/</u>	<u>a/</u>
Other Energy Programs	0.1	0.4	0.7	0.7
Other	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>	<u>0.3</u>
Total	5.6	10.7	23.5	29.1

SOURCE: Fiscal Year 1982 Budget Revisions, Appendix B.

a/ Less than \$50 million.

Program Decreases

The Administration recommends program decreases that would lower projected budget outlays for 1981-1984 by \$250 billion from the levels contained in the January budget. Almost 30 percent--\$74 billion--of the program reductions, however, are yet to be identified.

The Administration used the following nine criteria for developing its spending reduction proposals:

- (1) The preservation of the "social safety net";
- (2) The revision of entitlements to eliminate unintended benefits;
- (3) The reduction of benefits for people with middle to upper incomes;
- (4) The recovery of allocable costs by means of user fees;
- (5) The application of rigorous standards to economic subsidy programs;
- (6) A stretch-out of public sector capital investment programs;
- (7) The imposition of fiscal restraint on other programs of national interest;
- (8) Consolidation of many categorical grants to state and local governments into block grants; and
- (9) The reduction of federal overhead, personnel costs, and program waste and inefficiency.

Under the first criterion, the Administration exempted selected programs from any major spending reductions, including basic Social Security benefits, Medicare, railroad retirement, unemployment insurance, Supplemental Security Income, and certain veterans' benefits. Some reductions, however, are proposed in these programs under the second criterion. For example, in the Social Security programs, the Administration proposes to eliminate the \$122-per-month minimum benefit, to phase out student benefits, to eliminate certain death benefits, and to establish an overall limit on disability benefits. The Administration also proposes to make various changes in unemployment compensation programs, including eliminating the national extended benefits program, and various reforms to the Aid to Families with Dependent Children (AFDC) and Child Support Enforcement programs.

The Administration estimates that outlays for the social safety net programs will amount to \$241.4 billion in 1981, rising to \$262.6 billion in 1982 and \$308.8 billion in 1984 (see Table 16). This represents an increase of 50 percent over 1980 in current dollars, and 10 percent in real terms.

With defense spending also increasing by an even faster rate, ^{2/} and net interest costs remaining about the same, the rest of the budget has to bear

^{2/} National defense outlays are projected to increase by 88 percent between 1980 in current dollars, and 38 percent in real terms.

TABLE 16. PROJECTED OUTLAYS FOR SOCIAL SAFETY NET PROGRAMS (By fiscal year, in billions of dollars)

Program	Actual 1980	Administration Estimates			
		1981	1982	1983	1984
Social Security (OASDI)	117.1	137.8	154.8	170.1	184.4
Railroad Retirement	4.7	5.3	5.7	6.1	6.3
Medicare	35.0	41.2	47.1	54.2	61.4
Basic Unemployment Benefits	16.4	22.2	18.6	16.5	16.6
Assistance Payments (AFDC)	7.3	7.8	6.8	6.9	6.9
Supplemental Security Income	6.4	7.3	8.0	9.4	8.7
Veterans' Benefits and Services					
Income security programs	11.7	13.0	14.3	15.5	16.6
Hospital and medical care	6.5	6.8	7.2	7.5	7.9
Total	205.2	241.4	262.6	286.1	308.8

SOURCE: Office of Management and Budget.

the brunt of the spending reductions. As shown in Table 17, the Administration proposals would reduce budget outlays in the remaining portion of the budget from \$187.6 billion in 1981 to \$138 billion in 1984, assuming that the budget savings to be identified later by the Administration will be focused in this area. This would represent an absolute reduction of over 25 percent in current dollars, and 40 percent in real terms, using the economic assumptions underlying the Administration's budget proposals. The relative share of these programs in the total budget would fall from 32.1 percent in 1980 to only 17.9 percent in 1984.

The future unidentified spending cuts would represent reductions of over 16 percent in 1983 and 22 percent in 1984 from the levels now projected by the Administration for these other programs. Included in these programs are grants to states and local governments; various payments for individuals such as federal employee retirement and disability benefits, Medicaid, Food Stamps and housing assistance; and other federal operations, such as foreign aid, scientific research and space activities, energy programs, farm price supports, commerce and housing credit, transportation, health research and education, administration of justice, and general government programs.

TABLE 17. COMPOSITION OF THE ADMINISTRATION'S BUDGET FOR FISCAL YEARS 1981-1984

Major Category	Actual 1980	Administration Estimates			
		1981	1982	1983	1984
Outlays in billions of dollars					
National Defense	135.9	162.1	188.8	226.0	255.6
Social Safety Net	205.2	241.4	262.6	286.1	308.8
Net Interest	52.5	64.1	68.2	68.9	67.8
All Other <u>a/</u>	<u>186.1</u>	<u>187.6</u>	<u>175.7</u>	<u>150.8</u>	<u>138.0</u>
Total	579.6	655.2	695.3	732.0	770.2

Percent Distribution					
National Defense	23.4	24.7	27.2	30.9	33.2
Social Safety Net	35.4	36.8	37.8	39.1	40.1
Net Interest	9.1	9.8	9.8	9.4	8.8
All Other <u>a/</u>	<u>32.1</u>	<u>28.6</u>	<u>25.3</u>	<u>20.6</u>	<u>17.9</u>
Total	100.0	100.0	100.0	100.0	100.0

SOURCE: Office of Management and Budget.

a/ For 1983-1984, the estimates assume that budget savings to be identified later will be in the all other category.

The spending cuts that are proposed in the Administration's March budget revisions fall disproportionately on grants to state and local governments. The President recommends \$10 billion in outlay reductions in 1982 for these grants (other than for benefit payments such as Medicaid) from the levels proposed by the Carter Administration in January. As shown in Table 18, these proposed reductions account for one-quarter of the \$40.3 billion in programmatic decreases to the January budget. The major cuts in grant programs for 1982 include the elimination of public service employment programs (for an outlay saving of \$3.5 billion); the consolidation and reduction in funding levels of various health and social services programs, state and local education grant programs, and youth training and employment programs (\$3.6 billion); and reductions in a large number of other categorical grants (\$2.9 billion).

TABLE 18. PROGRAMMATIC DECREASES TO THE JANUARY BUDGET
(By fiscal year, outlays in billions of dollars)

Program	1981	1982	1983	1984
Grants to State and Local Governments				
Eliminate public service employment programs	0.5	3.5	4.1	4.4
Consolidate various health and social services, education, and youth programs	0.1	3.6	5.7	6.1
Other reductions	0.3	2.9	6.4	9.2
Subtotal, grants	0.9	10.0	16.2	19.8
Payments for Individuals				
Medicaid and other programs administered by states and localities	0.4	3.4	5.4	7.5
Social Security	0.1	2.5	3.8	4.7
Food Stamps	0.1	2.3	2.2	2.8
Other reductions	0.3	2.6	1.9	1.5
Subtotal, payments	1.1	10.9	13.3	16.5
Withdrawal of Carter Administration Legislative Proposals				
	0.2	4.4	7.6	8.4
Other Program Reductions				
Defense Department	0.3	1.1	2.7	3.8
Subsidies and aid to business and industry	1.8	5.9	6.4	7.9
Human resources and community development programs	1.3	2.2	3.0	3.3
Mineral leasing stockpile sales and other offsetting receipts	0.3	1.7	2.9	3.7
Administrative reductions, personnel adjustments, pay revisions, and other reduced government services	0.2	1.9	2.7	4.0
Other reductions	0.1	2.3	3.2	4.1
Subtotal, other reductions	3.9	15.1	21.0	26.9
Total	6.1	40.3	58.1	71.6

SOURCE: Fiscal Year 1982 Budget Revisions, Appendix C.

Reductions of \$3.4 billion in outlays are also proposed in several benefit payment programs that are administered by state and local governments, such as Medicaid, child nutrition programs, and assistance payments (AFDC). Decreases in 1982 outlays for other payments for individuals are also recommended, including Food Stamps (\$2.3 billion), Social Security benefits (\$2.5 billion), and trade adjustment assistance (\$1.2 billion).

The Administration does not support the previous Administration's proposal to make 30 percent of the investment tax credit refundable, nor its recommendation for an 8 percent Social Security tax credit. Under the latter proposal, the credit would have been refundable to state and local governments and nonprofit organizations, and would have resulted in outlays of \$1.9 billion in 1982. The Administration also does not support the proposed youth education and training initiative for which \$2.0 billion in budget authority was included in the January budget. Withdrawal of these proposals reduces 1982 estimated outlays by \$4.4 billion.

The remaining reductions from the January budget include various energy, transportation, agriculture, and other subsidies and aid to business and industry; greater levels of offsetting receipts to be derived from stockpile sales and mineral leasing; and various administrative reductions, personnel adjustments, pay revisions, and other reduced government services. In addition, the President has endorsed a number of spending cuts proposed by the previous Administration in the January budget. These include annual cost-of-living adjustments for federal employee retirement benefits instead of twice-a-year adjustments, annual instead of twice-a-year adjustments for dairy price supports, and reductions for impact school aid and other education programs.

Chapter VI contains a further discussion of the Administration's proposed budgetary savings. Appendix A provides an analysis for 38 of the Administration's budget reduction proposals.

CBO SPENDING REESTIMATES

This section presents the results of CBO's reestimates of the March budget revisions, using an alternative set of economic assumptions discussed in Chapter I and CBO's estimating methods and programmatic assumptions. This repricing of the March budget indicates that, if all of the Administration's spending proposals were approved by the Congress, outlays could be over \$6 billion higher in 1981, over \$25 billion higher in 1982, and \$45-\$50 billion higher in 1984 than projected by the Administration. More than half of these possible outlay increases can be attributed to differences in the economic assumptions used for making the budget estimates.

Alternative Economic Assumptions

The economic assumptions used for the March budget revisions and by CBO for this analysis differ with respect to several economic variables that affect spending estimates. The CBO assumptions show higher inflation, higher interest rates, and higher unemployment for the 1981-1984 period, all of which mean higher budget outlays. Table 19 provides a comparison between the Administration's and CBO's assumptions about how the economy would perform under the President's budgetary proposals.

TABLE 19. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS FOR SPENDING ESTIMATES (By calendar year)

Economic Variable	1981	1982	1983	1984
Prices				
GNP deflator (percent change, year over year)				
Administration	9.9	8.3	7.0	6.0
CBO	10.3	9.2	8.6	8.1
Consumer Price Index (percent change, year over year)				
Administration	11.1	8.3	6.2	5.5
CBO	11.3	9.5	8.9	8.2
Unemployment Rate (percent, annual average)				
Administration	7.8	7.2	6.6	6.4
CBO	7.8	7.9	7.8	7.7
Interest Rate, 91-Day Treasury Bills (percent, annual average)				
Administration	11.1	8.9	7.8	7.0
CBO	12.6	13.7	11.5	10.2

As a result of the higher inflation assumptions, CBO's reestimates of indexed benefit payment programs are based on larger annual cost-of-living adjustments (COLAs) than were used for the March revisions. For example,

the annual Social Security COLAs projected by CBO are significantly higher than those assumed by the Administration, especially for 1983 and 1984, as shown below.

Annual Social Security COLAs (percent)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Administration	11.2	9.3	6.6	5.8
CBO	11.6	9.8	9.2	8.4

CBO also assumes higher fuel prices in 1982 than were assumed for the March budget revisions. These prices affect defense fuel costs and the Strategic Petroleum Reserve program. The Administration's defense budget estimates are based on fuel price increases of only 8.7 percent between 1981 and 1982, while CBO assumes that fuel costs will increase by about 20 percent. CBO also assumes higher crude oil acquisition prices for the Strategic Petroleum Reserve in fiscal year 1982--\$46.25 per barrel versus the Administration's assumption of \$42.29 per barrel. The price in the second quarter of 1981 is \$40 per barrel.

The direct impact of CBO's less optimistic economic assumptions on projected budget outlays is shown in Table 20. The difference in interest rate assumptions accounts for the largest spending reestimates. Under CBO's alternative assumptions, net interest costs during 1981-1984 would be about \$35 billion higher than projected by the Administration. The interest subsidy costs of the Guaranteed Student Loan program would also be higher under CBO's assumptions, and would add over \$2 billion to federal outlays during the 1981-1984 period. CBO also estimates that interest receipts for the Exchange Stabilization Fund would be about \$600 million higher over the four-year period as a result of CBO's higher interest rate assumptions.

The effect of the higher cost-of-living adjustments assumed by CBO throughout the 1981-1984 period would be to add about \$14 billion to budget outlays for Social Security and other indexed retirement and disability programs. CBO also estimates that higher prices would add about \$1.6 billion to the costs of Medicare during this period, and almost \$1 billion for Medicaid. Under the Administration's proposals, increases in Medicaid funding would be limited by the increase in the GNP deflator. The higher GNP deflator projected by CBO would result in higher outlays in 1983 and 1984 than estimated by the Administration. Higher fuel prices could add another \$7 billion to defense spending during 1981-1984, and \$800 million to the costs of the Strategic Petroleum Reserve.

If unemployment were to remain at 7.8 percent as assumed by CBO, unemployment compensation would be about \$12 billion higher during 1982-1984 than projected for the March budget revisions, assuming that the Administration's legislative proposals for these programs are approved. If the national extended benefits program is not eliminated, for example, the costs of unemployment compensation could be even higher.

TABLE 20. CBO OUTLAY REESTIMATES BASED ON DIFFERENT ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

Economic Assumptions	Changes from March Revisions			
	1981	1982	1983	1984
Higher Interest Rates				
Interest on the public debt	2.0	10.8	18.0	20.1
Other interest	-0.2	-1.0	-1.6	-2.1
Interest received by trust funds	-0.7	-1.7	-3.1	-5.5
Subtotal, net interest	1.2	8.1	13.3	12.5
Guaranteed Student Loans	0.1	0.7	0.9	0.7
Exchange Stabilization Fund	a/	-0.2	-0.2	-0.2
Subtotal, interest rates	1.3	8.6	14.0	13.0
Higher Inflation				
Social Security	0.2	0.8	2.6	7.6
Other indexed retirement and disability programs	a/	0.2	0.4	1.7
Medicare and Medicaid	---	0.1	0.7	1.6
Subtotal, inflation	0.2	1.0	3.7	10.9
Higher Fuel Prices				
Defense fuel costs	0.3	1.4	2.4	3.4
Strategic Petroleum Reserve	0.1	0.2	0.3	0.2
Naval Petroleum Reserve receipts	a/	-0.1	-0.1	-0.2
Subtotal, fuel prices	0.4	1.5	2.6	3.5
Higher Unemployment and Inflation				
Unemployment compensation	-0.7	1.9	4.6	6.0
Food Stamps and AFDC	---	0.5	1.5	2.2
Subtotal	-0.7	2.4	6.1	8.2
Total	1.1	13.5	26.3	35.6

a/ Less than \$50 million.

The net effect of the different economic assumptions used by CBO is to add about \$13 billion to the Administration's budget outlay estimate for 1982, \$26 billion to 1983, and \$36 billion to 1984.

Other Estimating Differences

In addition to using alternative economic assumptions, CBO also, in a number of instances, uses different spending rate patterns and programmatic assumptions from those used by the Administration for estimating budget outlays. CBO bases its spending patterns on analyses of historical outlay trends and careful monitoring of the monthly Treasury statements. Similarly, CBO's programmatic assumptions are based on its own analyses of trends in the growth of beneficiary populations, utilization of federal benefits and services, and other factors. As shown in Table 21, the use of these different spending rate and programmatic assumptions result in rather sizable reestimates of the Administration's projected outlays for 1981-1984. Under CBO's estimating methods and programmatic assumptions, budget outlays would be about \$13 billion higher in 1982 than projected by the Administration, and \$12 billion in 1984. CBO's reestimates for most of the programs shown in Table 21 are discussed briefly below.

Defense Programs. Defense programs represent the largest CBO reestimate of the Administration's outlay projections resulting from the use of different spending patterns. CBO estimates that defense outlays for procurement and other activities will be \$5.1 billion higher than projected by the Administration in 1982 and \$7.3 billion higher in 1984. The major differences between the CBO and Administration estimates for 1982 are for procurements, particularly for the level of spending that will result from prior-year obligations and contracts.

CBO's estimates for procurement expenditures through 1984 assume sufficient industrial capacity to execute the President's program, without the creation of any bottlenecks. CBO also assumes that the Defense Department can obligate in the historical pattern the sharp increases in budget authority requested by the President. The Department of Defense obligated 50 percent more funds during the first quarter of fiscal year 1981 than the comparable period of fiscal year 1980, whereas obligations for calendar year 1980 were only 15 percent higher than calendar year 1979.

There is evidence that the rate of procurement spending could accelerate in 1982 rather than slow down. The January budget proposed a \$2.4 billion or 42 percent increase in 1982 for the fast-spending procurement programs for aircraft spare parts, support equipment, and ammunition

TABLE 21. CBO OUTLAY REESTIMATES BASED ON OTHER ESTIMATING DIFFERENCES (By fiscal year, in billions of dollars)

Program	Changes from March Revisions			
	1981	1982	1983	1984
Defense Programs	0.5	5.1	2.1	7.3
Energy Programs	0.2	0.8	0.4	0.4
Natural Resources and Environment Programs	0.1	0.8	0.8	1.2
Farm Price Supports	1.6	0.8	1.0	0.7
Mortgage Credit and Thrift Insurance	a/	1.2	0.5	0.4
Federal-Aid Highways and Urban Mass Transportation	0.1	0.8	0.4	a/
Community Development Support Assistance	1.0	0.8	0.3	a/
Disaster Assistance	0.1	0.3	0.4	0.6
Education and Social Services Programs	1.1	0.8	0.6	0.2
Social Security	0.3	0.6	1.8	1.8
Other Income Security	-0.4	1.1	0.8	0.9
Veterans Benefits and Services	0.5	a/	-0.2	-0.2
OCS Rents and Royalties	0.9	-0.3	-1.5	-2.9
All Other, Net	-0.6	-0.1	0.3	1.6
Total	5.3	12.8	7.6	12.0

a/ Less than \$50 million.

programs; the revised budget request expands this funding. Both CBO and Administration outlay rates are not disaggregated enough to account for this shift in program composition, which could result in an underestimate of actual spending.

Various economic and programmatic factors affect procurement outlays, but budget authority levels in prior years are most important. Procurement budget authority grew at an average rate of 23.8 percent between 1979 and 1981, and it is projected to grow 36.6 percent between 1980 and 1981 alone, based on the President's request. Major increases in

procurement budget authority historically show up one to three years later in outlays. CBO's outlay estimates are consistent with this historical lag; procurement outlays are estimated to grow from \$35.3 billion in 1981 to \$45.2 billion in 1982, an increase of \$9.9 billion or 28 percent.

CBO uses 1981 spending rates to estimate 1982 outlays because underlying economic and programmatic factors are not expected to change dramatically between these years. CBO's economic assumptions indicate that the procurement inflation rate will be only slightly greater in 1981 than in 1982 (10.1 percent versus 9.5 percent). Individual procurement programs do not appear to be experiencing significant slippages or acceleration, with the exception of the Trident submarine. Only much lower inflation rates and much slower delivery of major purchases, resulting in slowdown and slippage in procurement progress payments, could cause total 1982 procurement spending to be as low as Administration estimates.

CBO has reestimated defense outlays for the President's program in 1983 and 1984, based on aggregate spending rates. Although the reestimate for this period is not as detailed as the 1981 and 1982 reestimates, the results shown in Table 21 are consistent with the 1981 and 1982 analyses. CBO outlay estimates increase steadily with the proposed increases in budget authority. The pattern of Administration estimates is more irregular; the year-to-year outlay increases range from about \$27 billion to about \$48 billion with the smallest increases in 1982 and 1984.

Energy Programs. The use of different spending rate patterns also accounts for most of the differences between the CBO and the Administration estimates for energy program outlays. For example, CBO's estimate for alternative fuels production assumes a faster spending of funds for the first round of feasibility studies and cooperative agreements than the Administration's. However, CBO's outlay estimates in 1981 for the second round, proposed for rescission by the President, are lower than the President's because the spendout rate was adjusted to reflect delays in the obligation of second-round funds until later in the fiscal year.

The CBO 1982 outlay estimates for energy conservation programs are also higher than the Administration's by \$160 million. Because of the historically slow spendout of new budget authority in these programs, CBO estimates that first- and second-year savings from the proposed rescission would be less (by \$33 million in 1981 and \$80 million in 1982) than those assumed by the Administration. In addition, despite the 75 percent reduction in the 1982 budget authority request from the 1981 appropriated level, CBO estimates that large carryover balances from prior-years' funding will result in 1982 outlays \$80 million higher than those projected by the Administration.

CBO also estimates that 1981 outlays for energy supply R&D activities will be \$105 million higher than estimated by the Administration, because of different assumptions about spending rates. CBO projects uranium enrichment outlays to be \$198 million higher in 1982 than the Administration, largely because of lower revenue estimates. CBO also expects that Bonneville Power Administration outlays will be \$227 million higher in 1982 than projected in the March revisions, because of lower receipts and higher levels of program activity. Finally, CBO estimates that Department of Energy administration and regulation outlays will be \$40 million lower in 1981 and \$77 million higher in 1982 as a result of slower curtailment of energy programs than assumed by the Administration.

Natural Resources and Environment Programs. The major reason for outlay estimating differences for natural resources and environment programs for 1982 involves different assumptions about offsetting budget receipts derived from the sale of timber and the leasing of minerals on federal lands. The March budget revisions anticipate approximately a 40 percent increase in timber receipts over the 1981 level, while CBO projects a rise of only about 20 percent. The apparent reason for the Administration's large increase in 1982 timber receipts is its forecast increase in new housing starts in fiscal year 1982. CBO anticipates that such a rise in new housing starts would cause less of an increase in federal timber receipts, based on the historical relationship between new housing starts and federal timber receipts.

The President's 1982 budget request anticipates an increase in mineral leasing receipts of about 40 percent over the 1981 estimate. A significant portion of this increase (\$200 million) would result from accelerated leasing in the National Petroleum Reserve in Alaska. The remainder of this increase (\$181 million) is expected to result from increases in mineral prices in fiscal year 1982. The Administration estimate of mineral leasing receipts in 1982 is approximately \$127 million higher than the CBO estimate, because of different mineral price and production assumptions. The CBO outlay estimate for construction grants for sewage treatment plants are also higher than the Administration's estimates by \$160 million in 1981, \$250 million in 1982, and over \$500 million by 1984. The CBO reestimates result from different assumptions regarding the spending rate for the program, and the timing and magnitude of the impact of the rescission in 1981.

Farm Price Supports. CBO projects significantly higher outlays for farm price support programs than the Administration for both 1981 and 1982, because of differences in assumptions about farm production and market conditions. For 1981, the largest outlay estimating difference appears in the feed and food grain support program. CBO estimates that

more wheat will be placed in the farmer-owned reserve, and less corn will be sold by the Commodity Credit Corporation (CCC) than assumed by the Administration. This would add \$945 million to 1981 outlays. CBO also projects higher milk production, which would add \$462 million to the level of milk price support outlays estimated by the Administration. In addition, CBO has a lower estimate for short-term export credit payments (\$96 million) and a higher estimate for the livestock emergency feed program (\$50 million) in 1981 than projected by the Administration.

The outlay estimating difference is smaller for 1982 farm price supports. CBO projects expenditures of \$840 million above the Administration's. The primary outlay difference is for dairy price supports (\$743 million). CBO assumes higher levels of milk production than the Administration, which would result in continuing large CCC purchases of dairy products. CBO's higher production assumption is based on an analysis of production-feed ratios. CBO also projects higher wheat and feed grain commodity loans than the Administration. This would add about \$100 million to 1982 outlays.

Mortgage Credit and Thrift Insurance. CBO estimates that 1982 outlays for the two mortgage purchase programs of the Government National Mortgage Association (GNMA) will total \$1,334 million, about \$660 million higher than the Administration's estimate of \$670 million. The CBO estimate assumes lower mortgage sale levels and higher discount point costs on these sales than assumed by the Administration, as shown in the following table:

(In millions of dollars)

	<u>Adminis- tration Estimate</u>	<u>CBO Estimate</u>	<u>Difference</u>
Mortgage sales	2,700	2,000	-700
Discount costs	620	560	-60

CBO also assumes a higher GNMA auction yield than the Administration (11.5 percent compared to 10.7 percent).

The other major outlay estimating difference for 1982 involves net outlays by the Federal Savings and Loan Insurance Corporation (FSLIC). The Administration has revised downward the 1982 outlay estimate for the FSLIC by \$186 million from the January budget. The change assumes more optimistic interest rate assumptions, which would allow the agency to sell

assets purchased from troubled institutions. These assets are normally held by the FSLIC until they are able to be sold at a profit, or at least at a level where losses are not incurred.

CBO assumes interest rates will not decline sufficiently to warrant the sale of these additional assets in 1982. In addition, because of current trends in the industry, including high interest rates and declining new savings deposits, the CBO estimate assumes assistance to savings and loans will be \$335 million higher than the Administration estimates, which assumes a normal level of approximately \$200 million. Actual purchases of assets and loans to insured institutions exceeded \$1 billion in 1980, and are expected to be at approximately the same level in 1981.

Federal-Aid Highways and Urban Mass Transportation. CBO estimates that outlays for federal-aid highways and urban mass transportation grants will be \$800 million higher in 1982 than projected by the Administration. The largest estimating difference (\$473 million) is for urban mass transportation grants, for which CBO projects faster spending for new operating assistance grants and higher levels of spending in 1982 from prior-year capital grants. CBO's projections are based on historical spending patterns for operating assistance grants and the 1980-1981 outlay experience for capital grants. CBO believes that the Administration has overestimated by \$200 million the budget savings to be achieved by a reduction in new capital grants.

CBO's analysis of the Administration's outlay estimates for federal-aid highway construction grants suggests that they are low by \$100 million in 1981 and by about \$328 million in 1982. The CBO analysis is based on historical spending patterns, and takes into account the Administration's 1982 first-quarter obligation ceiling.

Community Development Support Assistance. CBO projects significantly higher outlays in both 1981 and 1982 than the Administration for community development support assistance, based on CBO's analysis of actual spending trends. CBO projects a 20 percent growth in outlays in 1981 for Community Development Block Grants, based on actual outlays for the first quarter. In each of the program's four full years of operation, first-quarter outlays have been about one-quarter of total fiscal year outlays, and quarterly spending patterns have varied little. Actual outlays for the first quarter of fiscal year 1981 were \$1.2 billion, or 25 percent of CBO's \$4.7 billion estimate for the full year. The program has ample balances of prior-year obligations (\$6.4 billion at the start of 1981) to support CBO's projected level of spending, which is \$762 million above the Administration's estimate.

CBO also estimates that 1981 outlays for Urban Development Action Grants will be \$235 million higher than projected by the Administration. Spending for this program has grown rapidly in recent years, from \$73 million in 1979 to \$225 million in 1980. CBO expects this rapid growth to continue, based on the program's success in obligating funds quickly, and the fact that most projects begin construction soon after obligation. The Administration, on the other hand, assumes that, rather than continue, spending growth will level off in 1981.

The estimating differences between CBO and the Administration continue in 1982, although they narrow somewhat. CBO expects the basic Community Development Block Grant program to slow its spending growth as the bulk of prior-year obligations are expended. Outlay growth for the Urban Development Action Grant program should also slow as the pipeline is cleared of prior-year balances.

Disaster Assistance. The CBO estimate of outlays for various disaster assistance programs is approximately \$300 million higher than the President's for fiscal year 1982 and \$600 million in 1984. CBO projected estimates for these programs are based on recent program experience, adjusted for inflation, whereas the President's expected program levels are at or lower than recent experience, with no adjustments for inflation. Since all of these programs are highly sensitive to natural disasters, the risk in any given year of substantial unexpected spending is great, especially in the flood insurance program, for which contingent liabilities are expected to exceed \$107 billion in 1982.

Education and Social Services Programs. CBO anticipates that spending for various education and social services programs will be \$1.1 billion higher in 1981 and \$800 million higher in 1982 than projected by the Administration, based on CBO's analysis of recent spending patterns. In addition, the CBO estimate of the Guaranteed Student Loan program assumes that legislation requested by the President will be enacted by July 1, 1981, but will not be fully implemented until October 1, 1981. This implementation schedule will result in smaller savings in fiscal years 1981 and 1982 than will be the May enactment and July implementation schedule implicit in the Administration's estimate.

Social Security. In addition to higher projected annual cost-of-living adjustments, CBO projects slightly higher growth in Social Security recipients during the next four years than assumed by the Administration. In addition, CBO assumes that smaller savings will result from the Administration's management initiative to remove disabled recipients from the benefit roles as soon as recovery occurs. These differences in programmatic

assumptions result in \$340 million higher outlays for 1981, over \$600 million for 1982, and \$1.8 billion by 1984.

Other Income Security. There are also a number of differences between CBO and the Administration on programmatic assumptions for other security programs. For example, CBO projects that the average monthly number of AFDC recipients will be higher throughout the next four years than assumed by the Administration. CBO projects average monthly recipient levels of 11.2 million for 1981 and 11.4 million for 1982, compared with the Administration's estimates of 10.8 million and 10.7 million respectively. CBO also has included \$230 million in its 1981 outlay estimates because of a recent appeals court decision requiring the Railroad Retirement Board to pay additional windfall benefits, including retroactive payments. These payments have not been included in the Administration's estimates. In addition, CBO assumes a slower implementation of the Administration's Food Stamp legislative changes. The Administration's outlay estimates for Food Stamps assume that full-year savings from the proposed legislation can be achieved in 1982, whereas CBO assumes full implementation would not be achieved until March 1982.

Veterans' Benefits and Services. In fiscal year 1981, the CBO estimate of outlays for veterans' benefits and services exceeds the President's estimate by about \$500 million. The largest difference, for readjustment benefits, results from a higher CBO estimate of trainees. Extrapolations of actual fall 1980 enrollment figures, the anticipation of continued high unemployment through the remainder of fiscal year 1981, and the 10 percent rate increase enacted in 1980, all indicate a much higher number of trainees than estimated by the Administration. In fiscal year 1982, the difference between the Administration's and CBO's estimates of readjustment benefits outlays drops substantially and is insignificant in the outyears.

CBO estimates outlays from the veterans' loan guarantee revolving fund in fiscal year 1981 to be \$163 million higher than estimated by the President, because of a substantially lower CBO estimate of loan asset sales and a higher CBO estimate of discounts paid on such sales. Estimating differences for this account in fiscal years 1982-1984 are small.

In the veterans' pension benefits program, CBO estimates fiscal year 1982 outlays \$135 million below the President's estimated level. This estimating difference grows to \$180 million by 1984 and results from CBO's expectation that the rate of accessions to the P.L. 95-588 pension rolls will decline faster than predicted by the Administration.

OCS Rents and Royalties. CBO estimates that rents and royalties on the Outer Continental Shelf (OCS) will be \$900 million less than projected by the Administration for 1981, but \$300 million higher in 1982, and substantially higher in 1983 and 1984 (\$1.5 billion and \$2.9 billion respectively). The 1981 difference largely results from different assumptions about the level of royalty payments. For 1982-1984, the differences are largely caused by different assumptions about the level of bonuses to be derived from new lease sales.

OFF-BUDGET OUTLAYS AND FEDERAL DEBT

The March budget revisions also contain new estimates for off-budget outlays and federal debt. Off-budget outlays are the net transactions of various entities that are federally owned and operated, but are excluded from the unified budget totals under provisions of law. The outlays of off-budget entities are added to the unified budget deficit to derive the total federal deficit that has to be financed by borrowing from the public and by other means. When off-budget outlays are financed by Treasury borrowing, the additional debt is subject to the statutory debt limit.

TABLE 22. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

Off-Budget Federal Entity	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Federal Financing Bank	14.5	23.1	23.1	18.2	15.1
Postal Service Fund	-0.4	0.2	0.6	-0.1	1.4
Rural Electrification and Telephone Revolving Bank	0.2	0.2	0.2	0.2	0.2
U.S. Railway Association	a/	-0.3	-0.3	a/	a/
Synthetic Fuels Corp.	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	14.2	23.2	23.6	18.3	16.7

a/ Less than \$50 million.

Off-Budget Outlays

The Federal Financing Bank (FFB) was established in 1974 to provide an efficient method for financing certain borrowing activities by federal agencies. The FFB itself does not operate any programs. Rather, it assists other government programs by purchasing loan assets, or by making loans for which other agencies guarantee repayment. The Administration believes that the operations of the FFB have weakened budgetary control over federal credit programs, and is proposing to reform its operations and to decrease substantially its loan outlays. The net reduction in FFB outlays in 1982 is estimated to be \$3.1 billion, as shown in Table 22. The reduction in estimated FFB outlays in 1982 is partially offset by an increase of \$1.5 billion in net outlays for the Postal Service Fund.

As shown in Table 23, the Administration now estimates that FFB outlays for net purchases of agency loan assets will be \$4.8 billion in 1982, a decrease of \$1.9 billion from the level estimated in the January budget, and \$7.8 billion below the level currently estimated for 1981. The decreases result from lower sales of certificates of beneficial ownership (CBOs) by the Farmers Home Administration and the Rural Electrification Administration (REA) to the FFB. The Administration also estimates that FFB outlays for direct loans net of repayments will be over \$1.1 billion lower in 1982 than estimated in January. The major reductions are for FFB lending on behalf of the Student Loan Marketing Association (\$1.4 billion) and the REA (\$0.9 billion). FFB net outlays for low-rent public housing in 1982 have been reestimated upward by \$1.6 billion.

Federal Debt

The Administration now estimates that federal debt subject to the statutory limit will rise from \$908.7 billion at the end of fiscal year 1980 to \$1,071.2 billion by the end of fiscal year 1982. This represents an increase of \$162.5 billion, or 18 percent, during the two-year period. The increase is \$17.6 billion greater than projected in the January budget, largely because of the higher unified budget deficit now estimated for 1982.

The current statutory limit on federal debt is \$985 billion. It was enacted on February 7, 1981, and expires on September 30, 1981. The Administration's latest estimates indicate that the current limit will be reached before September 30. CBO's reestimates of the revenue and outlay estimates in the March budget revisions indicate that the deficit for 1981

TABLE 23. DISTRIBUTION OF FEDERAL FINANCING BANK (FFB) OUTLAYS, NET (By fiscal year, in billions of dollars)

Description	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Purchases of Agency Loan Assets					
Farmers Home Admin.	6.9	12.4	12.1	6.1	4.4
Rural Elec. Admin.	0.7	0.5	0.5	0.6	0.4
Subtotal	<u>7.6</u>	<u>13.0</u>	<u>12.6</u>	<u>6.7</u>	<u>4.8</u>
Direct Loans (Purchases of Agency Guaranteed Loans)					
REA	2.5	4.3	4.2	5.1	4.2
Foreign military sales credit	1.9	2.0	2.0	2.2	1.9
Student Loan Mar- keting Assn.	1.1	1.1	2.1	1.9	0.5
Low-rent public housing	0.1	1.5	1.1	0.9	2.6
Other	1.2	1.3	1.1	1.3	1.2
Subtotal	<u>6.8</u>	<u>10.1</u>	<u>10.5</u>	<u>11.5</u>	<u>10.3</u>
Interest, Transfer of Surplus, and Adminis- trative Expenses	<u>0.1</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>
Total, FFB Outlays	14.5	23.1	23.1	18.2	15.1

a/ Less than \$50 million.

could be about \$8 billion higher than projected by the Administration, so that the current limit could be reached even earlier. The Administration's estimates of the level of public debt subject to limit for 1981 and 1982 are shown in Table 24.

TABLE 24. ESTIMATES OF THE LEVEL OF FEDERAL DEBT SUBJECT TO STATUTORY LIMIT (By fiscal year, in billions of dollars)

Federal Debt	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Increase in Debt Subject to Limit					
Unified budget deficit	59.6	55.2	54.9	27.5	45.0
Deficit of off-budget federal entities	14.2	23.2	23.6	18.3	16.7
Trust fund surpluses	8.8	4.5	5.7	19.2	21.7
Means of financing (other than borrow- ing) and other adjustments	-1.5	-4.3	-5.5	1.3	0.4
Total increase	81.1	78.5	78.7	66.4	83.8
Debt Subject to Limit, Beginning of Year	827.6	908.7	908.7	987.3	987.4
Debt Subject to Limit, End of Year	908.7	987.3	987.4	1,053.6	1,071.2

CHAPTER IV. THE CREDIT BUDGET

President Reagan's budget revisions for fiscal year 1982 propose a sharp reduction in the amount of new direct loans and loan guarantees to be extended by federal agencies in both 1981 and 1982. The revised 1981 credit budget reaches \$140.2 billion, 9 percent--or \$13.6 billion--below the January budget's estimate (see Table 25). The reduction proposed for 1982 is sharper: a 14 percent reduction from the January estimate, to \$127.9 billion. The brunt of the reduction in both years is borne by the loan guarantee programs; primary loan guarantee commitments would be cut by \$29.4 billion over the two years under the Administration's proposal. New direct loan obligations are only reduced by \$5.2 billion.

TABLE 25. THE ADMINISTRATION'S REVISED CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	1981 Estimates			1982 Estimates	
	1980 Actual	January Budget	March Revisions	January Budget	March Revisions
New Direct Loan Obligations					
Agency direct loans, on and off-budget	39.2	43.3	39.7	35.4	33.8
FFB direct loans	<u>22.2</u>	<u>30.9</u>	<u>31.5</u>	<u>24.8</u>	<u>21.8</u>
Total, direct loans	61.4	74.2	71.2	60.2	55.6
Less FFB loan asset purchases	<u>-12.1</u>	<u>-16.6</u>	<u>-16.2</u>	<u>-8.2</u>	<u>-6.2</u>
Direct loans, adjusted	49.3	57.6	55.0	52.0	49.4

New Loan Guarantee Commitments					
Gross guarantees	161.0	202.1	184.7	196.4	168.7
Less secondary guarantees	-64.4	-73.2	-66.2	-74.3	-64.7
Less guarantees of direct loans	<u>-24.4</u>	<u>-32.7</u>	<u>-33.3</u>	<u>-25.2</u>	<u>-25.4</u>
Primary loan guarantees	72.2	96.2	85.2	96.9	78.5
Total, Credit Budget	121.5	153.8	140.2	148.9	127.9

Both the January credit budget and the March revisions anticipate an increase in new federal credit in 1981 over the 1980 level, and a decrease in 1982, relative to the 1981 total. Under the March revisions, the upswing in 1981 is less pronounced and the downswing in 1982 is much sharper than in the January budget. The January budget estimates envisioned a 26 percent increase in new credit in 1981 over the 1980 level, whereas the March revisions anticipate only a 15 percent increase. The credit budget total for 1982 was expected to fall slightly relative to the 1981 total, according to the January estimates, so that commitments for new credit in 1982 would be 23 percent above the 1980 level. Under President Reagan's proposals, however, new direct loan obligations and new loan guarantee commitments in 1982 will only be 5 percent above the 1980 level.

In relative terms, the reduction in credit is greater than the reduction in direct spending. The credit reductions are steeper in part because few credit programs fall within the large portions of the budget whose size the Administration intends to maintain, defense and "social safety net" programs. The remaining portions of the budget, including most credit programs, have been targeted for proportionally greater decreases.

CONGRESSIONAL ACTION ON THE CREDIT BUDGET

The Congress may act on the credit budget by setting targets in the concurrent budget resolutions for aggregate new credit activity and by enacting limitations on individual programs in appropriation legislation. In the concurrent budget resolutions for 1981, the Congress set targets for direct loans and for primary and secondary loan guarantees. ^{1/} According to the credit budget totals presented in January, it was expected that each of these targets would be exceeded (see Table 26). The revised budget reductions bring the 1981 totals for direct loan obligations and primary loan guarantee commitments within the second budget resolution targets. The revised estimate of secondary loan guarantee commitments--primarily Government National Mortgage Association (GNMA) guarantees of mortgage-backed securities of the Federal Housing Administration and Veterans' Administration--still exceeds the target by \$13.2 billion. The increase in GNMA guarantees reflects the increased demand for federally assisted mortgages when interest rates are high and credit availability limited.

^{1/} Secondary loan guarantees are guarantees of loans by one federal agency which have already been guaranteed by another federal agency.

TABLE 26. CREDIT BUDGET FOR 1981: JANUARY AND MARCH REVISED ESTIMATES COMPARED TO SECOND BUDGET RESOLUTION (In billions of dollars)

Credit Activity	Second Budget Resolution	January Budget	March Revisions
New Direct Loan Obligations			
On-budget	44.6	42.1	38.6
Off-budget	28.9	32.2	32.6
Total, gross direct loans	73.5	74.2	71.2
Primary Loan Guarantee Commitments <u>a/</u>	82.8	92.8	81.8
Secondary Loan Guarantee Commitments	53.0	73.2	66.2

a/ Does not include correction for TVA guarantees; does include correction to January reestimates for Biomass Energy Development.

Reductions in credit program activity levels can be achieved either through changes in the basic law governing a program or through enactment of limitations on annual activity. These limitations are included in the regular appropriation bills. The majority of the reductions proposed by the Reagan Administration do not require amendments of basic law; many will, therefore, require Congressional approval of limitations in appropriations. For 1982 the reductions take the form of revised limitation requests. For 1981, reductions are either in the form of withdrawal of requested supplemental increases in limitations or of reductions in previously enacted limitations. Reductions achieved through withdrawal of supplemental requests total \$0.9 billion in direct loan obligations, primarily for reduced Small Business Administration disaster loans, and \$13.8 billion in gross loan guarantee commitments, primarily for home mortgage credit. No Congressional action is required to achieve these reductions. Reductions in previously enacted limitations are essentially amendments to limitations set in appropriations acts for 1981. These reductions are analogous to rescissions of appropriations.

For a few programs, the Administration is requesting changes in authorizing statutes. Most of these are requests for dismantling and

terminating programs. Programs to be terminated include biomass and geothermal energy development loan guarantees, the Economic Development Administration, HUD's program of housing rehabilitation loans and the Consumer Cooperative Bank. Termination of these programs accounts for a reduction of \$0.6 billion in new direct loan obligations and of \$0.7 billion in new loan guarantee commitments in 1982.

The Administration can take action on its own to reduce some credit program levels, as long as the action is within discretion granted by the Congress. Administrative actions announced in the revised budget include increased interest rates for veterans' life insurance programs and restrictions on Federal Financing Bank (FFB) activity. The Administration plans to curtail use of the FFB as a lender by the Farmers Home Administration, the Rural Electrification Administration, and the Student Loan Marketing Association. These agencies will increasingly be directed to private lenders for sources of funds.

EXEMPTIONS FROM APPROPRIATION LIMITATIONS

A large portion of the credit budget consists of programs that are exempt from appropriation limitations. The Carter Administration exempted programs for which it considered annual limitations on new lending contrary to the nature of the programs. Most such programs were either entitlement programs, for which the government is legally bound to provide funds, or insurance and disaster programs, which require flexibility for effective response to emergencies. The Reagan Administration adopted these criteria for exemption in its budget revisions.

By nature, the programs subject to appropriation limitations tend to offer more opportunity for discretionary changes than do the exempt programs. For this reason, as shown in Table 27, the largest reductions from the January estimates occur in the portion of the credit budget subject to limitations. Achievement of the reductions in credit proposed by the Administration depends on enactment by the Congress of the requested limitations.

ADJUSTMENTS TO THE CREDIT BUDGET

The Administration has made several technical adjustments to the credit budget totals, which have a substantial impact. They shift the January credit budget estimates downward by \$11.5 billion for 1981 and \$3.7 billion in 1982 (see Table 28).

TABLE 27. CREDIT BUDGET LIMITATIONS AND EXEMPTIONS (By fiscal year, in billions of dollars)

	1981 Estimates			1982 Estimates		
	January Budget	March Revisions	Change from January	January Budget	March Revisions	Change from January
New Direct Loan Obligations						
Exempt from limitation	34.6	34.3	-0.3	29.4	26.1	-3.3
Requested for limitation	23.0	20.7	-2.3	22.6	23.3	0.7
Total	<u>57.6</u>	<u>55.0</u>	<u>-2.6</u>	<u>52.0</u>	<u>49.4</u>	<u>-2.6</u>
Primary Loan Guarantee Commitments						
Exempt from limitation	48.8	43.8	-5.0	25.0	23.3	-1.7
Requested for limitation	47.4	41.4	-6.0	71.9	55.2	-16.7
Total	<u>96.2</u>	<u>85.2</u>	<u>-11.0</u>	<u>96.9</u>	<u>78.5</u>	<u>-18.4</u>

TABLE 28. ADJUSTMENTS TO THE CREDIT BUDGET (By fiscal year, in billions of dollars)

Credit Activity	1981 Estimates		1982 Estimates	
	January Budget	March Revisions	January Budget	March Revisions
Direct Loan Obligations, Total	74.2	71.2	60.2	55.6
Less FFB loan asset purchases	<u>-16.6</u>	<u>-16.2</u>	<u>-8.2</u>	<u>-6.2</u>
Direct Loan Obligations, Adjusted	57.6	55.0	52.0	49.4

Primary Loan Guarantee Commitments, Unadjusted	91.1	81.8	92.4	74.0
TVA guarantees of FFB loans	3.4	3.4	4.5	4.5
Biomass energy development	<u>1.7</u>	<u>---</u>	<u>---</u>	<u>---</u>
Primary Loan Guarantee Commitments, Adjusted	96.2	85.2	96.9	78.5

The adjustment to new direct loan obligations corrects for double counting of direct loans sold by the Farmers Home Administration (FmHA) and other agencies to the Federal Financing Bank. Such loans are counted twice in the new direct loan obligation totals, originally as new FmHA obligations and then, when the FFB purchases the loans, as new FFB obligations. The revised total eliminates this double counting.

The first adjustment to the loan guarantee totals involves loans made by the FFB under guarantees by the Tennessee Valley Authority (TVA). When the FFB makes direct loans to borrowers at the request of another federal agency, it requires a guarantee that the agency will repay the principal and interest in case of default by the borrower. These guarantees are included in the total of new loan guarantee commitments, but then are deducted as guarantees of direct loans when computing primary loan guarantees. Because of a dispute about the nature of TVA's activity, the January budget did not include the TVA guarantees in the total of new loan guarantee commitments. OMB did, however, deduct the amount of the TVA guarantees, as guarantees of direct loans, from the total of all new guarantee commitments, even though the guarantees were not included in the total. The Administration's March revisions put the original TVA guarantees back into the total of loan guarantee commitments to correct the primary guarantee total.

The second loan guarantee adjustment simply includes \$1.7 billion in additional 1981 loan guarantee commitments for biomass energy development, inadvertently excluded from the credit budget totals of the January budget.

THE REVISED CREDIT BUDGET BY FUNCTION

The revised program levels for the 1981 and 1982 credit budgets are detailed in Tables 29 and 30 by function. The largest reductions in 1981 direct lending occur in International Affairs (Export-Import Bank and the economic support fund), and Community and Regional Development (Small Business Administration disaster loans, HUD rehabilitation loans, and rural development activities of FmHA). Most programs involving economic development activities are scheduled for reduction. In 1982, the largest direct loan decreases are scheduled for the Energy, Agriculture, and Commerce and Housing Credit functions, which contain reductions in the Rural Electrification Administration and FmHA loans. The largest changes in loan guarantee levels for both 1981 and 1982 occur in the Commerce and Housing Credit function. Three agencies, SBA, FHA, and GNMA, account for reductions in gross loan guarantee commitments of over \$14 billion in 1981 and over \$18 billion in 1982. The FHA and GNMA changes involve significant decreases in the supply of federally supported home mortgage credit.

TABLE 29. THE ADMINISTRATION'S CREDIT BUDGET REVISIONS FOR NEW DIRECT LOAN OBLIGATIONS, BY FUNCTION (By fiscal year, in millions of dollars)

Function	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
International Affairs (150)					
Functional development assistance	445	396	396	475	369
Economic support fund	713	735	255	1,000	1,000
Foreign military sales credit	635	640	640	1,020	1,652
FFB loans	2,380	2,600	2,600	3,000	2,700
Food for Peace	877	916	840	878	808
Export-Import Bank	4,365	5,900	5,148	5,000	4,400
Other 150	<u>5</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>1</u>
Total, 150	9,419	11,198	9,890	11,384	10,930
General Science, Space and Technology (250)					
NASA--FFB loans	107	102	102	144	144
Energy (270)					
Rural Electrification Administration	1,175	1,100	913	1,100	700
FFB loans	3,188	4,774	4,736	5,752	4,600
Tennessee Valley Authority--FFB loans	2,436	3,437	3,437	4,501	4,501
Other energy	<u>8</u>	<u>112</u>	<u>22</u>	<u>96</u>	<u>2</u>
Total, 270	6,807	9,424	9,109	11,449	9,803
Natural Resources and Environment (300)					
Interior Dept. loan program	12	25	25	34	24
Agriculture (350)					
Agriculture credit (FmHA)	7,528	8,810	8,721	5,658	3,008
FFB loans	5,257	7,121	7,045	2,305	1,166
Commodity Credit Corporation	<u>4,947</u>	<u>3,596</u>	<u>3,571</u>	<u>4,620</u>	<u>4,520</u>
Total, 350	17,732	19,527	19,337	12,583	8,694
Commerce and Housing Credit (370)					
Rural housing (FmHA)	6,752	6,709	6,393	5,395	4,746
FFB loans	4,681	7,341	7,067	4,161	3,645
National Credit Union Administration	327	2,227	2,081	3,671	3,671
SBA business loan fund	761	789	744	875	759
FFB loans	149	360	293	360	295
FSLIC	589	1,055	1,055	190	190

(Continued)

TABLE 29. (Continued)

Function	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Commerce and Housing Credit (continued)					
Federal Housing Adminis- tration	301	282	282	278	278
Housing for elderly/ handicapped	933	896	896	851	851
GNMA mortgage purchase assistance	2,195	1,824	1,824	305	3,605
National Consumer Co-op Bank	22	187	62	147	13
Other 370	<u>331</u>	<u>8</u>	<u>8</u>	<u>9</u>	<u>40</u>
Total, 370	17,041	21,678	20,704	16,241	18,093
Transportation (400)					
Amtrak--FFB loans	1,073	237	237	56	56
Other rail programs	150	115	115	156	116
FFB loans	149	308	308	269	269
Other transportation	<u>35</u>	<u>29</u>	<u>29</u>	<u>34</u>	<u>34</u>
Total, 400	1,407	689	689	515	475
Community and Regional Development (450)					
Rural development (FmHA)	1,423	1,667	1,507	326	196
FFB loans	1,443	1,608	1,597	1,064	1,021
Rural Telephone Bank	200	185	185	185	185
Economic Development Administration	116	116	66	116	---
SBA disaster loans	1,237	2,850	2,070	490	440
Rehabilitation loans	203	197	45	215	---
Community develop- ment--FFB loans	45	270	127	270	180
Other 450	<u>98</u>	<u>127</u>	<u>71</u>	<u>24</u>	<u>24</u>
Total, 450	4,765	7,021	5,669	2,691	2,047
Education, Training, Employment and Social Services (500)					
National Direct Student Loans	305	186	186	286	286
Guaranteed Student Loans	271	346	343	455	588
SLMA--FFB loans	1,070	1,095	2,095	1,923	500
College housing	<u>114</u>	<u>106</u>	<u>76</u>	<u>95</u>	<u>50</u>
Total, 500	1,759	1,733	2,700	2,759	1,424
Health (550)					
Health programs	66	66	66	93	93
FFB loans	<u>39</u>	<u>52</u>	<u>52</u>	<u>76</u>	<u>76</u>
Total, 550	105	118	118	169	169

(Continued)

TABLE 29. (Continued)

Function	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Income Security					
Low-rent public housing	1,318	300	300	300	300
FFB loans	119	1,458	1,684	957	2,654
Other Income Security	<u>1</u>	<u>4</u>	<u>4</u>	<u>6</u>	<u>6</u>
Total, 600	1,438	1,762	1,988	1,263	2,960
Veterans' Benefits and Services (700)					
Life insurance	256	301	210	298	202
Housing	362	408	408	436	436
Education	<u>8</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Total, 700	626	718	627	744	648
General Government (800)					
GSA--FFB loans	51	110	110	6	31
General Purpose Fiscal Assistance (850)					
Loans to District of Columbia	<u>90</u>	<u>133</u>	<u>133</u>	<u>220</u>	<u>145</u>
Direct Loans, Unadjusted	61,358	74,238	71,200	60,203	55,586
Less FFB loan asset purchases	<u>-12,110</u>	<u>-16,637</u>	<u>-16,261</u>	<u>-8,230</u>	<u>-6,208</u>
Direct Loans, Adjusted	49,248	57,601	54,939	51,973	49,378

TABLE 30. THE ADMINISTRATION'S CREDIT BUDGET REVISIONS FOR NEW LOAN GUARANTEE COMMITMENTS, BY FUNCTION (By fiscal year, in millions of dollars)

Function	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
National Defense (050)					
Defense production	1	30	30	30	30
International Affairs (150)					
Foreign military sales credit	1,450	2,546	2,546	2,931	2,573
Export-Import Bank	8,031	8,560	7,559	9,420	8,220
Other 150	350	320	270	430	250
Total, 150	9,831	11,426	10,375	12,781	11,043
Energy (270)					
Rural Electrification Administration	5,687	5,145	5,095	5,145	5,245
Synthetic Fuels Corporation	---	1,500	1,500	2,000	2,000
Alternative fuels production	---	4,500	4,500	---	---
Tennessee Valley Authority	2,436	3,437	3,437	4,501	4,501
Biomass loan guarantees	---	1,761	20	35	---
Other energy	84	258	57	204	2
Total, 270	8,207	16,601	14,577	11,885	11,747
Agriculture (350)					
Agriculture credit (FmHA)	5,420	7,532	7,456	2,636	1,597
Commodity Credit Corporation	744	1,947	1,947	2,000	2,000
Total, 350	6,164	9,479	9,402	4,636	3,597
Commerce and Housing Credit (370)					
Rural housing (FmHA)	4,778	7,426	7,152	4,211	3,695
Chrysler loan guarantees	800	700	700	---	---
Small Business Administration	4,809	5,878	4,888	5,925	4,445
Federal Housing Administration	29,106	39,000	34,155	44,000	35,000
GNMA mortgage-backed securities	63,165	72,000	64,000	72,360	64,208
Other, 370	153	150	138	125	138
Total, 370	102,811	125,154	111,033	126,621	107,486
Transportation (400)					
Ship financing	1,223	1,200	900	1,400	1,050
Railroad assistance	278	395	395	354	354
Aircraft purchase	247	324	300	350	100
Total, 400	1,747	1,919	1,595	2,104	1,504

(Continued)

TABLE 30. (Continued)

Function	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Community and Regional Development (450)					
Rural development (FmHA)	2,509	2,349	2,338	1,564	1,000
Community development grants	157	250	250	250	250
Economic Development Administration	48	425	163	425	---
Other, 450	26	7	7	64	30
Total, 450	2,740	3,031	2,758	2,303	1,280
Education, Training, Employment and Social Services (500)					
Guaranteed Student Loans	4,750	7,185	7,185	5,697	5,697
Guarantees of SLMA obligations	1,070	1,095	2,095	1,923	500
Total, 500	5,820	8,280	9,280	7,620	6,197
Health (550)	65	100	100	176	176
Income Security (600)					
Low-rent public housing	17,013	18,423	17,839	20,081	17,446
Veteran's Benefits and Services (700)					
Housing	6,310	7,422	7,422	7,383	7,383
General Purpose Fiscal Assistance (850)					
New York City loan guarantees	300	300	300	756	756
Total, Gross Loan Guarantees	161,019	202,151	184,711	196,407	168,675
Less secondary guarantees	-64,393	-73,190	-66,190	-74,317	-64,742
Less guarantees of direct loans	-24,383	-32,697	-33,314	-25,151	-25,443
Total, Primary Loan Guarantees	72,243	96,264	85,207	96,939	78,490

CHAPTER V. MAJOR INCREASES IN NATIONAL SECURITY PROGRAMS

National security is the only area in which the March budget revisions request significant increases over the January budget for both 1981 and 1982. The major portion of these increases are for national defense programs as shown below.

(In billions of dollars)

National Defense	1980 Actual	1981 Estimates		1982 Estimates	
		January Budget	March Revisions	January Budget	March Revisions
Budget					
Authority	145.8	173.9	180.7	200.3	226.3
Outlays	135.9	161.1	162.1	184.4	188.8

President Reagan proposes budget authority of \$180.7 billion for 1981 and \$226.3 billion for 1982--an increase of \$45.6 billion. These proposals compare to requested budget authority of \$173.9 billion for 1981 and \$200.3 billion for 1982 in the January budget. Administration outlay estimates of \$188.8 billion for 1982 exceed estimated 1981 levels by \$26.7 billion. For 1982, the President's requested budget authority increase includes roughly \$20 billion to cover inflationary growth in prices and pay, and about \$26 billion of real growth (about 13 percent) for various defense programs, based on CBO economic assumptions.

OVERVIEW OF THE ADMINISTRATION'S NATIONAL DEFENSE PROGRAM

The March budget revisions provide only a partial picture of the ways in which the Reagan Administration may change the military force structure. All the major program initiatives of the Carter Administration are continued, including such major investment programs as the MX land-based missile, the Trident II submarine-launched missile, and the CX cargo aircraft. Only one major new defense program is unveiled--the manned strategic bomber, and even the design of the aircraft is unspecified.

Financial data provided with the revisions indicate that there are sufficient funds programmed in the out years to support an increase of

93,500 military personnel by 1986. How these numbers of added personnel will be achieved and how they will be used is unclear. The budget revisions do provide some added funds to increase current recruitment and retention programs.

In the research and development area, the 1982 revisions give only slight attention to the development of entirely new weapons (except for the manned bomber), but place considerable emphasis on improving the performance of weapons already in or about to enter production.

Procurement receives the largest increase in funding, with the emphasis clearly on increasing orders for weapons already in production. In order to increase naval capability quickly, the President proposes to reactivate a battleship and an aircraft carrier and to acquire and convert many commercial vessels to meet Navy standards.

The number of procurement items requested in the January budget was lower than the level planned a year earlier by the Carter Administration. The Reagan Administration revisions in many cases restore the procurement level to that of the earlier plan. Since higher procurement levels reduce unit costs, this may signal the adoption of a procurement strategy that will emphasize ordering weapons in amounts that will receive more nearly the optimum price.

The January budget emphasized readiness; the March revisions repeat that emphasis. Added funding is provided for all items required to sustain forces in a future war—stockpiles of ammunition, spare parts, and support equipment.

Finally, the proposed increases do not appear to be concentrated on any special mission or military force. Among the military services, the Marine Corps appears the primary beneficiary of increased procurement funding. For example, the 1982 appropriation request for Marine Corps procurement is six times larger than actual spending in 1980. The overall distribution of funds among the Army, Navy-Marine Corps, and Air Force remains unchanged, however, and each major mission area receives at least some additional funding.

As a result of higher inflation assumptions for defense purchases than used by the Administration in the March revisions, CBO estimates that an additional \$6.7 billion in budget authority will be required to fulfill the Administration's projected growth in defense procurement programs in 1982. This additional budget authority includes \$1.6 billion for projected fuel consumption, \$2.7 billion for full funding of proposed weapon purchases, and \$2.4 billion for defense supplies and other purchases. If CBO's estimates of inflation, rather than those of the Administration (see Table 31), prove

correct, then the 1982 defense purchases are underfunded by about \$6.7 billion in the March budget revisions compared to a \$5.4 billion estimate of underfunding in the January budget.

TABLE 31. COMPARISON OF INFLATION INCREASES OF SELECTED COMPONENTS OF THE DEFENSE DEPARTMENT BUDGET UNDER CBO AND ADMINISTRATION JANUARY AND MARCH ECONOMIC ASSUMPTIONS (By fiscal year, in percentage change)

Component	1981	1982	1983	1984	1985	1986
Fuel						
CBO a/	30.1	20.1	14.5	12.3	12.1	12.1
January budget	23.3	9.7	8.6	8.0	7.2	6.4
March revisions	26.6	8.7	7.3	6.2	5.5	5.0
Procurement						
CBO a/	9.2	8.9	8.5	8.3	8.1	8.1
January budget	8.6	8.0	7.5	7.5	6.5	6.4
March revisions	7.4	6.5	5.8	5.4	5.1	5.0
Total Defense						
CBO a/	12.7	10.8	8.9	8.4	8.0	7.6
January budget b/	---	---	---	---	---	---
March revisions	11.4	8.9	6.9	6.2	5.6	5.3

a/ Based on CBO assumptions for all purchases except military and civilian pay, for which the Administration's pay raises are used.

b/ The January total defense deflator does not provide a valid basis for comparison because it assumes a different set of pay raise assumptions.

Table 32 summarizes the budget authority and outlays for major defense programs, including real growth in budget authority for the March estimates. The following sections discuss each of the major programs in greater detail, except family housing.

TABLE 32. SUMMARY OF BUDGET AUTHORITY (BA) AND OUTLAYS (O) FOR MAJOR DEFENSE APPROPRIATION TITLES (By fiscal year, in billions of dollars)

Title	1981 Estimates a/		1982 Estimates		Real Growth in BA <u>b/</u> <u>c/</u>
	January Budget	March Revisions	January Budget <u>b/</u>	March Revisions	
Military Personnel					
BA	33.5	33.8	38.4	38.8	0.5
O	33.5	33.7	38.3	38.7	
Retirement Pay					
BA	13.8	13.9	15.6	15.7	0.5
O	13.8	13.9	15.6	15.7	
Operation & Maintenance					
BA	52.9	54.4	61.5	63.3	2.4
O	51.2	52.3	59.7	61.3	
Procurement					
BA	45.0	48.2	49.1	68.8	16.3
O	35.4	34.1	40.1	40.1	
Research & Development					
BA	16.1	16.7	19.8	21.3	2.9
O	15.4	15.2	18.5	19.2	
Military Construction					
BA	3.3	3.5	5.6	5.8	2.0
O	2.5	2.5	2.9	2.7	
Family Housing					
BA	2.1	2.0	2.2	2.2	-0.1
O	1.9	1.9	2.0	2.0	
Atomic Energy--Defense					
BA	3.6	3.6	4.7	5.0	1.1
O	3.6	3.5	4.5	4.6	
Other					
BA	3.6	4.6	3.5	5.4	0.4
O	3.8	5.0	2.9	4.5	
Total					
BA	173.9	180.7	200.3	226.3	26.0
O	161.1	162.1	184.4	188.8	

a/ The 1981 pay supplemental has been taken out of the various titles in this table and consolidated in the "Other" category.

b/ Preliminary, subject to change.

c/ Real growth in the President's 1982 budget over 1981, based on CBO economic assumptions with President's pay raise.

MILITARY PERSONNEL

The March budget revisions propose funding of \$38.8 billion for the military personnel appropriation title, an increase of \$465 million above the January budget request. The request for 1982 contains about 1 percent real growth over 1981, based on both the Administration's economic assumptions and CBO's projected inflation rates. By 1986, the programmatic and inflation assumptions in the March revisions would add \$19.9 billion to the estimates in the January budget.

The revised requests for fiscal years 1981 and 1982 include all of the programmatic initiatives contained in the January appropriation requests. The March revisions propose increases above the January levels of \$300 million in 1981 and \$465 million in 1982. These are distributed among three categories: increased average manpower strength (based on fiscal year averages) in the active and reserve forces; repricing of existing programs based on changes in the number of participants or revised price assumptions; and new programs. Each category is discussed below.

Increased Average Manpower Strength

The March budget revisions propose to increase the average strength of the active military forces above January levels by approximately 7,900 in 1981 and 18,230 in 1982. The Administration requested this growth in military manpower to support the increased force levels planned for the future and to improve the manning of existing forces. The Air Force accounts for 10,930 of the increased average strength in 1982.

Approximately \$184 million in 1981 and \$433 million in 1982 above the January budget levels are requested to fund increased average strength levels. These increases reflect not only the planned personnel growth discussed above but also recent improvements in recruitment and retention. Because of these improvements, the military forces are larger, have greater retention, and are more experienced than anticipated. All these factors require funding increases for additional pay and for items such as basic quarter allowances, variable housing allowances, and permanent changes of station.

The March revisions would fund approximately 26,300 more military personnel annually than did the January budget in fiscal years 1983 through 1986. The January and March budget projected increases in military personnel above current levels (1981) are shown below.

	(By fiscal year, in average strength)					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
January						
Budget	--	20,150	33,200	48,700	62,400	67,200
March						
Revisions	7,900	38,380	59,500	75,000	88,700	93,500

Expansion or Repricing of Existing Programs

The March budget revisions propose increases of approximately \$131 million in 1981 and \$102 million in 1982 to cover growth in the number of participants in existing programs or changes in the pricing assumptions used to calculate the costs of these programs. Increases of \$38 million in 1981 and \$30 million in 1982 are proposed to fund fully the Selective Reenlistment Bonus program. These increases reflect growth in the level of reenlistees rather than programmatic changes. Increases of \$23 million in 1981 and \$7 million in 1982 are proposed to finance permanent change of station (PCS) moves that were not made during 1980 because of funding constraints.

New Programs

The March revisions contain several new plans for fiscal years 1981 and 1982. The major 1981 initiative is a proposed military pay raise of 5.3 percent effective July 1, 1981, in addition to the 9.1 percent pay raise proposed for October 1, 1981. The added cost of the July 1 pay raise would be \$420 million in 1981 and \$1.9 billion in 1982. This extra raise represents an across-the-board approach to improving military retention as opposed to more targeted increases, such as special bonuses.

The second 1981 initiative proposes a July 1, 1981 increase in the "MALT Plus" allowance (mileage allowance in lieu of transportation plus per diem) associated with permanent change of station travel. The allowance would increase from seven cents per mile and \$35 per diem to sixteen cents per mile and \$50 per diem. An increase of \$91 million is requested to fund this proposal for the last quarter of fiscal year 1981. Since the sixteen cents per mile and \$50 per diem formula is expected to cost approximately the same as the January proposal for 1982 of eighteen cents per mile and \$45 per diem, no increased funding has been requested for 1982.

The third new 1981 program is the proposed funding of the aviation continuation bonus to provide additional financial incentives for pilots. This

program was authorized but not funded for fiscal year 1981 because the services were unable to formulate a plan for paying the bonus. The January budget requested \$22 million for both 1981 and 1982 for the bonus. The Air Force, Navy, and Marine Corps have requested an additional \$57 million in 1981 and \$77 million in 1982 to implement the bonus program.

The revisions propose reductions in marginal programs of approximately \$82 million in 1981 and \$135 million in 1982, with the major portion coming from the temporary elimination of the cost-of-living allowance (COLA) paid to personnel stationed in West Germany. Because of the improved standing of the dollar against the deutschemark, payment of the COLA will not be necessary in 1981 and 1982. Also proposed are reductions in housing allowances and subsistence costs (also because of the improved dollar-deutschemark relationship) and savings from management headquarters realignments.

Two new programs are proposed for 1982. The first is a "Bachelor COLA" proposal to pay a partial cost-of-living allowance to unaccompanied personnel overseas who are furnished government quarters and subsistence. Personnel in this category would be paid 47 percent of the COLA paid to unaccompanied personnel living on the economy. (Personnel in West Germany would not receive this allowance in 1982.) The purpose of this plan is to remove the financial disadvantage suffered by unaccompanied personnel overseas. This proposal would cost \$26 million.

The second initiative for 1982 would utilize existing authority to pay bonuses and special pay to personnel in shortage skills. The Reagan Administration requests \$44 million in special pay and bonuses for personnel in the pay grades E-6 through E-8 serving in combat leadership positions and for career personnel in critical skills.

Also included in the revised 1982 budget is an additional \$150 million in legislative contingency funds to fund legislation the Administration intends to propose during fiscal year 1982. The specific initiatives to be proposed have not yet been determined by the Administration.

MILITARY RETIREMENT PAY

The President's budget revisions contain \$13.9 billion for the retired pay appropriation title in 1981 and \$15.7 billion in 1982. These amounts represent reductions from the January budget of approximately \$29 million in 1981 and \$329 million in 1982, reflecting the Reagan Administration's revised economic assumptions.

The Administration proposes enactment of the January proposal for annual, rather than semi-annual, Consumer Price Index (CPI) adjustments to retirement pay. The Administration estimates savings from this proposal of \$68 million in 1981 and \$380 million in 1982, compared to the January estimated savings of \$85 million and \$477 million, respectively. Using CBO's economic assumptions, CBO estimates that savings of \$95 million in 1981 and \$440 million in 1982 would result from enactment of the legislation.

The revised budget no longer assumes enactment of the Uniformed Services Retirement Benefits Act. Since this legislation would not have become effective until fiscal year 1983, the deletion of the proposal has no budgetary effect in 1982.

OPERATION AND MAINTENANCE

The March revisions for operation and maintenance add \$1.8 billion in both 1981 and 1982 to the January request. The March changes to the January operation and maintenance budget are shown below.

(By fiscal year, budget authority in millions of dollars)

<u>Operation and Maintenance</u>	<u>1981</u>	<u>1982</u>
January Request	54,074	61,492
Fuel	246	235
Reductions	-419	-1,061
Readiness	491	1,836
Fact of Life	1,370	145
Other	96	636
March Request	55,858	63,283

CBO estimates that the March revisions would have to include \$0.4 billion and \$1.6 billion more in budget authority and about \$0.3 billion and \$1.4 billion more in outlays in 1981 and 1982, respectively, to fund fully the defense fuel requirement. CBO economic assumptions indicate price growth for defense fuel purchases will be much greater than assumed in the Reagan Administration revisions. The difference in 1982 is particularly great; CBO projects price growth to be about 20.1 percent, compared to the Administration's assumed 8.7 percent. The impact of these differences is shown below.

	(By fiscal year)		
	Actual 1980	Estimates	
		1981	1982
Requirements (in millions of barrels)	177.0	183.0	188.0
Requested Budget Authority (in billions of dollars)	7.2	9.2	10.3
CBO Reestimate of Budget Authority Request (in billions of dollars)	7.2	9.6	11.9
Additional Funding Requirement (in billions of dollars)	--	0.4	1.6

CBO's fuel price growth estimate for 1982 is based on the following assumptions:

- o Iraq and Iran oil exports will recover slowly and not reach pre-war levels until at least 1983.
- o Oil production for other OPEC countries will be fairly constant, except that in mid-1981 Saudi Arabia will reduce its output to its target level of 8.5 million barrels per day in response to Iraqi and Iranian production and other factors.
- o World economic growth will increase demand; specifically, 1981 will be a year of modest world economic growth, but 1982 and 1983 will be years of full recovery.

The reductions shown in the above operation and maintenance table result from cutting back marginal programs, management efficiencies, and lower price growth assumptions. Readiness increases are designed to enhance near-term force capability, including about \$200 million for exercises, \$400 million for real property maintenance, and \$400 million for depot maintenance. Fact-of-life increases add money for cases in which price growth exceeded expectations and emergencies and unanticipated operations were unfunded.

Civilian personnel levels, funded primarily under operation and maintenance, increase by about 19,600 in 1981 and about 30,000 in 1982, although the added costs of these increases are partially offset by a reduction in the proposed 1982 civilian pay raise from 5.5 percent to 4.8 percent.

PROCUREMENT

Procurement receives the major emphasis in the March revisions for defense programs. Of the total net defense increases, 47.6 percent in fiscal year 1981 and 76.6 percent in fiscal year 1982 are for procurement. The total net increase over the two-year period is \$23 billion, with \$25.3 billion in increases partially offset by \$2.3 billion in decreases. Table 33 shows the annual increases in procurement by service.

TABLE 33. COMPARISON OF PROCUREMENT BUDGET AUTHORITY FOR FISCAL YEARS 1980-1982, BY SERVICE (In billions of dollars)

Program	1980 Actual	President's Program for 1981		President's Program for 1982	
		January Budget	March Revisions	January Budget	March Revisions
Army	6.4	9.0	10.7	9.9	15.1
Navy Shipbuilding	6.6	7.5	7.8	6.6	10.3
Navy/Marine Corps <u>a/</u>	8.9	11.9	12.0	13.1	16.5
Marine Corps Procurement	0.3	0.5	0.5	1.2	1.8
Air Force	12.7	15.8	16.9	17.8	24.6
Defense Agencies	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.5</u>	<u>0.5</u>
Total	35.3	45.0	48.2	49.1	68.8

a/ Includes naval aircraft procurement, weapons procurement, and other procurement.

Aircraft Procurement

Of the total two-year increases for procurement, 39.4 percent are for the procurement of aircraft and related costs. The Reagan Administration has added 377 aircraft, a 40 percent increase, over the January program (see Table 34).

The most significant aircraft decision relates to the production of 222 Strategic Long-Range Combat Aircraft (new manned bomber) at a cost of \$2.1 billion in 1982 for initial production (plus \$335 million for R&D). The

TABLE 34. COMPARISON OF AIRCRAFT PROGRAMS FOR FISCAL YEARS 1981 AND 1982 (In units procured)

Program	President's Program for 1981			President's Program for 1982		
	January 1980	January 1981	March 1981	January 1980	January 1981	March 1981
	Budget	Budget	Revisions	Budget	Budget	Revisions
Army	80	103	103	118	86	114
Navy/Marine Corps	104	188	188	179	121	283
Air Force	<u>282</u>	<u>306</u>	<u>365</u>	<u>212</u>	<u>130</u>	<u>258</u>
Total	466	597	656	509	337	655

January budget provided no procurement funds for this program, despite explicit instruction by the last Congress to begin production. Plans call for attaining a production rate of four planes per month by fiscal year 1985 and operational capability by fiscal year 1986. A final decision on the design of this aircraft will not be made, however, until the summer of 1981.

Other new procurement decisions call for the production of the AV8-B tactical (vertical/short take-off and landing) aircraft for the Marine Corps.

A major portion of the additional funding is to purchase tactical aircraft already in production. These added 186 aircraft are priced at substantially lower unit costs, because the production level is moved closer to the optimal economic level. This action may signal a procurement strategy of buying aircraft in amounts to achieve this lower unit price. The assignments of 130 of the added aircraft as Navy training aircraft emphasizes the Reagan Administration's firm commitment to support the Navy flight training program.

The emphasis on the need to increase the number of refueling aircraft is evidenced by the addition of eight KC10 tankers and the decision to initiate a program to reengine at least 300 of the Air Force KC-135 tanker aircraft. The Air Force also has ordered larger fuel tanks to extend the range of F-15 aircraft.

Naval Forces

The Reagan Administration is especially concerned about size of today's fleet, and is committed to increasing the number of ships. To this end, its March revision has added \$4 billion in fiscal years 1981 and 1982 combined for Naval ship procurement.

The program for the acquisition of new ships was not changed for fiscal year 1981, but four new ships have been added to the fiscal year 1982 program, restoring nearly all reductions made by the previous Administration in the January 1981 program as shown in Table 35.

TABLE 35. COMPARISON OF NAVY SHIP PROGRAMS FOR FISCAL YEARS 1981 AND 1982 (In units procured)

Program	President's Program for 1981			President's Program for 1982		
	January 1980 Budget	January 1981 Budget	March 1981 Revisions	January 1980 Budget	January 1981 Budget	March 1981 Revisions
Trident Submarine	1	1	1	1	1	1
Attack Submarine	1	2	2	1	1	2
Guided Missile Cruiser	2	2	2	3	2	3
Guided Missile Frigate	4	6	6	4	1	3
Amphibious Warfare Ship	1	1	1	---	---	---
Mine Counter Measures Ship	---	---	---	1	1	1
Fleet Oiler	---	---	---	---	1	1
ASW Surveillance Ship	5	5	5	4	4	4
Salvage Ship	1	1	1	2	2	2
Maritime Preposi- tioning Ship a/	<u>2</u>	---	---	<u>3</u>	<u>1</u>	<u>1</u>
Total	17	18	18	19	14	18

a/ Plans may not be comparable because of change in ship design.

The addition of new ships does not fully reflect the extent of the Reagan Administration's commitment to an expanded Navy. In 1982 funds are provided to reactivate a battleship (USS New Jersey) and an aircraft carrier (USS Oriskany). Also in 1982, long lead funds are added for the reactivation of an additional battleship, construction of a Nimitz class nuclear aircraft carrier, and an Amphibious Warfare Ship (LSD-41), all to begin in 1983. The new Administration, however, has not yet submitted its 1983 authorization request and its 1983 through 1986 program for shipbuilding.

The program for mobility and support ships also reflect an increased tempo. Six additional SL-7 fast logistic ships and one additional roll on/roll off (RO/RO) cargo ship are scheduled for modification in 1982. The SL-7s are designated to deploy Army units to Europe or other areas, while the RO/RO ship is expected to be used for prepositioned Marine Corps equipment. These actions will substantially accelerate improvements in the U.S. capability to deploy land forces.

Major Army Procurement Items

The Reagan Administration has restored many of the reductions to Army programs that were reflected in the January budget. As shown in Table 36, however, in several cases only part of the programs were restored.

One area that obviously received special attention in the March revisions was tank procurement. M-1 tank orders are increased by 360 units. Authorization for 120 new M60A3 tanks is requested for fiscal year 1981 and funds to convert 480 M60A1 tanks to the more capable M60A3 model are also added. In sum, the budget revisions provide 960 more capable tanks than were requested in the January budget. The revisions also provide funds to expand the M-1 tank production base so that annual production will reach 1,080 by 1985, several years earlier than proposed by the previous Administration.

The large added investment in tank production and modernization signals a reaffirmation of the U.S. commitment to maintain a capability fight a major land war. Other significant evidence of that reaffirmation is the addition in the revisions of \$1.1 billion for trucks, radios, and other support equipment to fill shortages in POMCUS (material prepositioned in Europe) Sets 1 through 4.

TABLE 36. COMPARISON OF MAJOR ARMY PROGRAMS FOR 1981 AND 1982 (In units procured)

Program	President's Program for 1981			President's Program for 1982		
	January 1980 Budget	January 1981 Budget	March 1981 Revisions	January 1980 Budget	January 1981 Budget	March 1981 Revisions
Aircraft						
AH-64 attack helicopter	---	---	---	14	8	14
UH-60 Blackhawk helicopter	80	80	80	96	78	96
Tracked Fighting Vehicles						
M1 tank	569	360	569	720	569	720
M60A3 tank	---	---	120	---	---	---
M60A1-A3 conversions	120	---	120	360	---	360
Fighting vehicle	400	300	400	600	464	600
Air Defense						
Roland	600	400	400	1,230	---	795
Divad gun	12	---	---	98	12	50
Patriot	183	130	130	391	130	364
Other Missile Systems						
Hellfire	---	---	---	2,760	502	1,075

Marine Corps

The Marine Corps procurement appropriation received the largest percentage increase of any major appropriation in the January budget submission. The March budget revisions provide ever further substantial increases. As a result, the Marine Corps program for 1982 is more than six and one-half times greater than the amount provided in 1980, as shown in Table 33.

The \$673 million added in the budget revisions provides for added ammunition, spare parts, equipment modification, missiles, communication

gear, and other support equipment, principally for Marine Corps ground forces. Marine Corps Air elements, funded in other Navy appropriations, benefit from the addition of \$657 million to initiate production of the AV8B aircraft and \$44 million for ground-support equipment for new F-18 aircraft.

Readiness

In recent years there has been great concern about the level of readiness funding. Table 37 shows the funding levels for readiness in two areas--aircraft spare parts and support equipment and munitions for 1980-1982.

TABLE 37. COMPARISON OF READINESS PROGRAMS FOR FISCAL YEARS 1980-1982 (In millions of dollars)

Program	1980 Actual	President's Program for 1981		President's Program for 1982	
		January Budget	March Revisions	January Budget	March Revisions
Aircraft Spare Parts and Support Equipment	2,626	4,282	4,880	5,911	7,396
Munitions	<u>1,563</u>	<u>2,093</u>	<u>2,179</u>	<u>2,754</u>	<u>4,173</u>
Total	4,189	6,375	7,059	8,665	11,569

One of the primary goals of the January budget was to address the perceived shortages in readiness funding. As Table 37 shows, the January budget was increased by \$2.3 billion over the 1981 budget. The Reagan Administration provides an additional \$3.6 billion to these programs for 1981 and 1982. Thus, if the new proposals are approved, the fiscal year 1982 level will be 2.8 times greater than actual spending in 1980.

RESEARCH AND DEVELOPMENT

While the March revisions to the budget provide a net increase in funding for research and development (R&D) of \$0.6 billion in 1981 and \$1.5 billion in 1982, the R&D share of the defense budget declines in both

1981 and 1982. In 1982, the R&D share declines from 10.1 percent in the January budget to 9.6 percent in the March budget.

The major program increases, reflecting Administration decisions with significant long-term impact, are \$335 million for the development of a manned bomber, with an initial operational capability in 1986, and \$129 million to speed the Low Altitude Defense (LOAD) demonstration program. The LOAD program could lead to a \$10 billion anti-ballistic missile system to defend MX missile sites. The MX missile program is continued at essentially the same level as provided in the January budget.

Other increases that could produce long-range effects include \$48 million to accelerate development of new chemical-biological defense equipment, \$136 million for the design of the DDG-X destroyer, \$49 million for the design of other ships, \$42 million for the design of a new light-weight torpedo, and \$34 million for the design of a small Extreme Low Frequency system to improve communications with strategic submarines.

In keeping with the emphasis on procurement in the March budget revision, much of the remaining increases are to speed or sustain development efforts for weapons systems that are in, or about to enter, production, as opposed to basic research or the development of new weapons.

MILITARY CONSTRUCTION

The March request for military construction budget authority is \$5.8 billion for fiscal year 1982, an increase of \$0.2 billion over the January request. Construction in the Indian Ocean/Persian Gulf region to support the Rapid Deployment Force (RDF) is the largest single component of the proposed increase to the January budget. Included in the \$117 million for the RDF are facility upgrade requests of approximately \$45 million at Diego Garcia and \$72 million at classified locations.

Other major construction projects contributing to the March revision increase are the Roland Air Defense Missile facilities (\$31 million), AWACS alert facilities (\$23 million), MX ballistic missile system development (\$21 million), upgrading of overseas dependent schools (\$40 million), and fuel storage facility for the Defense Logistics Agency (\$29 million). The March revisions also reflect savings of \$212 million, primarily from lower inflation estimates and contracting efficiencies.

ATOMIC ENERGY DEFENSE ACTIVITIES

The 1982 request for atomic energy defense activities includes about \$1 billion real growth over 1981, primarily for increased production of special nuclear materials and missile warheads (about \$700 million). The March revisions provide increases to the January budget amounting to about \$300 million, including \$180 million for weapons activities, about \$100 million for additional materials production, and about \$50 million for defense waste management and naval reactor development.

CHAPTER VI. OVERVIEW OF THE ADMINISTRATION'S PROPOSED SPENDING REDUCTIONS

If the Administration's proposals for reducing spending are enacted, programs that now account for about 30 percent of the federal budget will absorb essentially all of the effects. The major share of the reductions would affect areas such as education, employment and training, nutrition, health, and social services; there would also be a profound impact on transportation and energy programs.

Grants to state and local governments make up about half of the portion of the budget that would be cut. In 1982, the Administration recommends a reduction of \$13.4 billion in outlays for these grants (relative to the January budget), accounting for almost one-third of the total decrease. Of the \$13.4 billion cut, about one-fourth would affect grants that pay cash or in-kind benefits to individuals; the remainder would involve grants such as those for community development, education, the environment, energy, and transportation.

This chapter gives an overview of the major spending reductions the Administration proposes, with a supplement (Appendix A) that briefly analyzes each of the major proposed cuts. Most of the chapter provides information on the cumulative impact of some of the proposed spending reductions and on the interrelationships among them. The final section outlines some possibilities for spending reductions that might be alternatives or additions to the Administration's proposals.

As mentioned above, most of the proposed reductions would affect the areas of human resources, energy, and transportation. The following sections discuss each area in turn. The first section, on human resource programs, is the longest because the bulk of the proposed dollar reductions--nearly two-thirds--would involve them. Further, it is in this area that the interactive and cumulative effects of proposed cuts are the most pronounced.

HUMAN RESOURCES

This area includes education, employment and training, health, income-assistance, and social services programs. The proposed cuts in human resources include tightening eligibility criteria for benefit programs

such as Aid to Families with Dependent Children (AFDC), child nutrition, and Food Stamps. They would also involve eliminating some programs, the largest being public service employment (PSE), and consolidating certain other grant programs, combined with reduced aggregate funding levels.

A substantial portion of the savings to be achieved in the human resources area would occur as a result of lowering overall funding levels for current categorical programs, which would be consolidated into block grants to states and localities. Spending reduction combined with consolidation might not bring about a comparable reduction in services, however, because of simplified administrative requirements. Furthermore, recipient states and localities would have greater flexibility in designing their own programs; this could enable them to meet local needs more efficiently than under the current multiplicity of programs. But these effects would fall far short of compensating for the proposed reductions in federal spending that accompany the program-consolidation initiatives. Hence, reduced service levels and/or increased state and local taxes could result. (See Appendix A for further discussion of the effects of consolidating these programs.)

Regional Effects of Proposed Human Resource Spending Cuts

Little information is available on the geographic distribution of the effects of reduced spending in human resources. For reductions associated with grant consolidation, specification of the mechanisms by which block grant funds would be allocated would be essential to make any assessment of regional impact. Even with that specification, determining the overall geographic impact is impossible because of severe data limitations.

Effects on Individuals

The Administration has stated that its proposed spending reductions in the human resources area are designed to eliminate programs that are not essential and to modify overly generous programs while not jeopardizing the "truly needy." The proposals affecting child nutrition, Food Stamps, and postsecondary student assistance are illustrative of this approach. By lowering the income-eligibility standards for these programs, program benefits would be better directed toward persons who are most needy. The burden of some proposals, however--for example, reductions in AFDC, housing assistance, Medicaid, and PSE--would fall heavily on the poor.

A rough assessment of some of the major modifications proposed by the Administration for public assistance programs can be made. ^{1/} Considering first only the changes proposed for AFDC, more than 325,000 families (8 percent of the current recipients) would no longer be eligible for benefits. The proposals would cause a reduction of about 6 percent in average benefit levels for families who continue to be eligible. Although Food Stamps and child nutrition benefits might increase somewhat as a result of reduced AFDC benefits, these programs too would be cut back under the Administration's program.

The impact of the Administration's AFDC proposals would differ, though, depending on whether a recipient family has any income from earnings. Forty-four percent of the dollar reductions would occur in benefits of families with earners, who make up 13 percent of all AFDC recipient families.

Among AFDC families with earners, about 39 percent would become ineligible for AFDC benefits as a result of the Administration's proposals. Another 42 percent would have their benefits reduced by an average of 33 percent. Twelve percent would gain a small amount in benefits (6 percent on average) as a result of the Administration's proposal to standardize work-related and child-care deductions. The Administration's proposals would have no impact on the remaining 7 percent of families.

Many people would be affected by a combination of several program cutbacks, raising the possibility that some would experience substantial reductions in their total benefits. For example, a recipient parent with two children and with work-related expenses could encounter cuts in AFDC, food stamps, and child-nutrition benefits; the combined effect could reduce the family's disposable income by 10 to 30 percent. In addition, the family would probably experience cuts in Medicaid and other health services, and in those social services provided through federal grants to states. The combined impact of the Administration's proposals for public assistance programs would be to narrow substantially the income differences between recipient families with earnings and those without. The effect might be to reduce significantly the incentive to get a job. This possibility is discussed below.

^{1/} The CBO is currently examining the cumulative effects of the Administration's proposals for public assistance. Results of this analysis should be available soon after publication of this report.

Secondary Effects on the Federal Budget

Because of interrelations among programs and individual responses to certain program changes, secondary effects can result from proposed budget cuts. Some cuts could generate either additional savings or further expenditures in other programs. In the latter instance, the secondary effect is termed an "offset."

Assessing the overall magnitude of the possible offsets arising from the Administration's proposals is difficult. When a change in one program alters expenditures in another, the size of this effect depends on the specific provisions of the latter program. Hence, estimating offsets when changes in several interrelated programs are proposed simultaneously is a complex undertaking.

The Administration's estimates of potential savings take account of some offsets. Eliminating the minimum Social Security benefit would reduce gross Social Security expenditures, for example, but it would cause a simultaneous increase in Supplemental Security Income (SSI) payments (see Appendix A). The Administration's estimates reflect this offset by reporting net savings in Social Security. They also reflect the increase in certain education grants that would result from eliminating Social Security student benefits to adults.

There are other instances of offsetting cost increases, though, that the Administration's estimates do not take into account. For example, some of the changes in AFDC and Food Stamps would tend to make jobs less financially rewarding. Standardizing deductions for work-related and child-care expenses and counting the earned-income tax credit as income in calculating AFDC benefits would, for many recipients, reduce the net gain in spendable income obtained from working. This diminished incentive to work could lead to lower employment and earnings among program recipients, causing an offsetting increase in federal expenditures. This result may be especially serious after an AFDC parent has been employed for four months, when there would be a sudden, substantial drop in the AFDC benefit under the Administration's proposal to eliminate both the standard deduction and the disregard of one-third of earnings for such families.

The extent to which work disincentives might occur can be demonstrated by an example that contrasts current policies in the AFDC and Food Stamp programs to the Administration's proposals. Under current programs, an AFDC recipient parent with two children who earns the average amount for all AFDC families substantially increases the family's spendable income

by working--from \$466 to \$616, on average. This is a gain of 32 percent. By contrast, under the Administration's proposals, after four months, working would not increase this family's spendable income at all.

The Administration has proposed that a "workfare" requirement be imposed on recipients of public assistance. This might act to maintain work effort despite the small associated financial gain. To the extent that public-assistance families with earners respond to the reduced work incentives by giving up their jobs in the private sector, however, there may be a lessened chance of their becoming independent of public assistance in the future.

Another budget offset might occur as a result of adopting the Administration's proposal that states be allowed to reduce AFDC benefits by some share of the value of Food Stamps and housing assistance that families receive. At present, AFDC payments are counted as income in determining rent charges--now fixed at a maximum of 25 percent of income--in assisted housing. Reducing tenants' AFDC benefits by part of the value of their housing subsidies would lower their rent payments, thereby increasing federal outlays for housing assistance. Under current rent rules, every \$1.00 reduction in AFDC payments resulting from this proposal would increase federal housing assistance expenditures by about \$0.25. Furthermore, because only about one-half of the AFDC benefit reduction would be reflected in reduced federal outlays (the other half lowering state income-assistance expenditures), the housing-assistance offset to this proposal could amount to as much as one-half of the federal savings. If the Administration's separate proposal to raise tenant rent payments over the next five years to 30 percent of income were also adopted, the offset could reach 60 percent.

A further offset would occur if the proposal to consolidate a number of diverse health and social services programs into block grants with substantially less total funding resulted in cuts in some specific programs; this is not unlikely. A number of the services now provided under categorical programs--for example, family planning, genetic services, and immunization--generate offsetting savings in later years; in some cases, these offsets exceed the costs of the services themselves. If such services were cut back, the offsetting increases in costs would probably be borne both by states and by the federal government.

Eliminating PSE jobs would increase spending for public assistance and Food Stamps while decreasing revenues from Social Security payroll taxes and federal income taxes. Preliminary estimates indicate that federal

spending for public assistance and Food Stamps might increase by 3 to 5 percent of the total PSE cost; federal taxes might decrease by 6 to 10 percent of the total PSE cost. (Estimates of the effect on outlays for Unemployment Insurance are not yet available.)

Secondary program effects can also work to increase budgetary savings. For example, tighter restrictions on AFDC eligibility would reduce Medicaid outlays. Ending the eligibility of an AFDC recipient mother with two children could reduce federal outlays for Medicaid by about \$900 a year. If the proposals for AFDC that would mandate changes were adopted, more than 325,000 families would be removed from categorical eligibility, reducing Medicaid expenditures by at least \$70 million in fiscal year 1982. On the other hand, if the Administration proposal for capping Medicaid grants to the states were also adopted (see Appendix A), this secondary effect would disappear, because the level of the proposed cap is so low relative to state expenditures that the federal share of Medicaid would almost certainly become a fixed dollar grant.

TRANSPORTATION

In transportation, the Administration's proposed cuts follow three themes. First, they would reduce the federal grants to state and local governments that provide transit operating aid and most highway assistance. Second, they would reduce federal subsidies to industries or wealthy individuals, as with the proposed user fees for inland waterways, the Coast Guard, deep-draft shipping, and general aviation. And third, they would reduce federal programs that do not appear to be cost-effective, as with Amtrak and Conrail. (Appendix A provides further detail on these cuts.)

Impacts on Regions

Certain regions are likely to be affected most directly by the proposed changes in federal transportation programs. In most cases, the biggest effect would be pressure on state and local governments to use their own resources to replace lost federal funds. This would certainly be the case for highways, transit operating aid, and the commuter services now provided by Amtrak and Conrail. In other cases, such as the remaining Amtrak services and federal aid for new subway systems, state and local aid would be unlikely to increase much, and these services might be discontinued.

Under current law, transit operating aid goes to virtually every city, the largest dollar amounts going to the biggest urban areas. The New York metropolitan area receives \$220 million, for example, and Los Angeles \$85 million. On a per rider basis, the federal subsidy is much greater in small and medium-sized cities. Although the big cities would almost certainly compensate for the federal cuts through increased local aid or higher fares, some smaller cities might be forced to reduce service.

The cut in transit capital grants would have its largest effect on Detroit, Honolulu, Houston, and Los Angeles--that is, cities now with new systems in the planning stages. Given the large capital costs of these systems, and the often modest benefits, these cities would probably not pursue their construction plans without the current 80 percent federal subsidy. Furthermore, Atlanta, Baltimore, Buffalo, Miami, and Washington, D.C., would probably not be able to complete portions of systems planned, but not yet under construction.

The reduction in funding for Conrail would force a major restructuring of rail service in the Northeast and parts of the Midwest east of Chicago and St. Louis. Service on many branch lines and lightly traveled main lines would probably be dropped, and increased rate increases would affect most current rail users. Increased state and local subsidies for some of these freight operations and for commuter operations in New York, Philadelphia, and other cities may be available. These added costs would probably be offset in part by improved service for most heavy rail users and for shippers located on main lines.

Most of the planned cuts in highway aid would likely be replaced with state funding, probably financed by increased fuel taxes and other user fees. Since the largest cuts are being made in secondary (primarily rural) and urban roads, it is hard to identify regions that would be more severely affected than others.

By 1985, the cuts proposed for Amtrak would affect virtually every area of the country except the corridor between Boston and Washington and perhaps a few other heavily traveled routes. Given the high cost of passenger rail service, the relatively small number of intercity passengers carried, and the general availability of buses and other means of transport, states would probably not finance many of the Amtrak routes. Important exceptions are the commuter routes operated by Amtrak in Chicago and elsewhere.

In summary, the impacts of the proposed reductions in particular transportation programs would affect a number of specific cities and regions more than others; but overall they could achieve some rough geographic balance. The Conrail cut would be concentrated in the Northeast. The Amtrak cut would predominate in other areas. The highway cuts would reduce aid to the primary urban network, as well as aid to secondary rural roads. The effects of cuts in transit operating aid would be greatest for large cities, but they would involve a greater proportion of operating costs in small and medium-sized cities.

Impacts on Individuals and Firms

The effects on service levels and user fees would depend on the extent to which other governmental units could replace the federal financing withdrawn. Reductions in federal highway and transit support would greatly increase pressures on state and local governments to fund those services, thus many of the potential effects might be averted by state and local actions. Overall, the impact on the general public of such changes would probably be slight, although the financial burdens would shift more toward users and to state and local taxpayers. Because requirements and regulations associated with federal support would no longer be in effect, however, some cost-saving efficiencies might be realized.

Although many of the cuts in federal transportation financing would be compensated for by contributions from users or other levels of government, some reduction in services might well occur. This would most likely be the case for all passenger rail service, rail freight service in the Northeast, and small-town transit services. The services withdrawn as a result of reduced federal support would, in general, be the ones now most lightly used. Relatively few users would be seriously disadvantaged as a result; the most severe impacts would be felt by firms that are forced to relocate or to pay more for transportation as a result of discontinued rail freight service.

ENERGY

Most of the Administration's proposed budget cuts in the energy area would reduce the level of federal support given to new forms of energy supply. Demonstration plants for synthetic gas and liquid fuel production, to be funded by the Department of Energy, would be eliminated. Support for research and development of new technologies involving fossil fuels would be reduced, as would support for demonstration and commercialization of

solar energy forms; longer-range solar research would continue. Although the private sector, and perhaps the Synthetic Fuels Corporation, might be able to absorb some of these activities, a net reduction in the total effort in these areas might well occur. Conservation activities would also be reduced, notably near-term research in such areas as energy from urban waste. Similarly, government involvement in advanced automotive engine design would be curtailed.

Many regulatory activities would also be cut. Among these are energy labeling on appliances, preparation of gasoline rationing plans as a hedge against a major disruption in the supply of foreign oil, conversion of utility fuels, and pending prosecutions of oil and product price control violators.

Impact of the Cuts on Regions

The geographical impact of the proposed changes in energy development programs are greatly varied; no particular geographic pattern has emerged. The synthetic fuels cut would affect the Ohio Valley and Appalachia, where most demonstration plants are located. Reductions in the uranium enrichment program would affect plants in Tennessee, Kentucky, and Ohio. The solar program cuts would affect the sun belt, the Northeast, and the Midwest. Reductions in weatherization assistance would likewise have broad geographical impacts. Thus, although particular changes could have substantial consequences on particular states and regions, the cuts in energy programs appear in general to be broadly distributed across the country.

Impact of the Cuts on Individuals and Firms

Reduction of the Synthetic Fuels Program would likely terminate a set of demonstration projects, and it would adversely affect the companies--mostly coal and engineering firms--that now operate demonstration plants. Likewise, a cut in the uranium enrichment program would lead to reduced production of enriched uranium for fuel; but because of sizable existing uranium inventories and lower-than-projected demand, the price that consumers pay for electricity would be only marginally affected over the long run. Cuts in solar energy development would refocus support on technological rather than product development. An exception to the above pattern, however, is the proposed change in the program providing weatherization assistance to low-income persons: this proposal would reduce one source of direct aid to low-income people.

The effect of the proposed reductions in the energy area would affect certain industries, but it would have little immediate impact beyond those industries. Although the decrease in federal support might slow the rate at which the U.S. economy converts to alternative energy sources, the impact would be extremely small. Long-run energy prices might, however, be marginally higher owing to the reductions in the federal programs.

ALTERNATIVE APPROACHES TO REDUCING FEDERAL SPENDING

To date, the Administration has not identified all the spending reductions that would be needed to reach its outlay targets for 1983 and beyond. In order to hold recommended outlays to \$770 billion in fiscal year 1984, the Administration would have to specify further budget cuts of \$30 billion in 1983 and \$44 billion in 1984. If the economic assumptions the Administration has used prove to be too optimistic, even larger spending reductions would be required to meet its targets. For this reason, the Congress may wish to consider additional spending cuts. These alternatives fall into two categories: those that would diminish the federal budget's sensitivity to inflation, and those that would cut current programs more deeply than the Administration has proposed so far. In a report issued in February 1981, CBO presented a number of budget reduction options.^{2/} Many of the options presented in that report are also among the Administration's proposals; several others are not. The options discussed in the remainder of this chapter have not been put forth by the Administration.

Changes in the Automatic Indexing of Entitlement Program Benefits

The Administration's budget proposals have so far included no change in the way benefits from entitlement programs are indexed to keep pace with inflation. (The one exception is a proposal to make the cost-of-living adjustment for federal employee retirement programs once rather than twice a year.) Of particular concern with regard to indexation are Social Security and various federal civilian and veteran retirement programs, which are explicitly indexed to the Consumer Price Index (CPI).

Altogether, these programs will cost the federal government more than \$185 billion in 1981, which is close to 30 percent of all federal expenditures. The July 1980 cost-of-living adjustment (COLA) for Social

^{2/} See CBO, Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982-1986 (February 1981).

Security, for example, was 14.3 percent; this alone added \$17 billion to fiscal year 1981 outlays. In total, each one-percentage-point increase in the CPI increases federal outlays for indexed benefit programs by about \$2 billion a year.

The use of automatic indexing has come into question for a number of reasons. First, prices have increased faster than wages during the last several years, and as a result, beneficiaries of indexed programs have been better protected from inflation than have active wage earners. Second, because of the unusually large weight given to housing in the CPI, this index has risen faster than prices as measured by other commonly used indexes. Finally, if the rate of inflation should come down more slowly than the Administration has projected, the costs of these programs could be much higher than predicted.

Several policy options to modify the indexing of benefit payments have been advanced. These include adopting a different index that gives a more representative weight to housing; limiting the annual COLA to the lower of the rise in the CPI or a wage index; limiting the annual COLA to less than the full increase of the CPI--possibly to 85 percent of the total increase; or making COLA increases ad hoc instead of automatic by instituting a review procedure like the one now used to adjust pay for federal white-collar employees. If Social Security benefits, for example, were indexed this year according to the lower of wages or prices, the amount of savings could approximate \$4 billion in 1982. An 85 percent cap on the CPI could save nearly \$3 billion in that year.

Incentives to States for Hospital Rate Setting

Curbing the growth of hospital costs offers considerable potential for reducing federal spending. Hospital costs have been rising rapidly for some time, averaging 15 percent a year between 1968 and 1979. These increases have contributed to the substantial growth in federal outlays for both Medicare and Medicaid.

Eight states now set maximum rates for hospital charges. Although the programs differ significantly from state to state, recent studies have demonstrated that, overall, they have been effective in restraining increases in hospital costs. By means of financial incentives, the federal government could encourage other states to adopt rate-setting programs. The result could lead not only to reduced federal and state outlays, but also to reduced payments by private purchasers of hospital care as well.

One proposal would have the federal government share with the states some of the savings to Medicare that derive from state efforts in this area. At present, states with effective rate-setting programs cut their outlays by only \$0.11 (principally, the state share of Medicaid) for every \$1.00 that Medicare and Medicaid outlays are reduced. Allowing states to keep a larger share of these savings might induce additional states to initiate rate-setting efforts. Such incentives could be augmented by automatically granting waivers for alternative Medicare and Medicaid reimbursement policies to states participating in the program.

Increased Transportation User Fees

Another method of offsetting federal outlays would be to take greater advantage of user fees for various forms of transportation. Although the Administration's proposals take some steps in this direction by increasing user fees for aviation facilities, Coast Guard services, deep-draft ports, and inland waterways, these steps do not fully exploit the potential of user charges. Indeed, the increases in user charges proposed by the Administration would collect only about one-quarter of the revenues that would be generated under the set of possible user charges examined by CBO (see Table 38). By increasing user fees to higher levels, the Administration could effect further revenue gains of about \$3 billion in fiscal year 1982 and more than \$14 billion in the 1982-1986 period. These increases would have only minor effects on the viability of most transportation firms, since in general they would entail only small increases in overall operating costs. They would also help to place all modes of transportation on a more equal footing, thus encouraging more efficient use and development of the nation's transportation resources.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve appears to be the most effective policy available for mitigating the economic effects of a petroleum supply disruption. The reserve entails substantial cost, however. Given the likelihood of oil price increases in this decade, the oil in the reserve emerges as a potential speculative asset.

Private investors might be willing to purchase oil for the reserve if they were guaranteed the full appreciation of their oil. Alternatively, in accordance with the Energy Policy and Conservation Act of 1975, the President could direct firms to hold their own dedicated reserves. Either

TABLE 38. COMPARISON OF ADMINISTRATION AND CBO ESTIMATES OF POTENTIAL REVENUES FROM TRANSPORTATION USER CHARGES, 1982-1986 (In millions of dollars)

Program	1982	1983	1984	1985	1986	Five-Year Total
(Administration Estimates)						
Inland Waterways	250	260	270	300	320	1,400
Aviation Facilities <u>a/</u> <u>b/</u>	110	260	430	571	700	2,070
Coast Guard Services	100	200	300	400	500	1,500
Deep-Draft Ports	<u>0</u>	<u>220</u>	<u>240</u>	<u>250</u>	<u>270</u>	<u>980</u>
Total	460	940	1,240	1,520	1,790	5,950
(CBO Estimates)						
Inland Waterways	1,210	1,590	1,650	1,640	1,630	7,720
Aviation Facilities <u>a/</u>	800	900	1,000	1,100	1,200	5,000
Coast Guard Services	710	760	800	830	870	3,970
Deep-Draft Ports	<u>590</u>	<u>730</u>	<u>810</u>	<u>820</u>	<u>850</u>	<u>3,800</u>
Total	3,310	3,980	4,260	4,390	4,550	20,490

SOURCES: For the Administration's estimates, Fiscal Year 1982 Budget Revision, Appendix C; for CBO's estimates, CBO, Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982-1986 (February 1981).

a/ Increase over taxes in effect in 1980.

b/ Preliminary estimates.

arrangement would transfer the costs of reserve development away from the federal budget. Placing the financing of the Strategic Petroleum Reserve in the private sector could save the government up to \$4 billion in fiscal year 1982.

Breeder Reactor Program

The federal breeder reactor program, including a general research and development effort and the Clinch River Breeder Reactor, could be terminated, yielding a saving of \$700 million in fiscal year 1982. Many analysts believe that breeder technology will not be economically viable in this century. This may be the case if uranium prices stay low in the face of lower-than-anticipated demand for nuclear fuel, or if reprocessing costs are higher than anticipated.

Elimination of Maritime Industry Subsidies

The federal government now subsidizes roughly \$150 million of the costs of U.S. shipyards a year so that they can meet the competition of foreign shipbuilders, which can build ships for about half the cost of U.S. shipyards. Further subsidies of about \$350 million a year are paid to offset the higher operating costs of U.S. shipping companies, again for the purpose of meeting competition from foreign ships.

The Administration has proposed to discontinue funding for three of the five new ships the construction of which would be financed beginning this year. It has not proposed cutting ship operating subsidies. If the Congress ended the two subsidy programs, further savings in the first five years would total about \$500 million, and the amount would be even greater in future years. At the same time, however, there would be some loss of U.S. shipbuilding capacity, some possible adverse effects on export and import prices, and some loss of employment in shipbuilding regions and in the industries that furnish shipbuilding materials.

Elimination of Deficiency Payments

Another option not proposed by the Administration is to eliminate deficiency payments to grain and upland cotton farmers. These payments have largely fulfilled their purpose--to smooth the transition toward fuller participation in the world market. Elimination of deficiency payments could save \$130 million annually over the next several years.

APPENDIXES

APPENDIX A. AN ANALYSIS OF THE MAJOR BUDGET REDUCTIONS
RECOMMENDED BY THE ADMINISTRATION

This appendix analyzes 38 of the budget reductions recommended by the President in his Fiscal Year 1982 Budget Revisions, submitted to the Congress on March 10, 1981. The reductions analyzed here represent those that have either large fiscal year 1982 budget savings or small 1982 savings, but large longer-run impacts. The numbers in the tables are those of the Administration and represent budget savings relative to President Carter's January budget submission.

Sale of Surplus Silver

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	507	507	75	-206	-206
Outlays	0	507	507	75	-206	-206

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The General Services Administration (GSA) maintains a stockpile of strategic and critical materials for U.S. defense and industrial production in the event of war mobilization. Surplus holdings, as determined by the Federal Emergency Management Agency on the advice of the National Security Council and others, are disposed of by GSA subject to enactment of authorizing legislation. Currently, the stockpile contains 139.5 million troy ounces of silver valued, according to Administration estimates, at approximately \$2.1 billion. Silver has not been required for the strategic stockpile since 1976 because supplies in the United States, Mexico, and Canada are considered adequate for wartime needs.

Beginning in fiscal year 1982, the Administration proposes accelerating the disposal of the surplus silver planned in the January budget. That budget assumed disposals of 15 million troy ounces per year through 1990. The Reagan Administration's revised estimates assume the disposals would be completed in 1984, with total sales of 52 million troy ounces each year in 1982 and 1983 and the remaining 20.5 million troy ounces in 1984. Under the Administration's accelerated disposal plan, which requires enactment of authorizing legislation, additional offsetting receipts would total \$677 million through fiscal year 1986—assuming an average price of \$15.00 per troy ounce. Because GSA reimburses the Treasury \$1.29 for every ounce sold, its offsetting receipts from silver disposals are correspondingly lower. Silver prices for March 1-12, 1981, averaged \$11.78 per troy ounce. If this price should not increase, receipts from the disposal of the entire surplus would be lower than the Administration's estimate by about \$449 million and the savings from the January budget would drop by \$159 million through 1986.

Provisions in the Strategic and Critical Materials Stock Piling Revision Act of 1979 require that GSA disposal operations avoid undue disruption of usual commodity markets. When GSA last entered the silver market--disposing of nearly 300 million troy ounces of silver from August 1967 through November 1970--the price of silver did not drop below the prevailing price when sales commenced. These disposals averaged 86 million troy ounces per year and occurred mostly during a period of rising silver prices. There is no assurance that the disposals planned for 1981-1984 can be achieved without disruption because of uncertainty in market conditions, although the proposed quantities are significantly below actual annual disposals during 1967-1970.

The disposal of silver might be viewed as an artificial budget reduction measure in that the sale of assets does not reduce federal purchases of goods and services. Because the silver inventory is unnecessary, however, it might best be used as a source of federal revenue. As an offsetting receipt, the disposals reduce budget authority and outlay totals and may also counterbalance budget requests to purchase other stockpile materials.

Eximbank Loan Program

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	748	571	891	1,266	1,690	2,117
Outlays	70	236	523	782	1,026	1,248

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Export-Import Bank direct loan program extends credit at subsidized rates for the purpose of expanding U.S. exports; Eximbank lends at rates that attempt to match foreign credit subsidies, and will provide credit in cases where borrowers are unable to obtain financing. The Administration has recommended that the Bank's authority to make new direct loans be reduced to \$4.4 billion in 1982, down 12 percent from the President Carter's budget and 31 percent from current policy.

The direct loan program imposes additional interest costs of \$200 million to \$900 million annually on the U.S. government; these costs show up as transfers to foreign importers and increases in profits to U.S. exporters who are directly involved.

The effects of reducing the program are uncertain. The proposed cut would probably reduce the profits of some exporting industries, particularly commercial airframe and commercial nuclear power plant manufacturers. Whether this would reduce employment is uncertain, because the effect of Eximbank lending on the volume of exports is uncertain. To the extent that the subsidized loans increase exports, they will increase subsidized exports relative to other exports.

Another option would be to terminate new commitments of funds under this program, not renew expiring preliminary commitments of funds, and not renegotiate any existing contracts at lower interest rates.

Eximbank loans and guarantees against exports have ranged between 4 and 7 percent of total U.S. exports since 1975. At the end of 1979, Eximbank had loans and guarantees outstanding against more than \$3 billion

in exports in each of these states: California, Illinois, New York, Pennsylvania, and Washington. But because the relation between Eximbank loans and the volume of exports is uncertain, no information about regional unemployment effects can be adduced.

Rural Electrification Administration Loans and Loan Guarantees

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	187	5,545	6,045	6,584	7,1167	7,796
Outlays	62	1,988	3,565	4,966	5,909	6,928

Note: Includes REA insured loans and FFB direct loans under REA loan guarantees. Savings are primarily due to elimination of FFB direct loans. All savings accrue off-budget.

Source: CBO estimate, based on the policies contained in Fiscal Year 1982 Budget Revisions.

The Rural Electrification Administration (REA) issues loan guarantees and makes insured loans to cooperatives and private companies for the purpose of providing and improving electric and telephone services in rural areas. The bulk of REA activity involves issuing guarantees for long-term loans (35 years) made by the Federal Financing Bank (FFB) to borrowers at interest rates just slightly above the Treasury's rate. In addition, direct loans are made out of the Rural Electrification and Telephone Revolving Fund and the Rural Telephone Bank. These loans--also called insured loans--bear either 2 percent or 5 percent interest rates and must be repaid within a period not to exceed 35 years. They go to utilities with low user density and represent about 10 percent of REA-related lending.

The Administration's proposal would discontinue FFB lending to holders of REA loan guarantees, effective October 1, 1981; reduce the level of insured loans by eliminating new telephone loans and decreasing new electric loans; and substitute 5 percent insured loans for 2 percent insured loans. Changes in the insured loan program account for slightly less than 10 percent of the reductions in budget authority and outlays shown above.

The REA does not plan to reduce the amount of loan guarantees that it will issue. REA borrowers who would have obtained funds through the FFB at negotiated terms would probably be able to switch to private market

sources without experiencing substantially higher interest rates or shorter repayment periods. Some experts believe that loss of the FFB's coordinating role would ultimately mean slightly higher interest rates, but it is not possible to quantify this impact. More than 90 percent of the outlay savings associated with the Administration's proposal would result from reduced FFB lending.

The Administration's proposal is projected to result in slightly higher utility rates for consumers who would otherwise receive service through systems financed with low-interest insured loans. This is most likely to include residents of sparsely settled rural areas in the upper Midwest and West. Because of planning and construction, a time lag of two to three years can be expected before the change would cause utility rates to rise.

Because REA's Rural Electrification and Telephone Revolving Fund and the FFB are both off-budget agencies, no federal budget savings would be associated with the proposal. A lower level of FFB lending would however, reduce total federal indebtedness and shift a corresponding amount of lending to the private market. This would be consistent with the facts that REA has completed its original objective of establishing utility service in rural America and that rural consumers, as a group, are no longer economically disadvantaged relative to all other consumers.

Synthetic Fuels

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	547	772	1,060	356	128	5
Outlays	263	789	840	730	214	241

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Both the Department of Energy (DOE) and the Synthetic Fuels Corporation (SFC) currently support synthetic fuels research, demonstration, and development. The Synthetic Fuels Corporation was created by the Congress in 1979 to be the lead agency in support of synthetic fuels technology, and was appropriated \$12.2 billion to carry out a range of subsidies and guarantees that would lead to rapid synfuel deployment. The Department of Energy, however, has also been appropriated funds to demonstrate synthetic fuel technologies, although the thrust of the DOE program lies more in support for pilot plants to demonstrate technological viability, whereas the SFC is oriented toward demonstrating the commercial viability of full-scale plants.

The President's budget for fiscal year 1982 proposes to terminate five DOE-supported demonstration projects--two Solvent Refined Coal plants (SRC-I and SRC-II), two high-Btu gasification plants, and one medium-Btu gasification plant. The Administration intends to shift the focus of federal synthetic fuel programs away from small-scale, directly funded demonstration plants toward larger, commercial-scale plants with support provided by SFC loan guarantees. In addition, the budget also proposes the rescission of \$300 million in 1980 appropriated funds for a second round of DOE solicitations for feasibility studies and cooperative agreements. The first-round awards for these alternative fuel activities have been made and remain unaffected.

Demonstration plants provide information and experience concerning technological, environmental, and cost risks. Traditionally, however, these risks are the province of the private sector. Moreover, earnings in the energy sector have expanded dramatically, both absolutely and as a per-

tage of total corporate profits in the economy. Thus, private financing may be available for demonstration projects that confront these risks. Further, the economic efficiency of these demonstration plants can be questioned. By allowing federal equity in the projects, the government may allow some degree of "gold-plating"--in the form of unnecessary features--and cost overruns, as the financial risk of private-sector participants decreases.

On the other hand, by reducing many of the uncertainties surrounding synfuel plants and processes, demonstration plants may lower the premium demanded by capital markets. In addition, by buying this experience, the government may lower the costs of subsequent synfuel plants and outputs, and speed their development. Finally, such a demonstration program may add to the long-term competitiveness of the industry, by bringing more smaller firms into the industry.

With the elimination of the DOE program, the federal synthetic fuels program would be run primarily by the Synthetic Fuels Corporation, which is empowered to make financial arrangements necessary to support those commercial-scale projects deemed most deserving. Unification of the synfuels program within the SFC may eliminate a source of funding for small-scale demonstration plants such as those the proposal would cut. On the other hand, the support SFC can offer for larger, commercial-scale plants may induce some private-sector demonstrations.

This budget proposal may cause several localities to lose a potentially significant source of local economic activity--specifically, Newman, Kentucky (SRC-I); Morgantown, West Virginia (SRC-II); Memphis, Tennessee (medium-Btu plant); Perry County, Illinois (high-Btu plant); and Noble County, Ohio (high-Btu plant). In addition, the firms and local governments engaged in or supporting these demonstration plants would be affected.

The Synthetic Fuels Corporation and the DOE program were established in an environment of lower energy prices and price expectations. Thus, there is some merit to the claim that the level of support necessary to assist synfuel development should be reassessed. It is unclear, however, that such a reassessment would obviously lead solely to the termination of demonstration plants.

Some policy options exist to lessen the impact of these proposals on synfuels development. These include waiving antitrust considerations and allowing large energy firms to enter more joint ventures at the demonstration level, and issuing synfuels purchasing agreements to guarantee the marketability of fuels produced during the learning phase of the industry.

Solar Energy Development

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	99	390	457	403	362	309
Outlays	79	380	443	437	362	309

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Administration proposes to shift the Department of Energy's solar activities away from near-term development, demonstration, and commercialization efforts into longer-range research and development projects that are too risky for private firms to undertake. The Active and Passive solar programs would be refocused upon the development of active and passive cooling technologies. The Photovoltaics program would continue advanced research and technology efforts, eliminating product and market development. Similarly, the Solar Thermal program would continue technological development of solar thermal electric, and process heat systems, but reduce involvement in product development. Technological research and development would continue in the Wind, Biomass, International (Solaris), and Alcohol programs. The Information and Program Direction programs would be sharply reduced, reflecting cutbacks in marketing efforts.

Construction of a permanent facility for the Solar Energy Research Institute would be deferred. The Market Analysis program would be eliminated, reflecting reduced commercialization efforts. The Ocean Systems and MX-missile renewable energy systems (MX-RES) programs would also be eliminated, because they are perceived to be too risky for potential payback.

Elimination of federal involvement in near-term research, development, demonstration, and commercialization efforts may slow the market penetration of solar technologies and products. Most firms involved in solar technology and product development are developing specialized products for limited geographical areas due to capital constraints characteristic of small businesses. Their marketing efforts depend heavily upon research and information provided to lenders, builders, and consumers by federally

assisted organizations such as the Regional Solar Energy Centers. Without federal support, they may lack the financial resources to carry out effective marketing and information programs. (Consumers of solar products are generally middle- and upper-income families and small businesses.)

Withdrawal of federal support for near-term research and development may slow the adoption of solar technologies, thus prolonging dependence on high-grade energy inputs such as oil, gas, and electricity for the low-grade energy requirements of space heating and hot water. Solar products and technologies represent decentralized uses of energy, utilizing renewable energy inputs that are more resilient to shocks or interruptions than are centralized power sources.

Solar development has received the most attention in California and the sunbelt states. Solar cooling technologies that would benefit the warm climate regions of the West and South are still in the infant stage of development. Solar water and space heating technologies that may have benefits in regions with wide seasonal temperature variations are not yet widely accepted or understood by the public. Passive solar development, which relies primarily on site and architectural design characteristics, may require additional research and information assistance to become independently viable and generally accepted.

In light of the rapid development of solar technology and products, federal withdrawal from near-term development and commercialization may be prudent. The future federal role may lie in disseminating information to the marketplace, and in the support of long-term research and development of projects that are too risky for the private sector. In addition to the solar budget expenditures provided by the Department of Energy, federal tax credits of 40 percent for solar product installations continue to provide consumers with an incentive to apply solar technology.

Fossil Energy Research and Development

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	50	360	498	661	614	517
Outlays	121	321	404	503	595	519

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Department of Energy fossil energy research and development programs conduct activities aimed at improving technologies for producing and using coal, oil, and gas. These activities include construction and operation of pilot plants, which tend to subsidize the development of new technologies by private industry.

The Administration proposes to save \$121 million in 1981 outlays and \$321 million in 1982, by revamping the fossil energy research and development programs and terminating certain commercialization activities. This proposal would reduce spending on near-term activities but continue supporting more basic long-range technologies. The Administration believes this funding is no longer needed because the energy industry has stepped up its research and development funding. The new policies--tax relief and reduced regulation, for example--may enhance the private sector's ability and willingness to develop new technologies. In addition, the Synthetic Fuels Corporation may help finance these activities without direct federal funding. Finally, the recent decontrol of oil prices, and the possible deregulation of natural gas, will likely provide additional financial incentives for private-sector investment.

Projects specifically slated for reduced federal funding include the recently completed H-coal plant in Cattlesburg, Kentucky, and the Donor Solvent plant in Baystown, Texas. Together, these projects account for \$389 million of prior federal funding and would require about \$527 million more for five years of planned operational testing. Further, eliminating the magnetohydrodynamics program will leave a nearly completed facility in Butte, Montana, and a facility in Tullahoma, Tennessee, without federal support. Federal funding of \$89 million was planned for the operation of

the Montana facility through fiscal year 1985. In addition to these specific pilot plants and test facilities, funds are being reduced substantially for other fossil fuel research and development--for example, coal liquefaction, gasification, and mining, as well as oil and oil shale technologies.

Pilot plants, like the larger commercial-scale demonstration plants, help reduce technological and economic uncertainties. Relatively high earnings in the energy sector, and the possibility of large payoffs, indicate that greater private-sector participation may be expected. In specific cases--the Donor Solvent Plant and the H-Coal Plant, for example--the capital costs have been provided by the federal government, and cutting further federal funds may be appropriate. The plants can now be made available to the firms involved, which have the proper incentives to operate and maintain them. As long as the federal government continues operation and maintenance, private firms have little incentive to offer their resources.

The primary difficulty of the proposal is that the private sector may not take advantage of this opportunity to fund research and development if the risks associated with these technologies are perceived as too high, even with some assistance from the Synthetic Fuels Corporation. Some projects--enhanced oil recovery research, for example--may result in near-term benefits to firms that replace federal funding, and in such cases withdrawal of federal funds may be appropriate. Some technologies that the government deems close to commercialization may still be considered too risky by the private sector. Slow development of some of these technologies may result in continued high levels of dependence on foreign oil supplies. The impact of the proposed cuts may also fall directly on localities, firms, and contractors immediately involved in or relying on various construction projects and pilot plant operation.

Policies that would foster more rapid development of synthetic fuels without direct federal funding would help reduce the impact of this proposal on fossil fuel technology development. These options include waiving antitrust provisions that tend to restrict the formation of joint ventures for research, development, and commercialization, and issuing purchasing agreements to guarantee the marketability of fuels produced by the new technologies. Creating an environment conducive to the development and commercialization of the technologies may provide incentives for more private-sector participation in basic fossil energy research and development.

Energy Conservation

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	207	677	631	461	408	407
Outlays	42	442	645	623	467	407

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Department of Energy conservation programs are aimed at all energy-using sectors, including building and community systems, industry, transportation, and state and local jurisdictions. There are also multisector programs and Energy Impact Assistance. In addition, the Carter Administration had scheduled the new residential and commercial retrofit program to begin in fiscal year 1982.

In fiscal year 1980, assistance to states, cities, and low-income persons accounted for \$441.5 million of the \$780.7 million appropriated for conservation. Grants for hospitals and schools and for low-income weatherization received \$342.7 million of the \$441.5 million, with information programs and planning grants accounting for the rest. Transportation programs, at \$113.4 million, were the next largest portion of the federal conservation effort. Most of these funds were used for research and development. Building and community systems received \$103.4 million, used for a variety of research and development and informational programs. The industrial and multisector programs received \$79.3 million between them, mostly for research and development performed either directly or through grantees. The Energy Impact Assistance program received \$43.0 million to aid local governments and other eligible jurisdictions.

The Administration's proposed cuts include a reduction of federal support for near-term and commercialization projects, leaving such projects as energy from urban waste, advanced automotive engine design, and industrial processes to be tested by the private sector. High-risk and long-term research and development projects, such as advanced design batteries, are being retained. The President's proposal also largely eliminates the federal promulgation of new appliance and building efficiency standards.

Many small information programs are being cut or eliminated altogether. In addition, the number of conservation financial assistance programs is being trimmed: low-income weatherization assistance is being folded into the community development block grant (CDBG) program. State and local energy conservation agencies' funds for conservation planning, management, and outreach would be cut. Grants for school and hospital conservation measures are being retained at a reduced rate.

Low-income persons receiving weatherization assistance may be affected if states use CDBG funds for other purposes. As currently constituted, the CDBG program allows localities and states great latitude in determining their own spending priorities. Low-income weatherization programs would have to compete at the local level with other programs. The competition for CDBG funds is likely to grow in intensity if the Administration budget cuts are enacted and if the use of CDBG funds for commercial development is permitted.

Small businesses that now receive technical conservation assistance and are not in a position to hire outside consultants may be less able to respond to increased energy prices. Small communities that lack access to private-sector energy auditors--who are located in major metropolitan areas in any case--may be affected by the elimination of the Residential Conservation Service's auditors training program. Consumers in general may be affected by the elimination of the federal mandatory appliance efficiency standards program, which might reduce energy costs of appliances they intend to purchase.

Manufacturers of consumer durables may also be affected by the elimination of unified federal efficiency standards. In their absence, states may enact their own standards (a few have already done so and more are considering such measures) that would, in all likelihood, be uneven and might prevent the economies of scale offered by unified standards.

In addition to direct expenditures on conservation, the federal government grants a tax credit for conservation measures, which the Administration would retain. Tax expenditures during fiscal year 1982 are expected to total \$799 million. Altogether, the revisions would cut the total federal conservation budget by approximately 20 percent relative to the current policy.

Energy Regulation

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	111	159	143	136	133	123
Outlays	68	179	145	138	129	123

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Economic Regulatory Administration (ERA), the Office of Hearings and Appeals, the Federal Energy Regulatory Commission, and the Gasoline Rationing Preimplementation Project constitute the major regulatory arms of the Department of Energy. They seek through a variety of mandatory restrictions, enforcement and emergency preparedness activities, and information programs to encourage conservation and production of energy, and to reinforce some of the chief provisions of the major energy acts—most notably, the amended Emergency Petroleum Allocation Act (EPAA), and the Power and Industrial Fuel Use Act of 1978.

In conjunction with the immediate decontrol of oil prices, the President has proposed substantial cuts in the price and allocation activities of these agencies. In addition, he has proposed cutting a variety of enforcement and information programs, as well as emergency preparedness operations designed to prepare and implement policies to respond to an oil supply cutoff. Most notably he has proposed:

- o Eliminating the Gasoline Rationing Preimplementation Project Office, and reducing ERA's emergency preparedness office to a skeleton staff (savings of \$93.9 million in fiscal year 1982);
- o Reducing funding for enforcement of EPAA in response to immediate oil price decontrol, and increased emphasis on more rapid expediting of pending cases (savings of \$50.4 million in fiscal year 1982);
- o Eliminating the fuels conversion office of ERA entirely, and reducing its utilities programs and regulatory intervention office

by eliminating financial and technical assistance to state regulatory agencies (savings of \$31.1 million in fiscal year 1982).

A variety of smaller savings in the ERA budget and related items have also been proposed.

Any effort to estimate the impact of these cuts involves a wide series of assumptions. The savings achieved through eliminating programs designed to prepare for an oil shortfall will have no significant impact if there is no shortfall, or if other plans are developed that are relatively costless to analyze and administer. Similarly, the effect of reducing the compliance and enforcement operations on oil price controls depends upon the likely outcome of cases now in progress; if, for example, substantial penalties would be collected or ordered paid to consumers were funding for these operations to be continued, the cut could result in corresponding losses to the government or specific groups of consumers. Finally, reducing government involvement with fuel use, particularly in the case of utilities, may not greatly slow the ongoing trend toward voluntary conversion to coal. In many instances, however, "noneconomic obstacles" appear to stand in the way of such conversions--such as the regulatory bias against new construction on the part of state Public Utility Commissions. Eliminating the fuels conversion and regulatory intervention operations may limit utilities' ability to overcome state regulatory obstacles.

The regional impact of the proposed cuts is also impossible to estimate without making a number of speculative assumptions, since the cuts will not immediately and directly affect any single region. If an oil shortfall were to occur in the absence of a contingency plan, oil-dependent regions--notably New England, the Mid-Atlantic states, Florida, and California--would likely be most severely hurt. If the proposed cuts were to slow the rate of conversion from oil and natural gas, the effect of an oil shortfall on these areas would be exacerbated.

Depending upon the size and duration of the shortfall, it is likely that these regional impacts would be greatly outweighed by aggregate economic effects. The Administration has preserved some policies such as the Strategic Petroleum Reserve to mitigate the overall economic losses. Eliminating these planning and preimplementation projects could, however, seriously limit future policy options to respond to a shortfall.

Municipal Waste Treatment Grants

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	1,700	3,700	1,600	2,000	2,300	2,600
Outlays	20	290	1,450	2,270	2,270	2,275

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Environmental Protection Agency (EPA) makes grants to municipalities for the planning, design, and construction of wastewater treatment facilities. EPA provides 75 percent of the allowable construction costs, or 85 percent if the project employs alternative or innovative technology. Funding levels have averaged almost \$4 billion a year, making it by far EPA's largest program in terms of direct budgetary outlay.

The Administration has proposed rescinding \$586 million in 1980 unobligated funds, \$1 billion in 1981 funds, and \$114 million from a previous direct appropriation. The \$114 million represents the remaining unobligated funds of the \$480 million appropriated in fiscal year 1976 for hardship areas in Title 3 of the Public Works Employment Appropriations Act (Public Law 94-447). No funds are requested for 1982 until reforms are enacted, and then a request for \$2.4 billion will be submitted. Budget authority for 1983-1985 will be limited to \$2.4 billion (approximately 55 percent of the amount in the Carter Administration budget).

The major proposed reform would limit the types of projects eligible for federal funding. Principally, it would eliminate federal funding of projects that serve future community growth or do not result in direct environmental improvement. Projects would be built for the current population rather than for the population projected for the year 2000. Funding would be provided for treatment plants, but not for interceptor sewers.

The impact of the proposed cuts would depend on whether the states and communities perceive the cuts as eliminating, or merely delaying, federal funding for projects. In cases where federal funding was eliminated, some projects would likely still be built (perhaps on a reduced scale). In

cases where federal funding would only be delayed, the states and communities might delay a project rather than go ahead without the federal funding. If projects affected by the cuts were built anyway, state and local funds would be substituted for federal money, and the burden would be borne by those taxpayers or by water users through higher rates. To the extent that projects were deferred, built on a smaller scale, or not built at all, water users and the construction industry would be adversely affected.

The impact of these changes on various regions of the country will depend on at least three factors:

- o Allotment Formula. The formula that allocates money among the states comes up for reauthorization this year.
- o Speed of Obligation. States differ in terms of how quickly they obligate funds and hence in the size of their current unobligated funds. States that obligate quickly (and hence have few unobligated funds) will feel the cuts this year or the next.
- o Reallocation Mechanism. Under current law, states must obligate funds within two years, or the money is reallocated to other states that have already obligated their funds. A recent EPA study--known as the 1990 Study--has proposed faster reallocation, whereas CBO's Reducing the Federal Budget: Strategies and Examples suggests that any reallocation mechanism will create perverse incentives to spend money in a hurry, so that it may be better not to reallocate at all. Under reduced funding levels, the issue may become moot since money will tend to be obligated within the two-year limit.

The Administration proposal would reduce outlays through limitation of eligibility. Several other options for limiting spending are available. They include:

- o Reducing the percent share of federal money on all projects (as opposed to the Administration proposal to limit eligibility but keep the current federal share on eligible projects).
- o Instituting user charge systems (however, the Congress repealed the industrial cost recovery provisions of the 1977 Clean Water Act last year).
- o Instituting controls on unobligated money (over \$4 billion after rescissions; without controls, this money might be spent quickly and ineffectively).

Farmers Home Administration

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	80	1,523	1,606	1,708	1,801	1,889
Outlays	77	1,502	1,629	1,762	1,862	1,942

Note: Although the FmHA lends to agriculture, rural community facilities, and rural housing, the cuts shown here include only agricultural lending.

Source: CBO estimates based on policies contained in Fiscal Year 1982 Budget Revisions.

The Farmers Home Administration (FmHA) provides loans for agriculture, rural community facilities, and rural housing, and was recently given lead responsibility in rural development planning and coordination. In most programs, the FmHA is intended to be a "lender of last resort" for qualified applicants who can find no other source of financing. Some loans carry interest rates substantially below prevailing market levels to provide special assistance to low-income rural people and farmers who have suffered losses due to natural disasters. For example, under existing law, low-income farmers can obtain real estate loans at 5 percent interest and operating loans at 7 percent. Emergency disaster loans up to \$500,000 at 5 percent are available to all farmers who cannot obtain credit elsewhere, and housing loans at very low-interest are made to low-income families.

In recent years, FmHA activities have expanded rapidly. Between 1976 and 1980, FmHA loans and grants increased from \$5.4 billion a year to \$13.0 billion a year. FmHA now accounts for about 10 percent of farm real estate lending compared with 5 or 6 percent in the mid-1970s.

The Administration's major proposal is to raise interest rates on FmHA loans to cover the government's cost of borrowing funds. This would reduce the level of lending primarily in the following categories: farm ownership and emergency disaster loans; water, waste disposal, and community facility

loans and grants; and rural housing loans. The Administration also proposes to terminate a small loan guarantee program for business and industry in 1982.

Within the farm sector, the Administration's proposal would cause FmHA lending to fall by about \$1.5 billion in 1982, and by \$1.9 billion in 1986. This would encourage some borrowers to shift to other sources of credit, such as the Farm Credit Administration and private banks. This adjustment will be easiest for farmers who have been able to build a favorable equity position. Since many FmHA borrowers do not fall in this category, the Administration plans to increase funds for operating loans primarily to assist existing borrowers.

Low-income and beginning farmers, who would otherwise use low-interest FmHA loans to enter farming, are most likely to be adversely affected by this proposal. Although these types of farms are scattered throughout the United States, they are most commonly found in the Southeast and Midwest. The reduction in emergency disaster loans is not likely to have a significant impact on farming, since many of these borrowers can obtain credit elsewhere, and subsidized federal crop insurance is being expanded.

In the water, waste disposal, and community facility programs, the Administration proposes to increase interest rates from 5 percent to the average municipal bond rate and to reduce the level of loans and grants. In 1982, water and waste disposal loans and grants would be reduced \$553 million, to an amount roughly equal to one-half their 1981 level. This decision would result in program activity comparable to annual levels during the period from 1973 to 1975. The burden of the adjustment would fall primarily on rural communities of not more than 10,000 population. It is expected that FmHA's activity would decline from a current level of about 2,000 new systems or systems improvements a year to less than 1,200.

In the rural housing programs, the Administration's proposal would eliminate interest subsidies to moderate-income borrowers, cut rural rental housing loan commitments slightly, and maintain funds for low-income housing at about the 1981 level.

The Administration's proposal would reduce FmHA loan and grant activity in 1982 to about the level prevailing in the mid-1970s. It would also reduce the real cost of FmHA programs by cutting back interest rate subsidies and the likely number of loan defaults. Estimated savings resulting from this action would be \$200 million in 1982, increasing to \$900 million in 1986.

Dairy Price Support Program

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

To assure the public of an adequate supply of milk, the federal government supports the price of milk by purchasing surplus manufactured dairy products--butter, cheese and nonfat dry milk. These purchases prevent farm milk prices from dropping precipitously during seasons of heavy production in late spring and early summer, which would tend to lower future production. Thus, a minimal level of government purchases--that is, 2 to 4 percent of total annual production--contributes to stabilizing supplies and prices. At the same time, however, price supports have substantially raised dairy farm prices, encouraging expanded production. High farm prices have caused retail milk prices to rise, thereby reducing consumption. The result is a perverse situation of surplus milk production on one hand, and on the other, rising government purchases, higher retail prices, and lower consumption.

For the past four years, the price support level for milk has been set at the start of each marketing year (on October 1) at 80 percent of its parity price--the minimum level authorized by current law, and raised each April 1 to reflect changes in prices paid by farmers. The Administration's recommendation has two components: legislatively to eliminate the April 1981 increase in the milk price support; and to lower the level in October 1981 to a still unspecified level. Apparently, this proposal is intended to set the level of price support at 75 percent of parity. (That is the level to which the milk price support would revert automatically anyway if current law were simply allowed to expire this coming September.) Because this recommendation was also in the January budget, no savings are shown. As compared with the continuation of current policy, CBO estimates that the proposal would save \$150 million in 1981, and \$6.6 billion over the 1982-1986 period.

Even at 75 percent of parity, CBO estimates annual milk support prices during fiscal years 1982-1984 will average more than 20 percent above current levels and provide a minimum farm price that covers the costs of producing most of the nation's milk. The effects of reducing the milk price support--to 75 percent of parity would be felt most acutely by high-cost producers, particularly in southeastern states, where about 12 percent of all U.S. milk is produced. A lower level of price support would slow the growth rate of milk production during 1982-1984 and would lower producers' average cash receipts by 7 percent. The projected level of milk production at 75 percent of parity is more than adequate, however, to maintain stable prices and supplies. With milk support prices at 75 percent of parity, government purchases for 1982-1984 would average 6 percent of annual milk production--more than is needed to achieve low to moderate price variability.

If the Administration's proposal is adopted, consumers would benefit from lower prices, and consumption would increase. Retail dairy product prices during 1982-1984 would average about 5 percent lower than at present, and commercial consumption about 1.2 percent greater. In particular, low- and moderate-income families and larger families would benefit.

Postal Service Subsidies

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	250	150	237	226	258
Outlays	0	250	150	237	226	258

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The federal government directly supports the U.S. Postal Service mainly through two types of payments--one for revenue forgone and another for public services. Without reduction, these payments could total \$800 million and \$644 million, respectively, in fiscal year 1982. The revenue forgone payment reimburses the Postal Service for providing free postage to blind and handicapped persons and for reducing second, third, and fourth class postage for certain mailers--mainly religious and other nonprofit organizations, small newspapers, libraries, and educational institutions. The public service payment helps finance operations, such as Saturday mail delivery, that are not cost effective.

The Administration proposes deeper total cuts in the federal payments to the Postal Service than those included in the Carter Administration budget. The estimated additional savings total \$1.1 billion through fiscal year 1986 and are mostly attributable to reductions in the revenue forgone payment, which was not affected by the January budget.

Revenue Forgone. Reductions in the federal revenue forgone payment would mean higher postage rates for certain mailers, averaging an estimated 15 percent for fiscal year 1982. Such higher rates would mainly affect many small newspapers, through reduced profits or higher advertising rates, and budgets of nonprofit organizations. The impact on nonprofit organizations, as a group, would be small because the subsidy represents less than 0.2 percent of their reported net income for 1978 (excluding religious groups). Also, such organizations already receive substantial federal assistance in the form of grants and tax expenditures for charitable contributions.

For households, cuts in the revenue forgone subsidy could mean a reduction in mail from religious, educational, and other nonprofit organizations. Upper-income households would be affected most because they receive a disproportionately high share of the reduced rate mail. Much of this mail is unsolicited, however, and the resulting higher postage rates could reduce the volume of so-called junk mailings.

Public Service. Reduction of the public service payment could result in postage rate increases, cutbacks in certain services, or some combination of both. If service reductions did not occur, postage rates could increase by as much as an estimated 1.5 percent for the proposed fiscal year 1982 reduction.

Of possible service reductions, elimination of Saturday mail delivery offers the greatest potential to offset a reduced subsidy. A move to five-day delivery would affect most mailers and households, particularly higher-income groups that receive disproportionately large volumes of mail. Because of holidays, there are at least nine weeks in the year when mail is delivered on only five days; thus the public might readily adjust to elimination of Saturday deliveries. Other potential service cuts would have a more selective impact. Eliminating delivery to remote areas, for example, would primarily affect rural residents.

Management improvements could limit the impact of a reduced public service payment. The General Accounting Office is currently reviewing the Postal Service's transportation network, its revenue protection efforts, and its management information system as areas in which cost savings could be achieved. According to preliminary estimates, potential improvements in postal transportation could generate savings of approximately \$200 million--more than half of the proposed 1982 cut in the public service payment. Such savings could be used to support some services that would no longer be subsidized.

As an alternative to the reductions proposed in the budget, the Congress could consider even deeper cuts in the federal payments or their complete elimination.

Federal Mass Transit Capital Grants

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	250	1,340	1,635	1,795	1,845	1,860
Outlays	54	420	805	1,153	1,535	1,649

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

At present, the federal government's Urban Mass Transportation Administration (UMTA) provides capital grants on an 80-to-20 federal-to-local matching basis. Of the \$2.5 billion in UMTA grants appropriated for 1981, about 38 percent goes into buses and related facilities, 32 percent into modernizing existing rail systems, 26 percent into constructing new rail systems and extending existing systems, and 5 percent into miscellaneous other programs. Some \$600 million more is also available for transit through Interstate transfer grants; this money is used mostly to extend or improve existing rail systems.

The Administration plans two major changes in the transit capital grants program. First, it would make no new commitments for rail-system construction, although those systems already being built would be completed. Second, the Urban Initiatives program (\$200 million a year), which was designed to promote urban development around transit improvements, would be eliminated by 1983. In addition, the amount of Interstate transfer grants used for transit grants would be held to current levels, but they would not be terminated. Small cuts would be made in other programs; these include cutting 1982 grants for buses and grants for planning in subsequent years.

Cities with rail projects now underway (Atlanta, Baltimore, Buffalo, Miami, and Washington, D.C.) would not be affected immediately, although proposed extensions to these cities' systems would almost certainly not be funded. Construction of the Washington, D.C., Metro would continue to whatever extent Interstate transfers made possible, but most of the \$1.7 billion in Stark-Harris funds needed to complete the full 101-mile system would not be available (perhaps as much as 25 miles would not be completed).

Cities now planning new rail systems (including Detroit, Honolulu, Houston, and Los Angeles) would suffer the effects of the cuts most severely. These cities would continue, though, to receive bus grants. Cities with older rail systems and other large cities dependent on bus transit (including Boston, Chicago, New York, and Philadelphia) would probably not be greatly affected. But, extensions to their existing rail systems would be less likely to receive funds than in the past. Cities with large segments of the Interstate system withdrawn from construction (Boston, Chicago, and Washington, D.C., for example) would face some delay in using these funds.

The same level of cuts as that proposed by the Administration could be achieved by reducing the federal match for all capital grants from the present 80-to-20 rate to about 50-to-50. This would, however, shift the burden of the proposed cuts more heavily onto the older rail cities and cities with large bus systems and off of cities with new rail systems still in the planning stage. With a lower match, some state and local government would probably elect not to undertake certain capital-intensive projects.

Federal Mass Transit Operating Subsidies

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	0	370	740	1,105	1,105
Outlays	0	0	208	512	899	1,088

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Urban Mass Transportation Administration (UMTA) provides operating assistance (which legally can be used for capital projects as well) on a 50-to-50 federal-to-local matching basis for virtually every city with a public transit system. The first such assistance was provided in 1975 at a level of \$300 million. Funding from UMTA has grown rapidly: in 1979, it exceeded \$1 billion, and \$1.1 billion is appropriated for 1981. An additional \$75 million is available to aid rural and small-city transit systems.

According to Administration plans, federal transit operating aid would be entirely eliminated in 1985. Funds for 1982 would be held at the 1981 level of \$1.1 billion. For the next three years, annual cuts of one-third of present appropriations would be enacted. The Administration's outlay estimate for 1981 and 1982 is about \$350 million a year less than CBO's estimate, apparently because of differences in assumptions about how fast cities will use the existing program's funds. Three-fourths of federal operating aid is allocated among cities under a formula that provides disproportionately large amounts to small and medium-sized cities. The Administration proposes to cut this portion of funding first, so that during the phase-down period 1983-1985 more of the burden would be felt by smaller cities. The federal subsidy per rider is much greater for smaller, less transit-dependent cities, however, so that they might face more drastic fare increases or service cutbacks. In terms of absolute dollars, however, the largest urban areas would lose the most. Urban areas apportioned more than \$20 million for 1981 are New York (\$220 million), Los Angeles (\$85 million), Chicago (\$82 million), Philadelphia (\$53 million), Detroit (\$37 million), San Francisco (\$31 million), Boston (\$29 million), and Washington, D.C. (\$28 million).

In 1979, federal operating aid met about 15 percent of the nation's public transit costs, with fares making up 45 percent, local government aid 28 percent, and state aid 12 percent of costs. For most large cities such as Boston and New York, federal operating aid made up less than 10 percent of costs. Loss of federal operating aid would compel local transit authorities to contemplate several difficult choices. Fares could be raised (the increase needed by 1985 would be about 30 percent above 1979 fares), more aid could be sought from state and local sources (about 40 percent above such subsidies than at present); or services could be cut back. The most likely recourse would be some combination of these options.

Similar savings could be achieved by decreasing the overall program level while giving cities the option of using federal aid either for capital or for operating costs. This approach would encourage cities to hold fare increases down and defer replacing aging equipment. Continued deterioration of existing systems is one likely effect of such a policy. Another option would be to modify certain costly federal laws and regulations. Two examples are the relatively new requirements for bus lifts and subway elevators for handicapped riders, and the labor-protection legislation mandated by Section 13c of the Urban Mass Transportation Act. (Section 13c inhibits the use of some innovative and quite cost-effective forms of mass transit and, in general, appears to give labor unions veto power over some management changes.) Although the savings from these changes could be substantial, they would probably be insufficient fully to offset loss of federal aid.

Federal Highway Construction Grants

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	2,000	2,300	2,265	2,385	2,205
Outlays	0	404	1,498	1,919	1,995	2,130

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The federal highway program provides matching funds to the states for highway construction, safety, and resurfacing and rehabilitation. (The federal share is 90 percent for the Interstate system, 75 to 80 percent for other roads.) In recent years, about 60 percent (down from 90 percent historically) of federal funds have been restricted to the highways most important for interstate commerce--the Interstate system and the primary highway system. Remaining federal funds have been used largely for bridges, local roads, and roads that feed into the national systems, as well as a number of specific projects (the Great River Road, for example.)

The 1982 funds already appropriated by the Congress are less than the 1981 level, and the Administration's proposal represents a small increase in budget authority relative to this total. Since the Carter Administration budget had increased the request for 1982, the Reagan Administration total is a reduction from that level. In future years, the overall program would grow more slowly than inflation. Although details are not available, most of the special categorical grants would be eliminated or combined into block grants, and the completion of lower priority projects would be stretched out. The use of Interstate transfer grants for highway projects would also be held down for a few years. The remaining funds would probably be concentrated more on the Interstate and primary systems, including the rehabilitation of these systems. This would mean less federal funding for the secondary (rural) system and for urban arterials.

States with large amounts of federal-aid urban highway roads (\$800 million in 1981 and 1982) and secondary, farm-to-market roads (\$600 million in 1981 and \$400 million in 1982) would be hardest hit. Nine states received

37 percent of the secondary funds in 1981: Texas, Alaska, Pennsylvania, California, New York, Ohio, North Carolina, Michigan, and Missouri. The states receiving the smallest amounts from the secondary program were mostly smaller, eastern states: Delaware, Hawaii, New Hampshire, Rhode Island, Vermont, Connecticut, Maine, and Massachusetts. The federal-aid urban program is concentrated in the largest urbanized states; 10 states received 58 percent of the total authorization for 1981: California, New York, Illinois, Texas, Pennsylvania, Ohio, Michigan, New Jersey, Florida, and Massachusetts. The 12 states receiving the least in federal-aid urban funds (\$3.9 million) were: Alaska, Delaware, Hawaii, Maine, Montana, Nevada, New Hampshire, New Mexico, North Dakota, South Dakota, Vermont, and Wyoming.

Other large miscellaneous programs that are probably included in the proposed Reagan Administration cut are: economic growth highways (\$50 million), rail-highway crossing demonstrations (\$67 million), rail-highway crossing elimination (\$190 million), and pavement marking (\$65 million).

If the states were to increase their highway spending to compensate fully for lost federal funds, state tax increases equivalent to about two cents a gallon on motor fuel would be needed by 1986. Increases in user fees for heavy trucks would be one way to spread the costs more equitably.

Federal user fees on cars and trucks could also be increased to offset the effect on the deficit of higher federal highway spending. These funds, as much as \$2 billion a year by 1986, would be deposited in the Highway Trust Fund. In any case, some increase in federal user fees will be needed in the near future to maintain the financial health of the Highway Trust Fund even under the Administration's highway proposal.

Amtrak Subsidies

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	25	380	550	700	900	987
Outlays	25	304	497	689	858	1,037

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The National Railroad Passenger Corporation (Amtrak) operates passenger trains along the Northeast Corridor (between Washington, D.C., and Boston) and 36 other intercity routes. The corporation was established in 1971 to provide service previously operated by private railroads. Although conceived as a for-profit operation, it never has covered its costs with passenger revenues. The federal government currently subsidizes 62 percent of Amtrak's operating costs and all of its capital costs. (In fiscal year 1981, Amtrak will receive about \$650 million in federal operating subsidies and \$200 million in capital grants.) Nonsubsidy revenues cover about 37 percent of Amtrak's operating costs, while local subsidies provide the remaining 1 percent. The Amtrak Act of 1979 set a 1985 goal of recovering 50 percent of Amtrak's operating costs through passenger revenues.

The Administration is proposing a sharp reduction in federal subsidies for Amtrak. In particular, it would require Amtrak to cover 50 percent of its operating costs through fares by the end of 1982, 60 percent by 1983, 70 percent by 1984, and 80 percent by 1985. It proposes funding Amtrak at \$613 million in 1982--\$488 million in operating funds and \$125 million in capital and labor protection funds. (According to an Amtrak statement on March 16, 1981, Amtrak is requesting \$623 million in operating funds and \$230 million in capital and labor protection funds.)

The greatest impact of the proposal would be outside the Northeast Corridor. In fiscal year 1980, revenues (including operating revenues and local subsidies) covered about 50 percent of the fully allocated costs of Northeast Corridor operations, while short-haul trains recovered about 38 percent and long-haul trains recovered 34 percent. Thus, the require-

ment of 50 percent cost recovery would mean immediate fare increases of about 60 percent on short-haul routes and 75 percent on long-haul routes. By 1985, the proposal would require more than a 50 percent increase in fares on the Northeast Corridor, while fares on all other routes would more than double. Such large fare increases would probably result in sharp declines in ridership. Unless states assumed a drastically increased share of the total subsidy (state financial support accounted for less than \$8 million in 1980 compared with about \$700 million in federal subsidies), these reductions in patronage would require still higher fare increases and could ultimately force Amtrak to terminate service along many routes outside the Corridor.

Under the Administration proposal, about one-third of the routes outside the Northeast Corridor would probably remain intact through 1982. Some of the most promising short-haul routes (in terms of cost recovery) outside the Corridor include Niagara Falls to New York, Chicago to St. Louis, Chicago to Carbondale, Chicago to Quincy, Los Angeles to San Diego, New York to Montreal, Chicago to Port Huron, and Chicago to Dubuque. Promising long-haul routes include Washington to Montreal, Chicago to Seattle, Chicago to Los Angeles, Chicago to New Orleans, Los Angeles to Seattle, Chicago to New York/Boston, Boston to Newport News, and New York to Savannah. The likeliest routes to be terminated under the proposal include New Haven to Springfield, Chicago to Milwaukee, Portland to Vancouver, Washington to Martinsburg, Washington to Cincinnati, Chicago to Valparaiso, Portland to Eugene, Chicago to Texas, Los Angeles to New Orleans, and New York to New Orleans. In fiscal year 1980, these routes recovered less than 30 percent of their total costs from nonfederal revenue sources. Moreover, as the increasingly stringent cost recovery goals are phased in between 1982 and 1985, further reductions in the route network would be required. These reductions will have minimal effects on other modes of transportation since Amtrak now carries only 1 percent of intercity passenger traffic.

Generally, most of the impact of this proposal would fall on persons of average income or above, since these constitute the majority of Amtrak's passengers.

The cost savings associated with route reductions would be offset in the short run by labor protection payments to employees affected by service termination. Amtrak estimates that labor protection costs could total as much as \$200 million in 1982. Amtrak assumes that, under the Administration proposal, all services outside the Northeast Corridor would be terminated, resulting in a 60 percent reduction in Amtrak's labor force. Actual labor protection costs are difficult to estimate, however, since they depend on the specific services terminated. Moreover, labor protection payments extend for a maximum of six years depending on the individual's seniority. These costs therefore represent temporary, short-run costs that will accompany reductions in Amtrak service.

Conrail

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	25	5	102	0	0	0
Outlays	125	-95	102	0	0	0

Note: The January budget provided no funds for Conrail in 1982 or afterward, pending studies due from Conrail on April 1, 1981. Compared with the current policy, the Administration's cuts represent a reduction of about \$500 million in budget authority for 1982, \$400 million for 1983, and \$300 million for 1984 through 1986.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Conrail was established in 1976 by combining eight bankrupt north-eastern railroads. The Congress has heavily subsidized Conrail's operations and capital needs (\$3.3 billion since 1976). In fiscal year 1982, and under current policy, Conrail may need as much as \$560 million in subsidies. Although Conrail's operating losses have decreased from \$367 million in 1977 to \$211 million in 1980, annual losses continue for at least three reasons.

- o Conrail has a surplus of branchlines and mainlines. Of Conrail's 17,000 route miles, it has 9,200 miles of light-density branchlines. Of these, approximately 5,000 miles qualify for abandonment. In addition, Conrail probably has 1,900 miles of excess mainlines, which it can reduce to either secondary mainlines or branchlines.
- o Conrail operates more than 1,800 daily commuter trains carrying over 450,000 commuters. Although it operates these services on a "cost" basis for various state and regional authorities, Conrail concludes that it loses money on them and that the states are slow to pay. Together, direct losses and slow payments cost Conrail \$80 million annually.
- o Labor protection agreements impose huge costs. By increasing labor productivity and therefore furloughing some of its work

force, Conrail adds to its labor protection obligations. The Congress has authorized, for labor protection, \$485 million with all but \$106 million appropriated; this should last through 1982. In 1980, Conrail paid 10,800 claims with an average monthly cost of \$480 per claim for a total of \$5.2 million per month.

The Administration proposes to eliminate Conrail's subsidy after two years. It supports the proposed 1981 supplemental budget authority of \$325, and requests 1982 budget authority amounting to \$50 million.

These drastic cuts would force Conrail to take action in several key areas. First, it would have to prune immediately 4,000 miles of light-density lines and consolidate its duplicate east-west mainlines. These cuts, involving current revenues of \$125 million, would adversely affect small towns located along branchlines, small cities located along duplicate mainlines, and some agricultural areas in Illinois, Indiana, and Ohio. Second, Conrail would have to furlough as many as 11,000 employees (15 percent of the present labor force). Available labor protection funds would be depleted quickly, and the federal government could be obligated to provide as much as \$1.6 billion in additional funds for this purpose. Third, in order to reduce short-run costs, Conrail would defer maintenance on track and other capital assets that the federal government paid \$3 billion to rehabilitate. This would impair Conrail's long-run ability to provide service. Finally, Conrail might abandon its commuter lines, leaving the regional transportation authorities to find a new operator or to operate these lines themselves.

State and local governments, manufacturers, and agricultural cooperatives that depend on particular branchlines might agree to subsidize them at \$50 million a year. There could be a controlled transfer of some lines to other major carriers, provided that labor protection responsibility did not transfer as well. Finally, if railroad unions would agree to modify cost-of-living escalator clauses and to streamline work rules, Conrail might be able to reduce its operating costs.

Reductions in rail service could lead to increases or extensions in other programs, thereby offsetting some of the savings shown above. Local rail service assistance currently provides aid for branchlines, although the Administration's budget would reduce this program. Existing labor protection agreements make severance and furlough pay a federal responsibility, and could generate huge offsetting costs unless these agreements are changed. A continuation of commuter rail operations would require additional funds, probably from states and regional transport authorities.

Economic Development Administration and Regional Planning Commissions

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	476	749	823	893	967	1,046
Outlays	25	481	613	721	857	1,006

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Economic Development Administration (EDA), an agency of the Department of Commerce, funds public works improvements and planning efforts, and also makes loans and loan guarantees to firms needing help to locate, expand, or remain in distressed areas. Eight regional commissions established under Title V of the Public Works and Development Act of 1965 and the Appalachian Regional Commission (ARC) provide similar types of aid and also encourage multistate planning and coordination. Currently, about 80 percent of the U.S. population lives in areas designated eligible for EDA aid, and every state generally receives some funds. The Title V commissions cover 34 states, and the ARC covers 13, with parts of some states covered by both the Title V commissions and the ARC. In fiscal year 1981, appropriations for the EDA were \$625 million. Direct business loans were \$116 million of this amount. In addition, EDA had \$425 million in business loan guarantee authority in 1981. Also in fiscal year 1981, the Commissions were authorized at \$425 million, about 80 percent of which represented ARC funding. About two-thirds of ARC funding, or \$215 million in fiscal year 1981, is allocated to the Appalachian Development Highway System.

The Administration proposal would terminate the EDA, the regional commissions, and the nonhighway programs of the ARC, by rescinding all remaining budget authority for fiscal year 1981 and providing no funding for 1982 or thereafter. The Carter Administration had also proposed that the Title V commissions be terminated in fiscal year 1982 but that ARC funding be continued.

Many localities would be affected by the EDA reductions because EDA aid is spread quite broadly. Broad eligibility usually increases substitution

of federal funds for funds available elsewhere from private or governmental sources. On the other hand, the scanty available evidence suggests that EDA aids some projects that would not have gone forward or would have been funded at a smaller scale without federal assistance. The net additional investment generated may be due at least in part to administrative targeting requirements in the EDA legislation. The agency is required to give priority to applications from the more distressed among eligible areas, and to firms with credit difficulties located in those areas. Furthermore, nearly 20 percent of the jobs created by EDA projects funded in fiscal year 1980 are expected to go to the long-term unemployed. Since other job programs are also being cut, these persons could be severely affected. Likewise, since the ARC aids a very distressed area, cutting its programs would affect the poor.

Options that would reduce the cost of EDA and regional commission programs without eliminating them entirely include:

- o Restricting aid more narrowly to those areas suffering the greatest economic difficulties. Funding could be reduced to reflect the increased targeting.
- o Consolidating the EDA and regional commission programs with other programs aimed at economic development, such as the Urban Development Action Grant program, which the Administration has proposed consolidating with the Community Development Block Grant program. Funding could be reduced to reflect the decreased overlap among programs.
- o Smaller, but still significant, savings would be realized if the interest rates charged in EDA direct loan programs were raised to the rate charged by private lenders on EDA guaranteed loans.

Elementary and Secondary Education Programs (Block Grants)

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	1,398	1,527	1,807	2,044	2,244	2,455
Outlays	113	1,122	1,726	1,724	1,782	1,918

Note: See text for discussion of estimating differences.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Administration proposes to consolidate most federal aid for elementary and secondary education into block grants. The programs involved include two large categorical grant programs--Title I of the Elementary and Secondary Education Act (ESEA), which currently provides over \$3 billion in grants for services to disadvantaged students, and about \$1 billion in grants for services to handicapped children. The remaining programs vary in size and include a number--for example, metric education--that currently are funded for less than \$2 million each.

The Administration's proposal would consolidate these programs into block grants, one to states and one to local education agencies (LEAs), and cut funding in 1981 by 25 percent relative to the levels in the 1981 Continuing Resolution. In 1982, funding would increase by 7 percent from the proposed 1981 level but would remain 20 percent below the 1981 continuing resolution. Because of inflation, this would represent approximately a 28 percent decline in real terms in 1982.

The figures in the table above are the Administration's estimates of the proposed changes relative to the January budget. However, since the January budget also contains changes from current policy, these numbers should not be interpreted as changes from current service levels.

Unless states and localities were to maintain the targeting of funds required by the current categorical programs and increase their own support to compensate for the reduction in federal funds, the Administration's proposal would result in substantial cutbacks in specific types of services.

Reductions in educational services would also occur if states and localities were to begin substituting federal funds for local and state revenues--which they are prohibited from doing under the current categorical programs, but which they would be permitted to do under the proposal.

While consolidation of these programs might generate administrative savings that would offset some of the reduction in funding, any such offset would be far smaller than the magnitude of the cuts proposed by the Administration. A General Accounting Office (GAO) study of 31 federal categorical education programs in one region found that, although total administrative costs (at federal, state, and local levels) ranged as high as 18 percent of total funds, the average was about 4 percent. Therefore, long-term administrative savings from consolidation could be at most a few percent of total costs--as compared to the 28 percent real reduction requested by the Administration. Another GAO study found no evidence that consolidation would produce even small administrative savings. Over the short term, administrative costs might even increase, as states and localities altered their administrative structures to conform to the new funding. (For example, under the Administration's proposal, over 85 percent of the funds would entirely bypass the states--many of which have sophisticated administrative structures--and would result in additional administrative responsibilities for localities.)

The group most affected under the Administration's proposal would probably be poor and underachieving students. They are currently the primary recipients of the highly targeted funds distributed under Title I of the Elementary and Secondary Education Act, which constitute about 86 percent of the funds to be included in the block grant. These students would lose the most if all services in the block grant were reduced proportionately. If LEAs responded to consolidation by redistributing funds, the disproportionate impact on poor and underachieving students could be either mitigated or exacerbated. Moreover, since the proportion of poor students varies greatly from district to district, the proposal would lower total (federal, state, and local) expenditures for elementary and secondary education to a much greater degree in poor districts than in others. For example, in the typical district--in which Title I funds make up about 3 or 4 percent of total per pupil expenditures--a 20 percent reduction in Title I would correspond to less than a 1 percent reduction in total expenditures. In contrast, in some of the nation's poorest districts--where Title I accounts for nearly a third of total per pupil expenditures--a 20 percent reduction in Title I would correspond to a 6 or 7 percent reduction in expenditures. Depending on differences between the formula for allocating funds under the block grants and the current Title I allocation system, the effects of the Administration's proposal could be focused either more or less sharply on the poorest school districts.

One alternative to the Administration's proposal would be to reduce funding for current categorical programs. This could either be a uniform reduction--paralleling the Administration's request--or a selective reduction of programs deemed by the Congress to be less effective, less important, or poorly managed. A second alternative, similar to the Domenici-Bellmon proposal of 1977, would be to create a larger number of block grants, perhaps four or five in total, which would combine only related programs. Programs for the disadvantaged, for example, could go into one block grant, while funding for the handicapped could go into another. A third alternative would be to create a mix of categorical and block grant programs, retaining a few of the largest and most targeted federal programs (perhaps Title I and Education for the Handicapped) as categorical programs, while combining the remaining programs into one or more block grants. All of these proposals would permit greater targeting of federal funds--and of reductions in federal funds--than would the Administration's proposal.

Student Assistance--Guaranteed Student Loans

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	25	25	27	30	32	34
Outlays	24	25	27	30	32	34

Note: See text for discussion of estimating differences.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Guaranteed Student Loan (GSL) program subsidizes student and parent loans provided by private and state lenders and guarantees them against default. All students enrolled at least half-time are eligible to borrow up to \$2,500 for dependent undergraduates, \$3,000 for independent undergraduates, and \$5,000 for graduate students. The federal government pays interest charges for students while they are in school. Interest of 7 or 9 percent is charged to the borrower thereafter. Parents can borrow up to \$3,000 a year, but their loans immediately enter repayment at 9 percent interest. The government also pays lenders special allowance payments that vary each quarter and ensure lenders a yield on their total outstanding loan balances equal to the average of the 91-day Treasury bill rates for the preceeding quarter plus 3.5 percentage points. Since eligibility for GSLs was expanded in 1979 to include all students, the program has grown rapidly. Between 1979 and 1981, the amount borrowed increased from \$2 billion annually to \$6.5 billion, and federal costs increased from \$0.4 billion to \$2.5 billion. (Approximately \$1.9 billion will be needed in 1981 to pay obligations on loans provided in prior years, and \$0.6 billion to pay obligations on new loans.)

The Administration proposes cutting costs in the GSL program in three ways. First, it would limit borrowing to students' remaining assessed need after other forms of aid were taken into account (including the expected contribution from family resources). Second, it would eliminate the in-school interest subsidy. Third, it would eliminate all federal subsidies, except the guarantee against default, for parent loans. These reductions would be implemented by July 1, 1981, to achieve fiscal year 1981 savings.

CBO estimates that this proposal would save approximately \$1 million in fiscal year 1981 and \$9 million in fiscal year 1982. CBO's estimates of savings are approximately 15 percent higher than the Administration's, both because of different economic assumptions (as to interest rates) and because of different assumptions about the effects of the changes on the demand for loans. This level of savings is not reflected in the above table because most of the Administration's proposal was already incorporated in the January budget.

The needs requirement would reduce the eligible population by approximately 50 percent, although there need not be a corresponding reduction in participants since currently only about one-third of those eligible actually borrow. Restricting borrowing to assessed need could also affect the supply of capital available through private lenders. Requiring a needs assessment would increase the program's complexity. Furthermore, limiting borrowing to remaining need would reduce lenders' yield per dollar loaned because the average loan amount would go down but administrative costs for each loan would not. These changes would make the program less attractive to lenders and, as a result, some students (particularly the most needy students, who often are less preferred borrowers because they less frequently have established banking relationships and because they are higher-risk borrowers) could have difficulty obtaining loans.

Eliminating the interest subsidy would achieve appreciable cost savings, but it would do so by increasing the debt burden on all borrowers. On average, annual interest subsidies amount to between \$150 and \$200 per loan per year. Although eliminating this subsidy would make GSLs less attractive to borrowers, it is unlikely that demand would decline below the 50 percent reduction resulting from the needs requirement since the remaining borrowers have few other resources with which to finance their educations.

Reducing the scope of the GSL program would probably not increase costs in other federal student assistance programs because loans already represent the last source of student aid used by students. Rather, restricting eligibility for loans would mean either that students and their families would pay a greater share of educational costs or that students would have to change their educational plans--that is, attend a less costly school or drop out altogether.

Examples of other ways to reduce GSL program costs are: to reimpose a family income cap on loan eligibility or to reduce the amount paid to lenders. The amount of savings in the first case would depend on the level of the income cap. This approach would lessen the likelihood that the supply

of GSL funds would shrink substantially because it would allow lenders to provide large enough loans to retain their current yield. A slight reduction in payments to lenders might still ensure them sufficient yield to maintain their willingness to provide student loan capital, but significant reductions in payments would eliminate their profit in the program and would almost certainly result in a serious reduction in the supply of loan capital.

Student Assistance--Pell Grants

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	150	296	323	350	376	400
Outlays	50	205	224	242	260	277

Note: See text for discussion of estimating differences.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Pell Grant program (previously known as the Basic Educational Opportunity Grants program) was established in 1972 to provide grants to low-income undergraduate students enrolled at least half-time in college or postsecondary vocational/technical schools. The level of grant varies, depending on the contribution to college expenses that can be expected from a student's family. The major determinant of expected contribution is a family's discretionary income--that is, its gross income minus a family living allowance.

The Middle-Income Student Assistance Act of 1978 (MISAA) and the Higher Education Amendments of 1980 expanded significantly the scope of the Pell Grant program. Families with higher incomes (generally up to \$25,000) were made eligible for grants, grant limits were increased, and the equity in the family home was eliminated as a consideration in determining financial need.

The continuing resolution for fiscal year 1981 provides \$2.2 billion for Pell Grants, but the level of services assumed in the resolution (an \$1,800 maximum grant) would require an additional \$1.5 billion, both because of cost overruns in fiscal year 1980 and because of recent estimates of higher program costs in fiscal year 1981.

For fiscal year 1981, the Administration proposes a combination of changes that would (1) keep the maximum grant at \$1,750, (2) rescind the previously approved inflation adjustment in the family living allowance, (3) require a \$750 self-help contribution from every student, (4) rescind the liberalized cost-of-education definitions included in

the Higher Education Amendments of 1980, and (5) eliminate administrative allowances to institutions for providing Pell Grants. CBO estimates that these changes would reduce program costs (budget authority) by \$725 million in fiscal year 1981, compared with the Administration estimate reflected in the January budget of \$150 million. 1/

To control Pell Grant costs in fiscal year 1982, the Administration proposes retaining the changes proposed for 1981, increasing the assessment rate on discretionary income, and eliminating the deduction of state and local income taxes from income in determining the family contribution. Both CBO and the Administration estimate that incorporating these changes would keep program costs to \$2.5 billion in 1982. CBO estimates, however, that this would represent a reduction of approximately \$700 million from current policy, whereas the Administration's estimated savings are approximately \$300 million.

The cuts for fiscal year 1981 would affect all Pell Grant recipients. Although the largest percentage reduction in benefits would occur for moderate and middle-income students, most of the overall reduction would occur in awards to lower-income students because they represent the majority of recipients. Approximately 250,000 fewer students would receive grants, and the average award would be reduced by about \$150 (a 14 percent decrease). By 1982, the Administration's policy would focus more heavily on reducing benefits to the least needy Pell Grant recipients. Approximately 575,000 fewer students would receive grants in fiscal year 1982 than are receiving grants in the 1980-1981 academic year, a reduction of 20 percent.

These changes would eliminate many moderate- to middle-income families from eligibility, thus retargeting the program on the most needy. In inflation-adjusted terms, however, even awards for the most needy students would fall considerably behind previous levels.

Reducing Pell Grant eligibility would likely increase the demand for other forms of student assistance, particularly Guaranteed Student Loans.

Other options to reduce Pell Grant program costs could be adopted in place of or in addition to some of the Administration's proposals. One option would be to repeal the provision in the 1980 Higher Education Amendments that excludes home equity from consideration in determining

1/ This cost estimate includes additional funding that would be needed if eligibility increased as the result of adopting the Administration's proposal to eliminate Social Security benefits for adult students.

the expected family contribution. Another would require independent students with spouses or children to contribute much more toward their education than is expected from families in which the student is a dependent. Alternatively, Social Security and Veteran benefits could be counted as student assistance rather than as income, thus reducing students assessed need for Pell Grants.

Student Loan Marketing Association (Sallie Mae)

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	-1,000	1,423	2,211	2,543	2,543	2,543
Outlays	-1,000	1,423	2,211	2,543	2,543	2,543

Note: These are decreases in off-budget (FFB) budget authority and outlays.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Sallie Mae, established in 1972, is a private for-profit government-chartered corporation that serves as a source of loan capital and as a secondary market for Guaranteed Student Loans (GSLs). Through Sallie Mae, lenders can borrow additional capital to make student loans (using their current student loan portfolios as collateral), or they can sell their student loan portfolios to Sallie Mae. Sallie Mae can finance its activities by selling stock, by borrowing in the private capital markets, or by borrowing from the Federal Financing Bank (FFB) under a guarantee by the Education Department (ED). Sallie Mae borrows at Treasury bill rates, and thus its activity has no direct effect on the federal budget. At present, Sallie Mae finances most of its activity through the FFB, but ED's authority to guarantee the borrowing expires at the end of fiscal year 1984.

The Administration proposes phasing out Sallie Mae's access to federal borrowing. This proposal would actually increase federal credit activity (FFB loans) by \$1.0 billion in fiscal year 1981, but it would reduce off-budget FFB borrowing by \$1.4 billion in 1982. Sallie Mae would no longer be able to borrow through the FFB after 1982.

Although eliminating Sallie Mae's authority to borrow from the FFB would reduce the amount of GSL capital available to students, it is not clear how much this change, in combination with other changes proposed for the GSL program, would reduce GSL borrowers' access to loans. The change could affect Sallie Mae and students in either of two ways.

On the one hand, Sallie Mae might be able to replace the federal borrowing with private capital, although that would probably be more

expensive. The increased costs would no doubt be passed on, at least in part, to the lenders through Sallie Mae. Increased operating costs would reduce lenders' yield, which could lessen the supply of loans.

On the other hand, Sallie Mae might not survive without federal financing, in which case a major provider of student loan capital and servicer of student loans would be lost. This could reduce appreciably the attractiveness of GSLs to some lenders, particularly some of the large-volume lenders that currently rely heavily on Sallie Mae. A significant reduction in the supply of loan capital could make it difficult for some students to borrow. But the Administration also proposes, concomitant with terminating Sallie Mae's access to the FFB, to reduce the demand for student loans by limiting eligibility to students with assessed financial need. This reduction in loan demand would offset the possible reduction in the supply of loans. Furthermore, states that have established their own lenders and secondary markets would probably replace some of the lost capital. To the extent that any reduction in Sallie Mae's activity was offset by state financing secured through the sale of tax-exempt bonds, however, federal revenues would also be reduced slightly.

Although eliminating Sallie Mae's access to the FFB would reduce total federal credit activity, it would not necessarily reduce the level of credit activity in the economy as a whole. If Sallie Mae were to borrow an equivalent amount through private sources, aggregate credit activity would not be affected at all.

An alternative to gradually eliminating Sallie Mae's FFB borrowing would be to terminate it immediately. This would, however, make it difficult for Sallie Mae to establish borrowing relationships with private lenders, and could seriously jeopardize its financial viability.

CETA Public Service Employment

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	149	4,558	4,222	4,561	4,931	5,341
Outlays	535	3,545	4,073	4,408	4,762	5,143

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Comprehensive Employment and Training Act (CETA) provides federal funds to state and local governments to administer employment and training programs. CETA currently authorizes two public service employment (PSE) programs: Title II-D is intended to address structural employment problems and Title VI, cyclical employment problems. Actually, however, the two programs are quite similar, providing jobs to persons in families receiving public assistance and to low-income unemployed persons. These groups are generally more likely to represent persons with structural rather than cyclical employment problems.

In 1978, the CETA reauthorization included major changes in the PSE programs that were designed to alleviate previous problems concerning targeting, fiscal substitution, transition into unsubsidized jobs, and fraud and abuse. The 1978 changes—including increased participant targeting and wage restrictions—appear to have been somewhat successful in addressing these problems.

The Administration's proposal would eliminate all CETA PSE jobs by the end of fiscal year 1981—about 315,000 full-year equivalent jobs under the continuing resolution. With the current PSE hiring freeze, and eliminating the remaining participants during the last four months of fiscal year 1981, 100,000 fewer full-year equivalent PSE jobs would be funded in fiscal year 1981 and all 315,000 jobs would be eliminated in fiscal year 1982. Depending on the extent of fiscal substitution, the net job loss to the economy would be between 50,000 and 80,000 public service jobs in fiscal year 1981 and between 160,000 and 250,000 in fiscal year 1982.

In order to implement the Administration's proposal, approximately one-half of the current PSE participants would have to be fired, laid off, or

absorbed by sponsoring agencies; the other participants would leave through natural attrition. The long-run effects of PSE elimination on participants are uncertain; however, preliminary estimates indicate that, on average, PSE increases the participant's post-program earnings.

Eliminating PSE would increase spending for public assistance and food stamps, and would decrease revenues from Social Security payroll taxes and federal income taxes. Unemployment insurance would also be affected. Preliminary estimates indicate that federal spending for public assistance and food stamps might increase by 3 to 5 percent of the total PSE cost; federal taxes might decrease by 6 to 10 percent of the total PSE cost. Estimates of the effect on unemployment insurance outlays are not yet available.

Approximately two-thirds of PSE jobs are in state and local government agencies. Eliminating PSE would therefore probably reduce local services. In addition, in order to eliminate PSE jobs, contracts with service deliverers would have to be voided, which might make organizations wary of future involvement in other CETA programs.

Several possible options exist: (1) phase PSE jobs out more slowly, eliminating them by the end of fiscal year 1982; (2) eliminate counter-cyclical PSE only (100,000 Title VI jobs); (3) fund PSE only in areas of high unemployment; and (4) switch some PSE funding into other training programs.

CETA Adult and Youth Training Programs

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	856	1,074	1,263	1,452	1,640
Outlays	0	670	892	1,094	1,290	1,487

Note: Includes Title II-B,C, YETP, YCCIP, and SYEP. YACC is not included because the elimination was also proposed in the January budget.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Comprehensive Employment and Training Act (CETA) provides federal funds to state and local governments to administer employment and training programs. CETA Title II-B,C currently authorizes training programs for persons of all ages; Titles IV and VIII authorize programs only for youth. ^{1/} Title IV authorizes several programs: the Youth Community Conservation and Improvement Projects (YCCIP), the Youth Employment and Training Programs (YETP), the Summer Youth Employment Program (SYEP), and the Job Corps. Title VIII authorizes the Young Adult Conservation Corps (YACC). Current policy spending for these programs would total \$4.9 billion in fiscal year 1982--\$2.3 billion in Title II-B,C; \$139 million in YCCIP; \$849 million in YETP; \$845 million in SYEP; \$604 million in Job Corp; and \$217 million in YACC.

The Administration is proposing several major changes in these programs:

- o YCCIP and YETP, which expire in June 1981, would not be reauthorized and these services could be offered through Title II-B,C;

^{1/} CETA also authorizes training programs through Titles III--Special Federal Responsibilities--and Title VII--Private Sector Initiatives Program. Current policy spending for these two titles in fiscal year 1982 would be \$646 million.

- o SYEP would not be reauthorized for fiscal year 1983 and beyond, but SYEP programs could also be offered through Title II-B,C; and
- o YACC would be eliminated by the end of fiscal year 1982.

Proposed fiscal year 1982 total spending for Titles II-B,C, IV, and VIII would be approximately 20 percent below current policy, although spending in those programs for youth only would be 40 percent below current policy. Proposed fiscal year 1982 spending for Title II-B,C would be only 2 percent above Title II-B,C current policy without YCCIP and YETP.

Providing services through one grant rather than several grants could result in lower administrative costs in the long run, although these savings are likely to be far smaller than the proposed funding reductions. Moreover, if administrative costs were to increase initially, service levels would be temporarily reduced by more than the spending reduction would indicate.

The effect of the proposal on the distribution of services and on participants is uncertain. YCCIP, YETP, and SYEP services can be provided through Title II-B,C; however, no legislative changes are being proposed to Title II-B,C to take into account differences among programs or to ensure that more services would be provided to youth. Given proposed funding levels, it seems fairly likely that youth would receive fewer services than under current policies, especially since youth have different needs from adults and are harder to serve in conventional programs.

One option would be to adopt the Administration's proposal to fund services only through Title II-B,C but provide sufficient funds to continue the current level of services for youth. Another option would be to consolidate the youth programs under Title IV, but keep them separate from the Title II-B,C programs for which adults are eligible.

Health and Social Services Programs (Block Grants)

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	2,315	2,619	2,847	3,031	3,112
Outlays	0	1,836	3,129	3,330	3,316	3,397

Note: See text for discussion of estimating differences.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Administration has proposed consolidating 26 health service programs, 13 social service programs, and low-income energy assistance into block grants at a substantially reduced level of funding. The programs included are extremely varied in focus, administrative structure, and size. They include grants to states for payments to individuals (low-income energy assistance), block grants for service delivery (Title XX grants to states for social services), categorical grants to states for services (some of the drug and alcohol abuse funds), and direct federal funding of services (some family planning services under Title X of the Public Health Service Act). They include programs targeted at specific income groups (Title XX social services) as well as programs targeted at individuals with specific problems (developmental disabilities) or at specific public health problems (fluoridation). They range in size from \$2 million to almost \$3 billion a year.

The Administration's proposal would combine these diverse programs into four block grants to states, one incorporating 11 preventive health service programs, the second consolidating 15 other health programs, the third comprising 12 social services, and the fourth consisting of low-income energy assistance and emergency social services.

The Administration proposes to reduce funding for these programs in 1982 by 25 percent relative to 1981. Because of inflation, the request is about 32 percent below the level required to maintain the current level of services. This represents a significant reduction in total federal support for health and social services, because the programs involved represent about

two-thirds of federal spending for social services and over half of federal spending for discretionary health services programs (excluding benefits for federal employees and annuitants).

The figures in the table above are the Administration's estimates of the proposed changes relative to the January budget. However, since the January budget also contains changes from current policy, these numbers should not be interpreted as changes from current service levels.

The Administration's proposal would probably result in large cutbacks in the services currently funded through the programs involved, but the severity of the cutbacks would depend on three factors other than the size of the federal funding reduction: (1) compensating increases in state and local funding, (2) offsetting administrative savings resulting from consolidation, and (3) other efficiencies resulting from consolidation.

The extent to which states and localities would increase their own support to replace lost federal funds is not known. It is likely, however, that many jurisdictions, faced with tax-limitation referenda and other fiscal constraints, would be hard pressed to find sufficient additional revenues to compensate for the proposed cuts.

Over the long term, consolidation may result in administrative savings, but, for several reasons, any such savings would be far smaller than the funding reductions proposed by the Administration. First, the proposed reduction of funding is four to five times the total administrative costs (at federal, state, and local levels) of the typical federal categorical program. Second, the sparse available data show that some block grant programs have higher administrative costs than the typical categorical program. Third, many states may face temporary difficulties in administering the programs until they build up the relevant expertise. Fourth, about a third of the funds involved in the proposal--Title XX grants for social services--are already administered as a block grant.

Consolidation could produce additional savings by making service delivery more efficient in other respects as well. For example, it might permit more comprehensive planning at the state and local level, lessen duplication between programs, and permit the mix of services to be tailored more closely to particular local needs. There are no data that would permit precise estimates of how large such added efficiencies might be, but there are several reasons to expect that, at least in the short term, they would not substantially mitigate the proposed cuts in funding. First, a recent GAO study of the existing social services block grant program--Title XX grants to states--found widespread waste and administrative laxness even after years of program operation. Second, many of the specific programs involved

seemingly overlap very little (particularly in the case of the Preventive Health Block Grant, which would incorporate, for example, rat control, fluoridation, and family planning services). Third, in the case of the health grants, many states currently lack a particular state agency ready to absorb planning for, and coordination of, the disparate programs involved.

The poor would probably suffer most from the Administration's proposal, because most of the programs to be consolidated are currently targeted toward low-income groups. The proposed reduction in funding would itself have this effect, and the proposed consolidation could make the impact even more severe if states were not required to maintain a comparable degree of targeting after consolidation. It is not possible, however, to specify more precisely which groups would be affected most. The various programs involved serve very diverse groups of people, such as crippled children, alcoholics, the retarded, low-income disabled individuals in need of homemaker services, and those at risk for genetic disease. Which of these groups would be most affected would depend on how states redistributed funds in response to consolidation.

Depending on the allocations of funds by the states, the proposed cutback could produce offsetting increases in other costs to federal, state, or local governments. A number of the services provided under the current categorical programs--for example, family planning, genetic services, and immunizations--generate offsetting savings, in some cases probably greater than the costs of the services themselves. If such services were cut back, the offsetting increases in costs would probably be borne both by states and by the federal government.

Several alternative proposals would be feasible. One would be to create a larger number of narrower block grants. This would avoid lumping together disparate programs (such as drug abuse services and medical services for crippled children) that would be combined under the Administration's proposal, thereby allowing closer targeting of federal funds. A second would consolidate related programs (such as alcoholism and drug abuse services) while leaving them as categorical programs under federal control. A third would retain some categorical programs on the basis of size, demonstrated effectiveness, or efficient administration, while consolidating other programs into block grants. As an alternative to the Administration's across-the-board cut of 25 percent, the federal government could selectively cut or eliminate programs that appear ineffective or poorly managed.

Medicaid

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	589	1,185	2,608	3,969	5,164	6,535
Outlays	339	944	2,365	3,682	4,898	6,206

Note: In 1981, figures include savings from proposed immediate collection of disallowed claims, which is not discussed below.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Medicaid, a joint federal and state program, provides a wide range of health-care services to eligible low-income persons on an entitlement basis. Federal law requires state Medicaid programs to extend eligibility to recipients of cash assistance from the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) programs. States must provide these recipients with a basic set of services and may choose to offer additional services. States may also choose to extend Medicaid eligibility to other groups of persons who are not receiving cash assistance. A portion of each state's Medicaid costs; are covered by the federal government the federal portion rises as state per capita income falls.

The Administration proposes to reduce expected federal expenditures for Medicaid by restricting the entitlement aspect of Medicaid through a cap on future increases in federal outlays. The 1981 level of federal expenditures would be limited to \$100 million below the current base estimate for 1981. Federal expenditures would be allowed to rise 5 percent in 1982. After 1982, federal Medicaid expenditures would be adjusted each year by the rate of inflation as measured by the GNP deflator. The state-by-state distribution of the reduction in 1981 and in subsequent years has not yet been determined. States would be given additional flexibility to adjust to reduced federal funding by changing reimbursement levels, the range of services covered, and the criteria for eligibility.

Estimates of savings from a Medicaid cap are very sensitive to economic assumptions, particularly the rates of inflation and unemployment.

For example, if inflation were to be higher than assumed by the Administration, the capped level of Medicaid expenditures would rise more quickly and this would lead to lower savings from the proposed Medicaid cap than those shown above.

The proposed cap on federal matching funds for Medicaid would reduce federal grants to states for Medicaid by 5 percent in 1982 (in real terms). By shifting to states the full cost of services beyond those that could be purchased at the 1981 adjusted level of funding, it would also increase the incentive states now face to contain the costs of their Medicaid programs. At the same time, states would realize the full savings from avoiding expenditures that exceeded the fiscal year 1981-adjusted level.

Although the Medicaid cap would affect all states to some extent, the effects upon individual states would vary. First, grants under a cap would depend on current expenditures--that is, on past decisions about eligibility and benefits, rather than on future changes. Second, states that are expecting larger-than-average increases in Medicaid expenditures would experience the greatest burden, because higher Medicaid costs, caused by growth in a state's low-income population or large increases in medical care prices, would not be accommodated by this cap. Third, states in which unemployment is particularly sensitive to economic downturns would find it more difficult to adjust to cyclical variations in Medicaid expenditures.

The effect of a Medicaid cap upon persons now eligible would depend on the areas in which state flexibility was expanded and on the decisions made by states about reducing expenditures. Although states could compensate for reduced federal funds by increasing their own expenditures for Medicaid, most states would make efforts to lower the program's cost. Among the actions states might be permitted to take are expanding the use of contract purchasing, reducing hospital reimbursement, and exercising greater use of cost sharing. States might also eliminate certain benefits or restrict eligibility.

Alternative ways to reduce federal outlays for Medicaid include giving states increased flexibility to establish lower reimbursement levels for hospital care and medical supplies, modifying the formula used to calculate each state's federal Medicaid grant, eliminating certain categories of persons currently eligible for Medicaid, or dropping some benefits, such as dental care.

Medicare

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	0	0	0	0	0
Outlays	-518	522	0	0	0	0

Note: Savings from repeal of benefit expansions are not included in this table since they were included in the January budget. Changes shown are for repeal of delay of hospital payments only.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Under the Medicare program, the federal government finances hospital and medical services for more than 28 million persons who are aged and/or disabled.

The Administration proposes to repeal the delay in Medicare payments to hospitals incorporated in the Omnibus Reconciliation Act of 1980 (Public Law 96-499) and a number of benefit expansions enacted last year but not yet put into effect. The proposal would reduce Medicare outlays by about 1 percent. The largest savings would come from cancelling a legislated suspension of interim payments to hospitals during the last three weeks of September 1981, which would shift outlays to 1982. The most important benefit expansions proposed for repeal are those for home health services and pneumonia vaccinations.

Repealing the suspension of interim payments to hospitals is mostly an accounting change. Outlays for 1981 would increase by \$518 million, while outlays for 1982 would decrease by \$522 million (see table). The repeal would also spare hospitals the inconvenience of having their interim payments interrupted and would avoid an ultimate slight increase in Medicare reimbursements resulting from increased hospital borrowing.

In home health care, the Administration proposes to reinstate the 100-visit maximum and to drop occupational therapy as a possible qualifying

requirement for home health benefits. P.L. 96-499's elimination of the three day-prior hospitalization requirement would not be repealed, however. The proposal would discourage the use of home health services to some extent. Despite the possibilities of home health care's substituting for institutional care, the proposed repeal would reduce Medicare outlays.

Repeal of the pneumococcal vaccination benefit would result in fewer elderly persons' obtaining immunization. CBO has projected that the benefit will prolong the lives of about 5,000 persons over the period 1982-1986. Although repeal would reduce Medicare outlays in the short run, it would have only a negligible effect in later years. Indeed, when reductions in medical spending associated with decreased longevity are excluded, repeal of the benefit would ultimately increase Medicare outlays.

Other options to reduce costs associated with Medicare include increased use of cost sharing, increased premiums for Supplementary Medical Insurance (SMI), and reduced reimbursements to health-care providers. Cost sharing could be increased by raising the SMI deductible or by requiring beneficiaries to pay 10 percent of hospital expenses after the first day of a hospital stay. SMI premiums could be raised to a rate based on the original formula of premiums defraying 50 percent of the costs of benefits, or they could be frozen at the current rate of about 25 percent of the costs of benefits. Payments to hospitals could be reduced by expanding reimbursement limits to cover ancillary costs or by giving states financial incentives to regulate hospital rates.

Social Security Benefits for Students Aged 18 through 21

	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	0	0	0	0	0
Outlays	35	1,000	1,625	2,000	2,125	2,250

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Unmarried full-time students, aged 18 through 21, who are dependents of retired, disabled, or deceased workers are currently entitled to Social Security benefits. (For those not attending school full time, child benefits cease at age 18.) Approximately 750,000 students now are assisted by this program, receiving an average benefit of about \$255 a month.

The Administration proposes to phase out this benefit. Benefits would be restricted to existing recipients, and their benefits would be reduced by 25 percent a year over the next four years. Outlays would decrease by \$1 billion in 1982 and by over \$2 billion in 1985, by which time the program would have ended under the Administration's proposal.

The rationale for this program has been based on the Social Security system's mandate to insure workers, their spouses, and their dependents against the risks of old age, disability, and death. Since most 18-through 21-year-old full-time students are still dependent on their families for financial support, it has been argued that this coverage should be extended to them as it is to other dependents.

Students benefiting from this provision tend to be from lower income families than other students. A study published in 1977 indicated that the median family income for families of college students beneficiaries was only 71 percent of the median income for all families with unmarried children aged 18 to 24 who were in college full time.

Other federal educational assistance programs such as Basic Educational Opportunity Grants (Pell Grants), could help some recipients adjust to the loss of benefits, but others already obtain the maximum financial

assistance under this program. Pell Grants, which are means tested, are limited to the lower of \$1,800 per year or 50 percent of costs. A CBO model of this program shows that most low-income student beneficiaries are already at their limits. Indeed, additional outlays for Pell Grants resulting from the Social Security benefit cut are estimated to be slightly less than \$25 million in 1982, offsetting only about 2 percent of Social Security savings. The Administration has, however, also proposed cuts in funding for Pell Grants, which would reduce the amount that all participants could receive.

Guaranteed Student Loans (GSLs) would be available to many students losing benefits. Some students are already borrowing the maximum amount from this program, however, and new participants in the program pay interest rates of 9 percent. If the Administration's proposed changes to the GSL program were adopted, these students might have difficulty obtaining loans, since students from lower-income families are generally less preferred borrowers and the supply of GSL loan capital might be substantially reduced. Estimates of the additional federal expenditures from increased use of GSLs resulting from the Social Security cut are not available.

Social Security Minimum Benefits

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	0	0	0	0	0
Outlays	50	1,000	1,100	1,100	1,100	1,100

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Under present law, Social Security recipients are guaranteed a minimum benefit of \$122 a month, regardless of the actual amount to which they are entitled on the basis of their earnings histories. In 1979, the amount of the initial benefit award was frozen, with the effects that, over time, inflation will erode the benefit's real worth to new beneficiaries, but fewer recipients will have entitlements below the minimum based on their own earnings. Once a retiree is awarded the minimum benefit, that sum (like all other Social Security benefits) is indexed annually to changes in the CPI.

The Administration's budget proposes to discontinue the minimum benefit and instead to compute all present and future benefits on the basis of past earnings. As a result, about 3 million retirees now receiving the minimum benefit would have their benefit amounts recalculated, although not all would have their benefit amounts reduced. Resulting outlay reductions would amount to less than 1 percent of Social Security retirement benefits, which are otherwise not proposed for cuts.

The Administration estimates that about half of all present beneficiaries would not suffer a reduction of income as a result of the proposal. Persons thought not to be affected include the 28 percent who receive a supplement based on their spouse's earnings (that is, people who are dually entitled), the 14 percent who are receiving Supplemental Security Income (SSI), and a small number of persons whose earned Social Security benefit is equal to the minimum. Indeed, benefit savings of \$1.3 billion in 1982 would be offset by \$0.3 billion in increased outlays for SSI, according to the Administration.

The remaining beneficiaries would experience a reduction in income, however. According to the Department of Health and Human Services (HHS), 6 percent of persons receiving the minimum benefit are federal civil service annuitants, and another 6 percent are state and local government annuitants not covered by Social Security. Many of the remaining 37 percent of all beneficiaries probably have relatively low incomes. HHS tabulations show that most recipients of minimum benefits have worked only sporadically in employment covered by Social Security. Since SSI benefits amount to only about 75 percent of the federal poverty level income for single persons and about 85 percent for couples, poor persons whose incomes are above these levels would have benefit reductions that were at best only partly offset by SSI.

The proposal would cause some offsetting federal outlay increases in programs other than SSI. Federal outlays for food stamps would increase. In addition, many of the people who would become eligible for SSI would also become eligible for Medicaid, increasing state and federal outlays for that program. Federal outlays would not increase, however, if Medicaid grants were capped as proposed in the Administration budget.

Civil Service Retirement

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Civil Service Retirement (CSR) annuities are currently adjusted twice a year to reflect changes in the Consumer Price Index (CPI). The first adjustment is received in October and the second in April. These semi-annual cost-of-living adjustments (COLAs) are twice as frequent as the increases provided Social Security beneficiaries, and in recent years have exceeded the average pay adjustments provided active employees.

The Administration proposes that the October COLA be eliminated beginning in 1981 and that a once-a-year adjustment be made each March, beginning in 1982. According to the Administration's economic assumptions, the March 1982 adjustment would be 10.1 percent in lieu of two separate increases that would occur under current law (5.8 percent in October 1981 and 4.3 percent in March 1982). The once-a-year indexation for CSR could generate outlay savings of \$2.1 billion through fiscal year 1986. The savings could, of course, change under different assumptions about the size of future federal pay adjustments and future rates of inflation. Because this recommendation was also in the January budget, no savings are shown in the table above.

A typical annuitant and a typical survivor now on the rolls receive annual CSR payments of \$11,020 and \$4,700, respectively. A move to once-a-year adjustments would mean a loss of income for the typical annuitant and survivor of about \$319 and \$136, respectively, during fiscal year 1982.

The proposed changes would initially affect 1.3 million federal retirees and 0.4 million survivors. Approximately one-third of these annuitants receive CSR payments of less than \$6,000 a year, and about 40 percent receive more than \$10,000, although other sources of retirement income are

not uncommon. Approximately 13 percent of the affected annuitants live in Maryland, Virginia, and the District of Columbia; and another 34 percent in five other states (California, Florida, New York, Pennsylvania, and Texas).

Other possibilities could be considered for reducing federal costs of civil service retirement through two basic approaches--limiting future benefits or increasing contributions by employees and off-budget agencies. Potential benefit changes include more stringent indexation provisions and lower annuities for persons who choose to retire before age 65. A second approach would increase employee and agency contribution rates as a means of improving the recognition of retirement costs in the budget and bringing the government's cost for civilian retirement closer to that which would obtain if private-sector practices were adopted. A two-percentage-point increase in the employee contribution, possibly phased in over three or four years, would represent approximately half of the estimated additional actuarial cost of providing COLAs equal to 100 percent of changes in the CPI. Thus, federal retirees would continue to receive protection against inflation without limitation but would pay part of the extra cost while employed.

Unemployment Insurance Extended Benefits

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	400	0	200	0	100	200
Outlays	505	0	103	82	274	286

Note: See text for discussion of estimating differences.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Regular state unemployment programs usually provide up to 26 weeks of potential benefits to unemployed workers. The extended benefit program provides up to an additional 13 weeks of aid during periods of high unemployment. Under current law, extended benefits are payable ("trigger on") under two conditions. First, in an individual state, extended benefits trigger on when the state's insured unemployment rate exceeds 4 percent and is at least 120 percent of the rate during the same period of the previous two years or, at the state's option, simply when the insured unemployment rate exceeds 5 percent. Second, extended benefits are payable in all states when the national insured unemployment rate exceeds 4.5 percent. Currently, extended benefit claimants (in state-triggered programs) represent about 11 percent of all unemployment insurance claimants.

The Administration recommends changing the unemployment insurance extended benefit program by:

- o Eliminating the national extended benefit trigger;
- o Removing extended benefit claimants in calculating the insured unemployment rate;
- o Raising the state-specific trigger rate from 4 to 5 percent and the state optional rate from 5 to 6 percent; and
- o Requiring 20 weeks of work during the base period to qualify for extended benefits.

Eliminating the national trigger, assuming it was on, would have the same effect as the trigger going from on to off, as happened recently. In January 1981, the national insured unemployment rate dropped below 4.5 percent, causing approximately 200,000 of the 660,000 workers receiving extended benefits to lose their aid. These long-term unemployed workers were in 27 states with low unemployment rates where the state triggers were not on.

Excluding extended benefit claimants from calculation of the insured unemployment rate would have the immediate effect of lowering that rate, making it less likely that extended benefits would be available. In the long run, however, more workers might receive extended benefits because of this change so that total outlays might actually be increased in future years. This could happen because the 120 percent criterion for triggering-on state extended benefits would be easier to meet in the future if past insured unemployment rates were lower; hence the state triggers might go on earlier than in the absence of this change, while the effect on triggering-off would be less certain.

Raising the state-specific trigger rates would likely reduce the number of states in which extended benefits are paid. Currently, of the 26 states with state triggers on, 22 have insured unemployment rates above 5 percent and 11 have rates above 6 percent. Increasing state trigger rates would have the effect of delaying extended benefit payments during periods of increasing unemployment and more quickly terminating payments during periods of decreasing unemployment.

Requiring 20 weeks of work during the one-year base period would limit extended benefit payments to those unemployed workers with a relatively strong prior labor force attachment. Present state laws differ widely as to minimum requirements for unemployment insurance eligibility.

Estimates of budgetary savings that would result from these program changes are sensitive to assumptions about future unemployment rates. To the extent that Administration and CBO assumptions about these rates differ, the savings estimates will also differ.

Trade Adjustment Assistance for Workers

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	1,150	760	380	380	380
Outlays	0	1,150	760	380	380	380

Note: See text for discussion of estimating differences.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The current program of trade adjustment assistance (TAA) for workers, established by Title II of the Trade Act of 1974, was designed to compensate and assist those workers who lose their jobs or suffer reduced employment because of import competition. The program provides trade readjustment allowances (TRA), job search allowances, relocation allowances, training, and employment services. Trade readjustment allowances are payable at 70 percent of a worker's previous wage up to a maximum of the average wage in manufacturing, currently \$269 a week. They are reduced by the amount of any unemployment compensation received and by 50 percent of earnings of eligible workers who are on reduced hours. Readjustment allowances may be received for up to 52 weeks. An additional 26 weeks are available to older workers and to workers participating in approved training programs. The allowances are generally substantially higher than regular unemployment compensation and continue for a longer period.

The Administration has proposed that trade readjustment allowances be reduced to the same level as unemployment compensation, that they not be paid until all unemployment compensation has expired, and that they not be payable after 52 weeks of benefits have been received under the two programs combined.

Trade adjustment assistance programs historically have had two goals: (1) to compensate workers laid off because of import competition arising from free trade policies, and (2) to help affected workers adjust and find new jobs.

The proposed modifications to TAA would result in substantial budgetary savings by eliminating readjustment allowances for many workers who suffer only short-term unemployment or reduced hours, and by reducing the levels and duration of benefits for others. The Administration estimates that fiscal year 1982 budgetary savings from the proposals would total \$1.2 billion, cutting outlays for readjustment allowances by 77 percent. CBO savings estimates are 10 to 25 percent higher because of differences in estimates of weekly benefit amounts and in estimates of the distributional characteristics of the TAA participant population. CBO estimates that 87 percent of the workers who would receive readjustment allowances under current policies in fiscal year 1982 would lose these benefits under the proposal. Workers who continued to receive benefits would lose, on average, \$100 weekly from their benefits. The reduced benefit level might mitigate any disincentive effect that readjustment allowances have on the efforts of workers to seek new employment.

Although the changes would help ensure that workers continuing to receive readjustment allowances would be more likely to be those suffering long-term unemployment, they might not result in increased adjustment activities for them. The modifications do not include provisions to strengthen the training, job search, relocation, or employment services provisions of TAA. The reduced benefit level could hinder adjustment to the extent that truly dislocated workers need time and resources to adjust over and above those provided by unemployment insurance. On the other hand, the proposed changes would partially reduce the discrepancy in benefits between workers suffering long-term unemployment because of increased imports and those suffering long-term unemployment for other reasons, although substantial discrepancies would remain.

More than 80 percent of current outlays are paid to auto workers. This figure probably will not fall substantially in 1982. Other industries with laid-off workers receiving TAA include steel, textiles, apparel, coal, and electrical equipment. The effects of the proposed benefit reductions are thus likely to be greatest in the northeastern and northern midwest regions of the country, and in California.

Several other options for modifying TAA have been proposed. Trade readjustment allowances could be made available for a full 52 weeks following the expiration of unemployment compensation. The definition of import-injured worker could be modified so as to target assistance more on the long-term unemployed or to reduce disparities in program coverage. Adjustment services and benefits could be enhanced, and new delivery systems tried. Finally, provisions to reduce adjustment problems, such as mandatory pre-layoff notification, could be adopted.

Subsidized Housing

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	5,093	10,100	13,753	16,180	18,370	20,653
Outlays	3	143	541	1,091	1,671	2,440

Note: Figures exclude the effect of the withdrawal of a proposed fiscal year 1981 supplemental appropriation request for public housing operating subsidies.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Section 8 and public housing programs subsidize the housing costs of lower-income families living in newly built or already existing rental units. Under both programs, the government makes payments to the owners of the units sufficient to cover the difference between the full cost of the dwellings and the tenants' contributions toward their own living expenses--currently limited to no more than 25 percent of their incomes.

Each year, the government makes forward-funded 15- to 40-year commitments under these programs to subsidize some number of additional households, adding to the base of those already receiving aid. As of the end of fiscal year 1980, approximately 3 million subsidy commitments were outstanding and 2.3 million housing units were available for occupancy. Outlays for all assisted housing programs totaled \$5.4 billion during that year--a figure expected to rise to about \$8 billion by 1982. The Carter Administration budget estimated that the approximately \$30 billion in long-term budget authority appropriated in fiscal year 1981 could support 255,000 additional assistance commitments. The January budget also requested an additional \$29.6 billion in 1982 authority to fund 260,000 more commitments.

The Administration has proposed reducing funding for subsidized housing by:

- o Rescinding \$5.1 billion in long-term budget authority already appropriated for fiscal year 1981, including \$300 million for public housing modernization;
- o Reducing fiscal year 1982 funding for new assistance commitments by more than \$9 billion and shifting the program mix toward a slightly greater reliance on less costly existing-housing assistance;
- o Phasing in a tenant rent increase that would raise the maximum payment from 25 to 30 percent of income over a five-year period; and
- o Reducing funding for public housing modernization by \$500 million in fiscal year 1982 and by \$800 million in each of the four years thereafter.

Rescinding \$5.1 billion in 1981 budget authority would reduce the number of new assistance commitments made in that year to 210,000 by the Administration's estimate--approximately the 1980 level of 206,000. Reducing new fiscal year 1982 funding as proposed by the Administration is expected to lower the 1982 assistance increment to 175,000 households. Together, the funding reductions for new subsidy commitments proposed for the entire 1981-1986 period are expected to reduce outlays by \$1.9 billion during those six years.

The Administration is also recommending shifting the fiscal year 1982 program mix from the Carter Administration proposal of a 50-50 program mix to one of 45 percent new construction and 55 percent existing housing. This change would further reduce long-term funding requirements but would increase outlays slightly for the next few years because of the shorter time required to lease existing units.

Phasing in a rent increase as proposed by the Administration beginning in fiscal year 1982 would reduce outlays by about \$100 million in that year, with annual savings rising to more than \$1 billion by 1986. Average rent payments would increase by about \$5 per month for each of the five years, but even after the changes were fully implemented, assisted tenants would be paying substantially less in rent than unassisted lower-income tenants, who pay on average 40 percent of their incomes.

The Administration's proposed reduction in funding for public housing modernization--including the proposed 1981 rescission--would reduce budget authority requirements by \$4 billion through 1986 and would lower five-year outlays by about \$200 million by the Administration's estimate.

Aid to Families with Dependent Children (AFDC)

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	636	802	884	975	1,003
Outlays	0	636	802	884	975	1,003

Note: Savings under Child Support Enforcement are included.

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Aid to Families with Dependent Children (AFDC) is a state-administered program providing cash assistance to needy families on behalf of a dependent child whose father or mother is deceased, disabled, absent from the home, or--in some states--unemployed. The dependent child must be living with a close relative or in an approved foster-family home or institution. Although states establish their own program provisions, the federal government sets general guidelines, reviews and sanctions the state programs, and shares program costs with the states by matching 50 to 78 percent of expenditures depending on each state's per capita personal income. In fiscal year 1980, the federal government spent \$6.8 billion in matching funds for AFDC benefits and program administration; about 3.6 million families received AFDC payments.

States determine maximum payment amounts according to projected needs of families and family size. Maximum payments are provided to families with no countable income. State maximum payments in 1980 ranged from \$140 to \$569 per month. The payment guaranteed a family is determined by subtracting other income received by the family (beyond certain disregarded amounts) from the state AFDC maximum payment level.

The Administration has proposed several initiatives to reduce federal outlays for AFDC. The proposed cuts would save about \$1.0 billion of the \$7.8 billion projected as the federal share, under current policy, of fiscal year 1982 expenditures (the savings represent \$600 million more than the savings proposed in the January budget). Among the most important proposals are:

- o Requiring the establishment of state workfare programs that would require able recipients to work in return for their benefits;
- o Counting income of all household members, including those not in the AFDC assistance unit, in determining eligibility and benefits; and
- o Limiting child-care deductions, standardizing work-related expenses, and applying more stringent eligibility tests after a recipient has earnings for four months.

Most of the proposals would either remove AFDC recipients from the rolls or reduce their payments. The Administration estimates that about 400,000 families would lose all AFDC benefits and another 258,000 families would have their benefits reduced. The proposals would also increase marginal tax rates for families with earnings, especially after four months of earnings when the amount of disregarded earned income would be substantially reduced.

The establishment of workfare or community work experience programs within states would encourage more low-income persons to participate in the labor force. States might encounter problems, however, in finding sufficient jobs to assign to AFDC recipients, especially jobs providing career opportunities. Workfare programs might also reduce the financial incentives to work in other jobs.

Currently, states are not required to count the income of all members of a household when determining AFDC eligibility and benefits, although they may count incomes of household members such as adoptive stepparents or persons who contribute directly to the child's welfare. The proposal would require states to consider incomes of nonadoptive stepparents--members of about 4 percent of AFDC families--and other nonrelated members of the household when calculating benefits. This change would eliminate payments to families whose total incomes exceeded the eligibility limits and could reduce work incentives, since the actual gain from employment would be substantially less.

The Administration also proposes to standardize the amount of work-related expenses that can be disregarded when benefits are calculated and to limit the amount of deductible child-care costs. Currently, monthly AFDC benefits are reduced by two dollars for every three dollars a recipient earns beyond \$30 plus work-related expenses plus child-care costs. The proposal calls for a \$75 standard allowance for work expenses in addition to the \$30 earned income disregard. The one-third income disregard would be applied to the earnings remaining after deducting these exclusions for the first four months a job was held. After that period, benefits would be

reduced by the total amount of earnings less the new work-related expenses and child-care deductions.

Standardizing the treatment of work-related and child-care expenses would simplify program administration but could increase work disincentives among AFDC recipients. Also, there would be considerable variation in the way different AFDC families would be affected by the new formula--windfalls for those whose work-related expenses are below the standard allowance and exceptionally large benefit reductions for those whose work-related and child-care expenses exceed the allowed deductions.

The proposed changes in the calculation of AFDC benefits would reduce AFDC program outlays for both the federal government and the states, but there would be offsetting costs in other programs. Currently, three out of four AFDC families receive food stamps as well. Reductions in AFDC caseloads and benefits would expand eligibility for and increase the amounts of food stamps. In addition, federal housing assistance subsidies for some AFDC families would increase. Persons who refused to accept the assigned work for their benefits might also be eligible for more assistance from certain state welfare programs, causing additional costs to the states.

Other options to reduce AFDC outlays fall into two categories: total system changes and incremental changes. Replacing the AFDC program with a negative income tax plan is an example of a total system change. Alternative incremental changes include: extending work-experience requirements through the current Work Incentive (WIN) or Comprehensive Employment and Training Act (CETA) programs; setting the work-expense disregard at a lower level and indexing this value over time to keep up with the change in wages; and capping total work-expense and child-care deductions to a percentage--for example, one-third--of total earnings.

Child Nutrition

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	35	1,774	1,917	2,083	2,212	2,355
Outlays	0	1,620	1,756	1,913	2,034	2,170

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Programs for child nutrition, which under current law provisions would cost the federal government over \$5 billion in fiscal year 1982, encompass a wide array of activities. They include the national school lunch program, the breakfast program, the special milk program, several child-care and summer feeding programs, special nutrition programs for groups deemed especially vulnerable, and other programs. Of these, the national school lunch program is the largest, accounting for about 80 percent of all federal child nutrition expenditures; it subsidizes about 82 percent of the cost of free school lunches, 75 percent of reduced-price lunches, and 24 percent of paid lunches.

To reduce federal program expenditures and target them more toward the financially and nutritionally needy, the Administration has proposed major changes that would eliminate or substantially cut most federal child nutrition programs. The proposed reductions would entail:

- o Eliminating subsidies for families with annual incomes above 185 percent of the poverty level;
- o Reducing subsidies for families with annual incomes between 125 and 185 percent of the poverty level;
- o Eliminating subsidies for summer meal programs, snacks, and the special milk program in schools with subsidized meal programs;
- o Eliminating the inflation adjustment in most remaining subsidies;
- o Eliminating funding for new food-service equipment for schools, and grants to states for nutrition education and training;

- o Eliminating people deemed less needy from the Special Supplemental Food program that provides food for women, infants, and children; and
- o Combining into a block grant all nutrition assistance to Puerto Rico.

Federal support would stop for the 14.5 million middle- and upper-income students whose school districts now receive meal subsidies of up to \$60 per student each year. Eligibility for support would continue for about 10 million children from poor families, who would receive fully subsidized school lunches, an additional 3 million children who would also receive fully subsidized school breakfasts, and another 1.9 million less needy students who would receive annual lunch subsidies of \$115 per year. In fiscal year 1982, the amount students pay for reduced-price lunches would increase from 20 cents to about 60 cents; paid lunches would increase from about 70 cents to between \$1.25 and \$1.50.

These changes would reduce federal costs by 35 to 40 percent in fiscal year 1982 and would refocus child nutrition programs on students considered most needy. According to some studies, students in the lowest family-income groups obtain the greatest nutritional benefit from these programs.

On the other hand, if the proposals were enacted, some still-eligible, low-income children might not actually continue to receive benefits, because some schools might drop the programs. If many of the students who would be required to pay the full costs of meals were to drop out of the program, some schools might have difficulty financing the programs, especially since reductions have also been proposed in the special milk program. In addition, many school districts are near their legal taxing limits and would have difficulty meeting the needed increased funding costs.

Food Stamps

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	150	2,328	2,179	2,810	3,175	3,391
Outlays	148	2,304	2,167	2,795	3,157	3,373

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

Food stamps subsidize the food purchases of low-income households. Each household meeting eligibility requirements--an income test (net income below the poverty level), an asset test (assets less than \$1,500), and a work requirement--receives stamps redeemable for food purchases. Stamp allotments vary by household size and net income level. Allotments are annually indexed, based upon changes in the Thrifty Food Plan, the U. S. Department of Agriculture's lowest-cost plan for a nutritionally adequate diet. Under current policy, in fiscal 1982 the program would cost about \$12.4 billion, participation would average about 22.7 million people per month, and monthly benefits would be about \$43 per person.

The Administration proposes to reduce costs through two broad types of changes: lower the income limit for eligibility and tighten other program requirements. The net effect of these changes would be to reduce the number of eligible households by between 400,000 and 600,000 (about 3 percent), eliminate all recipients in Puerto Rico, and reduce program costs by 19 percent in fiscal year 1982. The proposed changes are:

- o Lower gross income eligibility to 130 percent of the poverty level;
- o Reduce food stamp allotments for free school lunches;
- o Delete September-to-December projection of the price index in computing allotments, prorate first-month benefits, and freeze income deductions;
- o Use monthly reporting and retrospective accounting (\$21 million increase in cost in fiscal year 1982; net savings thereafter); and

- o Combine Puerto Rican nutrition assistance into a block grant.

The impact of these proposals would vary by household composition. Eligibility for food stamps would be reduced more for smaller than for larger households. For example, among households without earnings (80 percent of the caseload), the eligibility limit would be lowered 20 percent for a single-person household but less than 2 percent for a four-person household. Smaller households include most of the elderly and disabled receiving food stamps.

Households with school-aged children would lose more in benefits than most other groups. These households account for about 35 percent of all recipient households, and are generally headed by single females. Because the Administration's school lunch proposal is based on the number of children, not on income, it would affect those households with the lowest incomes as much or more than those with higher incomes.

Because of implementation delays and unindexed program parameters, the reductions in benefits would be proportionately greater in the out years. The saving estimates do not reflect the off-setting increase in food stamp costs that would occur if other income support programs were modified as the Administration has suggested, nor do they reflect the offset to total federal expenditures of the block grant to Puerto Rico.

One alternative method to reduce costs might be to increase the benefit reduction rate used to calculate food stamp allotments. Increasing the rate from 30 percent to 33 percent would save \$500 to \$600 million in fiscal year 1982. In contrast to the school lunch offset, this option would be administratively simple, would affect virtually all households, and could be quickly implemented. It does, however, raise work disincentives somewhat.

Legal Services Corporation

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	347	364	382	401	421
Outlays	0	312	364	382	401	421

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The Legal Services Corporation (LSC)--a private, nonprofit corporation established in 1974 legislation--is wholly funded by separate federal appropriations, totaling \$321 million for fiscal year 1981. Through about 320 local programs, employing some 6,000 lawyers, it provides legal assistance to the poor in civil matters. Most of the poor now have at least minimal access to LSC programs, although effectiveness is limited by large caseloads.

The funding authorization for the Legal Services Corporation has expired and, beginning in fiscal year 1982, the Administration is not requesting reauthorization of appropriations for LSC. Rather, legal services for the poor would be authorized within the proposed consolidated block grant to states for social services. Detailed budget estimates, however, do not reflect an adjustment for transfer of LSC funding to the proposed block grant. The Administration assumes that increased "pro bono publico" efforts, as part of the professional responsibility of private attorneys, would augment legal services financed by the block grant program.

At present, the Corporation authorizes local programs to provide free legal services to persons at or below 125 percent of the poverty guidelines of the Office of Management and Budget. This currently represents maximum allowable incomes of \$4,738 for a single individual; \$9,313 for a family of four; or \$12,363 for a family of six. Within these maximum income levels, there is wide variation among local plans, some having eligibility requirements below the guidelines and others ranging up to 12.5 percent of the guidelines. The most recent information available from the U.S. Bureau of the Census (1979 data) indicates that 5.6 million families have incomes at or below the poverty guidelines.

The current program recognizes that legal aid to the poor is also provided by pro bono services of private attorneys and financial support from other federal programs--including Title XX (Social Services) of the Social Security Act, the Older Americans Act, and General Revenue Sharing.

There is no way of ascertaining the impact that terminating separate LSC funding would have on the level and quality of legal aid to the poor. Some of the existing local programs would be continued under the proposed block grant; but in other cases, programs might be reduced or discontinued altogether because of other local priorities. It is also uncertain that the level of donated services to the poor would increase. The Administration's proposed budget reduction thus runs the risk that legal assistance to the poor would once again become demonstrably inadequate--a condition that gave rise to the current program.

The Congress could consider other possibilities for reducing the federal cost of legal aid to the poor. Stricter eligibility requirements could be imposed, or separate LSC funding could be reduced to a minimal level that would anticipate contributions from other public and private funds.

Stricter eligibility requirements could include lowering the maximum income standard from 125 percent to 100 percent of the OMB poverty guidelines, thus reducing program costs by about 5 percent. More stringent changes in eligibility could expand the LSC definition of income to include cash from governmental income maintenance programs or even to include in-kind benefits (such as food stamps and public housing assistance). Including in-kind benefits could reduce current appropriations by about 30 percent.

Another alternative would be to increase the amount of pro bono services by private attorneys. Some have suggested that lawyers donate services, or equivalent financial contributions, ranging from 5 to 15 percent of total client-related time. If each attorney in the United States contributed an average of 32 hours of free service each year--about 1.5 percent of a 2,080-hour work-year--the resource equivalent of the LSC would be available to 30.5 million poor persons (based on an LSC estimate that uses 1970 Census data).

Federal Pay Comparability Standard: Nondefense Agencies

Administration Estimates	Program Cuts from the January Budget (In millions of dollars)					
	1981	1982	1983	1984	1985	1986
Budget Authority	0	159	635	1,132	1,540	2,022
Outlays	0	149	616	1,161	1,597	2,131

Source: Fiscal Year 1982 Budget Revisions, Appendix C.

The pay of federal employees is adjusted every year through a process that compares federal salaries with those paid for similar work in private industry. The adjustment process does not take into account fringe benefits such as health insurance, life insurance, paid time off, and retirement. These benefits are established by independent authority and may be changed through separate legislative action. Under current law, the President adjusts federal white-collar salaries each October after considering salary data for similar work in the private sector. The President may, subject to Congressional disapproval, propose alternative adjustments based on factors other than pay comparability. Pay adjustments in October 1978, 1979, and 1980 were held down because of budgetary and economic considerations.

The President's budget anticipates comprehensive legislative changes in the determination of annual pay adjustments for federal civilian employees. As with proposals of previous Administrations, the pay reform package would require that the value of fringe benefits be considered when determining compensation comparability between federal and nonfederal jobs. Certain changes are also again proposed in determining wages for federal blue-collar workers. The Administration's plan includes a new feature that would gradually reduce federal compensation, over the next three years, by 6 percent in order to reflect opportunities for job transfers within government, employment security, and other intangible advantages of federal employment. According to Administration estimates, the savings from this new feature could reach \$5.6 billion in 1982-1986. Preliminary CBO estimates suggest that savings could be greater because of differences in assumptions about current payroll costs. Using CBO baseline amounts, savings from pay comparability as now determined would increase by \$194 million. In comparison with the January budget, they would increase by \$16 million.

The January budget assumed an October 1981 federal pay raise of 5.5 percent rather than a 13.5 percent adjustment to achieve pay comparability as now determined. The difference of 8.0 percentage points includes decreases of 4.9 percentage points associated with consideration of fringe benefits and 3.1 percentage points for further budgetary savings. The March budget proposes an even lower October 1981 increase of 4.8 percent; it includes the same decrease for fringe benefits (4.9 percentage points) and an additional decrease of 3.8 percentage points for phasing-in of the new reduction for intangible factors.

Changes in the size of future annual federal pay adjustments will affect 2.1 million civilian employees--about 70 percent of whom currently receive annual wages ranging between \$10,000 and \$30,000. The new approach for determining compensation comparability would reduce future federal pay increases for all employees by the same percentage even though they do not all receive the same fringe benefit advantages. Because of differences in age, sex, marital status, and income level, compensation among many groups of federal workers would be disproportionately affected--especially among noncareer employees, single persons, women, and younger workers.

Fringe benefit factors developed by the Office of Personnel Management (OPM) indicate that the fiscal year 1982 pay adjustment would be 1.5 percent if the new plan were implemented in 1982 as proposed by the Administration. This estimate and the 4.8 percent in the revised budget both reflect a phase-in of the 6 percent reduction under the new standard for comparing pay and benefits. The 4.8 percent estimate, however, was derived from the January 1980 budget and does not reflect OPM's existing total compensation analysis. As indicated in a May 1980 CBO report on federal compensation reform, adjusting pay to take account of fringe benefits requires a number of judgments regarding what benefits to compare and how to measure their costs.

As alternatives to the Administration's bill, the Congress could consider other legislative strategies that would lead to long-term changes in federal compensation. For example, pay and benefit reforms could be enacted independently of each other. Or the President could be authorized to submit to the Congress an alternate pay plan based on specific differences between federal and nonfederal benefits, which the Congress could revise or reject. Under such alternative strategies, the Congress would not be limited to comparability with private-sector compensation as its only criterion for changes in federal compensation.

APPENDIX B. BUDGET AUTHORITY AND OUTLAYS BY FUNCTION,
 FISCAL YEARS 1980-1982

This appendix provides actual figures for 1980 and the Administration's estimates for 1981 and 1982 of budget authority and outlays for major federal activities, grouped by function and subfunction. The appendix contains the 1981 and 1982 estimates for both the January budget and the March revisions, as well as the change between January and March.

The functional categories are used by the Congress in its annual budget resolutions. They provide a useful basis for discussing national budget priorities.

The appendix table was prepared by the Office of Management and Budget.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
050 NATIONAL DEFENSE							
051 Department of Defense-Military							
Military personnel.....	31,014	36,709	37,016	308	38,363	38,828	465
Retired military personnel.....	11,965	13,917	13,888	-29	16,077	15,748	-328
Proposed legislation.....		-85	-86	-2	-477	-380	97
Operation and maintenance.....	46,365	54,074	55,858	1,785	61,492	63,283	1,791
Procurement.....	35,283	44,951	48,198	3,247	49,065	68,824	19,759
Research, development, test and evaluation....	13,561	16,054	16,653	598	19,841	21,321	1,480
Military construction.....	2,293	3,327	3,457	129	5,554	5,778	224
Family housing.....	1,526	2,014	2,030	16	2,156	2,240	84
Revolving funds and other.....	615	-657	-327	330	-402	-49	353
Proposed legislation.....						342	342
Allowances: Civilian and military pay raises							
Existing Law.....					3,771	5,497	1,726
Proposed legislation.....			420	420			
Other legislation.....					220	370	150
Subtotal, Department of Defense-Military.....	142,621	170,305	177,107	6,802	195,660	221,802	26,143
053 Atomic energy defense activities.....	2,991	3,658	3,658		4,704	5,000	296
054 Defense-related activities							
Emergency planning, preparedness, & mobilization	132	162	161	-1	186	183	-2
GSA stockpile sales and related.....	-60	-144	-144	*	-123	-123	-1
Proposed legislation.....		-210	-194	16	-210	-726	-516
Other.....	85	101	98	-3	123	121	-2
Subtotal, Defense-related activities.....	156	-91	-78	12	-24	-544	-520
Deductions for offsetting receipts.....	-4	-3	-3		-3	-3	
Total budget authority	145,764	173,869	180,683	6,814	200,337	226,255	25,918

* - \$500 thousand or less.

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
050 NATIONAL DEFENSE							
051 Department of Defense-Military							
Military personnel.....	30,842	36,711	36,955	244	38,291	38,754	463
Retired military personnel.....	11,920	13,880	13,870	-10	16,049	15,721	-328
Proposed legislation.....		-85	-86	-2	-477	-380	96
Operation and maintenance.....	44,770	52,117	53,757	1,640	59,659	61,335	1,676
Procurement.....	29,021	35,422	34,068	-1,354	40,120	40,064	-56
Research, development, test and evaluation....	13,127	15,441	15,160	-281	18,485	19,156	671
Military construction.....	2,450	2,526	2,530	4	2,919	2,679	-240
Family housing.....	1,680	1,861	1,872	11	1,959	2,002	43
Revolving funds and other.....	-969	-273	61	334	-932	-653	279
Proposed legislation.....						342	342
Allowances: Civilian and military pay raises							
Existing Law.....					3,707	5,404	1,697
Proposed legislation.....			414	414		6	6
Other legislation.....					220	370	150
Subtotal, Department of Defense-Military.....	132,840	157,600	158,600	1,000	180,000	184,800	4,800
053 Atomic energy defense activities.....	2,878	3,587	3,601	15	4,478	4,626	148
054 Defense-related activities							
Emergency planning, preparedness, & mobilization	133	149	148	-1	169	166	-2
GSA stockpile sales and related.....	-62	-144	-145	-*	-159	-160	-1
Proposed legislation.....		-210	-194	16	-210	-726	-516
Other.....	72	109	106	-3	124	122	-2
Subtotal, Defense-related activities.....	142	-96	-84	12	-76	-597	-521
Deductions for offsetting receipts.....	-4	-3	-3		-3	-3	
Total outlays	135,856	161,088	162,115	1,027	184,399	188,826	4,427

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* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
150 INTERNATIONAL AFFAIRS							
151 Foreign economic and financial assistance							
International Development Cooperation Agency..	1,856	1,974	1,964	-10	2,726	2,167	-559
Multilateral development banks.....	2,308	1,584	1,044	-540	2,414	1,478	-936
P.L. 480--Food aid.....	886	1,305	1,229	-76	1,263	1,163	-100
Peace Corps.....	100	109	106	-3	122	95	-27
Economic support fund/Peacekeeping operations.	1,972	2,153	2,153	.....	2,450	2,600	150
Refugee assistance.....	483	491	469	-22	611	568	-42
Other programs.....	54	67	62	-5	66	52	-14
Offsetting receipts.....	-350	-376	-360	16	-431	-416	14
Subtotal, Foreign economic and financial assistance.....	7,310	7,306	6,666	-640	9,222	7,708	-1,514
152 Military assistance							
Grant military assistance.....	110	110	110	.....	34	138	105
Foreign military education and training.....	25	28	28	.....	36	48	12
Foreign military sales credit.....	645	500	500	.....	850	1,482	632
Relocation of facilities (Israel).....	236	.....	.....	.....	.....	.....	.....
Offsetting receipts and other.....	-333	-276	-276	.....	-286	-286	.....
Subtotal, Military assistance.....	682	363	363	.....	633	1,382	749
153 Conduct of foreign affairs							
Administration of foreign affairs.....	821	998	995	-3	1,281	1,247	-34
International organizations & conferences.....	486	517	517	.....	724	564	-160
Other.....	36	38	36	-2	43	40	-3
Subtotal, Conduct of foreign affairs.....	1,343	1,553	1,548	-5	2,048	1,851	-196
154 Foreign information and exchange activities							
Existing law.....	518	577	573	-4	687	662	-25
Subtotal, Foreign information and exchange activities.....	518	577	573	-4	687	662	-25
155 International financial programs							
Export Import Bank.....	1,842	7,021	6,167	-854	4,594	3,974	-620
Foreign military sales trust fund (net).....	3,997	2,889	2,889	2,376	2,376
International monetary programs.....	5,516	5,516

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
150 INTERNATIONAL AFFAIRS							
International commodity agreements.....		88	88	.....	239	120	-119
Loan repayments(U.K.).....	-77	-79	-79	.....	-80	-80	.....
Subtotal, International financial programs.....	5,761	15,435	14,581	-854	7,129	6,390	-739
Deductions for offsetting receipts.....	-96	-81	-81	-*	-79	-79	-*
Total budget authority	15,519	25,153	23,650	-1,503	19,639	17,914	-1,725

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
150 INTERNATIONAL AFFAIRS							
151 Foreign economic and financial assistance							
International Development Cooperation Agency..	1,609	1,828	1,786	-42	1,898	1,802	-96
Multilateral development banks.....	784	988	898	-90	1,219	1,095	-124
P.L. 480--Food aid.....	1,073	1,471	1,395	-76	1,263	1,163	-100
Peace Corps.....	101	107	104	-3	121	98	-23
Economic support fund/Peacekeeping operations.	1,904	2,104	2,104	.....	2,314	2,342	28
Refugee assistance.....	446	486	468	-18	585	546	-38
Other programs.....	39	57	54	-3	68	60	-7
Offsetting receipts.....	-350	-376	-360	16	-431	-416	14
Subtotal, Foreign economic and financial assistance.....	5,607	6,664	6,449	-216	7,038	6,690	-347
152 Military assistance							
Grant military assistance.....	219	151	151	.....	148	188	40
Foreign military education and training.....	26	26	26	.....	34	40	6
Foreign military sales credit.....	644	595	595	.....	660	969	309
Relocation of facilities (Israel).....	341	360	360	.....	68	68	.....
Offsetting receipts and other.....	-335	-278	-278	-288	-288
Subtotal, Military assistance.....	894	854	854	622	977	355

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
150 INTERNATIONAL AFFAIRS							
153 Conduct of foreign affairs							
Administration of foreign affairs.....	842	916	938	22	1,122	1,075	-48
International organizations & conferences.....	492	539	539	.....	668	508	-160
Other.....	33	39	38	-1	42	40	-2
Subtotal, Conduct of foreign affairs.....	1,367	1,494	1,515	21	1,831	1,622	-210
154 Foreign information and exchange activities							
Existing law.....	534	588	585	-3	610	590	-20
Subtotal, Foreign information and exchange activities.....	534	588	585	-3	610	590	-20
155 International financial programs							
Export Import Bank.....	1,836	2,350	2,361	11	2,657	2,058	-599
Foreign military sales trust fund (net).....	1,137	.....	.....	.....	.....	.....	.....
Proposed legislation.....	.....	.....	.....	.....	.....	-321	-321
International monetary programs.....	12	.....	.....	.....	.....	.....	.....
International commodity agreements.....	.....	5	5	.....	30	10	-20
Exchange stabilization fund.....	-482	-483	-331	152	-476	-274	202
Loan repayments(U.K.).....	-77	-79	-79	.....	-80	-80	.....
Subtotal, International financial programs.....	2,427	1,793	1,956	163	2,131	1,392	-738
Deductions for offsetting receipts.....	-96	-81	-81	-*	-79	-79	-*
Total outlays	10,733	11,314	11,278	-36	12,152	11,192	-960

* - \$500 thousand or less.

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY							
251 General science and basic research							
National Science Foundation programs.....	991	1,083	1,000	-83	1,359	1,039	-320
Department of Energy general science programs.....	470	504	504	.....	607	567	-40
Smithsonian scientific information exchange activities.....	*	*	*	.....	*	*	.....
Subtotal, General science and basic research....	1,461	1,588	1,505	-83	1,966	1,606	-360
253 Space flight							
Existing law.....	2,820	3,143	3,191	48	3,802	3,623	-178
Subtotal, Space flight.....	2,820	3,143	3,191	48	3,802	3,623	-178
254 Space, science, applications, and technology							
Existing law.....	1,425	1,416	1,359	-56	1,782	1,472	-311
Subtotal, Space, science, applications, and technology.....	1,425	1,416	1,359	-56	1,782	1,472	-311
255 Supporting space activities							
Existing law.....	439	451	450	-*	558	527	-32
Subtotal, Supporting space activities.....	439	451	450	-*	558	527	-32
Deductions for offsetting receipts.....	-3	-4	-4	-4	-4
Total budget authority	6,141	6,593	6,502	-92	8,104	7,223	-881
	=====	=====	=====	=====	=====	=====	=====

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* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
250 GENERAL SCIENCE, SPACE, AND TECHNOLOGY							
251 General science and basic research							
National Science Foundation programs.....	912	1,007	971	-36	1,190	981	-209
Department of Energy general science programs.	469	510	510	.....	597	573	-24
Smithsonian scientific information exchange activities.....	*	*	*	.....	*	*	.....
Subtotal, General science and basic research....	1,381	1,518	1,482	-36	1,787	1,555	-232
253 Space flight							
Existing law.....	2,594	2,984	3,021	38	3,679	3,487	-192
Subtotal, Space flight.....	2,594	2,984	3,021	38	3,679	3,487	-192
254 Space, science, applications, and technology							
Existing law.....	1,346	1,330	1,285	-44	1,635	1,425	-210
Subtotal, Space, science, applications, and tech nology.....	1,346	1,330	1,285	-44	1,635	1,425	-210
255 Supporting space activities							
Existing law.....	405	431	430	-*	494	467	-26
Subtotal, Supporting space activities.....	405	431	430	-*	494	467	-26
Deductions for offsetting receipts.....	-3	-4	-4	.....	-4	-4	.....
Total outlays	5,722	6,258	6,215	-43	7,590	6,930	-660
	=====	=====	=====	=====	=====	=====	=====

* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
270 ENERGY							
271 Energy supply							
Energy security reserve (payment to the Synthetic Fuels Corporation).....	12,212						
Alternative fuels production (DOE).....	5,518		-300	-300			
Biomass energy development.....	1,270		-1,246	-1,246			
Spent fuel storage fund (proposed).....		300		-300			
Uranium enrichment and other.....	245	1,286	443	-843	569	164	-404
Petroleum reserves and other (gross).....	287	334	320	-13	257	234	-23
TVA.....	15,000				2,026	2,026	
Other power marketing (gross).....	186	208	207	-1	410	409	*
Fossil programs.....	835	1,111	822	-289	1,552	435	-1,116
Other.....	2,724	2,799	2,718	-81	2,855	2,524	-331
Offsetting receipts.....	-1,464	-1,267	-1,554	-287	-1,520	-1,840	-320
Subtotal, Energy supply.....	36,813	4,770	1,411	-3,359	6,147	3,952	-2,195
272 Energy conservation							
Energy conservation (DOE).....	736	753	546	-207	872	195	-677
Solar Energy & Energy Conservation Bank (HUD).....		121	*	-121	127		-127
Subtotal, Energy conservation.....	736	874	546	-328	999	195	-804
274 Emergency energy preparedness							
Strategic petroleum reserve.....	-2,000	1,486	2,791	1,305	3,650	3,883	233
Strategic petroleum reserve entitlements and royalties.....		1,845	540	-1,305	248		-248
Strategic petroleum reserve receipts.....		-1,845	-540	1,305	-248		248
Subtotal, Emergency energy preparedness.....	-2,000	1,486	2,791	1,305	3,650	3,883	233
276 Energy information, policy, and regulation							
Energy Information Administration.....	91	105	91	-14	127	80	-47
Federal Energy Regulatory Commission.....	68	76	76		86	82	-4
Economic Regulatory Administration.....	151	255	144	-111	184	28	-156
Nuclear Regulatory Commission.....	400	454	452	-2	501	501	
Alaska Gas Inspection.....	8	22	21	-1	37	37	
Department of Energy administration & other.....	233	305	285	-20	402	273	-129
Subtotal, Energy information, policy, and regulation.....	951	1,217	1,069	-148	1,336	1,001	-335

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
270 ENERGY							
Deductions for offsetting receipts.....	-53	-58	-58	.....	-58	-58	.....
Total budget authority	36,447	8,289	5,758	-2,530	12,075	8,974	-3,101
	=====	=====	=====	=====	=====	=====	=====

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

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	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
270 ENERGY							
271 Energy supply							
Energy security reserve (payment to the Synthetic Fuels Corporation).....		28	28	.....	52	52	.....
Alternative fuels production (DOE).....	26	200	100	-100	225	-25	-250
Biomass energy development.....	*	163	14	-148	132	10	-122
Spent fuel storage fund (proposed).....		-100		100	200		-200
Uranium enrichment and other.....	243	196	196	.....	272	-121	-393
Petroleum reserves and other (gross).....	345	556	551	-5	339	313	-26
TVA.....	1,710	2,000	1,998	-2	2,000	2,000	.....
Other power marketing (gross).....	103	220	219	-1	89	89	-*
Fossil programs.....	791	958	749	-209	1,417	446	-971
Other.....	2,819	2,773	2,776	3	3,028	2,643	-385
Offsetting receipts.....	-1,464	-1,267	-1,554	-287	-1,520	-1,840	-320
Subtotal, Energy supply.....	4,574	5,727	5,078	-649	6,234	3,568	-2,666
272 Energy conservation							
Energy conservation (DOE).....	568	705	663	-42	931	489	-442
Solar Energy & Energy Conservation Bank (HUD).....		47	*	-47	136		-136
Subtotal, Energy conservation.....	568	752	663	-88	1,067	489	-578

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
270 ENERGY							
274 Emergency energy preparedness							
Strategic petroleum reserve.....	342	2,018	2,507	489	2,567	3,671	1,104
Strategic petroleum reserve entitlements and royalties.....		1,000	540	-460	1,093		-1,093
Strategic petroleum reserve receipts.....		-1,845	-540	1,305	-248		248
Subtotal, Emergency energy preparedness.....	342	1,173	2,507	1,334	3,412	3,671	259
276 Energy information, policy, and regulation							
Energy Information Administration.....	75	102	90	-12	127	78	-49
Federal Energy Regulatory Commission.....	67	79	79		85	81	-4
Economic Regulatory Administration.....	132	212	144	-68	216	40	-176
Nuclear Regulatory Commission.....	378	437	434	-2	484	484	
Alaska Gas Inspection.....	5	21	20	-1	36	35	*
Department of Energy administration & other...	225	295	293	-2	370	263	-107
Subtotal, Energy information, policy, and regula tion.....	882	1,145	1,060	-85	1,317	982	-335
Deductions for offsetting receipts.....	-53	-58	-58		-58	-58	
Total outlays	6,313	8,739	9,250	512	11,973	8,652	-3,321

* - \$500 thousand or less.

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
300 NATURAL RESOURCES AND ENVIRONMENT							
301 Water resources							
Soil Conservation Service.....	214	224	223	-2	198	186	-12
Corps of Engineers.....	3,293	3,070	3,118	48	3,395	3,165	-230
Department of the Interior.....	656	849	812	-37	943	850	-93
Proposed legislation.....		7	7				
Other.....	57	53	48	-5	63	14	-49
Offsetting receipts.....	-62	-55	-55		-56	-47	9
Proposed legislation.....							
Subtotal, Water resources.....	4,157	4,148	4,153	5	4,543	4,168	-375
302 Conservation and land management							
Management of national forests, cooperative for estry, and forestry research (Forest Service)	1,965	1,943	1,932	-11	2,034	1,961	-74
Management of public lands (BLM).....	440	512	508	-4	524	476	-48
Mining reclamation and enforcement.....	180	175	173	-2	246	180	-67
Conservation of agricultural lands.....	540	583	578	-5	584	527	-57
Youth Conservation Corps.....		60	22	-38	60		-60
Indian lands.....	74	95	95	*	87	86	-1
Coastal zone management and other programs....	79	61	61	*	55	18	-37
Offsetting receipts.....	-691	-805	-805		-1,121	-1,121	
Subtotal, Conservation and land management.....	2,586	2,624	2,564	-60	2,471	2,127	-344
303 Recreational resources							
Land and water conservation fund.....	539	409	159	-250	520	45	-475
Urban park grants & historic preservation fund	165	52	10	-43	108	5	-103
Operation of recreation resources.....	969	961	944	-18	1,045	1,069	24
Subtotal, Recreational resources.....	1,672	1,423	1,112	-311	1,673	1,119	-554
304 Pollution control and abatement							
Regulatory, enforcement, and research programs	1,235	1,302	1,282	-20	1,312	1,154	-158
Superfund.....		72	62	-10	249	199	-50
Oil pollution funds.....	37	31	31		29	29	*
Sewage treatment plant construction grants....	3,400	3,305	1,605	-1,700	3,700		-3,700
Subtotal, Pollution control and abatement.....	4,672	4,710	2,980	-1,730	5,290	1,382	-3,909

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
300 NATURAL RESOURCES AND ENVIRONMENT							
306 Other natural resources							
National Oceanic & Atmospheric Admin.....	727	771	754	-18	856	774	-82
Proposed legislation.....					124	2	-122
Other.....	675	746	736	-10	803	756	-47
Subtotal, Other natural resources.....	1,401	1,518	1,490	-28	1,782	1,532	-251
Deductions for offsetting receipts.....	-1,439	-1,717	-1,862	-145	-2,187	-2,469	-281
Total budget authority	13,051	12,705	10,436	-2,269	13,572	7,858	-5,714

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
300 NATURAL RESOURCES AND ENVIRONMENT							
301 Water resources							
Soil Conservation Service.....	250	259	257	-1	220	212	-7
Corps of Engineers.....	3,258	3,388	3,351	-37	3,412	3,182	-230
Department of the Interior.....	798	857	848	-9	929	845	-84
Proposed legislation.....		3	3		4	4	
Other.....	50	67	67		70	30	-40
Offsetting receipts.....	-62	-55	-55		-56	-47	9
Proposed legislation.....							
Subtotal, Water resources.....	4,294	4,518	4,471	-48	4,578	4,226	-352
302 Conservation and land management							
Management of national forests, cooperative for estry, and forestry research(Forest Service)	1,798	1,933	1,922	-11	2,153	1,989	-164
Management of public lands (BLM).....	456	472	468	-4	494	445	-48
Mining reclamation and enforcement.....	85	158	156	-2	134	111	-23
Conservation of agricultural lands.....	548	605	600	-4	565	547	-18

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
300 NATURAL RESOURCES AND ENVIRONMENT							
Youth Conservation Corps.....		61	28	-33	63	3	-60
Indian lands.....	80	83	83	-*	83	82	-1
Coastal zone management and other programs....	52	72	72	-*	53	33	-20
Offsetting receipts.....	-691	-805	-805		-1,121	-1,121	
Subtotal, Conservation and land management.....	2,328	2,578	2,524	-54	2,425	2,091	-334
303 Recreational resources							
Land and water conservation fund.....	595	518	443	-75	556	318	-238
Urban park grants & historic preservation fund	53	102	89	-13	94	64	-30
Operation of recreation resources.....	1,059	1,043	1,028	-15	1,031	1,016	-15
Subtotal, Recreational resources.....	1,707	1,663	1,560	-103	1,681	1,398	-283
304 Pollution control and abatement							
Regulatory, enforcement, and research programs	1,143	1,243	1,223	-20	1,338	1,238	-100
Superfund.....		33	11	-22	163	83	-80
Oil pollution funds.....	23	36	36		29	14	-15
Sewage treatment plant construction grants....	4,343	4,200	4,180	-20	4,230	3,840	-390
Subtotal, Pollution control and abatement.....	5,510	5,512	5,450	-62	5,760	5,175	-585
306 Other natural resources							
National Oceanic & Atmospheric Admin.....	720	795	784	-12	879	790	-89
Proposed legislation.....					120	2	-118
Other.....	692	760	750	-10	783	737	-46
Subtotal, Other natural resources.....	1,412	1,556	1,534	-22	1,782	1,529	-253
Deductions for offsetting receipts.....	-1,439	-1,717	-1,862	-145	-2,187	-2,469	-281
Total outlays	13,812	14,110	13,676	-433	14,039	11,950	-2,089

* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
350 AGRICULTURE							
351 Farm income stabilization							
Price-support and related programs.....	3,056	3,300	3,300	.....	2,296	2,296	.....
Proposed legislation.....	.....	.....	.....	.....	.....	.....	.....
Federal Crop Insurance Corporation.....	12	230	229	-2	544	543	-1
Agricultural credit insurance fund(FmHA).....	335	297	297	.....	795	803	9
Other programs.....	43	36	35	-2	41	41	.....
Unallocated salaries and expenses.....	191	210	209	-1	219	216	-3
Subtotal, Farm income stabilization.....	3,637	4,073	4,069	-4	3,894	3,899	6
352 Agricultural research and services							
Research programs.....	560	635	629	-6	692	694	1
Proposed legislation.....	.....	10	10	.....	10	10	.....
Extension programs.....	286	304	304	*	305	317	12
Marketing programs.....	76	82	80	-2	94	91	-3
Proposed legislation.....	.....	.....	.....	.....	-25	-48	-23
Animal and plant health programs.....	251	282	279	-3	295	294	-1
Economic intelligence.....	145	159	156	-3	178	171	-6
Other programs.....	64	70	66	-4	72	67	-4
Unallocated overhead.....	86	100	96	-4	120	114	-7
Offsetting receipts.....	-66	-70	-66	4	-72	-68	4
Subtotal, Agricultural research and services....	1,402	1,572	1,554	-18	1,670	1,643	-27
Deductions for offsetting receipts.....	-95	-5	-5	-5	-5
Total budget authority	4,945	5,640	5,618	-22	5,559	5,537	-22
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* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
350 AGRICULTURE							
351 Farm income stabilization							
Price-support and related programs.....	2,717	-84	-25	59	2,151	2,006	-145
Proposed legislation.....		-138	-218	-80	-86	-253	-167
Federal Crop Insurance Corporation.....	38	265	364	98	183	182	-1
Agricultural credit insurance fund(FmHA).....	478	-745	-754	-9	640	613	-26
Other programs.....	36	43	42	-2	48	48	.....
Unallocated salaries and expenses.....	190	204	203	-1	214	211	-3
Subtotal, Farm income stabilization.....	3,459	-454	-388	66	3,148	2,807	-341
352 Agricultural research and services							
Research programs.....	546	644	638	-6	688	690	1
Proposed legislation.....		2	2	.....	6	6	.....
Extension programs.....	288	302	302	-*	303	316	12
Marketing programs.....	81	87	85	-2	95	92	-3
Proposed legislation.....				.....	-25	-48	-23
Animal and plant health programs.....	251	277	274	-3	296	295	-1
Economic intelligence.....	147	157	155	-3	177	171	-6
Other programs.....	64	69	65	-4	71	67	-4
Unallocated overhead.....	86	102	98	-4	119	112	-7
Offsetting receipts.....	-66	-70	-66	4	-72	-68	4
Subtotal, Agricultural research and services....	1,398	1,571	1,553	-17	1,659	1,632	-27
Deductions for offsetting receipts.....	-95	-5	-5	-5	-5
Total outlays	4,762	1,112	1,161	48	4,803	4,434	-369
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* - \$500 thousand or less.

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
370 COMMERCE AND HOUSING CREDIT							
371 Mortgage credit and thrift insurance							
Mortgage purchase activities (GNMA).....	1,869	1,407	1,391	-15	492	2,255	1,763
Mortgage credit (FHA).....	324	344	344	.....	305	305	.....
Housing for the elderly or handicapped.....	806	781	781	.....	774	774	.....
Rural housing programs (FmHA).....	2,282	618	617	-*	2,218	2,094	-123
National Credit Union Administration.....	1,200	197	.....	-197	310	250	-60
Subtotal, Mortgage credit and thrift insurance..	6,481	3,347	3,133	-213	4,098	5,678	1,579
372 Postal Service							
Existing law.....	1,677	1,343	1,343	.....	1,119	869	-250
Subtotal, Postal Service.....	1,677	1,343	1,343	.....	1,119	869	-250
376 Other advancement and regulation of commerce							
Payments in excess of corporate tax liability (proposed).....	.....	227	.....	-227	3,493	.....	-3,493
Small business assistance.....	788	881	874	-7	802	624	-178
National Consumer Cooperative Bank.....	67	122	19	-103	136	.....	-136
Technology utilization.....	241	271	264	-7	313	291	-22
Economic and demographic statistics.....	750	272	270	-2	198	190	-8
Chrysler Corp. loan guarantee program.....	2	1	1	.....	1	1	.....
International Trade Administration.....	103	120	117	-3	146	196	50
Other.....	390	395	384	-11	404	359	-45
Subtotal, Other advancement and regulation of co mmerce.....	2,340	2,290	1,930	-360	5,494	1,662	-3,832
Deductions for offsetting receipts.....	-*	-*	-*	.....	-*	-*	.....
Total budget authority	10,497	6,979	6,406	-573	10,711	8,209	-2,502

* - \$500 thousand or less.

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
370 COMMERCE AND HOUSING CREDIT							
371 Mortgage credit and thrift insurance							
Mortgage purchase activities (GNMA).....	1,358	521	875	354	1,013	529	-484
Mortgage credit (FHA).....	151	61	47	-14	-116	-168	-51
Housing for the elderly or handicapped.....	753	800	800	.....	780	780	.....
Rural housing programs (FmHA).....	1,719	-739	-762	-23	1,571	1,485	-86
Federal Deposit Insurance Corporation.....	-922	-1,450	-1,450	.....	-1,500	-1,500	.....
Federal Savings & Loan Insurance Corp & other.....	552	415	415	.....	-650	-836	-186
National Credit Union Administration.....	85	198	39	-159	287	137	-150
Subtotal, Mortgage credit and thrift insurance..	3,696	-194	-36	158	1,385	428	-957
372 Postal Service							
Existing law.....	1,677	1,343	1,343	.....	1,119	869	-250
Subtotal, Postal Service.....	1,677	1,343	1,343	.....	1,119	869	-250
376 Other advancement and regulation of commerce							
Payments in excess of corporate tax liability (proposed).....		227	.....	-227	3,493	.....	-3,493
Small business assistance.....	950	838	779	-59	881	775	-106
National Consumer Cooperative Bank.....	9	136	63	-72	128	-8	-136
Technology utilization.....	241	264	259	-5	305	286	-20
Economic and demographic statistics.....	794	291	290	-2	210	202	-8
Chrysler Corp. loan guarantee program.....	2	1	1	.....	1	1	.....
International Trade Administration.....	86	118	115	-3	146	175	29
Other.....	328	432	419	-13	389	350	-39
Subtotal, Other advancement and regulation of co mmerce.....	2,409	2,307	1,925	-382	5,554	1,781	-3,773
Deductions for offsetting receipts.....	-*	-*	-*	.....	-*	-*	.....
Total outlays	7,782	3,456	3,233	-223	8,058	3,078	-4,980

* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
400 TRANSPORTATION							
401 Ground transportation							
Highways.....	9,177	9,534	9,507	-27	10,907	8,694	-2,212
Proposed legislation.....						215	215
Mass transit.....	2,565	4,932	4,657	-275	5,197	3,821	-1,376
Amtrak.....	873	906	881	-25	993	613	-380
Conrail.....	550	535	510	-25	50	50	
Other railroads.....	775	2,985	2,904	-81	861	442	-419
Regulation.....	79	86	82	-3	85	79	-6
Subtotal, Ground transportation.....	14,019	18,978	18,542	-436	18,093	13,913	-4,179
402 Air transportation							
Grants-in-aid for airports.....	677	722	450	-272	750	450	-300
Other airways and airports (FAA).....	2,592	2,861	2,842	-19	3,093	2,917	-176
Aeronautical research and technology.....	560	528	522	-6	583	501	-82
Air carrier subsidies.....	96	114	114		114	58	-56
Regulation.....	29	30	29	-1	31	30	-1
Subtotal, Air transportation.....	3,954	4,255	3,957	-297	4,571	3,956	-615
403 Water transportation							
Marine safety & transportation(Coast Guard)....	1,681	2,015	2,012	-3	2,175	2,166	-9
Proposed legislation.....		-1	-1		-9	-9	
Ocean shipping.....	507	939	935	-5	601	481	-120
Regulation.....	11	12	12	*	13	11	-1
Subtotal, Water transportation.....	2,199	2,965	2,957	-8	2,779	2,649	-131
407 Other transportation							
Existing law.....	97	113	111	-2	122	113	-9
Subtotal, Other transportation.....	97	113	111	-2	122	113	-9
Deductions for offsetting receipts.....	-60	-60	-60		-56	-156	-100
Total budget authority.....	20,210	26,251	25,508	-743	25,509	20,475	-5,034

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* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
400 TRANSPORTATION							
401 Ground transportation							
Highways.....	9,523	9,021	9,002	-20	8,836	8,341	-494
Proposed legislation.....						32	32
Mass transit.....	3,307	3,705	4,039	335	3,827	3,554	-273
Amtrak.....	823	769	744	-25	943	639	-304
Conrail.....	641	535	410	-125	50	150	100
Other railroads.....	706	2,997	2,963	-34	802	599	-203
Regulation.....	79	85	82	-3	84	78	-6
Subtotal, Ground transportation.....	15,079	17,112	17,240	128	14,542	13,394	-1,149
402 Air transportation							
Grants-in-aid for airports.....	590	524	475	-49	535	485	-50
Other airways and airports (FAA).....	2,546	2,736	2,711	-25	2,935	2,791	-144
Aeronautical research and technology.....	509	542	537	-5	556	516	-41
Air carrier subsidies.....	89	118	118		114	63	-51
Regulation.....	28	30	29	-1	31	30	-1
Subtotal, Air transportation.....	3,762	3,951	3,871	-80	4,171	3,884	-286
403 Water transportation							
Marine safety & transportation(Coast Guard)...	1,613	1,928	1,926	-3	2,122	2,043	-79
Proposed legislation.....		-1	-1		-9	-9	
Ocean shipping.....	611	1,000	952	-48	654	582	-72
Regulation.....	11	12	12	*	12	11	-1
Subtotal, Water transportation.....	2,235	2,939	2,888	-51	2,779	2,627	-152
407 Other transportation							
Existing law.....	104	112	108	-3	115	110	-5
Subtotal, Other transportation.....	104	112	108	-3	115	110	-5
Deductions for offsetting receipts.....	-60	-60	-60		-56	-156	-100
Total outlays.....	21,120	24,054	24,047	-7	21,551	19,858	-1,692

* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
450 COMMUNITY AND REGIONAL DEVELOPMENT							
451 Community development							
Community development block grants.....	4,427	3,695	4,370	675	3,960	4,166	206
Urban development block grants.....		675		-675	675		-675
Rehabilitation loans.....	110	130	19	-111	134		-134
Neighborhood Reinvestment Corporation.....	12	12	12		15	15	
Pennsylvania Avenue development.....	40	32	32	-*	31	19	-12
Other programs.....	338	367	320	-48	387	316	-71
Subtotal, Community development.....	4,927	4,911	4,752	-159	5,202	4,516	-686
452 Area and regional development							
Rural development and business assistance.....	647	803	775	-28	499	488	-11
Proposed legislation.....					635	635	
Economic development assistance.....	553	667	322	-345	674	50	-624
Coastal energy impact.....	-35		-40	-40	1	*	-*
Inland energy impact.....	43	62	10	-52	50		-50
Indian programs.....	1,183	1,134	1,132	-2	1,175	1,120	-56
Appalachian Regional Commis (part to highways)	365	348	238	-110	350		-350
Other Regional Commissions.....	109	77	56	-21			
Other programs.....	228	111	110	-*	151	141	-10
Offsetting receipts.....	-304	-375	-375	*	-266	-260	6
Subtotal, Area and regional development.....	2,790	2,826	2,228	-598	3,268	2,175	-1,094
453 Disaster relief and insurance							
SBA Disaster loans.....	1,208	1,470	690	-780			
Federal emergency management activities.....	1,182	1,038	582	-456	729	597	-132
Drought assistance and other.....	35	10	10		10	10	
Subtotal, Disaster relief and insurance.....	2,426	2,518	1,282	-1,236	739	607	-132
Deductions for offsetting receipts.....	-32	-25	-25		-25	-25	
Total budget authority	10,110	10,230	8,237	-1,993	9,184	7,272	-1,912

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* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
450 COMMUNITY AND REGIONAL DEVELOPMENT							
451 Community development							
Community development block grants.....	4,126	3,938	4,303	365	3,998	4,613	615
Urban development block grants.....	365	365	.....	-365	610	.....	-610
Rehabilitation loans.....	165	133	94	-39	135	-64	-199
Neighborhood Reinvestment Corporation.....	12	12	12	.....	15	15	.....
Pennsylvania Avenue development.....	24	36	36	*	34	19	-14
Other programs.....	551	576	562	-14	531	444	-87
Subtotal, Community development.....	4,878	5,061	5,008	-53	5,322	5,027	-295
452 Area and regional development							
Rural development and business assistance.....	798	897	881	-16	933	913	-20
Proposed legislation.....	.....	.....	.....	.....	11	11	.....
Economic development assistance.....	629	458	448	-11	614	240	-374
Local public works.....	416	150	150	.....	60	60	.....
Coastal energy impact.....	28	41	37	-4	50	38	-12
Inland energy impact.....	7	30	30	.....	59	16	-43
Indian programs.....	991	1,004	1,002	-2	947	897	-49
Appalachian Regional Commis (part to highways)	348	336	331	-5	331	254	-77
Other Regional Commissions.....	110	87	79	-8	33	26	-7
Other programs.....	157	207	206	*	163	153	-10
Offsetting receipts.....	-304	-375	-375	*	-266	-260	6
Subtotal, Area and regional development.....	3,180	2,835	2,789	-46	2,935	2,348	-586
453 Disaster relief and insurance							
SBA Disaster loans.....	949	2,300	1,520	-780	-99	-91	8
Federal emergency management activities.....	1,070	944	936	-9	936	806	-130
Drought assistance and other.....	23	29	29	.....	15	15	.....
Subtotal, Disaster relief and insurance.....	2,043	3,273	2,485	-789	852	730	-122
Deductions for offsetting receipts.....	-32	-25	-25	-25	-25
Total outlays.....	10,068	11,144	10,257	-887	9,084	8,080	-1,004
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* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
501 Elementary, secondary, and vocational education							
Local education block grant (proposed).....						3,647	3,647
State education block grant (proposed).....						715	715
Elementary and secondary education.....	3,596	3,795	2,856	-940	4,203	144	-4,059
Proposed legislation.....					900		-900
Education for the handicapped.....	1,051	1,102	834	-268	1,225	49	-1,176
Vocational and adult education.....	927	921	694	-227	904	623	-281
Indian education.....	346	356	354	-1	384	343	-41
Impact aid.....	825	642	724	82	401	401	
Other.....	479	473	354	-119	488	44	-444
Subtotal, Elementary, secondary, and vocational education.....	7,225	7,288	5,816	-1,473	8,505	5,966	-2,538
502 Higher education							
Student financial assistance.....	3,496	4,169	4,018	-150	4,091	3,795	-296
Loan guarantees to students and parents.....	1,609	2,234	1,847	-387	2,346	1,774	-572
Higher and continuing education.....	442	397	329	-67	437	382	-55
Special institutions.....	188	204	204		248	248	
Subtotal, Higher education.....	5,735	7,003	6,399	-604	7,121	6,198	-922
503 Research and general education aids							
Educational research and improvement.....	375	386	322	-64	389	144	-245
Unallocated salaries and overhead.....	161	248	247	-1	255	246	-9
Cultural activities.....	661	674	650	-24	768	456	-312
Other.....	146	149	148	-*	157	157	-*
Subtotal, Research and general education aids....	1,344	1,456	1,367	-88	1,569	1,003	-566
504 Training and employment							
Temporary employment assistance.....	1,627	729	495	-234	1,142		-1,142
Employment and training assistance.....	6,493	7,246	7,246		7,374	3,567	-3,807
Proposed legislation.....					1,125		-1,125
Other general programs.....	90	96	94	-2	105	90	-15
Older workers.....	267	277	277		277	277	
Work incentive program.....	365	365	365		385	365	-20
Federal-State employment service.....	781	845	814	-31	904	752	-152
Subtotal, Training and employment.....	9,623	9,558	9,291	-267	11,312	5,051	-6,261

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
505 Other labor services							
Existing law.....	572	626	608	-19	688	648	-40
Subtotal, Other labor services.....	572	626	608	-19	688	648	-40
506 Social services							
Tax credit for non-profit institutions (prop).....					237		-237
Grants to States for social services.....	2,889	2,562	2,562		3,132		-3,132
Proposed legislation.....					-41	3,800	3,841
Rehabilitation services and research for the handicapped.....	574	966	944	-22	1,011		-1,011
Community service programs.....	550	536	536	-*	542		-542
Services for children, youth, and families, the elderly, and other special groups.....	1,981	1,716	1,717	1	2,095	1,846	-248
Domestic volunteer programs.....	146	165	156	-9	186	145	-40
Other social services.....	11	12	6	-6	13	6	-7
Subtotal, Social services.....	6,150	5,958	5,921	-37	7,173	5,798	-1,375
Deductions for offsetting receipts.....	-28	-30	-30	*	-32	-32	*
Total budget authority	30,622	31,859	29,371	-2,488	36,336	24,632	-11,703

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
501 Elementary, secondary, and vocational education							
Local education block grant (proposed).....						255	255
State education block grant (proposed).....						50	50
Elementary and secondary education.....	3,569	3,371	3,303	-67	3,942	2,647	-1,296
Proposed legislation.....					50		-50
Education for the handicapped.....	822	1,074	1,069	-5	1,088	908	-180

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
Vocational and adult education.....	863	937	860	-77	1,092	877	-215
Indian education.....	395	294	293	-1	332	306	-26
Impact aid.....	690	799	873	73	443	450	8
Other.....	393	466	455	-12	419	347	-72
Subtotal, Elementary, secondary, and vocational education.....	6,732	6,942	6,852	-90	7,366	5,841	-1,525
502 Higher education							
Student financial assistance.....	3,683	3,743	3,692	-50	3,947	3,742	-205
Loan guarantees to students and parents.....	1,408	2,109	1,788	-321	2,350	1,792	-558
Higher and continuing education.....	410	452	424	-28	384	326	-58
Special institutions.....	193	212	212	.....	246	246	.....
Subtotal, Higher education.....	5,694	6,516	6,117	-399	6,927	6,106	-821
503 Research and general education aids							
Educational research and improvement.....	401	394	384	-11	387	298	-89
Unallocated salaries and overhead.....	170	234	233	-1	249	242	-8
Cultural activities.....	632	671	670	-1	745	551	-194
Other.....	154	173	173	-*	157	157	-*
Subtotal, Research and general education aids...	1,357	1,473	1,460	-12	1,539	1,248	-290
504 Training and employment							
Temporary employment assistance.....	1,796	974	844	-130	1,096	26	-1,069
Employment and training assistance.....	7,065	7,400	6,856	-544	7,347	4,664	-2,683
Proposed legislation.....	.....	.....	.....	.....	875	.....	-875
Other general programs.....	97	100	98	-2	105	90	-16
Older workers.....	235	265	265	.....	277	277	.....
Work incentive program.....	395	365	365	.....	385	365	-20
Federal-State employment service.....	756	831	826	-5	904	752	-152
Subtotal, Training and employment.....	10,345	9,935	9,255	-680	10,989	6,173	-4,816
505 Other labor services							
Existing law.....	551	605	588	-17	664	626	-37
Subtotal, Other labor services.....	551	605	588	-17	664	626	-37

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
500 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES							
506 Social services							
Tax credit for non-profit institutions (prop).....					237		-237
Grants to States for social services.....	2,763	3,136	3,136		3,116		-3,116
Proposed legislation.....					-41	3,500	3,541
Rehabilitation services and research for the handicapped.....	427	960	956	-4	1,003	161	-842
Community service programs.....	592	538	538	-*	544	245	-299
Services for children, youth, and families, the elderly, and other special groups.....	2,185	1,524	1,525	1	2,004	1,773	-231
Domestic volunteer programs.....	133	156	153	-3	183	147	-36
Other social services.....	16	18	15	-3	13	7	-5
Subtotal, Social services.....	6,116	6,332	6,323	-9	7,058	5,834	-1,224
Deductions for offsetting receipts.....	-28	-30	-30	*	-32	-32	*
Total outlays	30,767	31,773	30,565	-1,208	34,511	25,797	-8,714
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* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
550 HEALTH							
551 Health care services							
Medicare.....	35,855	44,874	45,170	296	56,840	56,821	-19
Proposed legislation.....		3	4	1	31	-28	-59
Medicaid grants.....	14,445	17,267	17,266	-1	18,896	18,862	-35
Proposed legislation.....		-31	-620	-589	-95	-1,280	-1,185
Medicaid administration.....	98	98	90	-7	103	79	-24
Proposed legislation.....					-3	-7	-4
Health services & prevention block grant(prop)						1,400	1,400
Other health care services.....	3,902	4,104	4,020	-83	4,520	2,136	-2,384
Proposed legislation.....					-5	-7	-1
Subtotal, Health care services.....	54,300	66,314	65,931	-384	80,287	77,976	-2,310
552 Health research							
National Institutes of Health research.....	3,211	3,367	3,344	-23	3,611	3,585	-26
ADAMHA.....	233	240	229	-11	276	261	-15
Other research programs.....	198	188	166	-22	198	148	-50
Subtotal, Health research.....	3,642	3,795	3,739	-57	4,086	3,994	-92
553 Education and training of health care work force							
National Institutes of Health training.....	218	227	169	-58	237	177	-60
Health Resources Administration&other training	591	333	265	-68	183	133	-50
ADAMHA.....	114	116	94	-21	114	83	-31
Subtotal, Education and training of health care work force.....	923	675	528	-147	534	394	-140
554 Consumer and occupational health and safety							
Consumer safety.....	658	723	706	-17	754	697	-57
Occupational safety and health.....	337	379	371	-8	418	394	-24
Subtotal, Consumer and occupational health and s afety.....	995	1,102	1,077	-25	1,172	1,091	-81
Deductions for offsetting receipts.....	-17	-3	-3		-3	-3	*
Total budget authority.....	59,844	71,884	71,271	-613	86,075	83,451	-2,624

* - \$500 thousand or less.

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
550 HEALTH							
551 Health care services							
Medicare.....	35,034	40,065	40,752	688	47,044	48,292	1,247
Proposed legislation.....		-84	403	487	-446	-1,198	-752
Medicaid grants.....	13,957	16,483	16,482	-1	18,215	18,244	29
Proposed legislation.....		-31	-370	-339	-95	-1,039	-944
Medicaid administration.....	71	93	86	-7	98	74	-23
Proposed legislation.....					-3	-7	-4
Health services & prevention block grant(prop)						500	500
Other health care services.....	3,958	4,121	4,079	-42	4,183	3,157	-1,026
Proposed legislation.....					-5	-7	-1
Subtotal, Health care services.....	53,019	60,648	61,432	785	68,991	68,017	-974
552 Health research							
National Institutes of Health research.....	3,029	3,198	3,176	-22	3,433	3,429	-4
ADAMHA.....	255	199	193	-6	237	251	14
Other research programs.....	158	165	158	-7	174	144	-30
Subtotal, Health research.....	3,442	3,563	3,528	-35	3,844	3,823	-21
553 Education and training of health care work force							
National Institutes of Health training.....	193	212	197	-15	222	154	-68
Health Resources Administration&other training	404	419	408	-11	322	266	-56
ADAMHA.....	122	125	122	-2	104	96	-8
Subtotal, Education and training of health care work force.....	719	755	727	-28	649	516	-133
554 Consumer and occupational health and safety							
Consumer safety.....	674	701	680	-21	752	708	-44
Occupational safety and health.....	327	369	362	-7	404	380	-24
Subtotal, Consumer and occupational health and s afety.....	1,001	1,070	1,042	-29	1,156	1,088	-68
Deductions for offsetting receipts.....	-17	-3	-3		-3	-3	*
Total outlays	58,165	66,032	66,725	693	74,636	73,441	-1,195

* - \$500 thousand or less.

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
600 INCOME SECURITY							
601 General retirement and disability insurance							
Social security (OASDI).....	115,997	131,048	132,419	1,371	150,145	150,947	801
Proposed legislation.....					247	100	-147
Railroad retirement.....	4,400	4,848	4,816	-32	5,384	5,314	-70
Proposed legislation.....					118	190	72
Special benefits for disabled coal miners.....	1,848	1,902	1,772	-130	1,880	1,873	-7
Proposed legislation.....							
Other.....	17	14	14		15	15	
Subtotal, General retirement and disability insurance.....	122,262	137,813	139,022	1,209	157,790	158,439	649
602 Federal employee retirement and disability							
Retirement and disability programs.....	24,466	27,952	27,976	24	30,654	30,466	-189
Proposed legislation.....					-698	-558	141
Federal employees workers' compensation.....	266	311	316	5	353	345	-8
Proposed legislation.....						-50	-50
Subtotal, Federal employee retirement and disability.....	24,732	28,263	28,292	29	30,308	30,203	-105
603 Unemployment compensation							
Federal unemployment benefits and related.....	1,250	2,952	3,000	48	1,893	1,780	-113
Proposed legislation.....			-60	-60		-1,375	-1,375
Railroad benefits.....	7	131	131		*	*	
Unemployment trust fund.....	15,436	19,179	18,610	-569	24,222	21,770	-2,453
Proposed legislation.....			-400	-400	-1,357	-200	1,157
Advances and receipts.....	1,010	313	313		-128	-221	-93
Proposed legislation.....					-600	-500	100
Subtotal, Unemployment compensation.....	17,703	22,575	21,594	-981	24,031	21,254	-2,777
604 Housing assistance							
Existing law.....	27,813	30,870	25,612	-5,258	31,386	21,242	-10,144
Subtotal, Housing assistance.....	27,813	30,870	25,612	-5,258	31,386	21,242	-10,144
605 Food and nutrition assistance							
Food stamps.....	9,182	11,084	10,934	-150	12,882	12,392	-491

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
600 INCOME SECURITY							
Proposed legislation.....					-487	-2,636	-2,150
Nutrition assistance to Puerto Rico(prop).....						922	922
WIC-food supplements.....	758	927	927		1,068	742	-326
Proposed legislation.....						-17	-17
Child nutrition programs.....	3,180	3,354	3,354		4,198	4,125	-74
Proposed legislation.....			-35	-35	-453	-1,763	-1,310
School lunch and other nutrition programs.....	655	718	714	-4	828	728	-100
Proposed legislation.....						-182	-182
Subtotal, Food and nutrition assistance.....	13,774	16,083	15,894	-190	18,037	14,310	-3,728
609 Other income security							
Supplemental security income.....	6,468	7,278	7,233	-45	7,983	7,799	-183
Proposed legislation.....			10	10	-45	182	227
AFDC and other.....	7,709	7,728	7,705	-23	6,263	6,116	-147
Proposed legislation.....					-531	-1,182	-651
Earned income tax credit.....	1,275	1,203	1,203		1,115	1,115	
Refugee assistance.....	617	948	898	-50	767	684	-83
Energy hardship assistance.....	1,618	1,850	1,850				
Proposed legislation.....					1,850	1,400	-450
Foster care and adoption assistance (in social services block grant proposal in 506).....		311	354	43	346		-346
Other.....	227	232	230	-2	252	243	-9
Subtotal, Other income security.....	17,914	19,550	19,483	-66	18,000	16,357	-1,643
Total budget authority.....	224,198	255,154	249,896	-5,257	279,551	261,805	-17,747

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
600 INCOME SECURITY							
601 General retirement and disability insurance							
Social security (OASDI).....	117,117	138,260	137,903	-357	159,648	157,400	-2,248
Proposed legislation.....			-100	-100	-23	-2,643	-2,620
Railroad retirement.....	4,737	5,295	5,336	41	6,013	5,956	-57
Proposed legislation.....			-10	-10	-186	-230	-44
Special benefits for disabled coal miners.....	1,843	2,013	1,883	-130	1,875	1,869	-6
Proposed legislation.....							
Pension benefit guaranty corporation.....	-27	-37	-38	-1	-29	-31	-2
Other.....	13	16	16		15	15	
Subtotal, General retirement and disability insurance.....	123,684	145,547	144,991	-557	167,313	162,336	-4,976
602 Federal employee retirement and disability							
Retirement and disability programs.....	14,442	17,292	17,214	-78	20,185	19,802	-383
Proposed legislation.....		-12	-1	11	-655	-515	140
Federal employees workers' compensation.....	233	311	316	5	353	345	-8
Proposed legislation.....						-50	-50
Subtotal, Federal employee retirement and disability.....	14,675	17,591	17,528	-62	19,883	19,582	-301
603 Unemployment compensation							
Federal unemployment benefits and related.....	1,304	2,996	3,044	48	1,893	1,780	-113
Proposed legislation.....			-60	-60		-1,375	-1,375
Railroad benefits.....		137	137		*	*	
Unemployment trust fund.....	15,708	22,694	21,999	-695	22,322	20,070	-2,253
Proposed legislation.....			-515	-515	-1,610	-786	824
Advances and receipts.....	1,010	313	313		-128	-221	-93
Proposed legislation.....					-600	-500	100
Subtotal, Unemployment compensation.....	18,023	26,140	24,918	-1,222	21,878	18,968	-2,910
604 Housing assistance							
Existing law.....	5,514	6,861	6,808	-53	8,465	8,237	-228
Subtotal, Housing assistance.....	5,514	6,861	6,808	-53	8,465	8,237	-228
605 Food and nutrition assistance							
Food stamps.....	9,117	10,950	10,801	-149	12,722	12,238	-484

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
600 INCOME SECURITY							
Proposed legislation.....					-482	-2,610	-2,128
Nutrition assistance to Puerto Rico(prop).....						872	872
WIC-food supplements.....	717	904	954	50	994	724	-270
Proposed legislation.....						-16	-16
Child nutrition programs.....	3,377	3,356	3,356		3,959	3,895	-65
Proposed legislation.....						-429	-1,646
School lunch and other nutrition programs.....	804	696	693	-4	716	645	-72
Proposed legislation.....						-176	-176
Subtotal. Food and nutrition assistance.....	14,015	15,905	15,803	-103	17,481	13,924	-3,557
609 Other income security							
Supplemental security income.....	6,411	7,305	7,260	-45	8,017	7,833	-183
Proposed legislation.....			10	10	-45	169	214
AFDC and other.....	7,308	7,794	7,818	24	8,216	8,022	-194
Proposed legislation.....					-531	-1,182	-651
Earned income tax credit.....	1,275	1,203	1,203		1,115	1,115	
Refugee assistance.....	368	881	850	-31	768	714	-54
Energy hardship assistance.....	1,577	1,896	1,896				
Proposed legislation.....					1,850	1,400	-450
Foster care and adoption assistance (in social services block grant proposal in 506).....		289	354	65	346		-346
Other.....	250	239	238	-2	251	244	-6
Subtotal. Other income security.....	17,190	19,605	19,627	22	19,987	18,316	-1,670
Total outlays	193,100	231,650	229,675	-1,975	255,006	241,363	-13,643

* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
700 VETERANS BENEFITS AND SERVICES							
701 Income security for veterans							
Service-connected compensation.....	7,353	8,584	8,584	.....	8,658	8,658	.....
Proposed legislation.....	.....	.....	.....	.....	1,039	946	-93
Non-service-connected pensions.....	3,608	3,860	3,860	.....	4,106	4,095	-11
Burial and other benefits.....	186	199	199	.....	204	204	.....
National service life insurance trust fund....	1,044	1,135	1,135	.....	1,162	1,162	.....
U.S. Government life insurance trust fund.....	38	34	34	.....	32	32	.....
All other insurance programs.....	5	6	6	8	8
Insurance program receipts.....	-464	-474	-474	-478	-478
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Subtotal, Income security for veterans.....	11,770	13,344	13,344	14,731	14,627	-104
702 Veterans education, training, and rehabilitation							
Existing law.....	2,374	2,041	2,041	1,658	1,658
Proposed legislation.....	-14	-14	31	-32	-63
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Subtotal, Veterans education, training, and reha bilitation.....	2,374	2,041	2,027	-14	1,689	1,626	-63
703 Hospital and medical care for veterans							
Medical care and hospital services.....	5,832	6,365	6,326	-39	7,005	6,675	-330
Proposed legislation.....	.....	.....	-26	-26	-47	-107	-60
Construction.....	402	549	386	-163	673	570	-103
Medical administration, research, and other....	175	196	192	-3	220	204	-16
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Subtotal, Hospital and medical care for veterans	6,409	7,110	6,879	-231	7,851	7,342	-509
705 Other veterans benefits and services							
Undistributed VA overhead and other.....	624	668	654	-14	678	612	-66
Proposed legislation.....	-*	-*	1	-1	-2
Non-VA support programs.....	34	34	34	-*	38	35	-2
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Subtotal, Other veterans benefits and services..	658	702	688	-14	717	646	-70
Deductions for offsetting receipts.....	-2	-3	-3	-3	-3
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Total budget authority	21,208	23,194	22,934	-260	24,984	24,238	-746
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* - \$500 thousand or less.

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
700 VETERANS BENEFITS AND SERVICES							
701 Income security for veterans							
Service-connected compensation.....	7,434	8,492	8,492	.....	8,643	8,643	.....
Proposed legislation.....	.....	.....	.....	.....	952	867	-85
Non-service-connected pensions.....	3,585	3,840	3,840	.....	4,085	4,074	-11
Burial and other benefits.....	183	198	198	.....	204	204	.....
National service life insurance trust fund....	928	1,036	956	-79	1,062	979	-84
U.S. Government life insurance trust fund....	77	67	67	.....	62	62	.....
All other insurance programs.....	-55	-55	-67	-12	-54	-67	-12
Insurance program receipts.....	-464	-474	-474	.....	-478	-478	.....
Subtotal, Income security for veterans.....	11,688	13,103	13,012	-91	14,477	14,285	-192
702 Veterans education, training, and rehabilitation							
Existing law.....	2,342	1,956	1,956	.....	1,588	1,588	.....
Proposed legislation.....	.....	.....	-14	-14	*	-63	-63
Subtotal, Veterans education, training, and reha bilitation.....	2,342	1,956	1,942	-14	1,589	1,526	-63
703 Hospital and medical care for veterans							
Medical care and hospital services.....	5,981	6,306	6,265	-40	6,983	6,653	-330
Proposed legislation.....	.....	.....	-26	-26	-47	-107	-60
Construction.....	309	384	356	-28	558	459	-99
Medical administration, research, and other...	225	245	241	-3	242	226	-16
Subtotal, Hospital and medical care for veterans	6,515	6,935	6,837	-98	7,737	7,232	-505
704 Veterans housing							
Loan guaranty revolving fund.....	28	-42	-42	.....	25	25	.....
Direct loan revolving fund.....	-67	-119	-119	.....	-72	-72	.....
Other (HUD participation trust fund).....	16	55	55	.....	-6	-6	.....
Subtotal, Veterans housing.....	-23	-106	-106	.....	-53	-53	.....
705 Other veterans benefits and services							
Undistributed VA overhead and other.....	633	671	656	-15	677	608	-69
Proposed legislation.....	-*	-*	1	-1	-2
Non-VA support programs.....	32	35	35	-*	37	36	-2

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
700 VETERANS BENEFITS AND SERVICES							
Subtotal, Other veterans benefits and services..	665	706	690	-15	715	643	-73
Deductions for offsetting receipts.....	-2	-3	-3	-3	-3
Total outlays	21,183	22,591	22,372	-219	24,462	23,629	-833
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* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
750 ADMINISTRATION OF JUSTICE							
751 Federal law enforcement activities							
General investigation (FBI).....	614	682	676	-6	744	739	-5
Narcotics violation investigation (DEA).....	201	224	215	-9	236	229	-8
Alcohol, tobacco, and firearms investigation (ATF).....	143	152	150	-3	160	151	-9
Border enforcement activities (Customs & INS).	800	872	857	-14	895	843	-52
Protection activities (Secret Service).....	179	185	183	-2	187	187	-1
Proposed legislation.....					1		-1
Other enforcement.....	278	320	307	-13	359	322	-37
Subtotal, Federal law enforcement activities.....	2,214	2,435	2,389	-46	2,582	2,470	-112
752 Federal litigative and judicial activities							
Civil and criminal prosecution and representa- tion.....	459	501	500	-*	554	528	-26
Proposed legislation.....					-13	-13	
Federal judicial activities.....	610	674	674		753	753	
Legal Services Corporation.....	300	321	321		347		-347
Subtotal, Federal litigative and judicial activi- ties.....	1,370	1,496	1,495	-*	1,641	1,268	-373
753 Federal correctional activities							
Existing law.....	320	355	351	-5	379	372	-7
Subtotal, Federal correctional activities.....	320	355	351	-5	379	372	-7
754 Criminal justice assistance							
Existing law.....	498	183	174	-9	235	73	-162
Subtotal, Criminal justice assistance.....	498	183	174	-9	235	73	-162
Deductions for offsetting receipts.....	-11	-12	-12		-12	-12	
Total budget authority.....	4,391	4,458	4,397	-61	4,825	4,171	-654

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
750 ADMINISTRATION OF JUSTICE							
751 Federal law enforcement activities							
General investigation (FBI).....	609	679	678	-1	743	739	-4
Narcotics violation investigation (DEA).....	204	221	214	-8	232	225	-8
Alcohol, tobacco, and firearms investigation (ATF).....	146	151	148	-3	158	149	-9
Border enforcement activities (Customs & INS).....	816	862	850	-12	866	814	-52
Protection activities (Secret Service).....	179	181	178	-4	186	184	-2
Proposed legislation.....					1		-1
Other enforcement.....	282	321	309	-12	350	314	-36
Subtotal, Federal law enforcement activities....	2,237	2,415	2,377	-38	2,536	2,425	-111
752 Federal litigative and judicial activities							
Civil and criminal prosecution and representa- tion.....	452	503	498	-4	540	514	-26
Proposed legislation.....					-12	-12	
Federal judicial activities.....	575	685	685		746	746	
Legal Services Corporation.....	320	328	328		347	35	-312
Subtotal, Federal litigative and judicial activi- ties.....	1,347	1,515	1,511	-4	1,620	1,283	-337
753 Federal correctional activities							
Existing law.....	342	367	358	-9	378	372	-6
Subtotal, Federal correctional activities.....	342	367	358	-9	378	372	-6
754 Criminal justice assistance							
Existing law.....	656	501	498	-3	359	308	-51
Subtotal, Criminal justice assistance.....	656	501	498	-3	359	308	-51
Deductions for offsetting receipts.....	-11	-12	-12		-12	-12	
Total outlays	4,570	4,786	4,732	-54	4,882	4,376	-506
	=====	=====	=====	=====	=====	=====	=====

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
800 GENERAL GOVERNMENT							
801 Legislative functions							
Existing law.....	1,106	1,114	1,122	7	1,208	1,209	1
Subtotal, Legislative functions.....	1,106	1,114	1,122	7	1,208	1,209	1
802 Executive direction and management							
Existing law.....	102	114	109	-6	113	107	-6
Subtotal, Executive direction and management....	102	114	109	-6	113	107	-6
803 Central fiscal operations							
Collection of taxes.....	2,288	2,503	2,479	-23	2,649	2,566	-84
Federal Financing Bank.....	-253	-116	-116	.....	-128	-124	3
Other fiscal operations.....	448	433	425	-9	477	441	-36
Subtotal, Central fiscal operations.....	2,484	2,820	2,788	-32	2,998	2,882	-116
804 General property and records management							
Real property.....	*	.....	.....	.....	121	.....	-121
Personal property.....	154	586	584	-2	170	160	-10
Records management.....	85	91	89	-2	98	90	-8
Other.....	167	185	180	-5	199	187	-12
Subtotal, General property and records management.....	406	862	853	-9	588	437	-151
805 Central personnel management							
Existing law.....	145	166	164	-3	168	156	-12
Proposed legislation.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, Central personnel management.....	145	166	164	-3	168	156	-12
806 Other general government							
Territories.....	210	173	173	-*	199	153	-45
Proposed legislation.....	.....	.....	.....	.....	1	.....	-1
Indian affairs.....	465	144	144	.....	15	15	.....
Treasury claims.....	438	305	305	.....	378	378	.....
Other.....	-531	-27	-33	-6	-37	-58	-21

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
800 GENERAL GOVERNMENT							
Subtotal, Other general government.....	583	596	590	-6	555	488	-67
Deductions for offsetting receipts.....	-224	-267	-269	-2	-193	-188	4
Total budget authority	4,602	5,405	5,354	-51	5,439	5,091	-347

* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
800 GENERAL GOVERNMENT							
801 Legislative functions							
Existing law.....	1,032	1,174	1,181	7	1,173	1,174	1
Subtotal, Legislative functions.....	1,032	1,174	1,181	7	1,173	1,174	1
802 Executive direction and management							
Existing law.....	97	113	106	-7	113	106	-7
Subtotal, Executive direction and management....	97	113	106	-7	113	106	-7
803 Central fiscal operations							
Collection of taxes.....	2,335	2,493	2,454	-39	2,634	2,540	-94
Federal Financing Bank.....	-253	-116	-116		-128	-124	3
Other fiscal operations.....	440	443	435	-9	473	438	-35
Subtotal, Central fiscal operations.....	2,522	2,820	2,773	-47	2,979	2,854	-126

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
800 GENERAL GOVERNMENT							
804 General property and records management							
Real property.....	-47	28	23	-5	28	2	-26
Personal property.....	161	255	250	-5	154	142	-12
Records management.....	84	89	87	-3	97	88	-9
Other.....	167	181	174	-7	209	195	-14
Subtotal, General property and records management.....	364	554	534	-20	487	427	-60
805 Central personnel management							
Existing law.....	154	168	165	-3	165	153	-12
Proposed legislation.....							
Subtotal, Central personnel management.....	154	168	165	-3	165	153	-12
806 Other general government							
Territories.....	126	198	198	-*	202	157	-45
Proposed legislation.....					1		-1
Indian affairs.....	475	153	153		13	13	
Treasury claims.....	438	305	305		378	378	
Other.....	-480	-48	-50	-2	-72	-85	-14
Subtotal, Other general government.....	559	608	605	-2	522	462	-60
Deductions for offsetting receipts.....	-224	-267	-269	-2	-193	-188	4
Total outlays.....	4,505	5,170	5,096	-74	5,246	4,987	-260

* - \$500 thousand or less.

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BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
850 GENERAL PURPOSE FISCAL ASSISTANCE							
851 General revenue sharing							
General revenue sharing payments.....	6,855	4,570	4,570	.....	4,570	4,570	.....
Administration.....	6	7	7	..*	7	7	..*
Subtotal, General revenue sharing.....	6,861	4,577	4,577	..*	4,577	4,577	..*
852 Other general purpose fiscal assistance							
Tax credit for state & local govts (proposed).....					495		-495
Payments and loans to the District of Columbia							
New York City loan guarantee program.....	439	465	405	-60	581	542	-39
Paymts to States from Forest Service receipts.....	1	1	1	.....	1	1	..*
Payments in lieu of taxes.....	280	223	223	.....	275	275	.....
Other payments to States and counties from Fed							
eral land management activities.....	108	103	103	.....		45	45
Payments to territories and Puerto Rico.....	380	469	507	38	583	653	70
Other.....	593	365	365	.....	370	370	.....
Other.....	5	5	5	.....	5	5	.....
Subtotal, Other general purpose fiscal assistanc							
e.....	1,805	1,631	1,609	-22	2,310	1,891	-419
Total budget authority	8,667	6,208	6,185	-22	6,887	6,468	-419
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* - \$500 thousand or less.

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
850 GENERAL PURPOSE FISCAL ASSISTANCE							
851 General revenue sharing							
General revenue sharing payments.....	6,829	5,156	5,156	.....	4,559	4,559	.....
Administration.....	6	7	7	..*	7	7	..*
Subtotal, General revenue sharing.....	6,835	5,163	5,163	..*	4,566	4,566	..*

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980	1981 estimate			1982 estimate		
	Actual	January	Revised	Change	January	Revised	Change
850 GENERAL PURPOSE FISCAL ASSISTANCE							
852 Other general purpose fiscal assistance							
Tax credit for state & local govts (proposed).....					495		-495
Payments and loans to the District of Columbia	425	468	408	-60	606	532	-75
New York City loan guarantee program.....	1	1	1		1	1	-*
Paymts to States from Forest Service receipts.....	280	223	223		275	275	
Payments in lieu of taxes.....	103	108	108			45	45
Other payments to States and counties from Fed							
eral land management activities.....	380	469	507	38	582	652	70
Payments to territories and Puerto Rico.....	555	415	415		370	370	
Other.....	5	7	7		5	5	
Subtotal, Other general purpose fiscal assistanc	1,749	1,691	1,669	-22	2,336	1,881	-455
Total outlays	8,584	6,854	6,832	-22	6,902	6,447	-455

* - \$500 thousand or less.

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
920 ALLOWANCES							
921 Civilian agency pay raises							
Existing law.....					958	799	-159
Subtotal, Civilian agency pay raises.....					958	799	-159
927 Contingencies for relatively uncontrollable programs.....							
928 Contingencies for other requirements							
Existing law.....					2,000	1,500	-500
Subtotal, Contingencies for other requirements..					2,000	1,500	-500
Total budget authority					2,958	2,299	-659

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
920 ALLOWANCES							
921 Civilian agency pay raises							
Existing law.....					920	771	-149
Subtotal, Civilian agency pay raises.....					920	771	-149
927 Contingencies for relatively uncontrollable programs.....							
928 Contingencies for other requirements							
Existing law.....					1,000	1,000	
Subtotal, Contingencies for other requirements..					1,000	1,000	
Total outlays					1,920	1,771	-149

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
950 UNDISTRIBUTED OFFSETTING RECEIPTS							
951 Employer share, employee retirement.....	-5,787	-6,561	-6,553	8	-6,798	-6,717	80
952 Interest received by trust funds							
Existing law.....	-12,045	-13,429	-13,146	283	-14,714	-14,091	622
Proposed legislation.....		-6	-7	-1	-451	-233	218
Subtotal, Interest received by trust funds.....	-12,045	-13,435	-13,153	282	-15,165	-14,325	840
953 Rents and royalties on the Outer Continental Shelf.....	-4,101	-7,800	-9,600	-1,800	-9,900	-11,000	-1,100
Total budget authority	-21,933	-27,796	-29,305	-1,510	-31,863	-32,042	-180

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OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
950 UNDISTRIBUTED OFFSETTING RECEIPTS							
951 Employer share, employee retirement.....	-5,787	-6,561	-6,553	8	-6,798	-6,717	80
952 Interest received by trust funds							
Existing law.....	-12,045	-13,429	-13,146	283	-14,714	-14,091	622
Proposed legislation.....		-6	-7	-1	-451	-233	218
Subtotal, Interest received by trust funds.....	-12,045	-13,435	-13,153	282	-15,165	-14,325	840
953 Rents and royalties on the Outer Continental Shelf.....	-4,101	-7,800	-9,600	-1,800	-9,900	-11,000	-1,100
Total outlays	-21,933	-27,796	-29,305	-1,510	-31,863	-32,042	-180

BUDGET AUTHORITY BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
Total budget authority	658,790	726,474	710,147	-16,327	809,829	772,360	-37,469

OUTLAYS BY FUNCTION AND PROGRAM
(In millions of dollars)

	1980 Actual	1981 estimate			1982 estimate		
		January	Revised	Change	January	Revised	Change
Total outlays	579,613	662,740	655,173	-7,567	739,296	695,297	-43,999