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97TH CONGRESS
2d Session

SENATE

REPORT
No. 97-385

FIRST
CONCURRENT RESOLUTION ON THE BUDGET
FY 1983

REPORT

OF THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

TO ACCOMPANY

S. Con. Res. 92

SETTING FORTH THE RECOMMENDED CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEARS 1983, 1984, AND 1985, AND REVISING THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR 1982

TOGETHER WITH

ADDITIONAL AND MINORITY VIEWS

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97TH CONGRESS
2D SESSION

S. CON. RES. 92

CONCURRENT RESOLUTION

Setting forth the recommended congressional budget for the United States Government for the fiscal years 1983, 1984, and 1985, and revising the congressional budget for the United States Government for the fiscal year 1982.

Resolved by the Senate (the House of Representatives concurring), That the Congress hereby determines and declares, pursuant to sections 301(a) and 304 of the Congressional Budget Act of 1974, that:

(a) The following budgetary levels are appropriate for the fiscal years beginning on October 1, 1981, October 1, 1982, October 1, 1983, and October 1, 1984:

(1) The recommended levels of Federal revenues are as follows:

Fiscal year 1982: $623,000,000,000.

Fiscal year 1983: $667,000,000,000.

Fiscal year 1984: $739,000,000,000.

Fiscal year 1985: $822,000,000,000.

and the amounts by which the aggregate levels of Federal revenues should be increased are as follows:

Fiscal year 1983: $22,000,000,000.

Fiscal year 1984: $37,000,000,000.

Fiscal year 1985: $42,000,000,000.

(2) The appropriate levels of total new budget authority are as follows:

Fiscal year 1982: $777,600,000,000.

Fiscal year 1983: $831,700,000,000.

Fiscal year 1984: $892,300,000,000.

Fiscal year 1985: $966,000,000,000.

(3) The appropriate levels of total budget outlays are as follows:

Fiscal year 1982: $740,700,000,000.

Fiscal year 1983: $779,100,000,000.

Fiscal year 1984: $825,000,000,000.

Fiscal year 1985: $878,500,000,000.

(4) The appropriate reductions of outlays or increases of revenues, or a combination thereof, to assure the solvency of the Social Security Old-Age and Survivors Insurance Trust Fund are as follows:

Fiscal year 1983: $6,000,000,000.

Fiscal year 1984: $17,000,000,000.

Fiscal year 1985: $17,000,000,000.

(5) The amounts of the deficits in the budget which are appropriate in the light of economic conditions and all other relevant factors are as follows:

Fiscal year 1982: $117,700,000,000.

Fiscal year 1983: $106,100,000,000.

Fiscal year 1984: $69,000,000,000.

Fiscal year 1985: $39,500,000,000.

(6) The appropriate levels of the public debt are as follows:

Fiscal year 1982: $1,144,200,000,000.

Fiscal year 1983: $1,290,000,000,000.

Fiscal year 1984: $1,414,600,000,000.

Fiscal year 1985: $1,522,900,000,000.

and the amounts by which the temporary statutory limits on such debt should be accordingly increased are as follows:

Fiscal year 1982: $64,400,000,000.

Fiscal year 1983: $145,800,000,000.

Fiscal year 1984: $124,600,000,000.

Fiscal year 1985: $108,300,000,000.

(7) The appropriate levels of total Federal credit activity for the fiscal years beginning on October 1, 1981, and October 1, 1982, are as follows:

Fiscal year 1982:

(A) New direct loan obligations, $67,300,000,000.

(B) New primary loan guarantee commitments, $93,000,000,000.

(C) New secondary loan guarantee commitments, $69,000,000,000.

Fiscal year 1983:

(A) New direct loan obligations, $63,600,000,000.

(B) New primary loan guarantee commitments, $102,500,000,000.

(C) New secondary loan guarantee commitments, $68,300,000,000.

(b) Pursuant to sections 301 and 304 of the Congressional Budget Act of 1974, the Congress hereby determines and declares the appropriate levels of budget authority, and budget outlays, for the fiscal years 1982 through and inclusive of 1985 and the appropriate levels of new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments for fiscal years 1982 and 1983 for each major functional category are:

(1) National Defense (050):

Fiscal year 1982:

(A) New budget authority, $216,900,000,000.

(B) Outlays, $190,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $30,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $251,700,000,000.

(B) Outlays, $215,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $30,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $278,300,000,000.

(B) Outlays, $243,000,000,000.

Fiscal year 1985:

(A) New budget authority, $316,500,000,000.

(B) Outlays, $277,700,000,000.

(2) International Affairs (150):

Fiscal year 1982:

(A) New budget authority, $16,800,000,000.

(B) Outlays, $11,400,000,000.

(C) New direct loan obligations, $10,400,000,000.

(D) New primary loan guarantee commitments, $9,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $16,200,000,000.

(B) Outlays, $12,100,000,000.

(C) New direct loan obligations, $10,200,000,000.

(D) New primary loan guarantee commitments, $9,300,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $16,700,000,000.

(B) Outlays, $12,300,000,000.

Fiscal year 1985:

(A) New budget authority, $21,000,000,000.

(B) Outlays, $12,200,000,000.

(3) General Science, Space, and Technology (250):

Fiscal year 1982:

(A) New budget authority, $7,000,000,000.

(B) Outlays, $7,100,000,000.

(C) New direct loan obligations, $200,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $7,000,000,000.

(B) Outlays, $7,100,000,000.

(C) New direct loan obligations, $200,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $7,000,000,000.

Fiscal year 1985:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $7,000,000,000.

(4) Energy (270):

Fiscal year 1982:

(A) New budget authority, $4,800,000,000.

(B) Outlays, $6,400,000,000.

(C) New direct loan obligations, $10,600,000,000.

(D) New primary loan guarantee commitments, $1,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $4,900,000,000.

(B) Outlays, $4,800,000,000.

(C) New direct loan obligations, $12,100,000,000.

(D) New primary loan guarantee commitments, $600,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $4,200,000,000.

(B) Outlays, $3,600,000,000.

Fiscal year 1985:

(A) New budget authority, $4,100,000,000.

(B) Outlays, $3,300,000,000.

(5) Natural Resources and Environment (300):

Fiscal year 1982:

(A) New budget authority, $10,300,000,000.

(B) Outlays, $12,800,000,000.

(C) New direct loan obligations, $30,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $9,900,000,000.

(B) Outlays, $11,400,000,000.

(C) New direct loan obligations, $30,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $9,300,000,000.

(B) Outlays, $10,300,000,000.

Fiscal year 1985:

(A) New budget authority, $8,900,000,000.

(B) Outlays, $9,300,000,000.

(6) Agriculture (350):

Fiscal year 1982:

(A) New budget authority, $9,900,000,000.

(B) Outlays, $13,800,000,000.

(C) New direct loan obligations, $22,600,000,000.

(D) New primary loan guarantee commitments, $2,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $6,600,000,000.

(B) Outlays, $10,100,000,000.

(C) New direct loan obligations, $19,000,000,000.

(D) New primary loan guarantee commitments, $2,600,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $8,300,000,000.

(B) Outlays, $8,200,000,000.

Fiscal year 1985:

(A) New budget authority, $6,700,000,000.

(B) Outlays, $7,300,000,000.

(7) Commerce and Housing Credit (370):

Fiscal year 1982:

(A) New budget authority, $6,500,000,000.

(B) Outlays, $3,800,000,000.

(C) New direct loan obligations, $15,400,000,000.

(D) New primary loan guarantee commitments, $41,200,000,000.

(E) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1983:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $2,800,000,000.

(C) New direct loan obligations, $15,100,000,000.

(D) New primary loan guarantee commitments, $41,200,000,000.

(E) New secondary loan guarantee commitments, $68,200,000,000.

Fiscal year 1984:

(A) New budget authority, $7,400,000,000.

(B) Outlays, $2,400,000,000.

Fiscal year 1985:

(A) New budget authority, $7,200,000,000.

(B) Outlays, $2,100,000,000.

(8) Transportation (400):

Fiscal year 1982:

(A) New budget authority, $20,800,000,000.

(B) Outlays, $21,300,000,000.

(C) New direct loan obligations, $400,000,000.

(D) New primary loan guarantee commitments, $900,000,000.

(E) New secondary loan guarantee commitments, $3,000,000.

Fiscal year 1983:

(A) New budget authority, $21,300,000,000.

(B) Outlays, $19,900,000,000.

(C) New direct loan obligations, $500,000,000.

(D) New primary loan guarantee commitments, $800,000,000.

(E) New secondary loan guarantee commitments, $3,000,000.

Fiscal year 1984:

(A) New budget authority, $21,500,000,000.

(B) Outlays, $19,600,000,000.

Fiscal year 1985:

(A) New budget authority, $21,800,000,000.

(B) Outlays, $19,500,000,000.

(9) Community and Regional Development (450):

Fiscal year 1982:

(A) New budget authority, $6,700,000,000.

(B) Outlays, $8,500,000,000.

(C) New direct loan obligations, $2,200,000,000.

(D) New primary loan guarantee commitments, $900,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $7,700,000,000.

(C) New direct loan obligations, $2,200,000.000.

(D) New primary loan guarantee commitments, $600,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

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(A) New budget authority, $6,900,000,000.

(B) Outlays, $7,500,000,000.

Fiscal year 1985:

(A) New budget authority, $7,000,000,000.

(B) Outlays, $7,400,000,000.

(10) Education, Training, Employment and Social Services (500):

Fiscal year 1982:

(A) New budget authority, $25,400,000,000.

(B) Outlays, $28,100,000,000.

(C) New direct loan obligations, $1,300,000,000.

(D) New primary loan guarantee commitments, $6,500,000,000.

(E) New secondary loan guarantee commitments, $700,000,000.

Fiscal year 1983:

(A) New budget authority, $25,500,000,000.

(B) Outlays, $26,400,000,000.

(C) New direct loan obligations, $800,000,000.

(D) New primary loan guarantee commitments, $7,500,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $25,200,000,000.

(B) Outlays, $25,500,000,000.

Fiscal year 1985:

(A) New budget authority, $24,400,000,000.

(B) Outlays, $24,600,000,000.

(11) Health (550):

Fiscal year 1982:

(A) New budget authority, $78,500,000,000.

(B) Outlays, $73,700,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $100,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $79,700,000,000.

(B) Outlays, $76,500,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $100,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $92,600,000,000.

(B) Outlays, $83,900,000,000.

Fiscal year 1985:

(A) New budget authority, $104,300,000,000.

(B) Outlays, $94,500,000,000.

(12) Income Security (600):

Fiscal year 1982:

(A) New budget authority, $260,900,000,000.

(B) Outlays, $251,500,000,000.

(C) New direct loan obligations, $2,800,000,000.

(D) New primary loan guarantee commitments, $17,000,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $281,700,000,000.

(B) Outlays, $272,500,000,000.

(C) New direct loan obligations, $2,000,000,000.

(D) New primary loan guarantee commitments, $18,700,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $300,800,000,000.

(B) Outlays, $288,200,000,000.

Fiscal year 1985:

(A) New budget authority, $332,900,000,000.

(B) Outlays, $309,700,000,000.

(13) Veterans Benefits and Services (700):

Fiscal year 1982:

(A) New budget authority, $24,800,000,000.

(B) Outlays, $23,800,000,000.

(C) New direct loan obligations, $1,000,000,000.

(D) New primary loan guarantee commitments, $11,900,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $23,400,000,000.

(B) Outlays, $22,700,000,000.

(C) New direct loan obligations, $1,000,000,000.

(D) New primary loan guarantee commitments, $20,900,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $24,200,000,000.

(B) Outlays, $23,600,000,000.

Fiscal year 1985:

(A) New budget authority, $24,400,000,000.

(B) Outlays, $24,400,000,000.

(14) Administration of Justice (750):

Fiscal year 1982:

(A) New budget authority, $4,500,000,000.

(B) Outlays, $4,600,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $4,600,000,000.

(B) Outlays, $4,700,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $4,600,000,000.

(B) Outlays, $4,600,000,000.

Fiscal year 1985:

(A) New budget authority, $4,600,000,000.

(B) Outlays, $4,600,000,000.

(15) General Government (800):

Fiscal year 1982:

(A) New budget authority, $5,200,000,000.

(B) Outlays, $5,000,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $5,000,000,000.

(B) Outlays, $4,800,000,000.

(C) New direct loan obligations, $100,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $4,700,000,000.

(B) Outlays, $4,600,000,000.

Fiscal year 1985:

(A) New budget authority, $4,700,000,000.

(B) Outlays, $4,400,000,000.

(16) General Purpose Fiscal Assistance (850):

Fiscal year 1982:

(A) New budget authority, $6,400,000,000.

(B) Outlays, $6,300,000,000.

(C) New direct loan obligations, $200,000,000.

(D) New primary loan guarantee commitments, $800,000,000.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $6,600,000,000.

(B) Outlays, $6,500,000,000.

(C) New direct loan obligations, $200,000,000.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $6,700,000,000.

(B) Outlays, $6,700,000,000.

Fiscal year 1985:

(A) New budget authority, $6,900,000,000.

(B) Outlays, $6,800,000,000.

(17) Interest (900):

Fiscal year 1982:

(A) New budget authority, $102,000,000,000.

(B) Outlays, $102,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, $115,100,000,000.

(B) Outlays, $115,100,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, $119,800,000,000.

(B) Outlays, $119,800,000,000.

Fiscal year 1985:

(A) New budget authority, $111,600,000,000.

(B) Outlays, $111,600,000,000.

(18) Allowances (920):

Fiscal year 1982:

(A) New budget authority, $700,000,000.

(B) Outlays, $800,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, —$2,000,000,000.

(B) Outlays, —$2,000,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, —$800,000,000.

(B) Outlays, —$800,000,000.

Fiscal year 1985:

(A) New budget authority, —$800,000,000.

(B) Outlays, —$600,000,000.

(19) Undistributed Offsetting Receipts (950):

Fiscal year 1982:

(A) New budget authority, —$30,500,000,000.

(B) Outlays, —$30,500,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1983:

(A) New budget authority, —$39,300,000,000.

(B) Outlays, —$39,300,000,000.

(C) New direct loan obligations, $0.

(D) New primary loan guarantee commitments, $0.

(E) New secondary loan guarantee commitments, $0.

Fiscal year 1984:

(A) New budget authority, −$44,800,000,000.

(B) Outlays, −$44,800,000,000.

Fiscal year 1985:

(A) New budget authority, −$47,300,000,000.

(B) Outlays, −$47,300,000,000.

RECONCILIATION

SEC. 2. (a) Not later than June 18, 1982, the committees named in subsection (a) (1) through (15) of this section shall submit their recommendations to the Committees on the Budget of their respective Houses. Those recommendations shall be sufficient to accomplish the reductions required by subsection (a) (1) through (15) of this section. After receiving those recommendations, the Committees on the Budget shall report to the House and Senate a reconciliation bill or resolution or both carrying out all such recommendations without any substantive revision.

SENATE COMMITTEES

(1) The Senate Committee on Agriculture, Nutrition, and Forestry shall report changes in laws within the jurisdiction of that committee sufficient to require reductions in appropriations for programs authorized by that committee so as to achieve savings in budget authority and outlays as follows: $779,000,000 in budget authority and $779,000,000 in outlays in fiscal year 1983; and $1,083,000,000 in budget authority and $1,083,000,000 in outlays in fiscal year 1984; and $1,428,000,000 in budget authority and $1,428,000,000 in outlays in fiscal year 1985.

(2) The Senate Committee on Armed Services shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $583,000,000 and outlays by $583,000,000 in fiscal year 1983; to reduce budget authority by $1,345,000,000 and outlays by $1,345,000,000 in fiscal year 1984; and to reduce budget authority by $1,906,000,000 and outlays by $1,906,000,000 in fiscal year 1985.

(3) The Senate Committee on Commerce, Science, and Transportation shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, suf-

ficient to reduce budget authority by $11,000,000 and outlays by $11,000,000 in fiscal year 1983; to reduce budget authority by $28,000,000 and outlays by $28,000,000 in fiscal year 1984; and to reduce budget authority by $42,000,000 and outlays by $42,000,000 in fiscal year 1985.

(4) The Senate Committee on Foreign Relations shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93-344, sufficient to reduce budget authority by $0 and outlays by $6,000,000 in fiscal year 1983; to reduce budget authority by $5,000,000 and outlays by $15,000,000 in fiscal year 1984; and to reduce budget authority by $8,000,000 and outlays by $21,000,000 in fiscal year 1985.

(5) The Senate Committee on Governmental Affairs shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93-344, sufficient to reduce budget authority by $0 and outlays by $680,000,000 in fiscal year 1983; to reduce budget authority by $628,000,000 and outlays by $1,800,000,000 in fiscal year 1984; and to reduce budget authority by $1,000,000,000 and outlays by $2,629,000,000 in fiscal year 1985.

(6) The Senate Committee on Labor and Human Resources shall report changes in laws within the jurisdiction of

that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93-344, sufficient to reduce budget authority by $391,000,000 and outlays by $601,000,000 in fiscal year 1983; to reduce budget authority by $955,000,000 and outlays by $1,309,000,000 in fiscal year 1984; to reduce budget authority by $1,410,000,000 and outlays by $1,917,000,000 in fiscal year 1985.

(7) The Senate Committee on Veterans' Affairs shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93-344, sufficient to reduce budget authority by $188,000,000 and outlays by $188,000,000 in fiscal year 1983; to reduce budget authority by $269,000,000 and outlays by $269,000,000 in fiscal year 1984; and to reduce budget authority by $355,000,000 and outlays by $355,000,000 in fiscal year 1985.

HOUSE COMMITTEES

(8) The House Committee on Agriculture shall report changes in laws within the jurisdiction of that committee sufficient to require reductions in appropriations for programs authorized by that committee so as to achieve savings in budget authority and outlays as follows: $779,000,000 in budget authority and $779,000,000 in outlays in fiscal year 1983; and $1,083,000,000 in budget authority and $1,083,000,000 in outlays in fiscal year 1984; and

$1,428,000,000 in budget authority and $1,428,000,000 in outlays in fiscal year 1985.

(9) The House Committee on Armed Services shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $581,000,000 and outlays by $581,000,000 in fiscal year 1983; to reduce budget authority by $1,340,000,000 and outlays by $1,340,000,000 in fiscal year 1984; and to reduce budget authority by $1,899,000,000 and outlays by $1,899,000,000 in fiscal year 1985.

(10) The House Committee on Education and Labor shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $446,000,000 and outlays by $301,000,000 in fiscal year 1983; to reduce budget authority by $1,021,000,000 and outlays by $886,000,000 in fiscal year 1984; and to reduce budget authority by $1,486,000,000 and outlays by $1,369,000,000 in fiscal year 1985.

(11) The House Committee on Energy and Commerce shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in

section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $514,000,000 and outlays by $1,031,000,000 in fiscal year 1983; to reduce budget authority by $741,000,000 and outlays by $1,230,000,000 in fiscal year 1984; and to reduce budget cuthority by $815,000,000 and outlays by $1,439,000,000 in fiscal year 1985.

(12) The House Committee on Foreign Affairs shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $0 and outlays by $6,000,000 in fiscal year 1983; to reduce budget authority by $5,000,000 and outlays by $15,000,000 in fiscal year 1984; and to reduce budget authority by $8,000,000 and outlays by $21,000,000 in fiscal year 1985.

(13) The House Committee on Merchant Marine and Fisheries shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $11,000,000 and outlays by $11,000,000 in fiscal year 1983; to reduce budget authority by $28,000,000 and outlays by $28,000,000 in fiscal year 1984; and to reduce budget authority by $42,000,000 and outlays by $42,000,000 in fiscal year 1985.

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(14) The House Committee on Post Office and Civil Service shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $2,000,000 and outlays by $688,000,000 in fiscal year 1983; to reduce budget authority by $638,000,000 and outlays by $1,820,000,000 in fiscal year 1984; and to reduce budget authority by $1,015,000,000 and outlays by $2,657,000,000 in fiscal year 1985.

(15) The House Committee on Veterans' Affairs shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $188,000,000 and outlays by $188,000,000 in fiscal year 1983; to reduce budget authority by $269,000,000 and outlays by $269,000,000 in fiscal year 1984; and to reduce budget authority by $355,000,000 and outlays by $355,000,000 in fiscal year 1985.

SENATE AND HOUSE COMMITTEES

(b)(1) The Senate Committee on Finance shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $1,750,000,000 and outlays by

$6,656,000,000 in fiscal year 1983; to reduce budget authority by $2,509,000,000 and outlays by $9,923,000,000 in fiscal year 1984; and to reduce budget authority by $3,339,000,000 and outlays by $12,549,000,000 in fiscal year 1985.

(2) The Senate Committee on Finance shall also report changes in laws within the jurisdiction of that committee sufficient to increase revenues as follows: $20,000,000,000 in fiscal year 1983; $35,000,000,000 in fiscal year 1984; and $40,000,000,000 in fiscal year 1985.

(3) The Senate Committee on Finance shall also report changes in laws within the jurisdiction of that committee sufficient to increase receipts from user fees authorized by that committee as follows: $2,000,000,000 in fiscal year 1983; $2,000,000,000 in fiscal year 1984; and $2,000,000,000 in fiscal year 1985.

(4) The legislation required in paragraphs (1) through (3) of this subsection shall be reported to the Senate no later than June 11, 1982.

(5) The House Committee on Ways and Means shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of Public Law 93–344, sufficient to reduce budget authority by $1,183,000,000 and outlays by $5,927,000,000 in fiscal year 1983; to reduce budget author-

ity by $1,707,000,000 and outlays by $9,121,000,000 in fiscal year 1984; and to reduce budget authority by $2,455,000,000 and outlays by $11,665,000,000 in fiscal year 1985.

(6) The House Committee on Ways and Means shall also report changes in laws within the jurisdiction of that committee sufficient to increase revenues as follows: $20,000,000,000 in fiscal year 1983; $35,000,000,000 in fiscal year 1984; and $40,000,000,000 in fiscal year 1985.

(7) The House Committee on Ways and Means shall also report changes in laws within the jurisdiction of that committee sufficient to increase receipts from user fees authorized by that committee as follows: $2,000,000,000 in fiscal year 1983; $2,000,000,000 in fiscal year 1984; and $2,000,000,000 in fiscal year 1985.

(8) The legislation required in paragraphs (5) through (7) of this subsection shall be reported to the House no later than June 11, 1982.

(c)(1) In order to insure the solvency of the Social Security Old-Age and Survivors Insurance Trust Fund created pursuant to title II of the Social Security Act, as amended, the Senate Committee on Finance shall report changes in laws within the jurisdiction of that committee so as to reduce outlays or increase revenues, or a combination thereof, as follows:

In fiscal year 1983 $6,000,000,000; in fiscal year 1984 $17,000,000,000; and in fiscal year 1985 $17,000,000,000.

(2) In order to insure the solvency of the Social Security Old-Age and Survivors Insurance Trust Fund created pursuant to title II of the Social Security Act, as amended, the House Committee on Ways and Means shall report changes in laws within the jurisdiction of that committee so as to reduce outlays or increase revenues, or a combination thereof, as follows:

In fiscal year 1983 $6,000,000,000; in fiscal year 1984 $17,000,000,000; and in fiscal year 1985 $17,000,000,000.

(3) The legislation required in paragraphs (1) and (2) of this subsection shall be reported no later than December 1, 1982, and shall take into account the recommendations of the National Commission on Social Security Reform.

(4) It is the sense of the Congress that the President of the United States should direct the National Commission on Social Security Reform to report its recommendations to the Congress not later than November 11, 1982.

SEC. 3. The enactment of savings required by this resolution is critical to the health of the economy of the Nation; and

Expeditious action on legislation pursuant to these instructions is critical to achieving the savings required by this resolution; and

The Senate is committed to completing action on the savings legislation required by this resolution at the earliest possible time; and

It is the sense of the Senate that Senate committees instructed in this resolution should begin deliberations on the legislation those committees are required to report under this resolution as soon as this resolution is agreed to in the Senate.

MISCELLANEOUS PROVISIONS

SEC. 4. It is the sense of the Congress that the President through administrative actions should limit in fiscal year 1983 total Federal Financing Bank origination of direct loans guaranteed by other Federal agencies to $15,900,000,000; and Federal Financing Bank purchases of loan assets from Federal agencies to $14,000,000,000. It is the further sense of Congress that direct borrowing transactions of Federal agencies should be, to the maximum extent possible, restricted to the Federal Financing Bank.

SEC. 5. It shall not be in order in the House or the Senate during fiscal years 1982 and 1983 to consider any bill, resolution, or amendment, except proposed legislation reported in response to reconciliation instructions contained in this resolution, authorizing new direct loan obligations or new loan guarantee commitments unless that bill, resolution, or amendment also provides that the authority to make or guarantee such loans shall be effective only to such extent or in such amounts as are contained in appropriation Acts.

SEC. 6. It is the sense of the Congress that it is urgent that effective budgetary control be established over all types of Federal direct loans and Federal loan guarantees. The Congress directs the committees of jurisdiction to move with expedition to consider legislation that established a process of annual determination of appropriate levels and proper budgetary treatment of Federal credit activity.

SEC. 7. No bill or resolution providing new budget authority for fiscal year 1983 or providing new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act of 1974 in excess of the allocation to or report by a committee or subcommittee pursuant to section 302 of the Budget Act shall be enrolled until Congress has completed action on the Second Budget Resolution for that fiscal year as required to be reported under section 310 of the Budget Act.

SEC. 8. It is the sense of the Senate that the new spending and revenue levels for fiscal year 1982, adopted by the Senate, shall be the ceilings against which the spending and revenue actions of the Senate will be measured pending final agreement with the House of Representatives on the revision of the Second Concurrent Resolution on the Budget for Fiscal Year 1982.

SEC. 9. It is the sense of the Congress that if Congress acts to restore fiscal responsibility and reduces projected budget deficits in a substantial and permanent way, then the Federal Reserve Open Market Committee shall reevaluate its monetary targets in order to assure that they are fully complementary to a new and more restrained fiscal policy.

Calendar No. 544

97TH CONGRESS } SENATE { REPORT
2d Session } { No. 97-385

FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEARS 1983, 1984, AND 1985

MAY 10 (legislative day, APRIL 13), 1982.—Ordered to be printed

Mr. DOMENICI, from the Committee on the Budget, submitted the following

REPORT

together with

ADDITIONAL AND MINORITY VIEWS

[To accompany S. Con. Res. 92]

The Committee on the Budget submits the following report, accompanying its First Concurrent Resolution on the Budget setting forth the recommended Congressional Budget for the United States Government for the fiscal years 1983, 1984, and 1985, and revising the Congressional Budget for the United States Government for the fiscal year 1982, pursuant to the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344), and recommends that the resolution be adopted.

Chapter I. INTRODUCTION

MAJOR NATIONAL PROBLEMS AFFECTING THE BUDGET

The First Concurrent Resolution on the Budget for FY 1983 is an unprecedented plan for responding to the economic and fiscal problems confronting the nation.

It builds upon the fundamental fiscal policy changes instituted by the Congress in FY 1982—cutting dramatically the growth in spending in domestic programs and changing the spending priorities that have prevailed for the past 25 years. In this respect, it is a logical continuation of the changes the Congress adopted in 1981 and that the Administration of President Reagan has requested from the Congress in 1982. It continues the basic thrust of his program.

The Budget Committee faced three major concerns in preparing its recommendations:

First, the serious economic problems in the nation, including high unemployment, low utilization of plant and equipment, and high interest rates.

Second, the unprecedented levels of Federal deficits that would exist in the coming years if current Federal policies continued unchanged. The baseline[1] deficits range from $182 billion in fiscal year 1983 to $232.5 billion in fiscal year 1985.

Third, the threatened insolvency of the social security system. The latest report of the social security trustees shows that the Old-Age and Survivors Insurance Trust Fund will have insufficient funds to pay benefits on time beginning in July 1983 unless emergency action is taken to shore up the trust fund. In addition, the medicare Hospital Insurance Trust Fund will start to experience serious cash-flow problems in 5 years or less. The Committee refused to side-step its responsibility to keep social security from bankruptcy and urges Congress to respond likewise.

The Committee concluded, after extensive hearings and study of relevant data, that those three concerns are closely interrelated. Specifically, the current recession is causing the Federal Government's expenses to rise and its revenues to drop, thereby helping produce the large Federal deficits and heightening the crisis in social security financing. In addition, the very large Federal deficits in coming years are produced in part by the gap between social security receipts and expenditures. These large deficits help cause higher interest rates, which in turn contribute greatly to the

[1] See chapter VIII for an explanation of the baseline concept.

continuing economic distress in fields such as agriculture, housing, construction, automobiles, and other types of interest-sensitive business. Indeed, high interest rates dampen economic activity in all fields, as businesses cannot borrow to expand their operations when the return on investment is extremely small in relation to the cost of capital. The Committee recognized its responsibilities to address both the recession and the threatened bankruptcy of the social security system.

THE PROPOSED BUDGET

The plan reflected in the Budget Resolution contains unprecedented actions to confront the historic deficits which would otherwise occur. The resolution proposes policy actions which would reduce the projected deficits by two-thirds in the fiscal year 1983–85 period. These actions are expected to reduce the fiscal year 1985 deficit to about $40 billion, thus bringing budget balance within reach.

The plan reflected in the Budget Resolution consists of the following elements:

(1) *Spending Restraint*—The Committee recommends spending reductions totalling $275 billion during FY 1983, 1984, and 1985. These reductions encompass the following major elements:

3-YEAR OUTLAY SAVINGS

	Billions
Restraint of defense program increases	$22.0
A 1-year freeze on Federal civilian pay raises followed by a 4 percent ceiling on pay raises for two additional years	18.7
Limitations on military pay raises	8.6
A freeze at the 1982 levels for the funding of nondefense discretionary appropriated programs in 1983 and slightly larger savings in these programs in 1984 and 1985	38.3
Elimination of cost-of-living increases for 1 year in retirement benefit programs other than social security	15.0
Legislative changes to slow the growth in entitlement programs	33.6
Management savings to be achieved largely through administrative actions by the executive branch	33.1
Interest savings due to lower interest rates	54.9
Interest savings due to lowered Federal borrowing	50.7
Total outlay savings	274.9

(2) *Increased Revenues.*—The Committee recommends that, along with the recommended spending reductions, Congress enact changes in law to achieve revenue increases of $95 billion over the next 3 years. In addition, the Committee recommends increased receipts from user fees totaling $6 billion over the next 3 years.

The revenue increases are about one fourth of the total deficit reductions proposed. The Committee's recommendations do not assume the cancellation or deferral for the third year of the individual income tax reductions approved in 1981. The Committee believes that new revenues can be raised by a variety of means which would not require that the scheduled individual income tax reductions be modified.

(3) *Social Security Solvency Actions.*—The Committee recognizes that the social security system may soon be bankrupt. The Committee recommends action to restore social security solvency totaling $40 billion over the next 3 years. These actions could be either revenue increases, a slowing in the growth of spending, or a combination of the two. The resolution includes a sense-of-the-Congress provision calling for the report of the National Commission on Social Security Reform to be submitted no later than November 11, 1982. The resolution also contains a reconciliation instruction directing the Senate Finance and House Ways and Means Committees to review promptly the Commission's recommendations and to report legislation by December 1, 1982, providing the following changes in revenues and/or outlays to restore social security solvency: FY 1983, $6 billion; FY 1984, $17 billion; FY 1985, $17 billion.

National Defense

The resolution provides for substantial growth in budget authority and outlays for national defense. This reflects the Committee's judgment that international conditions, especially the threat posed by the Soviet Union, require that defense be partially exempt from the spending restraint which applies to the rest of the budget.

Despite the Committee's acceptance of the vital need for continued major funding increases to strengthen the nation's defense capabilities, its recommendations provide for somewhat slower military spending growth than was requested by the President's budget. Defense outlays will be $36.5 billion lower over the next 3 years than they would have been under the President's budget as re-estimated by the Congressional Budget Office. This restraint consists of three elements: Pay restraint ($12.5 billion), military retirement reductions ($3.2 billion) and restraint of defense programs ($20.8 billion).

The Committee regrets that these reductions in defense funding were necessary, but is convinced that without them it would be impossible to put together an acceptable overall budget that has a chance of congressional approval and that equalizes sacrifice within the Federal budget.

After the defense spending restraint policies recommended by the Committee, the nominal (current dollars) and real (after inflation) growth of defense budget authority and outlays is as follows:

GROWTH OF DEFENSE SPENDING

[In percent]

	FY 1983	FY 1984	FY 1985	Average annual growth
Budget authority:				
Nominal growth	16.0	10.6	13.7	13.4
Real growth	9.7	4.0	6.6	6.8
Outlays:				
Nominal growth	13.1	12.9	14.3	13.4
Real growth	5.2	5.0	6.6	5.6

SUMMARY OF BUDGET DECISIONS

The following table summarizes the changes from the baselines for revenues, outlays, and deficits as a result of the policy changes assumed in the resolution:

SUMMARY OF CHANGES FROM BASELINE REFLECTED IN PROPOSED BUDGET RESOLUTION

[In billions of dollars]

	FY 1982	FY 1983	FY 1984	FY 1985
Revenues:				
Baseline	623.0	645.0	702.0	780.0
Revenue increases		+20.0	+35.0	+40.0
New user fees		+2.0	+2.0	+2.0
Recommended revenues	623.0	667.0	739.0	822.0
Outlays:				
Baseline	742.3	827.0	918.0	1,012.5
Defense except pay and entitlements	−0.5	−5.0	−7.0	−10.0
Federal civilian pay raises		−3.9	−6.3	−8.5
Federal military pay raises		−1.6	−3.0	−4.0
Non-defense discretionary programs	−0.8	−5.7	−12.5	−20.1
Cost-of-living adjustments	−0.1	−2.7	−5.1	−7.2
Other entitlement savings		−7.2	−11.4	−15.0
Management savings		−8.9	−12.1	−12.1
Net interest:				
Lower rates	−0.1	−8.0	−19.1	−27.8
Lower deficits	−0.1	−4.9	−16.5	−29.3
Total outlay savings	−1.6	−47.9	−93.0	−134.0
Recommended outlays	740.7	779.1	825.0	878.5

SUMMARY OF CHANGES FROM BASELINE REFLECTED IN PROPOSED BUDGET RESOLUTION—Continued

[In billions of dollars]

	FY 1982	FY 1983	FY 1984	FY 1985
Social security solvency				
Recommended solvency actions		−6.0	−17.0	−17.0
Deficits:				
Baseline	−119.3	−182.0	−216.0	−232.5
Proposed changes	+1.6	+75.9	+147.0	+193.0
Proposed deficits	−117.7	−106.1	−69.0	−39.5

The following table shows the proposed allocation among budget functions of budget authority and outlays included in the proposed budget resolution:

FIRST BUDGET RESOLUTION FOR FY 1983 AND REVISED SECOND BUDGET RESOLUTION FOR FY 1982 AS REPORTED BY SENATE BUDGET COMMITTEE

[In billions of dollars]

Function		FY 1982	FY 1983	FY 1984	FY 1985
050: National defense	BA	216.9	251.7	278.3	316.5
	O	190.3	215.3	243.0	277.7
150: International affairs	BA	16.8	16.2	16.7	21.0
	O	11.4	12.1	12.3	12.2
250: General science, space, and technology	BA	7.0	7.0	6.9	6.9
	O	7.1	7.1	7.0	7.0
270: Energy	BA	4.8	4.9	4.2	4.1
	O	6.4	4.8	3.6	3.3
300: Natural resources and environment	BA	10.3	9.9	9.3	8.9
	O	12.8	11.4	10.3	9.3
350: Agriculture	BA	9.9	6.6	8.3	6.7
	O	13.8	10.1	8.2	7.3
370: Commerce and housing credit	BA	6.5	6.9	7.4	7.2
	O	3.8	2.8	2.4	2.1
400: Transportation	BA	20.8	21.3	21.5	21.8
	O	21.3	19.9	19.6	19.5
450: Community and regional development	BA	6.7	6.9	6.9	7.0
	O	8.5	7.7	7.5	7.4
500: Education, training, employment, and social services.	BA	25.4	25.5	25.2	24.4
	O	28.1	26.4	25.5	24.6
550: Health	BA	78.5	79.7	92.6	104.3

FIRST BUDGET RESOLUTION FOR FY 1983 AND REVISED SECOND BUDGET RESOLUTION FOR FY 1982 AS REPORTED BY SENATE BUDGET COMMITTEE—Continued

[In billions of dollars]

Function		FY 1982	FY 1983	FY 1984	FY 1985
	O	73.7	76.5	83.9	94.5
600: Income security	BA	260.9	281.7	300.8	332.9
	O	251.5	272.5	288.2	309.7
700: Veterans benefits and services	BA	24.8	23.4	24.2	24.4
	O	23.8	22.7	23.6	24.4
750: Administration of justice	BA	4.5	4.6	4.6	4.6
	O	4.6	4.7	4.6	4.6
800: General government	BA	5.2	5.0	4.7	4.7
	O	5.0	4.8	4.6	4.4
850: General purpose fiscal assistance	BA	6.4	6.6	6.7	6.9
	O	6.3	6.5	6.7	6.8
900: Interest	BA	102.0	115.1	119.8	111.6
	O	102.0	115.1	119.8	111.6
920: Allowances	BA	0.7	−2.0	−0.8	−0.8
	O	0.8	−2.0	−0.8	−0.6
950: Undistributed offsetting receipts	BA	−30.5	−39.3	−44.8	−47.3
	O	−30.5	−39.3	−44.8	−47.3
Total spending	BA	777.6	831.7	892.3	966.0
	O	740.7	779.1	825.0	878.5
Revenues		623.0	667.0	739.0	822.0
Social security solvency		....	−6.0	−17.0	−17.0
Deficit		−117.7	−106.1	−69.0	−39.5
Public debt		1,144.2	1,290.0	1,414.6	1,522.9

REVISION OF SECOND BUDGET RESOLUTION FOR FY 1982

The resolution revises the aggregate and functional totals provided in the Second Budget Resolution of FY 1982. The Second Budget Resolution for FY 1982, adopted last December, was simply a restatement of the First Budget Resolution which had been adopted earlier in the year. Many changes have occurred in the budget outlook since the First Resolution for FY 1982 was adopted. This resolution updates the revenue and spending estimates and provides for the spending levels which the Committee believes necessary in FY 1982.

The resolution includes a sense-of-the-Senate provision calling for use of the FY 1982 totals set forth in this resolution, after adoption by the Senate, for scorekeeping purposes. This language creates no new points of order nor does it eliminate existing points of order which may be available under the Budget Act. It is the intent of the Budget Committee that, once the Senate has approved this resolution, the sense-of-the-Senate language would be a factor in the Committee's advice to the full Senate on disposition of current legislation proposing additional spending, but would not be determinant of the Chair's rulings on whether a point-of-order lies against a bill or amendment. Once a conference agreement is reached on this resolution, and approved by both bodies, the sense-of-the-Senate language would become inapplicable.

RECONCILIATION

The resolution includes three types of reconciliation instructions addressed to Senate committees and their House counterparts:

(1) The Senate committees indicated below are instructed to achieve the outlay savings shown below by reporting changes in laws, no later than June 18, 1982, to modify programs so as to produce the savings.

[In billions of dollars]

	FY 1983	FY 1984	FY 1985
Agriculture	0.8	1.1	1.4
Armed Services	0.6	1.3	1.9
Commerce, science, and transportation	(*)	(*)	(*)
Foreign Relations	(*)	(*)	(*)
Governmental Affairs	0.7	1.8	2.6
Labor and Human Resources	0.6	1.3	1.9
Veterans Affairs	0.2	0.3	0.4
Total outlay reductions	2.8	5.8	8.3

*Less than $50 million.

(2) The Finance Committee is instructed to report no later than June 11, 1982, changes in laws producing the following additional revenues, additional user fees, and reductions in entitlement spending:

[In billions of dollars]

	FY 1983	FY 1984	FY 1985
Revenue increases	20.0	35.0	40.0
New user fees	2.0	2.0	2.0
Entitlement outlay reductions	6.7	9.9	12.5

(3) The Senate Finance Committee and the House Ways and Means Committee are instructed to report changes in law no later than December 1, 1982, which would either increase revenues, slow program growth, or provide a combination of the two producing the following improvements in social security solvency.

[In billions of dollars]

	FY 1983	FY 1984	FY 1985
Social security solvency	6.0	17.0	17.0

This is the third consecutive year the Budget Committee has reported major reconciliation actions as a part of a revised Second Concurrent Resolution for the current year and First Concurrent Resolution for the forthcoming budget year. The Committee believes action to produce revenue increases and outlay reductions through reconciliation is absolutely essential in order to lend credibility to the fiscal plan that is incorporated in the Resolution. Without reconciliation, the Committee believes that the budget targets would not be achieved. The Committee is even more concerned that the budget plan would not have credibility in the financial markets and with the general public. If this were the case, expectations about the future of the economy would be less positive and the benefits of the budget plan would be delayed or negated.

The Committee is fully aware that the reconciliation actions it proposes will create difficult problems for the committees having jurisdiction over the programs from which the savings will be achieved. Nevertheless, this Committee believes that the savings are necessary and achievable. The Committee will assist other committees in whatever way it can to carry out the reconciliation instructions, once they are approved by the full Senate.

The resolution contains a sense-of-the-Senate provision calling on the Senate committees to proceed with development of the legislation necessary to implement the reconciliation requirements even without waiting for the House-Senate conference on this Resolution to be completed.

ECONOMIC ASSUMPTIONS

The following economic assumptions were used by the Committee in formulating this Resolution. These assumptions are very similar to the Congressional Budget Office economic forecast prepared earlier this year. They have been revised slightly to take account of economic developments in the first quarter of calendar year 1982. They have also been revised to reflect the anticipated effects on interest rates of the reductions in Federal deficits proposed by this Resolution.

ECONOMIC ASSUMPTIONS

[Calendar years—billions of dollars]

	1982	1983	1984	1985
Percent growth over prior year:				
Real GNP	−0.9	4.5	4.1	3.7
GNP deflator	7.4	7.3	6.6	6.0
CPI–U	6.9	6.9	6.9	6.4
Average rate, calendar year:				
Unemployment	9.1	8.4	7.6	7.2
91-day Treasury bills	12.0	10.7	8.8	6.9

These economic assumptions are consistent with those now being used by the Administration and by the House Budget Committee in formulating its proposed budget resolution.

PUBLIC DEBT

The First Budget Resolution provides for increases in the public debt subject to limit of $64.4 billion, $145.8 billion, $124.6 billion, and $108.3 billion in FY 1982, FY 1983, FY 1984, and FY 1985, respectively. While the increases in the public debt appear large relative to the unified budget deficit recommendations, these increases are due in large part to higher trust fund balances that result from the social security solvency recommendations in this Resolution. The increases in the Federal debt held by the public (which is approximately equal to the change in public debt levels less the effect of the trust fund balances) are $127.5 billion, $89.7 billion and $59.7 billion in FY 1983, FY 1984, and FY 1985, respectively. The increase in Federal debt held by the public is the appropriate measure of the effect of changes in the public debt on credit markets.

CREDIT BUDGET

This resolution continues to reflect the Committee's concern about the credit activities of the Federal Government. It contains a number of provisions dealing with credit activities including recommended totals by function for new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments.

The resolution also contains sense-of-the-Congress language calling on the President to take administrative action to limit Federal Financing Bank transactions to amounts that are assumed in the credit budget totals in this Resolution. Similar language was included in the First and Second Budget Resolutions for FY 1982.

The Committee recommends, and the Resolution provides, that FY 1982 appropriation act limitations on credit activities be continued, that the 1982 activity levels generally not be exceeded for credit programs for which the President has proposed FY 1983 limitations, and that other credit activities be continued at baseline levels. Finally, the Committee recommends sense-of-the-Congress language directing the Senate Budget and Governmental Affairs Committees and the House Rules Committee to consider legislation strengthening congressional control over credit activities and more effectively incorporating credit activities into the congressional budget process.

CONCLUSION

The Committee found the development of the Resolution an extremely difficult but important challenge. The Committee delayed its work for several weeks pending completion of intensive negotiations among House of Representatives, Senate, and White House leaders who were seeking a bi-partisan budget compromise. The Committee regrets that that compromise proved unachievable.

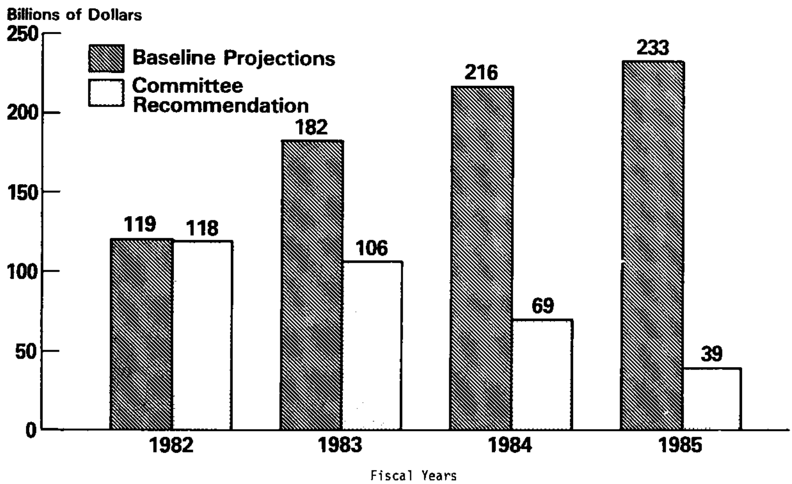
The Committee is gratified, nevertheless, that it has been able to produce a Budget Resolution for which the President has indicated strong support. The Committee believes that this Resolution will find broad support in the Senate and is hopeful that the essential elements of it can be accepted by the House of Representatives in the House-Senate Conference. Without the types of policy actions reflected in this Resolution, the Committee is convinced that economic recovery will continue to be postponed, that interest rates will remain high, and that the restoration of confidence in the future strength of our eonomy will be seriously hindered.

Chapter II. THE BUDGET PROBLEM: LARGE AND GROWING DEFICITS

Unprecedented deficits are now projected for the coming years unless major changes are made in Federal spending and revenue policies. If no cuts in spending and no increases in taxes are made, budget deficits for fiscal years 1982 through 1985 will steadily increase, as Chart 1 shows.

CHART 1

Budget Deficits, 1982-85



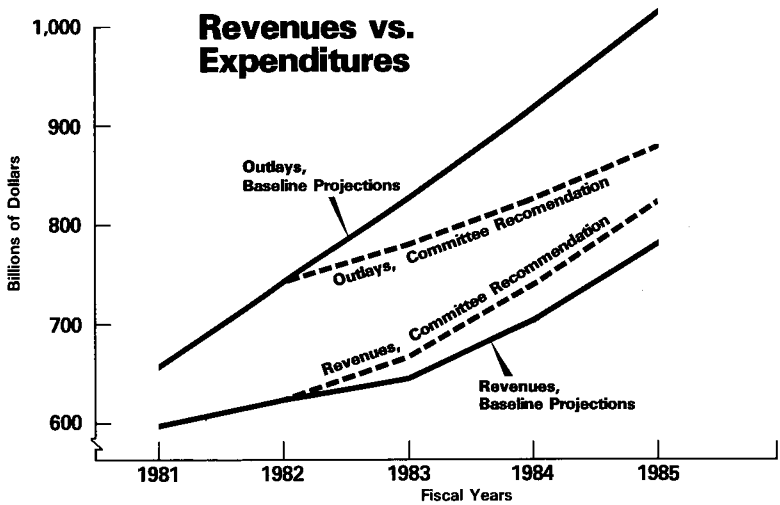
Source: U.S. Senate Committee on the Budget

The baseline deficits almost double in a 4-year period, reaching an unprecedented $233 billion in FY 1985. These deficit projections, it should be noted, are based on the assumption that the economy will recover and grow rapidly in fiscal years 1983 through 1985.

Also shown are the deficits that would result if the Committee's recommendation is adopted.

A growing gap between revenues and expenditures is projected for the early 1980's, in the absence of action of the magnitude recommended by the Committee. Chart 2 shows this gap and the effect of the policy changes recommended in the resolution.

CHART 2

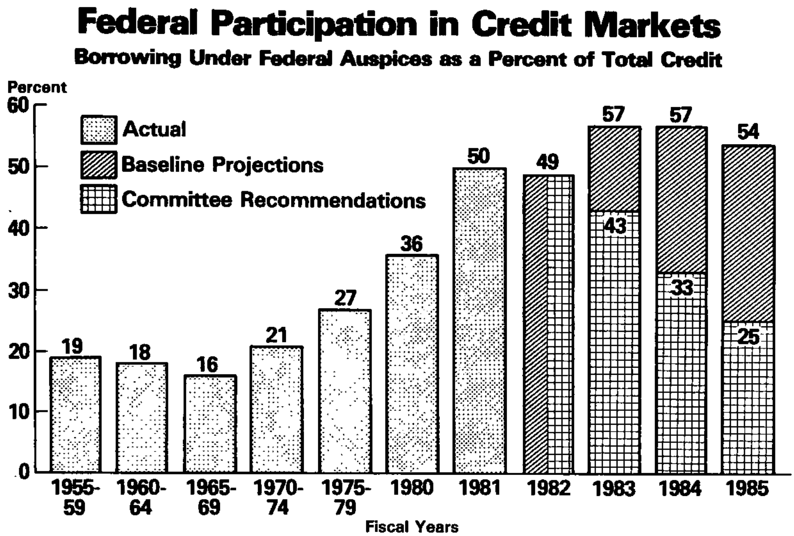


Source: U.S. Senate Committee on the Budget

Outlays in the baseline increase from $742 billion in FY 1982 to $1,013 billion in FY 1985. The gap between spending and revenues is projected to get wider every year without swift and substantial action. If the policy changes proposed in the Budget Resolution are enacted, however, this gap will narrow rapidly, as the chart shows.

If no action is taken to reduce projected deficits, a robust economic recovery is unlikely. Economic expansion to a great extent depends on the availability and affordability of credit for business investment. However, the projected baseline deficits will make credit less available and will likely keep interest rates at historically high levels. As Chart 3 shows, direct Federal borrowing and federally assisted borrowing have both grown rapidly in the last 30 years.

CHART 3



Source: U.S. Senate Committee on the Budget

In the years that witnessed the country's best economic growth, Federal credit requirements absorbed about 20 percent or less of the funds available in credit markets. In the late 1970's and particularly in the early 1980's, Federal credit activity has grown much faster than the savings necessary to finance it. Thus, in 1983, 1984, and 1985, Federal and federally assisted borrowing is projected to require at least 54 percent of the available capital in credit markets, an extraordinarily high proportion.

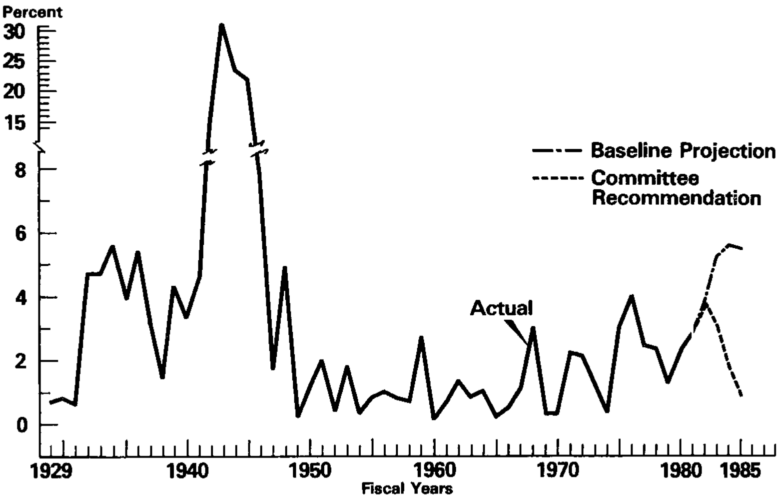
Clearly, this will affect the amount of credit available to other borrowers, such as State and local governments, businesses, and individuals, and ensure that interest rates remain high. Not incidentally, it will keep the Federal Government's interest costs high. If no action is taken this year, it is projected that net interest expenditures will skyrocket from $23.2 billion in 1975 to $147.1 billion in 1985. The portion of the Federal budget needed to cover these large expenditures will jump from 7 percent to 15 percent.

The deficit reduction measures incorporated in the Committee recommendation allow for substantial decreases in Federal intrusion in the capital markets.

The unprecedented nature of the deficit is also evident in Chart 4, which shows Federal deficits as a percent of GNP.

CHART 4

Federal Deficits as a Percent of GNP, 1929-85



Source: U.S. Senate Committee on the Budget

Even under the assumption of vigorous economic growth, deficits in the 1980's are projected to reach proportions not previously reached before or after World War II. By 1985, the deficit is projected to equal 6 percent of GNP, larger than any time during the Depression and much larger than it was during the Nation's best years of economic growth.

THE PORTIONS OF THE BUDGET MOST TO BLAME FOR THE PROBLEM

In a fundamental sense, the deficit crisis is due to Federal spending growing so much faster than Federal revenues. In the last 20 years, all portions of the budget have grown enormously. But it is important to note that certain parts of the budget are responsible for the largest share of this growth. Entitlements, including medicare and social security, grew from 28.8 percent of the budget in 1965 to a projected 43.7 percent of the budget in 1985. Net interest, as noted above, accounted for a fairly stable portion of the budget between 1965 and 1975—a little more than 7 percent—but jumps to 15 percent in the projections for 1985.

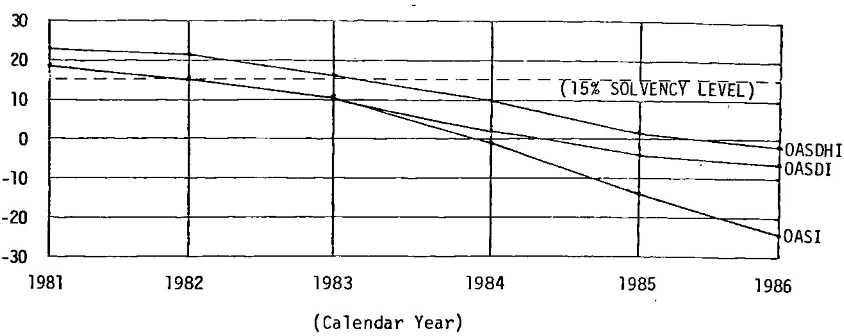
While entitlements and net interest increase as a percent of the budget, discretionary, non-defense appropriations decline dramatically to a projected 15.5 percent of the budget in 1985. The defense share of the budget drops from 40.1 percent in 1965 to 29.4 percent in the 1985 projections.

In short, entitlements and net interest are the parts of the budget showing the fastest growth. However, if the recommendations of the Committee are adopted and become law, growth in Federal spending will equal 18.6 percent between FY 1982 and FY 1985, compared to the baseline growth of 36.4 percent.

Chapter III. SOCIAL SECURITY SOLVENCY

The social security program faces severe financial problems in both the short and long term. According to the April 1, 1982, report of the trustees of the social security system, the social security retirement trust fund—the old-age and survivors insurance (OASI) trust fund—will not be able to pay benefits on time by July 1983 under current law. Combining all three social security trust funds (OASI, disability (DI), and hospital insurance (HI)) would only maintain solvency until 1984. The chart below illustrates the problem.

ESTIMATED TRUST FUND RATIOS OF THE SOCIAL SECURITY SYSTEM UNDER
II-B (INTERMEDIATE) ASSUMPTIONS OF SOCIAL SECURITY ADMINISTRATION ACTUARIES



TRUST FUND RATIO: Amount in the trust fund at the beginning of a year expressed as a percentage of that year's expenditures. A fund ratio of 15 percent means that the amount in the fund is enough to pay benefits for about two months.

Recognizing the severity of the financial problems facing the social security system, the Committee recommends that the Congress act to restore the system to solvency and insure timely payment of benefits to the Nation's 36 million social security recipients.

The Resolution does not specify how much of the solvency actions should be slower benefit growth and how much should be revenue increases. That will be determined in the regular legislative process. The Committee is not recommending any cuts in benefits. The Committee's recommendations allow the full increase in benefits scheduled for July 1982. The Committee recommends that the Finance Committee be directed to take action this year to see that the system remains solvent. The Finance Committee could propose a variety of measures to slow benefit growth or increase the revenues of the system.

HISTORY OF SOCIAL SECURITY FUNDING PROBLEMS

In 1970, the combined retirement and disability trust funds had reserves sufficient to pay about 12 months' worth of benefits. The balance has declined every year since. In 1973, the trustees of the social security system began to forecast a worsening financial situation for the system by the late 1970's. Concern over the solvency of the system mounted during the decade. It culminated in major legislation in 1977 designed to improve both the short- and long-term social security outlook.

The Social Security Amendments of 1977 were projected to provide a surplus in the OASDI program over the next 25-year period. Reserve balances were expected to rise to 59 percent of yearly outgo by the beginning of 1987. This expected short-run improvement was brought about by increasing taxes by an estimated $80 billion through 1983. Changes in benefits were estimated to save about $8 billion during the same period.

The major 1977 changes in revenues included increases in the social security payroll tax rate beginning in 1979 and increases in the taxable earnings base. (The current contribution rate for the retirement, disability, and health programs is 6.7 percent each for employer and employee on a wage base of $32,400. The tax rate will rise to 7.15 percent each on a wage base of about $43,000 in 1986. The self-employed pay about 1½ times the tax rate of salaried employees.)

The actual economic situation over the period 1978 to 1980 was much worse than projected in 1977. Inflation was higher than expected. This resulted in very large benefit increases because of the automatic cost-of-living adjustment (COLA) provisions. Unemployment was also higher than expected. This reduced the amount of revenues coming into the social security system. Thus, in 1980, the social security trustees concluded: "Over the short term, the OASI trust fund will face financial strains requiring policy actions. Without such actions, the OASI fund would be depleted in late 1981 or early 1982, depending on the course of the economy."

In response, the 96th Congress temporarily reallocated a larger share of payroll tax receipts to the old-age and survivors insurance trust fund to eliminate the possibility of a financing deficiency in 1980 and 1981. This was not a permanent solution to the problem.

As financial projections for the trust funds worsened in the fall of 1980, it became apparent that tax reallocation or interfund borrowing among the trust funds would not be sufficient to insure the solvency of the system for more than a few years. Either revenue to the system would have to be increased, or future benefits would have to be reduced.

The 1981 report of the social security trustees indicated that the OASI trust fund would not have enough asssets to make timely payments of benefits in the second half of 1982. Under the "II-B" intermediate set of economic assumptions, it was projected that the system could not make it through the rest of the decade, even with interfund borrowing.

The Congress responded to the gravity of the social security funding problem in 1981. As part of the Omnibus Budget Reconciliation Act 1981, the Congress enacted major entitlement savings. These entitlement savings included substantial cost-saving changes in social security. Subsequent legislation also allowed borrowing among the separate trust funds. Nevertheless, current law borrowing authority will not permit retirement benefits to be paid on time after June 1983. At that time, the combined reserves of all three trust funds will be dangerously low.

RESTORING SOLVENCY TO THE SYSTEM

Despite the efforts made last year, the funding situation in social security is grave again this year. The problem is, in fact, more severe than it appeared to be last year. It is now quite clear that interfund borrowing cannot maintain the system during the coming years when benefits are paid out faster than income is received. Since 1975, combined OASDI benefit payments have exceeded revenue; that situation is expected to continue through 1985—a full decade of decline in the combined OASDI funds.

This year, the Committee approached the social security financing problem from the "solvency" perspective. It tried to determine the minimum amount of funds the social security system needed over the budget period FY 1983 to FY 1985 to remain solvent. The Committee assumed that an acceptable minimum level of reserves would be enough to make about 2 months of benefit payments (a 15-percent trust fund ratio). A higher level—3 to 6 months of reserves—would be preferable, but the Committee concluded that this higher level would be too difficult to achieve in the short term.

The Committee also decided to focus on the entire social security system—retirement and survivors, disability, and hospital insurance. The drain on retirement funds is projected to ease up temporarily after this decade and the disability fund appears to be able to recover. However, the medicare hospital insurance (HI) trust fund is expected to be exhausted and unable to pay beneficiary claims by 1988. Beginning this year, expenditures from the HI trust fund are projected to exceed income for the forseeable future. The fund currently is able to pay claims promptly only by drawing down its reserves.

The medicare savings assumed in the Committee's recommendation could defer bankruptcy of the HI fund until the early 1990's. However, the size of the revenue shortfall to the HI fund is such that further substantial reforms will be necessary. According to the trustees: "In order to bring the hospital insurance program into close actuarial balance, either disbursements of the program will have to be reduced or financing increased by *more than one-third*" (emphasis added).

Consultations with both the Congressional Budget Office and the Office of Management and Budget led the Committee to conclude that changes in the social security system of $40 billion over the next 3 years would be the minimum necessary to insure solvency in the combined trust funds ($6 billion in FY 1983, $17 billion in FY 1984, and $17 billion in FY 1985). In the event that any single fund could not pay benefits on time after changes were made, it was assumed that interfund borrowing could be reauthorized. The following table shows the amounts needed to maintain the social security system at a minimal level of solvency over the next few years.

SENATE BUDGET COMMITTEE SOCIAL SECURITY SOLVENCY ASSUMPTIONS [1]

[In billions of dollars]

	FY 1982	FY 1983	FY 1984	FY 1985
Total amount needed by end of year to bring OASI trust fund to 15 percent (2 months) of outlays	10	12	22	20
Social security solvency targets		6	17	17
Balance to be achieved through continued interfund borrowing	10	6	5	3

[1] Assumes full 7.4 percent June 1982 cost-of-living adjustment.

The Committee calls for the bipartisan National Commission on Social Security Reform to expedite its work and report by November 11 of this year specific recommendations for actions to maintain social security funding. It also directs the Senate Committee on Finance to consider the Commission's recommendations immediately and report legislation no later than December 1, 1982 which will insure social security solvency.

The Committee expects that full consideration will be given by the National Commission and the responsible congressional committees to a wide range of possible solutions. Recent reports and surveys by the Advisory Council on Social Security, the Social Security Coverage Group, and the National Commission on Social Security suggest several possible approaches to the problem.

The Committee notes that its solvency proposal allows a full 7.4 percent increase in social security benefits in July 1982. Finally, the Committee reiterates that its proposal does not specify the extent to which the solvency gap would be filled by increased revenues by slower benefit growth. It is clear, however, that even if the entire gap were filled through slower benefit growth, retirees could continue to receive benefit increases which would, on average, provide over $1,300 more during the next 3 years, based on the present economic outlook.

Chapter IV. RESTRAINT OF NON-DEFENSE DISCRETIONARY PROGRAMS

The budget recommended by the Committee for FY 1983 includes a freeze on non-defense discretionary programs.

Non-defense discretionary programs are those programs over which Congress exercises control through the annual appropriations process. Excluded from this category of programs, in addition to defense, are entitlement programs, permanent appropriations, mandatory programs and payments, and offsetting receipts.

The total baseline for non-defense discretionary programs and the savings as a result of the freeze recommended by the Committee are as follows for FY 1983:

NON-DEFENSE DISCRETIONARY PROGRAMS

[In billions of dollars]

	FY 1983	
	Budget authority	Outlays
Baseline total for non-defense discretionary programs	144.3	145.4
Savings as a result of the freeze recommended by the Committee	−10.7	−5.7
Committee recommendation	133.6	139.6

To determine the amount of savings resulting from the freeze, the Committee used the following assumptions:

—Budget authority for FY 1983 was frozen at the FY 1982 level (including appropriations already enacted and expected supplemental appropriations) except in a very few cases which are discussed below.

—Where the Appropriations Committees enacted credit limitations in FY 1982, that level was assumed for FY 1983.

—Where the Appropriations Committees enacted limitations on administrative expenses in FY 1982, that level was assumed for FY 1983.

—Where the Appropriations Committees enacted obligation ceilings in FY 1982, that level was assumed for FY 1983.

There are a few budget accounts for which an FY 1983 authorization that is lower than the FY 1982 budget authority level has already been enacted. In these few cases, the lower authorization level was used in the Committee's calculations.

In the case of the Export-Import Bank, the credit program limitation enacted by the Appropriations Committees in FY 1982 was used to calculate the FY 1983 freeze level. Because increased levels of receipts and financing adjustments are projected for the Export-Import Bank in FY 1983, the budget authority level is $0.8 billion lower than in FY 1982.

Following these guidelines, the Committee asked the Congressional Budget Office to calculate the freeze level using its normal estimating techniques.

It should be clearly understood that these calculations were only the technical means by which the Budget Committee arrived at a dollar level that will ultimately be divided up by the Appropriations Committee. Under the Budget Resolution, the Appropriations Committee receives a "crosswalk" allocation that includes the Budget Committee's recommended dollar levels for all programs under the Appropriations Committee jurisdiction, including defense programs, non-defense discretionary programs, entitlement programs that are annually appropriated, and other mandatory programs and payments that are subject to the annual appropriations process. The Appropriations Committee's crosswalk allocation under the budget resolution is a single total amount of budget authority and a single total amount of outlays. It is the job of the Appropriations Committee to allocate these totals among individual programs.

The Appropriations Committee will undoubtedly allocate more funds to some programs in FY 1983 than those programs received in FY 1982 and less to others. There is no way the Budget Committee can guarantee any level for any particular program in the Budget Resolution, nor does the Committee wish to do so. If an individual Senator wishes to affect the funding for a particular program, he or she must accomplish this during the appropriations deliberations.

In FY 1984 and FY 1985, the Committee recommends savings in non-defense discretionary programs slightly greater than the savings that could be achieved from a freeze. In FY 1984, the recommended outlay savings are $12.5 billion while the savings produced by a freeze would be $11.8 billion. In FY 1985, the recommended savings are $20.1 billion while the savings produced by a freeze would be $18.6 billion. These recommendations for FY 1984 and FY 1985 are, of course, subject to further review in the budget and appropriations process during the next 2 years.

Again, it should be noted that the Appropriations Committee has broad discretion on the funding levels for each program. It has the authority to allocate more funds to some programs and fewer funds to others.

Chapter V. RECONCILIATION

INTRODUCTION

A significant portion of the program to reduce the Federal deficit will be implemented through the reconciliation process. The resolution contains reconciliation instructions directing committees of Congress to take actions that will change existing laws in order to reduce outlays and increase revenues and receipts from user fees. Reconciliation is a key procedure for implementing the policies proposed by this Resolution because it allows Congress to deal with a wide range of spending reductions as a package, instead of addressing such restraint proposals on a piecemeal basis. Reconciliation provides Congress with the means to enact the historic deficit-reducing program necessary to revive the American economy.

THE RECONCILIATION PROCESS

Reconciliation is well established as an effective means to reduce Government spending. The First Concurrent Budget Resolution for fiscal years 1981 and 1982 both included reconciliation instructions. The Senate, in addition, included reconciliation in its version of the Second Concurrent Resolution for fiscal year 1980, but the House of Representatives did not agree.

The authority to include reconciliation instructions in the Budget Resolution is included in Title III of the Congressional Budget Act of 1974. The reconciliation contained in this Resolution includes instructions to committees to report legislation which will raise revenues and user fees, and which will reduce budget authority and outlays. The reconciliation provisions also include a special instruction to the Senate Finance Committee and the House Ways and Means Committee to ensure the solvency of the social security system. Changes pursuant to this instruction may include either changes in spending or revenues or a combination of the two.

Most of the cuts in spending will be from direct spending authority. Direct spending is defined in section 401(c)(2) of the Budget Act. Direct spending is spending to which the Government is committed whether or not appropriations are provided in advance. Entitlement payments make up most of this category.

Reconciliation permits Congress to instruct its committees to revise existing laws in order to achieve specified savings or revenue increases. The process allows the individual committees to keep their autonomy and to exercise their full judgment on the laws to be changed and on the changes that should occur. Reconciliation maintains committees' jurisdiction over their programs and responds to the Congress' need to consider rationally its fiscal policies.

1982—Three Reconciliation Bills

This Resolution includes instructions which will lead to three separate reconciliation bills. The Resolution, as reported by this committee contains instructions to committees of both Houses to recommend spending changes in laws within their jurisdiction. Neither the Resolution nor this report are in any way determinative of committee jurisdiction. Questions of jurisdiction ultimately are resolved by the two chambers.

The first category of reconciliation instructions included in the Resolution instructs seven committees in the Senate (and the House Committees which have jurisdiction over the programs which are assumed to be reduced) to recommend changes in budget authority and outlays within their jurisdiction. These recommendations will be submitted to the Budget Committees of each House by June 18, 1982. The Budget Committees will package these recommendations without substantive change and report them to their respective Houses as a single omnibus reconciliation bill. Major program reductions assumed in this reconciliation are shown in the following table.

FIRST RECONCILIATION

[In millions of dollars]

Senate committee (function)	FY 1983		FY 1984		FY 1985	
	BA	O	BA	O	BA	O
Agriculture, Nutrition, and Forestry:						
Food stamps—restrain indexing and lower error rates (600)	−779	−779	−1,083	−1,083	−1,428	−1,428
Armed Services:						
Military retirement—COLA restraint (050)	−581	−581	−1,340	−1,340	−1,899	−1,899
Public Health Service commissioned officers retirement—COLA restraint (550)	−2	−2	−5	−5	−7	−7
Total, Armed Services	−583	−583	−1,345	−1,345	−1,906	−1,906
Commerce, Science, and Transportation:						
Coast Guard retirement—COLA restraint (400)	−11	−11	−28	−28	−42	−42
Foreign Relations:						
Foreign Service retirement—COLA restraint (600)		−6	−5	−15	−8	−21
Governmental Affairs:						
Civil Service retirement—COLA restraint (600)		−680	−628	−1,800	−1,000	−2,629

FIRST RECONCILIATION—Continued

[In millions of dollars]

Senate committee (function)	FY 1983		FY 1984		FY 1985	
	BA	O	BA	O	BA	O
Labor and Human Resources:						
Guaranteed student loans—increase student share of interest (500)	−289	−144	−819	−684	−1,290	−1,173
Railroad retirement—COLA restraint (600)		−355		−489		−624
Black lung trust fund—COLA restraint (600)	−34	−34	−40	−40	−48	−48
Federal Employees Compensation Act—COLA restraint (600)	−30	−30	−50	−50	−50	−50
Federal Employees Compensation Act: Disability—reform benefit structure (600)	−38	−38	−46	−46	−22	−22
Total, Labor and Human Resources	−391	−601	−955	−1,309	−1,410	−1,917
Veterans Affairs:						
Veterans pensions—COLA restraint (700)	−188	−188	−269	−269	−355	−355
Total, First Reconciliation	−1,952	−2,848	−4,313	−5,849	−6,149	−8,298

In the event that the Committee on Governmental Affairs responds to the reconciliation instruction directed to it by recommending changes in cost-of-living adjustments (COLA) for civil service retirees, the Committees on Armed Services and Foreign Relations will be relieved of the requirement to respond to reconciliation instructions directed to those committees. Cost-of-living adjustments for programs within the jurisdictions of Armed Services and Foreign Relations are tied, by law, to the civil service retirement program. Therefore, the savings assumed in the Resolution will occur automatically in these programs if the civil service retirement COLA is changed.

The second category of reconciliation instruction is addressed to the Senate Committee on Finance and the House Committee on Ways and Means. These committees are instructed to report changes in laws within their jurisdiction to achieve savings in budget authority and outlays and to report changes to increase revenues and to increase receipts from user fees. These changes, to be reported by June 11, 1982, will be reported by the Committees directly to the Senate and the House of Representatives. Major changes in law assumed in this category of reconciliation are listed in the following table.

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SECOND RECONCILIATION

[In millions of dollars]

Senate committee (function)	FY 1983		FY 1984		FY 1985	
	BA	O	BA	O	BA	O
Finance:						
Medicare—change provider reimbursement and client co-payments (550)	−590	−5,334	−1,002	−8,416	−1,527	−10,737
Medicaid—Eliminate special match provisions and institute co-payments (550)	−512	−674	−736	−736	−808	−808
Coal miners special benefits—COLA restraint (600)	−55	−55	−66	−66	−76	−76
Public Assistance—Revise eligibility and benefit calculations in AFDC, SSI, and CSE matching rates (600)	−593	−593	−705	−705	−928	−928
Total, Second Reconciliation (spending)	−1,750	−6,656	−2,509	−9,923	−3,339	−12,549

	FY 1983 revenues	FY 1984 revenues	FY 1985 revenues
Finance:			
Increased revenues	+20,000	+35,000	+40,000
Increased receipts from user fees	+2,000	+2,000	+2,000
Total, Second Reconciliation (revenues)	+22,000	+37,000	+42,000

The Committee suggests that the Committee on Finance consult with other committees in developing user fee legislation which recovers Federal expenditures for programs and activities under the authorizing jurisdiction of those committees.

For example, the Committee on Finance may consider legislation that would impose new or expanded user fees relating to expenditures by the U.S. Army Corps of Engineers. In developing any such legislation, the Committee expects that the Committee on Finance would consult with the Committee on Environment and Public Works. The Committee also notes that legislation has been reported which could meet a portion of this instruction by eliminating certain Federal responsibilities, such as the construction of new harbor facilities.

If the Committee on Finance considers legislation to increase aviation user fees or to impose Coast Guard user fees, the Committee expects that the Finance Committee would consult with the Commerce, Science and Transportation Committee. Finally, should the Finance Committee seek to increase user fees related to the Bureau of Reclamation projects, the Committee expects the Finance Committee to consult with the Energy and Natural Resources Committee.

The third category of reconciliation instruction included in the Resolution calls for reporting significantly later than the first two. This instruction requires the Senate Committee on Finance and the House Committee on Ways and Means to make changes in law to insure the solvency of the Social Security Old-Age and Survivors Insurance Trust Fund. These changes are to be reported directly to the floor by these committees by December 1, 1982. This reporting date is designed to allow the committees to consider the report of the National Commission on Social Security Reform. The Resolution includes sense of the Congress language requesting the President to direct the Commission to report its findings by November 11, 1982. Major changes in law assumed in this reconciliation are listed as follows:

THIRD RECONCILIATION

[In millions of dollars]

	FY 1983 deficit restraint	FY 1984 deficit restraint	FY 1985 deficit restraint
Finance:			
Social security solvency	−6,000	−17,000	−17,000

The following table summarizes all the reconciliation instructions included in the resolution.

RECONCILIATION SUMMARY

[In billions of dollars]

	FY 1983	FY 1984	FY 1985
Budget authority reduction:			
First reconciliation	2.0	4.3	6.1
Second reconciliation	1.8	2.5	3.3
Total budget authority reduction	3.7	6.8	9.5
Outlay reduction:			
First reconciliation	2.8	5.8	8.3
Second reconciliation	6.7	9.9	12.5
Total outlay reduction	9.5	15.8	20.8
Revenue increase:			
Second reconciliation	22.0	37.0	42.0
Deficit reduction:			
Third reconciliation	6.0	17.0	17.0
Total deficit reduction achieved through reconciliation	37.5	69.8	79.8

Chapter VI. ECONOMICS

Committee Recommendation

The Committee's budget recommendations propose large and permanent reductions in Federal budget deficits in order to relieve the high level of real interest rates that is sustaining and deepening the present recession. It is the Committee's view that reductions in the distressing rate of unemployment, now higher than at any time since the end of the Great Depression, depend primarily upon decisive, substantial, and enduring actions by this Congress to reduce Federal budget deficits.

The Committee's recommendations are a continuation of policies adopted by the Congress last year, which attempted to reverse the fiscal patterns of the past 15 years during which both spending and revenues rose relative to national income and the Federal budget deficit became an increasingly important source of financing for Federal initiatives. The Committee's recommendation also reaffirms a commitment contained in the First Concurrent Budget Resolution for fiscal year 1982 to reduce and, ultimately eliminate, growing and persistent deficits which under the baseline economic and technical assumptions were projected to reach the highest level relative to GNP since the mid-1930's.

The Committee's recommendation mandates a sharp and immediate shift toward restraint. This shift in fiscal policy is a direct and necessary response to the current restraint imposed by monetary policy. Recent experience suggests that large, current and prospective Federal budget deficits will raise real interest rates even when the rate of inflation is slowing. Under these conditions, additional restraint in monetary policy aimed toward reducing the rate of inflation will result in further losses in real output and employment. Substantial and credible reductions in Federal deficits will ease the burden on monetary policy and will lead to lower interest rates, better balance among the various sectors in the economy, and a sustained economic recovery. Because monetary and fiscal policy must act together to reduce interest rates, the Committee's recommendation includes sense of the Congress language addressing monetary policy directly, which states that, in the event Congress enacts substantial and permanent reductions in future year deficits, the Federal Reserve Board's Open Market Committee will re-evaluate its monetary policy targets to assure that they are fully consistent with new and sharply lower Federal deficits.

Finally, it is the Committees' view that absence of clear and timely congressional action on the Federal budget will foreshorten the economic recovery, which is generally expected to begin in the second half of 1982, raise unemployment, and risk renewed recession in 1983 which may not be easily reversible. Further, there is a very real risk that absence of decisive action on the budget this year may postpone entirely any economic recovery, in which case, production and employment will continue to decline. The following table summarizes the Committee's recommendations.

Table 1

BUDGET PROJECTIONS

[In billions of dollars]

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Outlays	657.2	740.7	779.1	825.0	878.5
Revenues	599.3	623.0	667.0	739.0	822.0
Social security solvency			−6.0	−17.0	−17.0
Surplus (+) or deficit (−)	−57.9	−117.0	−106.0	−69.0	−39.5
Public Debt	998.8	1,144.2	1,290.0	1,414.6	1,522.9
Tax change from current law			+20.0	+35.0	40.0
Outlays as a percent of GNP	23.0	24.3	22.9	21.8	21.1
Revenues as a percent of GNP	21.0	20.4	19.6	19.6	19.7
Growth in outlays (percent)	13.4	12.7	5.2	5.9	6.5
Adjusted for inflation	−0.5	7.3	−2.3	−1.1	−0.1
Growth in revenues (percent)	15.2	4.0	7.1	10.8	11.2
Adjusted for inflation	3.7	1.6	−0.2	3.8	4.8
Growth in public debt (percent)	9.2	14.6	12.7	9.7	7.6
GNP	2,859.0	3,050.8	3,397.5	3,778.5	4,162.9

Economic Assumptions in the Budget Resolution

The economic assumptions which underlie the estimates of receipts and outlays in the proposed budget resolution assume that an economic recovery will begin in the second half of 1982 and will continue throughout the 3-year budget planning period, 1983 through 1985. These assumptions also reflect the expectation that recent reductions in inflation are to a large extent permanent and that the inflation rate will remain below 7 percent through 1985. Finally, the interest rate assumptions in the budget resolution show a marked decline from present rates as a direct result of congressional actions to reduce the prospective Federal budget deficits during the FY 1983 through 1985 period.

The economic assumptions in the budget resolution are based, in large part, on the CBO forecast published in February in the CBO annual report. Committee staff in conjunction with House Budget Committee staff, and the OMB made subsequent modifications to the CBO February forecast in support of the recent bi-partisan budget negotiations among representatives of the Senate, the House, and the Administration. These modifications incorporated both actual real GNP growth in the first quarter, which was lower than expected, and the general expectation that real growth during the second and third quarters of 1982 will be somewhat below the rates projected by CBO last February. Because lower real economic growth implies higher unemployment than previously projected, the unemployment assumptions for 1982, 1983, and 1984 were also revised upward by 0.2 percentage points, 0.4 percentage points, and 0.2 percentage points, respectively.

In order to retain as much consistency with the original CBO forecast as possible, the economic projections in the baseline reflect the assumption that lower real economic growth this year will be offset by somewhat higher real growth in 1983 and 1984, particularly given the substantial and permanent action to reduce prospective budget deficits proposed by this budget resolution. There fore, the real GNP growth rates in 1983 and 1984 are slightly higher than the original CBO baseline forecast in order to achieve the same level of real GNP and the same unemployment rate as the original CBO forecast.

The following table shows the economic assumptions underlying the budget resolution estimates. The baseline assumptions for Treasury bill rates show the interest rates that were assumed in the baseline outlays. Interest rates that are assumed as part of the budget resolution, labeled "post-policy," reflect the belief of the Committee, which is shared generally by economists, that enactment of legislation reducing spending and raising revenues as recommended in the underlying budget resolution will have an immediate and significant effect on the level of interest rates, reducing interest rates below the baseline by 0.6 percentage points in July 1982 with the difference growing to 2.5 percent by 1983. The "post-policy" interest rate path shows a clear and well defined reduction in the real rate of interest to levels that conform more closely to the post-war experience.

Table 2

ECONOMIC ASSUMPTIONS

[Calendar year, percent]

	1982	1983	1984	1985
Nominal GNP:				
Level ($ billions)	3,116	3,493	3,875	4,259
Percent	6.4	12.1	10.9	9.9
Real GNP:				
Level ($ billions)	1,497	1,563	1,629	1,689
Percent	−0.9	4.5	4.1	3.7
GNP deflator	7.4	7.3	6.6	6.0
CPI	6.9	6.9	6.9	6.4
Unemployment rate	9.1	8.4	7.6	7.2
Three-month Treasury bill rate:				
Baseline	12.4	13.2	11.3	9.4
Post-policy	12.0	10.7	8.8	6.9

Economic Policy Issues

CONTROL OF FEDERAL SPENDING

A key fiscal policy issue is the level of Federal spending. Although Federal expenditures promote various national security, international affairs, and domestic social and economic objectives, their financing imposes costs on the economy in terms of efficiency and reduced economic growth.

Ultimately, the true tax burden in the economy is the level of Government spending not the level of nominal taxation administered through the tax code. To the extent that Government does not raise sufficient revenues to finance Government spending through taxes, it will obtain the necessary resources either through borrowing, which raises real interest rates and reduces asset prices, or through inflation, which reduces the purchasing power of both households and corporations.

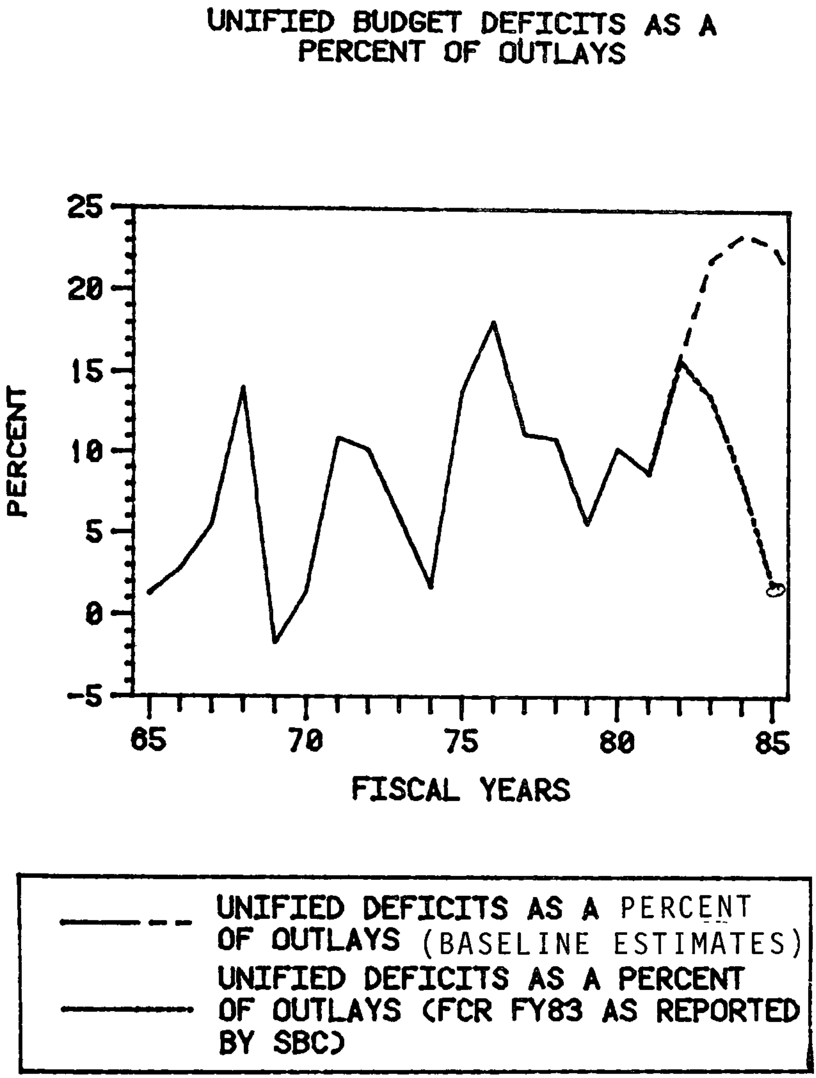
In the presence of large Federal deficits, monetary policy importantly determines which of these hidden taxes is used. If monetary policy is generally restrictive and aimed toward bringing the rate of inflation down, then Federal borrowing will raise real interest rates, reduce investment and the growth in the capital stock, and ultimately reduce economic growth. If monetary policy is moderately accommodative and aimed toward holding real interest rates down, then more rapid money growth will allow inflation to rise and Government will finance spending by reducing private purchasing power. Instead of explicitly taxing away private purchasing power, Government will use the "inflation tax" to reduce the value of money and the value of Government bonds.

As Milton Friedman has stated, "The total tax burden on the American people is what Government spends, not those receipts called 'taxes'. Any deficit is borne by the public in the form of hidden taxes—either inflation or the even more effectively hidden tax corresponding to borrowing from the public."

THE ROLE OF BUDGET DEFICITS

Under the baseline outlay projections, deficits would rise as a proportion of total Federal spending. In other words, the Federal deficit would continue to be an important method of financing spending and, in fact, would become more important in the future. The following chart shows deficits as a percent of outlays from 1965 and projected through 1985. This chart shows that since 1969, budget deficits have become an increasingly important source of financing for Federal spending. In fact, as this chart shows, if no policy actions are taken, deficits will rise to an unprecedented 23.5 percent of total outlays by 1984. The Committee recommendation, also shown below reduces the proportion of outlays that are deficit financed to 4.5 percent.

Chart 1

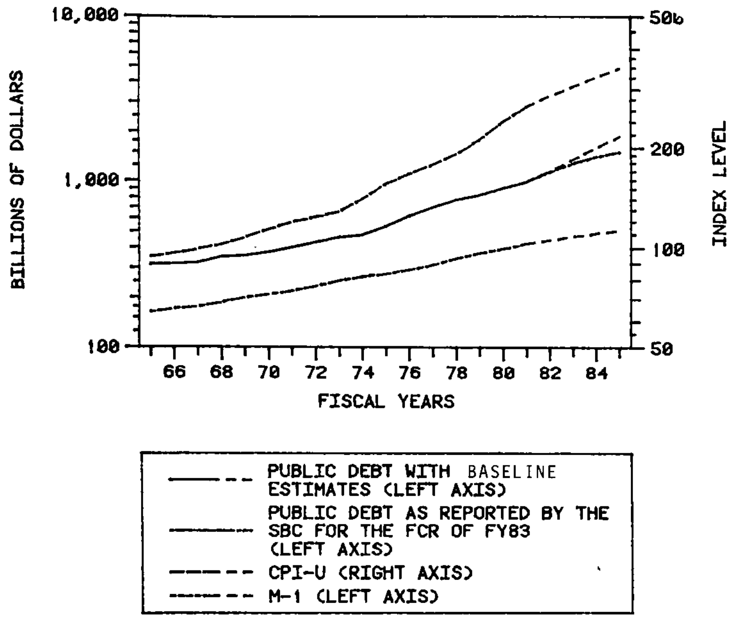

UNIFIED BUDGET DEFICITS AS A PERCENT OF OUTLAYS
25
20
15
10
5
0
-5
PERCENT
65
70
75
80
85
FISCAL YEARS
UNIFIED DEFICITS AS A PERCENT OF OUTLAYS (BASELINE ESTIMATES)
UNIFIED DEFICITS AS A PERCENT OF OUTLAYS (FCR FY83 AS REPORTED BY SBC)

Most economists believe that the economic costs of using budget deficits as a permanent and growing source of financing Federal spending are high relative to other means. First, as discussed above, budget deficits over time can raise real interest rates and have a major effect on the allocation of resources in the society and the long-term growth potential of the economy. (The Federal Government also pays an annual debt service premium on money it borrows, thereby driving deficits even higher.)

Second, an appropriate deficit policy is extremely important for controlling inflation. Large and growing structural deficits, which imply rapid growth in Government debt, are simply not compatible with lower rates of money growth. To the extent that money and Government debt are imperfect substitutes for each other, rapid growth in debt will change the relative price of Government debt versus money, lowering the value of Government debt and raising the real interest rate.

The following chart compares trends in Government debt to trends in M_1 and inflation (CPI) since 1965. This chart illustrates that if current fiscal policies were continued, growth in Government debt will diverge more sharply from the growth in money than in the past. This chart also shows that in the past the path of inflation more closely tracked the growth in Government debt than the growth in money. This chart also shows that the growth in public debt in the Committee's recommendation is more consistent with the slower growth in M_1 than the public debt levels implicit in the baseline.

Chart 2



If the growth in debt as a result of persistent budget deficits is significantly more rapid than the growth in money, real interest rates will rise as well as the real resources devoted to servicing debt. In time, the situation will become unsustainable. The alternative is an acceleration in the growth of money which will lead to higher inflation.

In other words, as long as the Government debt is growing rapidly, any reduction in inflation will be viewed as temporary and expectations of higher inflation in the future are not likely to change. Alternatively, if the growth in Government debt is reduced, and the deficit is reduced over time until the Federal budget is in balance, on average, over the business cycle, money growth can continue to slow and inflation will be lower. The present level of interest rates reflects the financial market's view that present monetary and fiscal policies are not now consistent and that inflation will be higher in the future.

Another problem with permanent deficits is that rising costs of servicing the debt can severely limit the ability of government to achieve its long term objectives. The following table illustrates the problem.

Table 3

TRENDS IN FEDERAL INTEREST PAYMENTS

[Dollars in billions]

Fiscal year	Net interest		GNP deflator (index)	Real net interest		Growth (percent)		Net interest as of percent of outlays	
	Baseline	FCR		Baseline	FCR	Baseline	FCR	Baseline	FCR
1977	$29.9		1.378	$21.7				7.5	
1978	35.4		1.470	24.1		11.1		7.9	
1979	42.6		1.596	26.7		10.8		8.7	
1980	52.5		1.733	30.3		13.5		9.1	
1981	68.7		1.897	36.2		19.5		10.5	
1982	86.0	85.6	2.045	42.0	41.9	16.0	15.7	11.6	11.6
1983	108.6	96.0	2.195	49.5	43.7	17.9	4.3	13.1	12.3
1984	134.4	99.6	2.342	57.4	42.5	16.0	−2.7	14.6	12.1
1985	147.1	91.1	2.486	59.1	36.6	3.0	−13.9	14.5	10.4

Net interest payments have grown rapidly in recent years. For the 3 years ending in FY 1982, net interest has grown at an average annual rate of 26 percent per year. Even after adjustment for the effects of inflation, net interest payments have grown by an average of 16 percent per year. The rapid growth in real interest payments is reflected in the sharply rising share of the Federal budget that is absorbed by interest, which has risen from less than 8 percent before 1979 to 11.6 percent of 1982 outlays. The revised baseline projections show the net interest share of the budget continuing to rise sharply through 1985. Under the Committee's recommendation, the growth in net interest slows dramatically and the net interest share of total outlays declines to a level more consistent with historical experience.

To the extent that interest costs for financing the Federal deficits rise in real terms, resources absorbed by interest requirements will "crowd out" other Government program objectives. This is particularly true in the current environment in which the President and many in Congress support substantial increases in defense spending in real terms. However, over the next 3 years, the real growth in net interest outlays exceeds the real growth in defense outlays. If the growth in total spending is to be reduced, then growth in entitlements and discretionary, non-defense appropriations will have to be reduced substantially in order to offset the effect of higher interest payments and higher defense spending.

MONETARY/FISCAL POLICY TRADEOFFS

Monetary and fiscal policies cannot be set in isolation. Actions to reduce prospective deficits must take into account monetary policy and the response of monetary authorities to lower future deficits. For this reason, Senators Moynihan, Riegle, Sasser, and Quayle offered proposals and the Committee adopted a motion by the Chairman to include in the budget resolution sense-of-the-Congress language requesting the Federal Reserve to re-evaluate monetary policy in the event that Congress enacts a substanially changed and more restrained fiscal policy.

Since 1979, monetary policy has remained the primary economic policy vehicle for reducing the rate of inflation. As discussed above, recent experience indicates that in the presence of large current and prospective Federal budget deficits, reductions in monetary growth achieve reductions in inflation only through substantial losses in real output and employment.

Substantial and credible reductions in the future deficits will ease the burden on monetary policy, reduce interest rates, and stimulate growth in those sectors that, until now, have remained depressed by high interest rates. However, substantial reductions in deficits also could reduce real income growth in the short term if monetary policy is not properly responsive to the change in fiscal policy. Thus, substantial reductions in deficits should be accompanied by a commitment by the monetary authorities to maintain the growth in nominal income.

Economic Trends and Prospects

Last summer, economic activity began to decline. The present recession is the eighth recession during the post-war period and the second recession in the last 2 years. Unemployment has risen almost 2 percentage points during the past year. Although many economists expected the economy to be generally weak during the 1981–82 period, the current recession and its severity came as a surprise. Inflation also has slowed and is expected to continue to decline. Lower growth, higher unemployment, and lower inflation tend to raise projected budget deficits and are a major cause of dramatic upward revision in the baseline budget deficits since the Second Budget Resolution for FY 1982.

The recent decline in economic activity and the improvement in inflation, however, have not translated into significant improvement in the level of interest rates. Last year interest rates averaged 14 percent both for Treasury bills and corporate bonds when inflation was 9 to 10 percent. Thus far this year Treasury bill rates have averaged 12.8 percent and long-term AAA corporate bond rates exceed 14 percent at a time when the economy is in the midst of a serious recession and the inflation rate is less than 7 percent. This implies a real interest rate for Treasury securities (nominal interest rate less inflation) of about 6 to 7 percent. The real interest rate, based on the current 16½ percent prime rate, is about 10 percent. These are historically high interest rates, in real terms. It is clear from the experience of the past year that the economy cannot grow under the pressure of higher real interest rates.

If real rates reach the levels projected in the baseline forecast, there is a substantial risk that the economic recovery expected during the second half of 1982 will be neither substantial nor sustained. In this event, real growth will follow the volatile path of the past 2 years, interest rates will reach new highs, and budget deficits will be substantially greater than projected in the current policy baseline. It is possible that another surge in interest rates could result in a serious economic contraction which would not be easily reversible.

Most economists continue to expect a substantial recovery in the second half of 1982 although they are revising their forecasts downward somewhat. The economic assumptions, in the budget resolution, also project an economic recovery beginning this summer. However, interest rates currently exceed most projections and inflation continues to decline. In the presence of high real interest rates, an economic recovery could likely be short lived with interest-sensitive sectors, like housing and autos, not participating at all.

Moreover, given the general weakness in the economy in recent years, sharp declines in corporate profitability and rising credit demands, the risk of another recession still more serious than the current one is significant.

RECESSION AT HOME

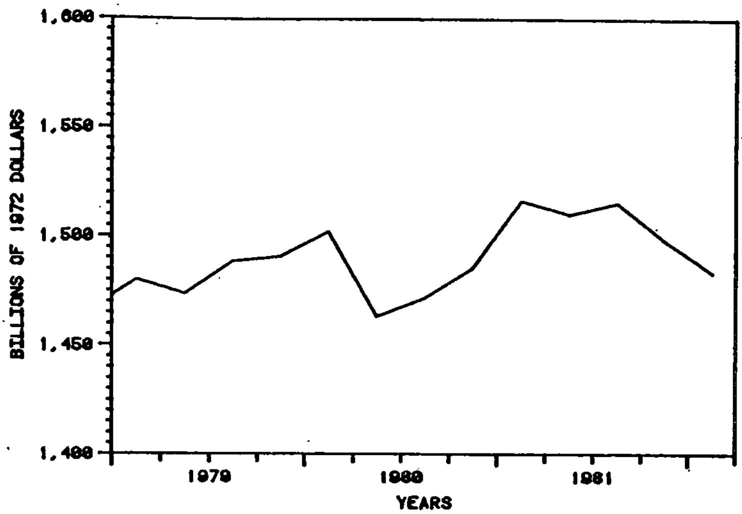
The U.S. economy is clearly in the midst of a serious recession. Real GNP declined at a 4.5-percent annual rate in the fourth quarter of 1981 and again at a 3.9-percent annual rate in the first quarter of 1982. The National Bureau of Economic Research, the generally accepted arbiter of business cycles, has established July 1981 as the first month of the recession.

Since July, real GNP has declined 2.1 percent and industrial production has declined 8.3 percent. The current recession appears to be of average severity compared to past recessions in which real GNP has declined on average 2.4 percent and industrial production by 10 percent from the peak of the expansion to the trough of the recession.

Nevertheless, the current recession is the second in 2 years and continues a general trend toward economic stagnation that began in 1979. Real GNP during the current quarter is about the same as the level of real output in the first quarter of 1979—in other words, 3 years of no economic growth. At no time in the post-war period has the U.S. experienced such a prolonged period of economic stagnation. The following chart shows the trend in the level of real GNP since the first quarter of 1979.

Chart 3

REAL GNP (1972 DOLLARS)



The weakness in the economy is clearly reflected in the trends in industrial production and utilization of plant capacity. Industrial production in March was 8.3 percent below July 1981, which is approximately the same as the decline in industrial production in the 1980 recession. Over the past 3 years, industrial production has not risen above the 1979 peak

The weakness in industrial production has led to a general decline in manufacturing capacity utilization since early 1979. The March rate is about the same as the low reached in the 1974–1975 recession, which itself was a low-point for the post-war period. The following charts show trends in industrial production and capacity utilization since early 1979.

Chart 4

Industrial Production Index

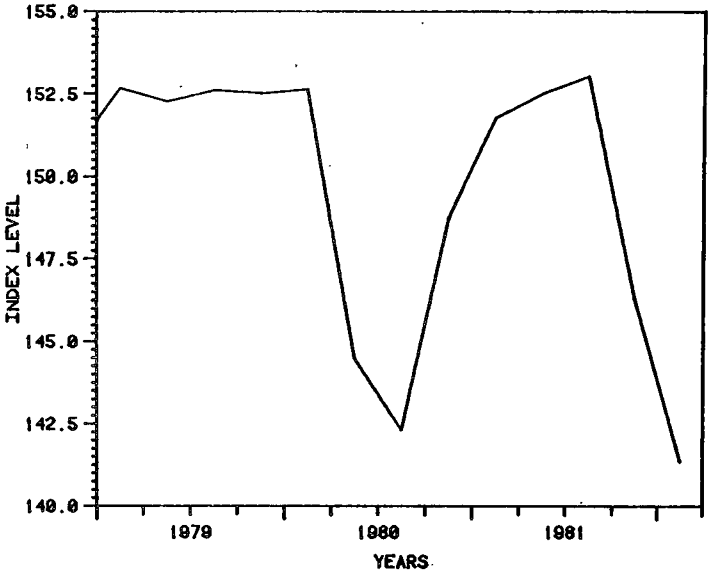
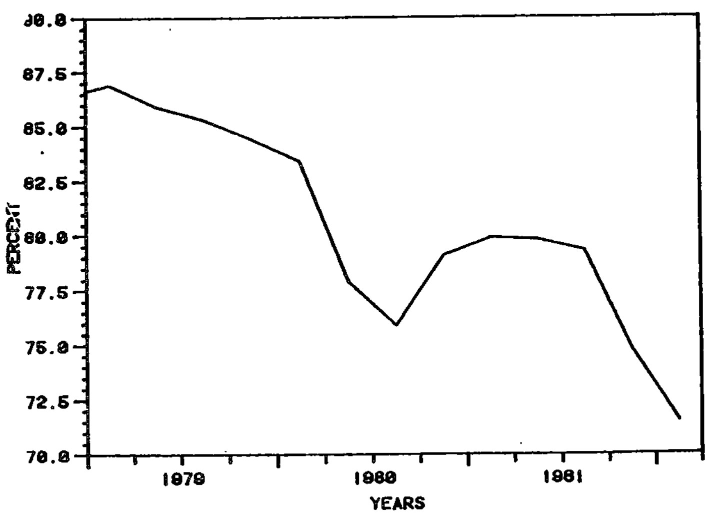


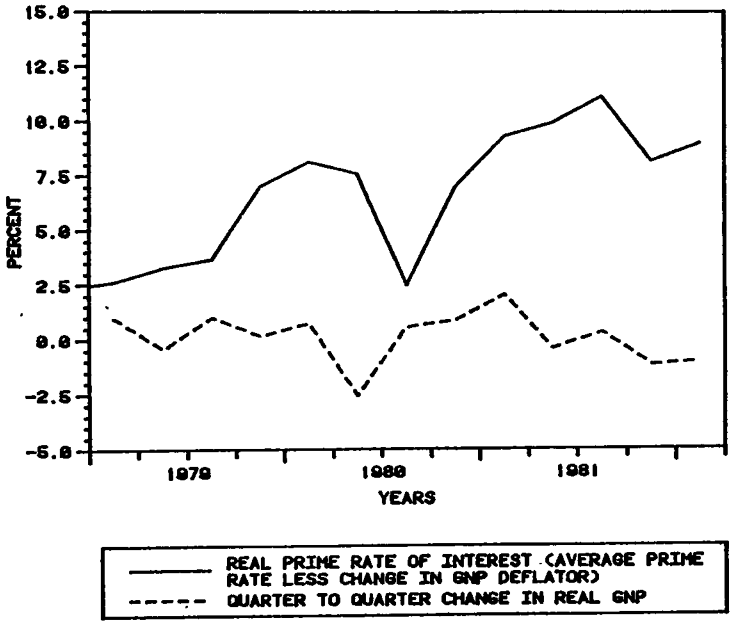
Chart 5

Manufacturing Capacity Utilization Rate (FRB)



High real interest rates have acted as a curb on real economic activity. Beginning in the fall of 1979, real interest rates (as measured by the prime interest rate less the year to year rate of change in the implicit price deflator) began to rise sharply from about 2.5 percent to over 7.5 percent by the first quarter of 1980. In response to high interest rates, high inflation, and credit controls, the economy plunged in the second quarter of 1980, but recovered quickly in July. Almost immediately, interest rates began to rise and remained at peak rates through the first seven months of 1981—or until the real output again began to weaken. Presently, even though the economy continues to weaken the real prime interest rate remains near 10 percent. The following chart compares the trends in real interest rates and real GNP since 1979.

Chart 6



RECESSION ABROAD

The international economic situation is also extremely fragile. Real growth in the five major industrial countries (Germany, France, Italy, United Kingdom, and Canada) excluding Japan, rose, on average, less than 1.0 percent in 1980 and was essentially flat in 1981. Germany and the United Kingdom are both currently in a severe recession, which, for the United Kingdom, has lasted for over 2 years. Japan's economy continues to grow at a 3- to 4-percent rate, but this is a sharp reduction from the 8.4-percent growth rate that Japan averaged between 1963 to 1977. In fact, economic growth in every major industrialized country including the United

States is currently well below the average growth rates of the past two decades. There are some signs of modest improvements in new orders in France and Italy, but the German economy continues to stagnate.

Inflation remains high in many countries except Japan and Germany. Although inflation appeared to be coming down in most other countries in 1981, it remains at double digit levels.

The very high level of U.S. interest rates tends also to raise interest rates abroad. Faced with high U.S. interest rates, foreign countries have three policy choices: (1) keep interest rates lower, allowing capital to flow to the United States and the value of their currency to decline with respect to the dollar; (2) keep interest rates lower and impose capital controls; or (3) impose a correspondingly tight monetary policy to prevent capital outflow and a depreciation of their currency. Other countries have chosen the last option. Thus, higher U.S. interest rates constrain the growth rates of other countries. Germany, in particular, is hard pressed because short-term rates averaged 10.8 percent in 1981 at a time when inflation was running about 6 percent.

High real interest rates, which have existed for more than a year in most European countries, have reduced real economic growth as much in Europe as in the United States and have raised unemployment sharply. Most European countries are currently operating at levels of unemployment not previously experienced during the post-war period.

INFLATION

Inflation has slowed dramatically since the peak rates reached during 1980. Since September the CPI has risen at an annual rate of only 3.2 percent compared to 10.4 percent in the prior six months and 12.4 percent for all of 1980. Inflation as measured by the GNP deflator is also slowing. During the first quarter of 1982 the implicit price deflator was only 7.2 percent above the first quarter of 1981, which is below the near 10 percent rates experienced just last year.

More encouraging still is the recent trend toward slower growth of wages and total compensation. Because wages are two-thirds of all costs in the economy, lower wage growth is essential to permanent reduction in the rate of inflation.

Wage rates, as measured by the employment cost index, have slowed continuously throughout 1981 from a year-over-year growth rate of 10.7 percent in the first quarter to 8.8 percent in the fourth quarter of 1981. Growth of wage rates slowed dramatically for blue collar workers but very little for white collar workers, partly because unemployment is higher among blue collar workers. Wages of unionized workers have slowed at about the same rate as for nonunionized workers.

Compensation per manhour, a key determinant of unit labor costs, has also slowed from a 10.5 percent year-over-year growth rate in the first quarter of 1981 to a 9.4 percent rate by the fourth quarter. Preliminary data for the current quarter indicate compensation growth has slowed to 8.3 percent—which is about the rate most economists anticipate for the year.

The trend toward lower wages is best illustrated by the Ford-UAW and GM-UAW settlements. These settlements reduce total employment costs $1.50 to $2.00 per hour below previous wage trends over the next three years. The new contracts will reduce wage growth from 8 to 10 percent per year under the old contracts to 6 to 8 percent per year.

GOVERNMENT POLICIES AND INFLATION

The decline in inflation during the past year is, in part, the direct result of Government policy efforts to curb inflation. Beginning in October 1979, the Federal Reserve adopted a change in monetary procedures which relied on controlling the money supply (rather than interest rates) with the objective of reducing the growth in money.

At about the same time, the focus of fiscal policy also shifted toward greater restraint. The First Concurrent Budget Resolution for FY 1980 recommended a shift toward greater fiscal restraint in order to curb the acceleration in inflation. Fiscal policy attempted to become still more restrictive when the Congress adopted the First Concurrent Budget Resolution for FY 1981 and the 1981 Omnibus Reconciliation Act which reduced spending and projected budget balance in fiscal 1981.

Since 1979, monetary policy has been generally more successful in reducing the rate of growth in money than has fiscal policy in reducing the size of the Federal deficit. By 1981, the Federal Reserve had brought the annual growth of M_1 (the narrowest definition of money) from an 8.2 percent peak growth in 1978 to 7.8 percent in 1979, 6.4 percent in 1980, and 2.3 percent in 1981 after adjustments for changes in the definition of the monetary aggregates.

However, the Federal budget deficits have continued to grow. After a low of $27.7 billion in FY 1979, the Federal deficit rose to $59.6 billion in FY 1980 and $57.9 billion in FY 1981. Even on a high employment basis, which adjusts for the effects of economic cycles on the budget, the increases in the Federal deficit show a shift toward fiscal stimulus of about $16 billion in 1980. Although this measure shows the budget to be moderately restrictive in 1981, projections of the Administration's budget on a full employment basis show a sharp shift toward stimulus in the 1982 through 1985 period.

In many respects the slowing in the growth of money since 1979 contributed to the slowing in the overall rate of inflation. High borrowing costs have reduced inventories of industrial materials and industrial material prices have declined more or less steadily since early 1980. Nevertheless, the presence of large budget deficits and the prospect that these deficits may grow have added substantial uncertainty about the future course of inflation and helped sustain the level of interest rates well above the current inflation rate.

It is clear that while monetary policy generally acting alone has contributed to the reduction in the inflation rate, it has succeeded primarily through reducing output and employment with very little favorable effect on expectations. Monetary policy is operating to hold down the level of demand in the economy. Because expectations of inflation appear to be slow to change, the burden of restraint falls primarily on real output. In fact, in comparing recent trends in output, employment, inflation, and monetary and fiscal policy measures to similar periods in the past, current interest rate levels appear to incorporate a substantial premium for future inflation or, alternatively, a risk factor as a hedge against future financial default. The major source of this uncertainty appears to be the extraordinary levels of projected deficits. Until this uncertainty can be eliminated, expectations are likely to reflect the prospect of higher future inflation, real interest rates are likely to remain high, and anti-inflationary policies will continue to curb real output.

UNEMPLOYMENT

Since 1979 unemployment has risen, on average, 1 percentage point per year. In April 1979, the unemployment rate averaged 5.8 percent. In April of this year, the unemployment rate was 9.4 percent, the highest rate during the post-war period. Moreover, the unemployment rates of some groups (notably blacks and other minorities and teenagers) have risen roughly twice as fast as the unemployment rates of whites and adults in general. Although the unemployment rates for both men and women who maintain families have risen at about the same rate, the unemployment rate for adult women generally has risen much more slowly than for adult men.

Table 4

UNEMPLOYMENT RATES FOR THE YEARS 1979–82

[Month of April]

	1979	1980	1981	1982
Total	5.8	6.9	7.3	9.4
Men (20 and over)	4.0	5.8	5.8	8.2
White	3.5	5.2	5.2	7.3
Black and other	8.6	10.8	10.6	[1] 16.9
Women (20 and over)	5.7	6.2	6.6	8.3
White	5.0	5.5	5.7	7.2
Black and other	10.5	11.1	11.8	[1] 15.6
Teenagers (16 to 19)	16.3	16.4	19.1	23.0
White	13.9	14.8	17.2	20.8
Black and other	34.3	31.8	36.1	[1] 48.1
Married men, spouse present	2.7	4.0	3.8	6.0
Married women, spouse present	5.2	5.7	5.9	7.8
Women who maintain families	8.3	9.0	9.8	11.5

UNEMPLOYMENT RATES FOR THE YEARS 1979–82—Continued

[Month of April]

	1979	1980	1981	1982
White (total)	5.0	6.1	6.5	8.4
Black and other (total)	11.7	12.6	13.2	[1] 18.4

[1] Black only.

RISKS IN THE FORECAST

The deficit estimates in the budget resolution are based on the assumptions that the economy will recover in the second half of 1982 and that economic recovery will be sustained throughout the three year budget planning period—accompanied by declining unemployment and, after 1983, declining interest rates. However, recent experience would indicate that the risks in this forecast are substantial.

First, the revised baseline forecast contains high real interest rates. Recent experience suggests that the economy does not grow rapidly when real interest rates are high. Second, interest rates are currently higher than levels projected in the Committee's recommendation. Although the economy may recover in the second half of 1982, this recovery may well begin at a lower level of income and possibly higher unemployment than now expected. These risks, which are inherent in every forecast, would raise future deficit projections.

However, the third and, in the present environment, the most important risk is the policy risk. There is the very real risk that in the absence of substantial policy action by the Congress, rapid growth in Federal debt will conflict with declining growth in money and the result will be historically high nominal interest rates and very high real interest rates—with the real prospect of another recession sometime in 1983. Some econometric studies suggest that interest rates could rise as much as 2 to 5 percentage points by 1984 above the baseline assumptions if the stimulus implied in the projected budget deficits is not reduced. At best, interest rates would be highly unlikely to decline below the levels projected in the revised baseline forecast.

Of course, economic events could turn out better than the budget estimates project. As a result of a slowing in wages and industrial commodity prices, inflationary expectations could diminish and the level of interest rates could begin to conform more closely to the trend in inflation. In this event, real growth would likely be higher and unemployment lower.

The effects of different economic assumptions on the budget are discussed at length in the CBO annual report to Congress last February titled *Prospects for Economic Recovery*. In this report the Congressional Budget Office showed two alternative economic paths, one assuming lower growth and higher inflation and a second set of assumptions showing higher real growth and lower inflation than is assumed in the First Concurrent Resolution for FY 1983. This report shows that solely as a result of very modest changes in the economic outlook contained in this budget resolution and without further policy action, the Federal budget deficit could be more than $50 billion higher or lower than the Committee now projects.

COMPARISON TO OTHER FORECASTS

The economic assumptions in the First Concurrent Budget Resolution assume somewhat higher real growth and inflation than other economic forecasts. However, the interest rate assumptions are significantly lower than other forecasts, reflecting substantially greater improvement in prospective Federal deficits than assumed by other economists.

The economic growth projections in the revised baseline are, however, lower and the inflation rate higher than those the Administration used in developing its February budget projections. The Administration, however, now accepts the economic assumptions in the First Budget Resolution as an appropriate basis for budget planning.

Table 5

COMPARISON OF FORECASTS

[Calendar year average]

	1982	1983	1984
Nominal GNP (percent change):			
Blue Chip (4/10/82)	NA	NA	NA
Chase Econometrics (4/26/82)	6.0	10.5	10.6
Data Resources (3/31/82)	5.8	11.1	11.2
Evans Economics (4/23/82)	4.5	8.3	9.6
Merrill Lynch Economics (4/12/82)	6.1	9.4	10.9
Wharton (4/1/82)	6.9	11.1	11.3
Average	5.9	10.1	10.7
February Budget (2/8/82) [1]	8.1	11.5	10.2
FCR FY 83 (4/82) [2]	6.4	12.1	10.9
Real GNP (percent change):			
Blue Chip	−0.6	3.7	NA
Chase Econometrics	−0.8	4.0	3.9
Data Resources	−1.3	3.7	4.1
Evans Economics	−1.8	2.6	4.2
Merrill Lynch Economics	−0.6	3.5	4.6
Wharton	−1.1	3.9	4.2
Average	−1.0	3.6	4.2
February Budget [1]	0.2	5.2	5.0
FCR FY 83 [2]	−0.9	4.5	4.1
GNP deflator (percent change):			
Blue Chip	7.4	6.7	NA

COMPARISON OF FORECASTS—Continued

[Calendar year average]

	1982	1983	1984
Chase Econometrics	6.8	6.3	6.4
Data Resources	7.2	7.2	6.8
Evans Economics	6.4	5.5	5.2
Merrill Lynch Economics	6.7	5.7	6.1
Wharton	8.1	7.0	6.8
Average	7.1	6.4	6.3
February Budget [1]	7.9	6.0	5.0
FCR FY 83 [2]	7.4	7.3	6.6
Consumer Price Index (percent change):			
Blue Chip	6.7	6.4	NA
Chase Econometrics	6.1	6.4	6.7
Data Resources	6.4	6.8	6.9
Evans Economics	6.1	5.0	4.7
Merrill Lynch Economics	5.9	5.6	6.1
Wharton	5.2	6.5	6.7
Average	6.1	6.1	6.2
February Budget [1]	7.3	6.0	4.6
FCR FY 83 [2]	6.9	6.9	6.9
Unemployment rate:			
Blue Chip	8.9	8.3	NA
Chase Econometrics	9.0	8.4	7.5
Data Resources	9.2	8.8	7.9
Evans Economics	9.2	9.2	8.9
Merrill Lynch Economics	9.1	8.6	7.6
Wharton	8.9	8.1	7.3
Average	9.1	8.6	7.8
February Budget [1]	8.9	7.9	7.1
FCR FY 83 [2]	9.1	8.4	7.6
3-month Treasury bill rate:			
Blue Chip	NA	NA	NA
Chase Econometrics	12.80	12.10	11.00
Data Resources	11.95	12.36	11.25
Evans Economics	12.10	10.70	10.37
Merrill Lynch Economics	11.31	10.86	9.10
Wharton	12.66	14.06	12.21
Average	12.16	12.02	10.79
February Budget [1]	11.70	10.50	9.50
FCR FY 83 [2]	12.00	10.70	8.80

[1] The Administration has now accepted the forecast reflected in the Budget Resolution and the further adjustments in interest rates assumed by the Committee.

[2] First Concurrent Resolution.

Chapter VII. REVENUES

SUMMARY

The Budget Committee recommends a revenue floor of $667.0 billion for FY 1983. This assumes a $20.0 billion revenue increase plus $2.0 billion of new user fees in addition to current-law revenue of $645.0 billion. The Committee also recommends a revenue floor of $739.0 billion in FY 1984 and $822.0 in FY 1985. These revenue floors provide for revenue increases of $35.0 billion and $40.0 billion in FY 1984 and FY 1985 and $2.0 billion in new user fees in each of those years as well.

REVENUE BASELINE

Current law revenue is estimated to be $645.0 billion in FY 1983. This is based upon the economic assumptions adopted by the Committee.

The methodology of the Treasury Department rather than the Congressional Budget Office was used because of large technical estimating differences which arose when CBO switched this year to a new methodology.

Table 1

REVENUES BASELINE [1]

[In billions of dollars]

Source	Actual	Baseline			
	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Individual income taxes	285.9	297.5	295.6	316.7	357.5
Corporation income taxes	61.1	51.7	55.8	66.8	74.4
Social insurance taxes and contributions	182.7	203.6	221.0	243.3	274.9
Excise taxes:					
Windfall oil tax	23.3	19.0	20.3	19.8	19.0
Other	17.5	18.5	19.2	20.0	20.1
Estate and gift taxes	6.8	7.6	5.8	5.4	5.1
Custom duties	8.1	8.8	9.3	9.8	10.2
Miscellaneous revenue	13.8	16.3	18.0	20.2	18.8
Total revenues	599.3	623.0	645.0	702.0	780.0
Nominal growth (percent)	16	4	4	9	11
Real growth (percent)	6	−2	−3	2	5

[1] Assumes extension of the highway trust fund.

FINANCE COMMITTEE RECOMMENDATION

The Finance Committee voted to forward the Administration revenue proposal "without endorsement of any specific proposal or the overall revenue total." It accepted the Administration's February economic assumptions. In addition, the Finance Committee requested that $0.1 billion of revenue be allowed for miscellaneous tax and tariff bills.

COMMITTEE RECOMMENDATION

The Committee recommends a revenue floor to $667.0 billion in FY 1983. This assumes $20.0 billion in revenue increases and user fee increases of $2.0 billion. It also assumes a $0.1 billion reduction each year for miscellaneous tax and tariff legislation.

Table 2

[In billions of dollars]

	FY 1982	FY 1983	FY 1984	FY 1985
Baseline	623.4	645.0	702.0	780.0
Revenue increases		+20.0	+35.0	+40.0
New user fees		+2.0	+2.0	+2.0
Committee recommendation	623.0	667.0	739.0	822.0

No assumption was made regarding the manner in which these sums would be raised. It is the intent of the Committee, however, to preserve the marginal tax reductions for individuals as enacted in the 1981 Economic Recovery Tax Act. Indeed, the Committee rejected a specific motion to eliminate the 1983 tax cut by a bi-partisan vote of 12 to 5.

As shown by table 3, substantial tax reduction will remain for Americans from the 1981 Act even after the tax increases proposed in this resolution.

Table 3

[In billions of dollars]

	FY 1983	FY 1984	FY 1985	Total
Reductions from 1981 act	−90.0	−137.8	−177.6	−405.4
Committee recommended tax increase	+20.0	+35.0	+40.0	+95.0
Tax increases from inflation and social security	+50.0	+78.0	+110.0	+238.0
Remaining tax reduction	−20.0	−24.8	−27.6	−72.4

TAX EXPENDITURES

Tax expenditures total $273.1 billion in FY 1983. Table 4 shows the revenue effect of these items for FY 1982 through 1987. It should be noted that, because of interaction among the provisions, the revenue effect of altering more than one of these preference items would not necessarily equal the sum of each individual item.

The list of tax expenditures in table 4 includes possible options for revenue increases. Other options for increasing revenues include expansion of excise taxes and a variety of possibilities for oil import fees and other types of energy taxes.

Table 4

TAX EXPENDITURE ESTIMATES BY FUNCTION [1]

[Fiscal years, in millions of dollars]

Function	Corporations 1982	Corporations 1983	Corporations 1984	Corporations 1985	Corporations 1986	Corporations 1987	Individuals 1982	Individuals 1983	Individuals 1984	Individuals 1985	Individuals 1986	Individuals 1987
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel							1, 885	1, 940	2, 025	2, 160	2, 310	2, 465
Exclusion of military disability pensions							165	170	175	190	200	215
International affairs:												
Exclusion of income earned abroad by United States citizens							985	1, 285	1, 340	1, 460	1, 600	1, 795
Deferral of income of domestic international sales corporations (DISC)	1, 560	1, 665	1, 750	1, 820	1, 885	1, 950						
Deferral of income of controlled foreign corporations	520	560	605	655	705	760						
General science, space, and technology:												
Expensing of research and development expenditures	1, 900	2, 055	2, 245	2, 350	2, 415	2, 475	100	105	120	125	125	130
Credit for increasing research activities	375	545	665	665	390	80	15	30	35	40	30	5
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	55	120	60	(2)			(2)	(2)	(2)			

See footnotes at end of table.

Table 4

TAX EXPENDITURE ESTIMATES BY FUNCTION [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
Energy:												
Expensing of exploration and development costs:												
Oil and gas	2,720	3,060	3,500	3,875	4,205	4,635	1,350	1,470	1,620	1,850	2,125	2,385
Other fuels	25	30	30	35	35	40						
Excess of percentage over cost depletion:												
Oil and gas	415	390	380	470	530	550	1,555	1,305	1,125	1,255	1,490	1,540
Other fuels	365	410	450	495	550	615	15	15	20	20	20	25
Capital gains treatment of royalties from coal	10	15	15	15	20	20	95	80	90	105	115	130
Alternative fuel production credit	95	70	70	95	140	175						
Alcohol fuel credit [3]	15	30	30	30	30	30	5	5	5	5	5	5
Exclusion of interest on State and local government industrial development bonds for energy production facilities	5	10	15	20	30	35	([2])	5	5	10	15	15
Residential energy credits:												
Supply incentives							205	260	345	500	595	35
Conservation incentives							415	410	400	400	340	10

Alternative, conservation and new technology credits:												
Supply incentives	180	295	460	610	510	475	20	25	30	30	30	20
Conservation incentives	315	280	180	55	25	10	(2)	(2)	(2)	(2)	(2)	(2)
Energy credit for intercity buses	5	5	5	5	(2)	(2)						
Natural resources and environment:												
Expensing of exploration and development costs, nonfuel minerals	50	55	60	65	75	80	(2)	(2)	(2)	(2)	(2)	(2)
Excess of percentage over cost depletion, nonfuel materials	390	425	450	480	515	550	15	15	20	20	25	25
Capital gains treatment of certain timber income	460	500	535	585	635	680	140	115	110	125	135	145
Investment credit and seven-year amortization for reforestation expenditures	(2)	(2)	(2)	(2)	(2)	(2)	5	5	10	10	10	10
Capital gains treatment of iron ore	10	10	10	10	10	10	10	10	10	10	10	10
Exclusion of interest on State and local government pollution control bonds	565	655	740	820	900	975	275	320	365	405	445	485
Exclusion of payments in aid of contruction of water, sewage, gas, and electric utilities	30	45	70	75	80	75						
Tax incentives for preservation of historic structures	55	70	85	95	110	130	80	100	125	145	165	190
Agriculture												
Expensing of certain capital outlays	85	85	90	95	100	100	460	475	495	510	530	545
Capital gains treatment of certain income	25	25	30	30	35	35	430	455	475	500	525	550
Deductibility of patronage dividends and certain other items of cooperatives	920	950	980	1,010	1,040	1,075	−375	−390	−400	−410	−425	−435
Exclusion of certain cost-sharing payments							60	50	45	40	30	25

See footnotes at end of table.

Table 4

TAX EXPENDITURE ESTIMATES BY FUNCTION [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
Commerce and housing												
Dividend and interest exclusion							2,185	550	555	580	605	635
Reinvestment of dividends in stock of public utilities							130	365	415	450	280	
Net interest exclusion										1,115	3,090	3,425
Exclusion of interest on State and local industrial development bonds	1,295	1,690	2,160	2,670	3,235	3,875	315	410	525	650	790	945
Exclusion of interest on certain savings certificates							400	1,790	1,140			
Exemption of credit union income	110	115	120	125	135	140						
Exclusion of interest on life insurance savings							4,535	4,805	5,165	5,790	6,615	7,245
Excess bad debt reserves of financial institutions	250	515	765	905	1,005	1,085						
Deductibility of nonmortgage interest in excess of investment income							7,585	7,690	8,085	8,625	9,220	10,010
Deductibility of mortgage interest on owner-occupied homes							23,030	25,490	28,465	32,770	37,830	44,360
Deductibility of property tax on owner-occupied homes							10,065	10,635	11,055	12,105	13,280	14,805
Exclusion of interest on State and local housing bonds for owner-occupied housing	650	835	980	1,005	980	960	420	535	645	670	655	640
Exclusion of interest on State and local housing bonds for rental housing	310	345	415	525	655	780	155	170	200	255	320	380

Deferral of capital gains on home sales							1,525	1,655	2,020	2,485	3,010	3,530
Exclusion of capital gains on home sales for persons age 55 and over							510	550	675	830	1,005	1,175
Expensing of construction period interest and taxes	505	610	735	855	975	1,110	275	320	390	455	515	590
Depreciation on rental housing in excess of straightline	105	130	155	165	180	195	460	575	665	720	760	795
Depreciation on buildings other than rental housing in excess of straightline	175	210	245	280	315	350	155	190	220	245	275	310
Accelerated depreciation on equipment other than leased property	6,455	10,705	16,080	23,020	33,140	39,075	845	1,695	2,540	3,530	5,140	6,455
Safe harbor leasing:												
Accelerated depreciation and deferral	1,285	2,180	3,285	4,530	5,785	6,860						
Investment credit	1,365	1,435	1,780	2,200	2,730	3,380						
Amortization of business start-up costs	5	10	15	20	25	30	65	95	130	175	230	255
Capital gains other than agriculture, timber, iron ore and coal	1,495	1,710	1,900	2,100	2,300	2,500	18,315	14,390	13,385	14,225	14,505	14,685
Capital gains at death							5,245	3,975	3,565	3,665	3,920	4,195
Reduced rates on the first $100,000 of corporate income	6,605	7,125	8,065	8,740	8,660	8,630						
Investment credit, other than ESOPs, rehabilitation of structures, reforestation and leasing	14,970	14,825	19,775	22,825	22,550	23,555	3,475	3,825	4,205	4,625	5,090	5,595
Transportation												
Amortization of motor carrier operating rights	120	70	70	55	20	([2])	([2])	([2])	([2])	([2])	([2])	([2])
Deferral of tax on shipping companies	65	85	80	50	40	35						
Exclusion of interest on State and local government IDBs for mass transit	10	35	65	85	90	90	5	15	30	40	45	45

See footnotes at end of table.

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Table 4

TAX EXPENDITURE ESTIMATES BY FUNCTION [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations 1982	Corporations 1983	Corporations 1984	Corporations 1985	Corporations 1986	Corporations 1987	Individuals 1982	Individuals 1983	Individuals 1984	Individuals 1985	Individuals 1986	Individuals 1987
Community and regional development												
Five-year amortization for housing rehabilitation	35	40	45	50	60	65	55	60	70	75	80	85
Investment credit for rehabilitation of structures other than historic structures	455	505	570	640	725	825	80	90	100	115	130	145
Education, training, employment, and social services												
Exclusion of scholarship and fellowship income							465	415	375	395	410	435
Exclusion of interest on State and local student loan bonds	60	95	135	175	220	260	30	45	65	85	105	125
Parental personal exemption for students age 19 or over							995	900	845	835	845	855
Exclusion of employee meals and lodging (other than military)							655	680	725	795	870	945

Employer educational assistance							40	40	20			
Exclusion of contributions to prepaid legal services plans							20	25	25	10		
Exclusion for employer-provided child care							([2])	10	25	55	85	120
Tax credit for ESOPs	1,005	1,095	1,245	1,830	2,320	2,460						
Deductibility of charitable contributions (education)	315	365	445	515	550	575	580	560	570	660	830	860
Deductibility of charitable contributions, other than education and health	385	450	555	635	680	710	7,960	7,635	7,840	9,045	11,335	11,790
Credit for child and dependent care expenses							1,350	1,465	1,515	1,660	1,820	2,030
Targeted jobs credit	235	75	60	35	10	5	([2])	([2])	([2])	([2])	([2])	([2])
Deduction for two-earner married couples							705	3,980	7,030	7,980	8,945	10,070
Deduction for adoption expenses							10	10	10	10	10	15
Health												
Exclusion of employer contributions for medical insurance premiums and medical care							15,330	16,380	17,895	20,300	23,285	26,705
Deductibility of medical expenses							3,925	4,175	4,190	4,495	4,840	5,305
Exclusion of interest on State and local hospital bonds	430	505	590	665	735	805	210	250	290	330	365	395
Deductibility of charitable contributions (health)	195	225	275	320	340	355	1,165	1,120	1,150	1,325	1,660	1,725

See footnotes at end of table.

Table 4

TAX EXPENDITURE ESTIMATES BY FUNCTION [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations 1982	Corporations 1983	Corporations 1984	Corporations 1985	Corporations 1986	Corporations 1987	Individuals 1982	Individuals 1983	Individuals 1984	Individuals 1985	Individuals 1986	Individuals 1987
Income security												
Exclusion of social security benefits:												
Disability insurance benefits							915	910	910	950	1,000	1,060
OASI benefits for retired workers							9,980	10,525	10,955	11,825	12,790	13,765
Benefits for dependents and survivors							1,915	1,970	2,040	2,200	2,385	2,565
Exclusion of railroad retirement system benefits							380	370	385	400	415	435
Exclusion of workmen's compensation benefits							3,100	3,495	3,965	4,665	5,550	6,635
Exclusion of special benefits for disabled coal miners							95	90	85	85	85	90
Exclusion of untaxed unemployment insurance benefits							2,060	2,710	2,410	2,185	2,200	2,250
Exclusion of public assistance benefits							445	430	430	440	455	470
Exclusion of disability pay							155	145	135	130	130	130
Net exclusion of pension contributions and earnings:												
Employer plans							25,765	27,500	30,545	35,630	42,060	48,540
Plans for self-employed							1,005	1,065	1,050	1,075	1,145	1,215
Individual retirement plans							1,555	2,695	3,255	3,860	4,310	4,855
Exclusion of other employee benefits:												
Premiums on group term life insurance							1,900	1,895	1,965	2,110	2,290	2,480
Premiums on accident and disability insurance							100	100	100	100	105	110

Additional exemption for the blind							30	30	30	30	30	30
Additional exemption for elderly							2, 355	2, 370	2, 375	2, 455	2, 560	2, 730
Tax credit for the elderly							135	135	135	135	135	135
Deductibility of casualty and theft losses							800	850	930	1, 035	1, 155	1, 310
Earned income credit [4]							555	550	500	475	440	400
Veterans benefits and services												
Exclusion of veterans disability compensation							1, 360	1, 380	1, 325	1, 320	1, 325	1, 330
Exclusion of veterans pensions							85	90	85	90	95	100
Exclusion of GI bill benefits							175	145	135	120	105	95
General government												
Credits for political contributions							80	80	80	80	80	80
General purpose fiscal assistance												
Exclusion of interest on general purpose state and local debt	3, 905	4, 395	4, 870	5, 295	5, 660	5, 990	1, 925	2, 165	2, 410	2, 620	2, 810	2, 975
Deductibility of nonbusiness state and local taxes other than on owner-occupied homes							20, 395	21, 530	23, 810	25, 570	28, 060	31, 280
Tax credit for corporations receiving income from doing business in U.S. possessions	1, 195	1, 285	1, 380	1, 500	1, 625	1, 730						
Interest												
Deferral of interest on savings bonds							−80	50	160	225	290	355

[1] All estimates are based on the tax law enacted as of December 31, 1981.

[2] Less than $2,500,000. All estimates have been rounded to the nearest $5 million.

[3] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of approximately $50 million annually for 1982 and 1983, and approximately $100 million annually thereafter.

[4] The figures in the table indicate the effect of the earned income credit on receipts. The effect on outlays is: $1,255 million in 1982, $1,180 million in 1983, $920 million in 1984, $850 million in 1985, $780 million in 1986, and $720 million in 1987.

SUM OF THE EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1982-87

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1982	253, 515	55, 140	198, 375
1983	273, 135	64, 025	209, 110
1984	305, 990	80, 370	225, 620
1985	347, 775	96, 275	251, 500
1986	395, 975	110, 715	285, 260
1987	439, 430	121, 990	317, 440

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in the table. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Treasury Department and the Joint Committee on Taxation.

Chapter VIII. SPENDING AND CREDIT

INTRODUCTION

This chapter provides details on the Committee's spending and credit recommendations for each of the 19 functional areas of the budget.

Each functional section contains the following material:

—A listing of the major national needs addressed by Federal activities in the function.
—A table showing for fiscal years 1982–85 the baseline used by the Committee in arriving at its spending recommendations and the Committee's spending recommendations.
—A narrative explanation of the Committee's spending recommendations.
—A table showing for fiscal years 1982–83 the baseline used by the Committee in arriving at its credit recommendations and the Committee's credit recommendations.
—A narrative explanation of the Committee's credit recommendations.
—A table showing historical spending information for the function.

SPENDING SUMMARY

All of the numerical information in this chapter has been compiled by the Congressional Budget Office (CBO) on the basis of the economic forecast adopted by the Committee and discussed in the chapter on economics. The numbers also take account of CBO's latest technical information on spending trends in the various programs in each function.

The "baseline" for spending programs as shown in the functional tables, except for function 050, National Defense, is the level that would occur if all programs now on the books were extended into the future in a manner consistent with existing statutes and at levels that would be required to hold them constant at present real levels of service (i.e., hold them harmless against inflation). The baseline for function 050, National Defense, has been adjusted to include the "adequate defense" concept contained in the President's February budget. The "adequate defense" concept reflects the President's budget request for defense programs except for Federal pay raises and except for removal of the President's legislative proposals for military retired pay reform and stockpile sales. A majority of the Committee considered the "adequate defense" concept to be the best baseline from which to consider defense program decisions.

Federal pay raises in the baseline are assumed to be 8.0 percent in October 1982, 7.6 percent in October 1983, and 6.4 percent in October 1984.

None of the "management savings" contained in the President's budget request has been included in the baseline. Such savings were considered as policy options by the Committee in its deliberations.

The baseline assumes enactment of most of the President's supplemental appropriation requests for FY 1982, including both mandatory and discretionary items (some very small discretionary requests have been omitted). All supplemental appropriations that have been enacted are included.

Tables 1 through 4 summarize the Committee's spending recommendations and the President's budget request.

Summary Table 1

SPENDING SUMMARY

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	780.0	881.0	981.9	1,099.2
	O	742.3	827.0	918.0	1,012.5
Committee recommendation	BA	777.6	831.7	892.3	966.0
	O	740.7	779.1	825.0	878.5

Summary Table 2

SUMMARY OF COMMITTEE SPENDING RECOMMENDATIONS BY FUNCTION

[In billions of dollars]

Function		FY 1981 actual	FY 1982 recommendation	FY 1983 recommendation	FY 1984 recommendation	FY 1985 recommendation
050: National defense	BA	182.3	216.9	251.7	278.3	316.5
	O	159.7	190.3	215.3	243.0	277.7
150: International affairs	BA	24.8	16.8	16.2	16.7	21.0
	O	11.1	11.4	12.1	12.3	12.2
250: General science, space, and technology	BA	6.5	7.0	7.0	6.9	6.9
	O	6.4	7.1	7.1	7.0	7.0
270: Energy	BA	6.8	4.8	4.9	4.2	4.1
	O	10.3	6.4	4.8	3.6	3.3
300: Natural resources and environment	BA	11.1	10.3	9.9	9.3	8.9
	O	13.5	12.8	11.4	10.3	9.3
350: Agriculture	BA	6.6	9.9	6.6	8.3	6.7
	O	5.6	13.8	10.1	8.2	7.3
370: Commerce	BA	6.5	6.5	6.9	7.4	7.2
	O	3.9	3.8	2.8	2.4	2.1
400:DBA Transportation	BA24.9	20.8	21.3	21.5	21.8	
	O	23.4	21.3	19.9	19.6	19.5
450:Community and regional development	BA	8.1	6.7	6.9	6.9	7.0
	O	9.4	8.5	7.7	7.5	7.4

SUMMARY OF COMMITTEE SPENDING RECOMMENDATIONS BY FUNCTION—Continued

[In billions of dollars]

Function		FY 1981 actual	FY 1982 recommendation	FY 1983 recommendation	FY 1984 recommendation	FY 1985 recommendation
500:Education, employment, and social services	BA	30.6	25.4	25.5	25.2	24.4
	O	31.5	28.1	26.4	25.5	24.6
550:Health	BA	68.9	78.5	79.7	92.6	104.3
	O	66.0	73.7	76.5	83.9	94.5
600: Income security	BA	249.9	260.9	281.7	300.8	332.9
	O	225.1	251.5	272.5	288.2	309.7
700: Veterans benefits and services	BA	23.2	24.8	23.4	24.2	24.4
	O	23.0	23.8	22.7	23.6	24.4
750: Administration of justice	BA	4.3	4.5	4.6	4.6	4.6
	O	4.7	4.6	4.7	4.6	4.6
800: General government	BA	5.1	5.2	5.0	4.7	4.7
	O	4.6	5.0	4.8	4.6	4.4

850: General purpose fiscal assistance	BA	6.3	6.4	6.6	6.7	6.9
	O	6.9	6.3	6.5	6.7	6.8
900: Interest	BA	82.5	102.0	115.1	119.8	111.6
	O	82.5	102.0	115.1	119.8	111.6
920: Allowances	BA		0.7	−2.0	−0.8	−0.8
	O		0.8	−2.0	−0.8	−0.6
950:Undistributed offsetting receipts	BA	−30.3	−30.5	−39.3	−44.8	−47.3
	O	−30.3	−30.5	−39.3	−44.8	−47.3
Total spending	BA	718.4	777.6	831.7	892.3	966.0
	O	657.2	740.7	779.1	825.0	878.5

Summary Table 3

SUMMARY OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS IN COMMITTEE RECOMMENDATION

[In billions of dollars]

Function		FY 1981 actual	FY 1982 recommendation	FY 1983 recommendation	FY 1984 recommendation	FY 1985 recommendation
050: National defense	BA	(*)	(*)	0.1	0.1	0.1
	O	0.1	0.1	0.1	0.1	0.1
270: Energy	BA	0.4	(*)	(*)	(*)	(*)
	O	0.6	0.7	0.4	0.3	0.2
300: Natural resources and environment	BA	2.5	3.0	3.1	3.1	3.1
	O	4.9	5.1	4.6	4.2	3.6
350: Agriculture	BA	0.8	0.9	0.7	0.8	0.7
	O	0.8	1.1	0.9	0.8	0.7
370: Commerce and housing credit	BA	(*)	(*)	(*)	(*)	(*)
	O	(*)	(*)	(*)	(*)	(*)
400: Transportation	BA	14.3	12.4	13.5	13.9	14.4
	O	13.5	12.6	12.2	12.1	12.0
450: Community and regional development	BA	5.5	4.6	4.6	4.6	4.6
	O	6.1	6.0	5.2	4.9	4.8
500: Education, training, employment, and social services	BA	19.9	15.3	15.5	15.6	15.9
	O	21.1	17.2	15.8	15.5	15.7
550: Health	BA	19.3	20.0	15.8	22.1	25.3
	O	18.9	20.3	20.5	22.2	25.4

600: Income security	BA	36.4	27.9	32.1	33.0	33.9
	O	21.3	22.1	24.1	25.1	26.5
700: Veterans benefits and services	BA	0.1	0.1	0.1	0.1	0.1
	O	0.1	0.1	0.1	0.1	0.1
750: Administration of justice	BA	0.1	0.1	0.1	0.1	0.1
	O	0.3	0.2	0.1	0.1	0.1
800: General government	BA	0.2	0.2	0.2	0.2	0.2
	O	0.2	0.2	0.2	0.2	0.2
850: General purpose fiscal assistance	BA	6.1	6.2	6.4	6.6	6.7
	O	6.7	6.2	6.4	6.6	6.7
Total	BA	105.8	90.6	91.9	100.1	104.9
	O	94.8	91.9	90.6	92.2	96.1

* Less than $50 million.

Summary Table 4

SUMMARY OF PRESIDENT'S BUDGET REQUEST AS RE-ESTIMATED BY CBO [1]

[In billions of dollars]

Function		FY 1982	FY 1983	FY 1984	FY 1985
050: National defense	BA	218.3	263.5	291.2	338.4
	O	190.8	223.2	255.0	294.3
150: International affairs	BA	16.7	16.9	17.8	17.6
	O	11.4	12.1	12.7	13.0
250: General science, space, and technology	BA	7.0	7.8	7.7	7.3
	O	7.0	7.6	7.8	7.4
270: Energy	BA	4.7	4.1	4.1	3.6
	O	6.4	4.3	3.5	3.2
300: Natural resources and environment	BA	10.3	8.8	8.2	7.9
	O	12.8	10.5	9.3	8.5
350: Agriculture	BA	9.9	7.0	8.4	6.8
	O	13.7	10.2	7.8	7.2
370: Commerce and housing credit	BA	6.3	3.4	4.3	4.7
	O	3.6	1.8	1.5	0.3
400: Transportation	BA	20.8	19.1	19.0	19.2
	O	21.3	19.4	18.8	19.4
450: Community and regional development	BA	6.7	6.8	7.0	7.4
	O	8.5	7.7	7.4	7.5
500: Education, training, employment, and social services	BA	24.0	20.0	18.7	18.1
	O	27.9	22.6	20.4	18.3
550: Health	BA	77.8	76.6	80.8	93.3
	O	73.3	78.1	85.9	94.8
600: Income security	BA	249.4	256.7	284.3	316.5
	O	251.3	267.0	281.8	302.6
700: Veterans benefits and services	BA	24.8	24.6	25.6	26.7
	O	23.8	23.8	24.8	26.5
750: Administration of justice	BA	4.5	4.6	4.6	4.6
	O	4.7	4.7	4.6	4.6
800: General government	BA	5.2	5.4	5.2	5.2
	O	5.1	5.2	5.1	5.0
850: General purpose fiscal assistance	BA	6.4	6.5	6.7	6.8
	O	6.3	6.5	6.7	6.8
900: Interest	BA	101.1	121.7	140.0	147.2
	O	101.1	121.7	140.0	147.2
920: Allowances	BA	−0.3	−0.6	0.9	0.8
	O	−0.3	−0.5	1.1	1.1

SUMMARY OF PRESIDENT'S BUDGET REQUEST AS RE-ESTIMATED BY CBO [1]—Continued

[In billions of dollars]

Function		FY 1982	FY 1983	FY 1984	FY 1985
950: Undistributed offsetting receipts	BA	−30.5	−40.4	−47.9	−52.8
	O	−30.5	−40.4	−47.9	−52.8
Total spending	BA	763.3	812.6	886.6	979.5
	O	738.2	785.5	846.3	914.7

[1] Includes President's April budget update.

CREDIT SUMMARY

The Resolution includes aggregates and functional allocations for three types of Federal credit transactions: new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments.

A *new direct loan obligation* is a binding agreement by a Federal agency to make a direct loan once specified conditions are fulfilled by the borrower. A direct loan is a loan made by an agency with an obligation on the part of the borrower to repay the loan with or without interest.

A *new primary loan guarantee commitment* is a binding agreement by a Federal agency to guarantee a private loan once specified conditions are fulfilled by the borrower or the lender. A loan guarantee is a pledge by an agency to use government funds as necessary to either fully or partially secure a lender against default on the part of a borrower.

A *new secondary loan guarantee commitment* is a binding agreement by a Federal agency to guarantee a security or other financial asset backed by loans previously guaranteed by the Federal Government.

Congressional Control of Federal Credit

Appropriation act language placing dollar limitations on new direct loan obligations and new loan guarantee commitments is the primary means the Congress now employs to control individual credit programs on an annual basis. In fiscal year 1982 appropriation acts enacted to date, limitations have been imposed on 35 percent of new direct loan obligations, 62 percent of new primary loan guarantee commitments, and 99 percent of new secondary loan guarantee commitments.

Credit Baseline

Each functional section contains a baseline for Federal credit activities for each of fiscal years 1982 and 1983.

The credit baseline for fiscal year 1982 for each function includes the full dollar amounts of the fiscal year 1982 appropriation act limitations enacted to date. The fiscal year 1982 credit baseline also includes Congressional Budget Office [CBO] estimates of the activity levels of the credit programs which have not been limited in appropriation acts. In function 150, the credit baseline for fiscal year 1982 also includes the supplemental increases in appropriation act limitations corresponding to the President's Caribbean initiative.

The credit baseline for fiscal year 1983 for each function includes the full amounts of the appropriation act limitations assumed in the fiscal year 1982 credit baseline, increased to offset the impact of inflation. The fiscal year 1983 credit baseline also assumes an appropriation act limitation for any program for which no fiscal year 1982 limitation was enacted if the President has proposed a fiscal year 1983 limitation. In these cases, however, the fiscal year 1983 baseline does not assume the specific limitation proposed by the President but rather a ceiling which would permit the activity level of the program to increase to offset the impact of inflation. For all other credit programs, the fiscal year 1983 baseline includes CBO's estimated activity levels.

CBO estimates that the fiscal year 1982 activity levels for a number of credit programs will fall short of the fiscal year 1982 appropriation act limitations enacted to date. In such cases, the credit baseline for fiscal year 1982 and the credit budget totals recommended by the Committee assume the full dollar amounts of the limitations.

Credit Transactions of the Federal Financing Bank

The off-budget Federal Financing Bank (FFB) engages in two types of transactions that affect the credit budget:

(1) *Conversion of loan guarantees into off-budget direct loans:* The FFB makes direct loans to borrowers who are recipients of loan guarantees by a Federal agency, effectively converting the agency's loan guarantees into off-budget direct loans.

(2) *Purchases of loan assets:* The FFB purchases direct loans made by a Federal agency or certificates of beneficial ownership, which are promises of repayment without transfer of the loans. Loan asset purchases reduce the on-budget outlays of the lending agency and increase the off-budget outlays of the FFB, reducing the unified budget deficit without lowering the Federal Government's borrowing requirements.

Committee Recommendations

The Committee recommendations assume that the current FY 1982 appropriation act limitations on credit activities will be maintained in FY 1983. The Committee recommendations generally assume that FY 1983 appropriation act limitations will be imposed on programs not limited in FY 1982 where the President has proposed FY 1983 limitations. In such cases the Committee recommendations assume FY 1983 limitations equal to the estimated FY 1982 activity levels of the programs. The Committee recommendations also assume changes in the Guaranteed Student Loan (GSL) program in FY 1983 which would increase new GSL primary loan guarantee commitments. For all other credit programs, the Committee recommendation for FY 1983 assumes the baseline activity levels.

CREDIT ACTIVITY LIMITED IN APPROPRIATION ACTS

[In billions of dollars]

Credit activity	Committee recommendations					
	FY 1982			FY 1983		
	Limited	Not limited	Total	Limited	Not limited	Total
New direct loan obligations	23.3	44.0	67.3	27.6	36.0	63.6
New loan guarantee commitments:						
Primary	61.2	31.8	93.0	64.4	38.1	102.5
Secondary	68.3	0.7	69.0	68.3	....	68.3

The Resolution expresses the sense of the Congress that the President, through administrative action, should limit in FY 1983 total FFB origination of direct loans guaranteed by other Federal agencies to $15.9 billion, and FFB purchases of loan assets from Federal agencies to $14.0 billion. These levels of FFB activities are consistent with the FY 1983 appropriation act limitations on new direct loan obligations and new primary loan guarantee commitments assumed in the credit budget totals recommended by the Committee.

FFB-FINANCED CREDIT ACTIVITY

[In billions of dollars]

Credit activity	Actual	Committee recommendations	
	FY 1981	FY 1982	FY 1983
New direct loan obligations:			
Guaranteed loan originations	15.1	15.3	15.9
Purchases of loan assets	15.2	14.3	14.0
Total	30.3	29.6	29.9

The Resolution also expresses the sense of the Congress that it is urgent that effective budgetary control be established over all types of Federal direct loans and Federal loan guarantees. The Committee recommends that the Congress direct the Senate Committees on the Budget and on Governmental Affairs and the House Committee on Rules, which have jurisdiction over the Congressional Budget and Impoundment Control Act of 1974, to move expeditiously to consider legislation establishing a process of annual determination of appropriate levels and proper budgetary treatment of Federal credit activities.

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Tables 5 through 7 summarize the Committee's credit recommendations.

Summary Table 5

CREDIT SUMMARY

[In billions of dollars]

	Activity levels		
	New direct loan obligations	New primary loan guarantee commitments	New secondary loan guarantee commitments
FY 1982:			
Baseline	67.3	93.0	69.0
Committee recommendation	67.3	93.0	69.0
FY 1983:			
Baseline	66.0	106.2	73.3
Committee recommendation	63.6	102.5	68.3

Summary Table 6

SUMMARY OF COMMITTEE CREDIT RECOMMENDATIONS BY FUNCTION

FY 1982 Credit Activities

[In billions of dollars]

	New direct loan obligations	New primary loan guarantee commitments	New secondary loan guarantee commitments
050: National defense		0.03	
150: International affairs	10.4	9.3	
250: General science, space, and technology	0.2		
270: Energy	10.6	1.7	
300: Natural resources and environment	0.03		
350: Agriculture	22.6	2.7	
370: Commerce and housing credit	15.4	41.2	68.2
400: Transportation	0.4	0.9	0.003
450: Community and regional development	2.2	0.9	
500: Education, training, employment, and social services	1.3	6.5	0.7
550: Health	0.1	0.1	
600: Income security	2.8	17.0	
700: Veterans benefits and services	1.0	11.9	
800: General government	0.1		
850: General purpose fiscal assistance	0.2	0.8	
Total credit activities	67.3	93.0	69.0

Summary Table 7

SUMMARY OF COMMITTEE CREDIT RECOMMENDATIONS BY FUNCTION

FY 1983 Credit Activities

[In billions of dollars]

	New direct loan obligations	New primary loan guarantee commitments	New secondary loan guarantee commitments
050: National defense		0.03	
150: International affairs	10.2	9.3	
250: General science, space, and technology	0.2		
270: Energy	12.1	0.6	
300: Natural resources and environment	0.03		
350: Agriculture	19.0	2.6	
370: Commerce and housing credit	15.1	41.2	68.2
400: Transportation	0.5	0.8	0.003
450: Community and regional development	2.2	0.6	
500: Education, training, employment, and social services	0.8	7.5	
550: Health	0.1	0.1	
600: Income security	2.0	18.7	
700: Veterans benefits and services	1.0	20.9	
800: General government	0.1		
850: General purpose fiscal assistance	0.2		
Total credit activities	63.6	102.5	68.3

Function 050: NATIONAL DEFENSE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect America's people, its institutions, and its lands from foreign aggression.

—Improve the current overall military balance between the United States and its allies, and the Soviet Union and its allies.

—Deter a nuclear attack on the United States, or its forces, or on other nations whose security is important to us, and assure that should deterrence fail, the United States can respond to the threat at all levels of strategic conflict including inflicting unacceptable damage of the Soviet Union in retaliation.

—Maintain, with our allies sufficient military power to counter aggression anywhere in the world.

—Seek equitable and verifiable international agreements to limit and reduce all armaments, to prevent proliferation of nuclear weapons technology, to settle disputes by peaceful means, and to strengthen international stability.

Function 050: National Defense

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	218.3	264.6	293.3	341.6
	O	190.8	224.2	257.1	297.4
Committee recommendation	BA	216.9	251.7	278.3	316.5
	O	190.3	215.3	243.0	277.7

COMMITTEE RECOMMENDATION

The Committee recommends $251.7 billion in budget authority and $215.3 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for national security will continue to reflect the defense investment strategy proposed by the Administration. The recommended pattern of real growth in defense budget authority of 10 percent, 4 percent, and 7 percent in FY 1983 through FY 1985 is intended to support the major procurement actions initiated in FY 1982 and maintain strategic and conventional modernization and readiness programs.

The Committee recommendation assumes that DOD civilian and military pay will be frozen in FY 1983, except that additional funding is assumed to be available for targeted, critical skill military pay raises. No cost-of-living increase for military retirees is assumed in FY 1983.

The Committee recommendation assumes that reductions in Function 050: National Defense would not be taken in areas which would impair military readiness or sustainability. This assumption does not apply to reductions in these areas which are designed to eliminate wasteful practices or achieve efficiencies of management and economy.

Function 050: National Defense

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline		0.03		
Committee recommendation		0.03		
FY 1983:				
Baseline		0.03		
Committee recommendation		0.03		

Committee Recommendation

The Committee recommends $0.03 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 050: National Defense

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Military personnel	25.0	25.7	27.1	28.4	30.8	36.4
Retired military personnel	7.3	8.2	9.2	10.3	11.9	13.7
Operation and maintenance	27.8	30.6	33.6	36.4	44.8	51.9

HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Procurement	16.0	18.2	20.0	25.4	29.0	35.2
Research and development	8.9	9.8	10.5	11.2	13.1	15.3
Atomic energy defense activities	1.6	1.9	2.1	2.5	2.9	3.4
All other	2.8	3.1	2.7	3.5	3.4	3.8
Total function	89.4	97.5	105.2	117.7	135.9	159.7
Nominal growth (percent)	4	9	8	12	15	18
Real growth (percent)	−2	1	0.3	4	3	4

Function 150: INTERNATIONAL AFFAIRS

Major National Needs Addressed by the Function

—Support the security and economic and political stability of allies and friendly governments.

—Promote a stable international environment that will reduce conflicts, encourage worldwide economic progress, and bring greater respect for human rights.

—Assist our domestic economy by strengthening international economic institutions and promoting trade.

—Advance American foreign policy through diplomacy and improved communication between the United States and other nations.

—Support the long-term development of poor countries.

Function 150: International Affairs

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	16.8	17.6	19.6	25.3
	O	11.4	12.5	13.6	14.5
Committee recommendation	BA	16.8	16.2	16.7	21.0
	O	11.4	12.1	12.3	12.2

Committee Recommendation

The Committee recommends $16.2 billion in budget authority and $12.1 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983. Where budget authority is a function of enacted limitations on credit activities, the recommendation assumes that the limitations will be held to the FY 1982 baseline levels during FY 1983. In the case of the Export-Import Bank, the credit program limitation enacted by the Appropriations Committee in FY 1982 was used to calculate the FY 1983 freeze level. Because Export-Import Bank offsetting receipts and financing adjustments are projected to increase in FY 1983, its budget authority level is lower than in FY 1982.

The Committee recommendation also assumes that the budget authority associated with the Foreign Military Sales Trust Fund will increase between FY 1982 and FY 1983. The net impact on this function of financing adjustments that do not affect program levels is a reduction of $0.6 billion in budget authority between FY 1982 and FY 1983.

Function 150: International Affairs

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	10.4	9.3	3.4	....
Committee recommendation	10.4	9.3	3.4	....
FY 1983				
Baseline	11.0	10.0	3.7	....
Committee recommendation	10.2	9.3	3.4	....

COMMITTEE RECOMMENDATION

The Committee recommends $10.2 billion in new direct loan obligations and $9.3 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 150: International Affairs

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Foreign economic and financial assistance	2.7	2.8	2.7	3.0	3.7	4.2
International security assistance	1.8	1.6	2.4	2.3	2.8	3.1
Diplomatic and foreign information activities	1.1	1.4	1.6	1.8	1.9	1.9
Export-Import Bank	0.9	0.3	−0.1	0.2	1.8	2.1
All other	−0.9	−1.3	−0.7	−1.2	0.5	−0.2
Total function	5.6	4.8	5.9	6.1	10.7	11.1
Nominal growth (percent)	−19	−14	23	3	75	4
Real growth (percent)	−23	−18	14	−5	62	−5

Function 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Expansion of scientific knowledge through support of basic research in all fields of science.

—Space exploration to develop a greater understanding of the Earth, solar system and universe.

—Development of practical, economic and productive applications of space technology.

Function 250: General Science, Space, and Technology

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	7.0	7.7	7.7	7.6
	O	7.0	7.6	7.7	7.6
Committee recommendation	BA	7.0	7.0	6.9	6.9
	O	7.1	7.1	7.0	7.0

COMMITTEE RECOMMENDATION

The Committee recommends $7.0 billion in budget authority and $7.1 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

Function 250: General Science, Space, and Technology

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	0.2	....	0.2	....
Committee recommendation	0.2	....	0.2	....
FY 1983:				
Baseline	0.2	....	0.2	....
Committee recommendation	0.2	....	0.2	....

Committee Recommendation

The Committee recommends $0.2 billion in new direct loan obligations for this function in FY 1983.

Function 250: General Science, Space, and Technology

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Science	1.0	1.1	1.2	1.3	1.4	1.5
Space shuttle	1.6	1.8	1.8	1.8	2.1	2.6
Other space activities	1.8	1.8	1.7	2.0	2.2	2.3
Total function	4.4	4.7	4.7	5.0	5.7	6.4
Nominal growth (percent)	10	7	0	6	14	12
Real growth (percent)	5	1	−5	−2	5	3

Function 270: ENERGY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Mobilize the Nation's resources to protect the Nation's energy security and independence.

—Promote energy production and conservation through pricing policies that reflect the real cost of energy.

—Protect the Nation from being harmed by disruptions in energy supplies.

—Through long-term R & D, develop renewable sources of energy to sustain long-term economic growth.

Function 270: Energy

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	4.8	5.7	5.5	5.6
	O	6.4	5.3	4.8	4.7
Committee recommendation	BA	4.8	4.9	4.2	4.1
	O	6.4	4.8	3.6	3.3

COMMITTEE RECOMMENDATION

The Committee recommends $4.9 billion in budget authority and $4.8 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

Function 270: Energy

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	10.6	1.7	9.1	0.6
Committee recommendation	10.6	1.7	9.1	0.6
FY 1983:				
Baseline	12.4	0.8	10.7	0.7
Committee recommendation	12.1	0.6	10.5	0.6

Committee Recommendation

The Committee recommends $12.1 billion in new direct loan obligations and $0.6 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983. The Committee recommendation also allows for a continuation of the FY 1982 level for the direct loan program of the Rural Electrification Administration (REA) and for continued access of REA to the Federal Financing Bank.

Function 270: Energy

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Energy supply	1.8	2.5	2.3	3.4	3.4	5.4
TVA	0.9	1.0	1.3	1.8	1.7	1.8
Offsetting receipts	−0.2	−0.2	−0.6	−0.5	−1.5	−1.9
Energy conservation	0.1	0.1	0.2	0.3	0.6	0.7
Strategic petroleum reserve [1]			0.9	1.0	0.3	3.3
Energy information, policy and regulation	0.6	0.7	0.8	0.7	0.9	1.0
All other		0.1	1.0	0.3	0.9	1.3
Total function	3.1	4.2	5.9	6.9	6.3	10.3
Nominal growth (percent)	41	55	40	17	−9	63
Real growth (percent)	38	26	31	8	−15	50

[1] Beginning in FY 1982, outlays for oil acquisition for the strategic petroleum reserve all off budget.

Function 300: NATURAL RESOURCES AND ENVIRONMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Protect the public health and the environment with special emphasis on abating pollution of the land, air and water through control of hazardous wastes, injurious pesticides, and toxic substances.

—Provide for balanced conservation and development of public land, water, timber, minerals, and other natural resources.

—Preserve natural areas, fish and wildlife.

—Improve our knowledge and understanding of the atmosphere, the Earth's structure, environment, and resources.

Function 300: Natural Resources and Environment

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	10.3	10.8	10.7	10.9
	O	12.8	11.9	11.4	11.0
Committee recommendation	BA	10.3	9.9	9.3	8.9
	O	12.8	11.4	10.3	9.3

COMMITTEE RECOMMENDATION

The Committee recommends $9.9 billion in budget authority and $11.4 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

Function 300: Natural Resources and Environment

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	0.03			
Committee recommendation	0.03			
FY 1983:				
Baseline	0.03			
Committee recommendation	0.03			

Committee Recommendation

The Committee recommends $0.03 billion in new direct loan obligations for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 300: Natural Resources and Environment

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Water resources	2.8	3.2	3.5	3.9	4.3	4.2
Forest management	0.6	0.7	0.8	0.9	1.1	1.9
Land and water conservation fund	0.3	0.3	0.6	0.6	0.6	0.5
Operation of recreational resources	0.6	0.7	0.8	0.9	1.1	1.1
EPA construction grants	2.4	3.5	3.2	3.8	4.3	3.9
EPA research and regulatory programs	0.6	0.7	0.8	0.9	1.2	1.3
All other	0.8	0.7	1.2	1.0	1.2	0.6
Total function	8.1	10.0	10.9	12.1	13.8	13.5
Nominal growth (percent)	11	23	9	11	14	−2
Real growth (percent)	6	16	2	2	5	−11

Function 350: AGRICULTURE

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Assure sufficient agricultural production to meet domestic needs and export demands.

—Provide an adequate return to farmers.

—Dampen fluctuations in food prices.

—Increase farm production and income through the conduct and application of research.

—Improve the efficiency and reliability of domestic and export agricultural marketing systems.

Function 350: Agriculture

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	9.9	6.8	8.6	7.2
	O	13.8	10.3	8.5	7.8
Committee recommendation	BA	9.9	6.6	8.3	6.7
	O	13.8	10.1	8.2	7.3

COMMITTEE RECOMMENDATION

The Committee recommends $6.6 billion in budget authority and $10.1 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983. Where budget authority is a function of enacted limitations on credit activities, the recommendation assumes that the limitations will be held to the FY 1982 baseline levels during FY 1983. For farm price support and related direct spending programs, no changes in total spending levels from current law are assumed.

Function 350: Agriculture

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	22.6	2.7		6.5
Committee recommendation	22.6	2.7		6.5
FY 1983:				
Baseline	19.3	2.6		7.0
Committee recommendation	19.0	2.6		6.6

Committee Recommendation

The Committee recommends $19.0 billion in new direct loan obligations and $2.6 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 350: Agriculture

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
CCC farm price supports	0.7	3.5	5.5	3.8	2.7	4.0
Other farm income stabilization programs	0.9	1.0	1.0	1.1	0.7	−(*)
Agricultural research and services	0.9	1.0	1.1	1.4	1.3	1.5
Total function	2.5	5.5	7.7	6.2	4.8	5.6
Nominal growth (percent)	47	120	40	−19	−23	17
Real growth (percent)	44	108	30	−26	−30	7

*Less than $50 million.

Function 370: COMMERCE AND HOUSING CREDIT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Ensure that an adequate supply of mortgage credit is available nationally.

—Target credit to urban and rural areas and to prospective borrowers not well served by private credit markets.

—Maintain effective mail service at reasonable rates financed primarily by user charges.

—Support job development and a productive economy through assistance to the oversight of business.

Function 370: Commerce and Housing Credit

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	6.5	7.4	8.4	8.6
	O	3.8	4.3	4.3	4.1
Committee recommendation	BA	6.5	6.9	7.4	7.2
	O	3.8	2.8	2.4	2.1

COMMITTEE RECOMMENDATION

The Committee recommends $6.9 billion in budget authority and $2.8 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983. Where budget authority is a function of enacted limitations on credit activities, the recommendation assumes that the limitations will be held to the FY 1982 baseline levels during FY 1983.

The Committee recommendation also assumes the President's management initiative savings in Federal Housing Administration mortgage insurance and the housing for the elderly and handicapped program. These generally can be achieved through administrative action without the need for legislation.

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Function 370: Commerce and Housing Credit

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels			FFB transactions	
	New direct loan obligations	New primary loan guarantee comments	New secondary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:					
Baseline	15.4	41.2	68.2	0.3	5.6
Committee recommendation	15.4	41.2	68.2	0.3	5.6
FY 1983:					
Baseline	16.1	44.2	73.3	0.3	5.5
Committee recommendation	15.1	41.2	68.2	0.3	5.5

Committee Recommendation

The Committee recommends $15.1 billion in new direct loan obligations, $41.2 billion in new primary loan guarantee commitments, and $68.2 billion in new secondary loan guarantee commitments for this function in FY 1982.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 370: Commerce and Housing Credit

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Farmers Home rural housing programs		0.1	0.4	0.2	1.7	−0.1
Government National Mortgage Association	0.6	−1.1	0.2	0.2	1.4	1.1
Housing for the elderly and handicapped	(*)		0.2	0.5	0.8	0.8
Administrative and insurance operations of federal financial regulatory agencies	−0.6	−2.8	−1.0	−1.7	−0.3	−1.4
Postal service	1.7	2.3	1.8	1.8	1.7	1.3
Department of Commerce business support programs	0.4	0.1	0.5	0.6	1.2	0.8
Small Business Administration business support programs	0.4	0.6	0.7	0.7	1.0	0.8
All other	1.3	−0.6	0.5	0.4	0.4	0.6
Total function	3.8	0.1	3.3	2.6	7.8	3.9
Nominal growth (percent)	−32	−97	3,200	−21	300	−50
Real growth (percent)	−35	−98	3,066	−29	179	−53
Total function without asset sales	12.8	4.1	6.4	6.8	10.1	8.6
Nominal growth (percent)	31	−68	56	6	49	−15
Real growth (percent)	24	−69	44	−2	36	−22

* Less than $50 million.

Function 400: TRANSPORTATION

Major National Needs Addressed by the Function

—Develop and maintain a transportation system that meets the needs of commerce and the public.

—Assist in ensuring that the system operates safely, reliably and efficiently.

—Ensure that Federal transportation policy and programs are consistent with the Nation's economic, energy, environmental, and social goals.

Function 400: Transportation

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	20.8	22.3	23.3	24.3
	O	21.3	20.5	21.2	22.4
Committee recommendation	BA	20.8	21.3	21.5	21.8
	O	21.3	19.9	19.6	19.5

Committee Recommendation

The Committee recommends $21.3 billion in budget authority and $19.9 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

In FY 1983, the spending levels in the transportation function would not preclude an obligation ceiling of $8.2 billion for highway programs. In the event that new highway, aviation, or other transportation user fees, above those assumed in this budget resolution, are levied after the adoption of this Resolution, the Committee understands that obligation ceilings for direct spending from trust fund revenues increased as a result of new user fees may be adjusted in the future to reflect the higher level of receipts.

Function 400: Transportation

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels			FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	New secondary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:					
Baseline	0.4	0.9	0.003	0.2	....
Committee recommendation	0.4	0.9	0.003	0.2	....
FY 1983					
Baseline	0.5	0.9	0.003	0.3	....
Committee recommendation	0.5	0.8	0.003	0.3	....

COMMITTEE RECOMMENDATION

The Committee recommends $0.5 billion in new direct loan obligations, $0.8 billion in new primary loan guarantee commitments, and $0.003 billion in new secondary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 400: Transportation

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Federal-aid highways	6.4	6.0	5.9	6.9	8.8	8.8
Grants to Amtrak	0.4	0.7	0.7	0.8	0.8	0.9
Financial assistance to Conrail	0.3	0.7	0.7	0.7	0.6	0.2
Northeast corridor rail project		0.1	0.2	0.2	0.2	0.2
Urban mass transit programs	1.3	1.7	2.0	2.5	3.2	3.9
FAA operations	1.6	1.7	1.9	2.0	2.2	2.3
Airport/Airways (trust fund) programs	0.5	0.6	0.8	0.8	0.9	0.8
NASA aeronautical research programs	0.3	0.3	0.4	0.4	0.5	0.5
Maritime construction and operation subsidies	0.5	0.6	0.5	0.5	0.6	0.5
Coast Guard operations and Acquisitions	0.8	1.0	1.0	1.2	1.3	1.5
All other	1.3	1.2	1.3	1.5	1.8	3.8
Total function	13.4	14.6	15.4	17.5	21.1	23.4
Nominal Growth (percent)	29	9	5	14	21	11
Real growth (percent)	23	3	−2	4	11	1

Function 450: COMMUNITY AND REGIONAL DEVELOPMENT

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Promote the development, maintenance, or redevelopment of economically and socially viable neighborhoods in urban, suburban, and rural areas.

—Develop a partnership among Federal, State, and local governments and the private sector to assist in the stabilization and revitalization of economically depressed or declining areas.

—Provide relief to areas that suffer from natural disasters.

Function 450: Community and Regional Development

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	7.7	7.3	8.3	9.0
	O	8.5	7.9	7.9	8.4
Committee recommendation	BA	6.7	6.9	6.9	7.0
	O	8.5	7.7	7.5	7.4

COMMITTEE RECOMMENDATION

The Committee recommends $6.9 billion in budget authority and $7.7 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983. Where budget authority is a function of enacted limitations on credit activities, the recommendation assumes that the limitations will be held to the FY 1982 baseline levels during FY 1973.

Function 450: Community and Regional Development

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	2.2	0.9	0.1	1.5
Committee recommendation	2.2	0.9	0.1	1.5

CREDIT PROGRAMS—Continued

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1983:				
Baseline	2.3	0.6	0.1	1.2
Committee recommendation	2.2	0.6	0.1	1.2

COMMITTEE RECOMMENDATION

The Committee recommends $2.2 billion in new direct loan obligations and $0.6 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 450: Community and Regional Development

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Community development block grants	1.0	2.1	2.5	3.2	3.9	4.0
Urban development action grants				0.1	0.2	0.4
Other community development programs	1.8	1.2	0.7	0.7	0.8	0.7
Economic Development Administration	0.3	0.3	0.4	0.5	0.6	0.5
Local public works program		0.6	3.1	1.7	0.4	0.1
Other area and regional development programs	1.2	1.4	1.4	1.7	2.1	2.1
SBA disaster loans	0.1	0.2	2.1	1.0	0.9	1.1
Other disaster assistance programs	0.4	0.5	0.8	0.6	1.1	0.5
Total function	4.8	6.3	11.1	9.5	10.1	9.4
Nominal growth (percent)	30	31	76	−14	6	−7
Real growth (percent)	22	26	63	−21	−3	−15

Function 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Improve educational opportunities for disadvantaged and handicapped children.

—Provide financial assistance for postsecondary students.

—Support educational and cultural institutions and activities.

—Enhance training and employment opportunities for youth and adults.

—Support institutions and agencies regulating management-labor relationships and the gathering of labor statistics.

—Provide supportive services for groups such as the poor, the aged, and the handicapped to assist them in becoming self-sufficient.

Function 500: Education, Training, Employment, and Social Services

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	25.4	28.5	30.3	31.8
	O	28.1	28.0	29.5	30.8
Committee recommendation	BA	25.4	25.5	25.2	24.4
	O	28.1	26.4	25.5	24.6

COMMITTEE RECOMMENDATION

The Committee recommends $25.5 billion in budget authority and $26.4 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

The Committee recommendation also assumes savings for the guaranteed student loan entitlement by tightening eligibility for the program and by limiting Federal subsidies for interest costs. This legislative proposal would save $0.1 billion in FY 1983 outlays;

savings would grow to $1.2 billion in FY 1985 outlays. Additional budget savings are assumed due to lower interest rate projections.

Function 500: Education, Training, Employment, and Social Services

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels			FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	New secondary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:					
Baseline	1.3	6.5	0.7	0.7	
Committee recommendation	1.3	6.5	0.7	0.7	
FY 1983:					
Baseline	0.9	7.2			
Committee recommendation	0.8	7.5			

COMMITTEE RECOMMENDATION

The Committee recommends $0.8 billion in new direct loan obligations and $7.5 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activites in this function will be maintained in FY 1983. The Committee recommendation also assumes changes in the Guaranteed Student Loan (GSL) program that would increase new GSL primary loan guarantee commitments by $0.3 billion in FY 1983.

Function 500: Education, Training, Employment, and Social Services

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Compensatory education (includes title I of ESEA)	2.2	2.4	2.8	3.1	3.6	3.4
Education for the Handicapped	0.2	0.2	0.3	0.6	0.8	1.0
Vocational education	0.7	0.7	0.7	0.8	0.9	0.7
Education impact aid	0.6	0.8	0.8	0.9	0.7	0.7
Other elementary, secondary education	0.5	0.5	0.5	0.6	0.7	1.2
Guaranteed student loans	0.1	0.1	0.5	0.9	1.4	2.3
Other student assistance	2.3	2.6	2.5	2.9	3.7	4.5
CETA title VI and II–D, public service employment	2.4	2.8	5.8	5.0	3.7	0.9
Other CETA	2.7	2.8	3.8	4.5	5.2	6.8
The employment service	0.4	0.6	0.6	0.6	0.8	0.8
WIN	0.3	0.4	0.4	0.4	0.4	0.4

HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Grants to States for social services (includes title XX)	2.3	2.6	2.8	3.1	2.8	2.6
Community services program	0.5	0.5	0.6	0.6	0.6	0.6
Other social services (includes vocational rehabilitation and headstart)	1.7	2.0	2.2	2.9	2.7	3.3
All other	1.8	2.0	2.2	2.8	2.8	2.2
Total function	18.7	21.0	26.5	29.7	30.8	31.5
Nominal growth (percent)	18	12	26	12	4	2
Real growth (percent)	13	6	18	3	−5	−5

Function 550: HEALTH

Major National Needs Addressed by the Function

—Provide health care services to the elderly, poor and disabled.

—Restrain inflation in Federal health care costs and introduce competition into the health care system.

—Acquire knowledge regarding the causes, prevention, and treatment of diseases and promote preventive measures by which good health can be maintained.

—Support the education of students in the health professions, especially in primary care fields.

Function 550: Health

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	78.5	81.0	94.4	106.7
	O	73.7	82.7	93.7	107.2
Committee recommendation	BA	78.5	79.7	92.6	104.3
	O	73.7	76.5	83.9	94.5

Committee Recommendation

The Committee recommends $79.7 billion in budget authority and $76.5 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983. Where budget authority is a function of enacted limitations on credit activities. The recommendation assumes that the limitations will be held to the FY 1982 baseline levels during FY 1983.

The Committee recommendation assumes savings in the medicare program through reform of the method by which hospitals and physicians are reimbursed; through the enactment of caps on per patient revenues; through changes in benefit and beneficiary copayments; and through the implementation of administrative savings proposed by the President. Assumed medicare savings also could be achieved by implementing a prospective reimbursement system or other proposals to increase the competition among health care providers and to reduce the growth in health care costs.

In medicaid, savings assumptions are based on the imposition of a small co-payment on medicaid hospital stays, changes in medicaid match rates for some services, additional increases in State flexibility in the administration of medicaid, and the administrative savings proposed by the President.

Function 550: Health

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	0.1	0.1		0.01
Committee recommendation	0.1	0.1		0.01
FY 1983:				
Baseline	0.1	0.1		0.02
Committee recommendation	0.1	0.1		0.02

Committee Recommendation

The Committee recommends $0.1 billion in new direct loan obligations and $0.1 billion in new primary loan guarantee commitments for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 550: Health

HISTORICAL DATA

[In billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Medicare	17.8	21.5	25.2	29.1	35.0	42.5
Medicaid	8.6	9.9	10.7	12.4	14.0	16.8
Other health care services	3.1	3.1	3.2	3.6	4.0	4.4
Medicare offsetting receipts	−1.9	−2.2	−2.4	−2.7	−2.9	−3.3
Health research	2.3	2.5	2.8	3.0	3.4	3.8
Education and training of the health care work force	1.0	1.0	0.9	0.6	0.7	0.8
All other	0.6	0.8	0.9	0.9	1.1	1.0
Total function	31.5	36.6	41.2	47.0	55.2	66.0

HISTORICAL DATA—Continued

[In billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Nominal growth (percent)	23	16	13	14	17	20
Real growth (percent)	16	9	5	5	8	9

Function 600: INCOME SECURITY

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Mitigate the loss of income people experience as a result of unemployment, retirement, disability, or death.

—Provide income support and help ensure an adequate diet for poor Americans, especially families with children, the elderly, and disabled who cannot provide sufficiently for themselves.

—Help the poor meet problems arising from increasing energy costs.

—Promote decent and affordable housing for low-income individuals and families.

—Eliminate duplication and inequities in these programs and assure that they focus on the most needy.

—Administer these programs efficiently while preserving the dignity and independence of the beneficiaries.

Function 600: Income Security

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	260.9	284.5	306.1	340.8
	O	251.4	275.1	293.1	317.0
Committee recommendation	BA	260.9	281.7	300.8	332.9
	O	251.5	272.5	288.2	309.7

COMMITTEE RECOMMENDATION

The Committee recommends $281.7 billion in budget authority and $272.5 billion in outlays in this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 budget authority levels during FY 1983.

The Committee assumes that indexation and error rates will be reduced in the food stamp program. The Committee also assumes that savings will result from reforms in the Federal employees disability compensation program. The Committee assumption would tighten eligibility requirements and simplify benefit calculations in the aid to families with dependent children and the supplemental security income programs. The proposed levels envision the enactment of the President's recommendations for the child support enforcement program.

The Committee assumes no cost-of-living adjustments for railroad retirement, civil service retirement, and black lung benefits for 1 year, beginning in July of 1982. A cost-of-living increase of no more than 4 percent is assumed for these programs for each of the following 2 years.

The Committee resolution would not preclude the Railroad Retirement Board from maintaining and operating all current district offices.

Function 600: Income Security

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	2.8	17.0	1.3	....
Committee recommendation	2.8	17.0	1.3	....
FY 1983:				
Baseline	2.0	18.7	1.0	....
Committee recommendation	2.0	18.7	1.0	....

Committee Recommendation

The Committee recommends $2.0 billion in new direct loan obligations and $18.7 billion in new primary loan guarantee commitments for this function in FY 1983.

Function 600: Income Security

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Old-age and survivors insurance (OASI)	63.1	72.3	79.6	88.7	101.8	120.7
Disability insurance (DI)	9.6	11.6	12.6	13.9	15.3	17.3
Railroad retirement	3.5	3.8	4.0	4.3	4.7	5.3
Black lung	1.0	1.0	1.1	1.6	1.8	1.8
Federal employee retirement and disability	8.2	9.5	10.7	12.4	14.7	17.5
Unemployment compensation	19.5	15.3	11.8	10.7	18.0	19.7
Supplemental security income (SSI)	5.1	5.3	5.9	5.5	6.4	7.2

HISTORICAL DATA—Continued

[Outlays—billions of dollars]

Major program	Actual FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Aid to families with dependent children (AFDC)	5.8	6.4	6.6	6.6	7.3	8.5
Earned-income tax credit	0.8	0.9	0.9	0.8	1.3	1.3
Food stamps	5.6	5.4	5.5	6.8	9.1	11.3
Child nutrition programs	1.8	2.6	2.5	2.9	3.4	3.4
Subsidized housing	2.3	2.4	2.9	3.6	4.5	5.7
Low-income energy assistance		0.1	0.2	0.2	1.6	1.7
Refugee assistance	0.1	0.2	0.1	0.1	0.4	0.7
All other	1.1	1.2	1.8	2.1	2.7	2.9
Total function	127.4	137.9	146.2	160.2	193.1	225.1
Nominal growth (percent)	17	8	6	10	21	17
Real growth (percent)	10	2	−1	−2	6	5

Function 700: VETERANS BENEFITS AND SERVICES

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

—Meet the Nation's obligation to compensate veterans disabled while in military service for their loss of earning power.

—Provide medical care to veterans for disabilities incurred while in military service.

—Compensate the families of veterans who are killed in service or who die from service-related disabilities for the reduction in the family's earning power.

—Help veterans of wartime and draft service return to civilian life on a social and economic basis comparable to their peers who did not perform military duty.

—Provide psychological readjustment services and training opportunities to Vietnam-era veterans with special needs.

—Provide financial assistance to needy veterans and their survivors.

Function 700: Veterans Benefits and Services

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	24.8	24.8	26.1	27.2
	O	23.8	24.7	25.6	26.9
Committee recommendation	BA	24.8	23.4	24.2	24.4
	O	23.8	22.7	23.6	24.4

COMMITTEE RECOMMENDATION

The Committee recommends $23.4 billion in budget authority and $22.7 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

The Committee recommendation also assumes no cost-of-living increase for the veterans pension and compensation programs on

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July 1, and October 1, 1982, respectively. A cost-of-living increase of no more than 4 percent is assumed for these programs for each of the following 2 years.

The Committee recommendation assumes the President's management initiative savings for Veterans Administration housing loan asset sales that generally can be achieved through administrative action without the need for legislation.

Function 700: Veterans Benefits and Services

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	1.0	11.9		
Committee recommendation	1.0	11.9		
FY 1983:				
Baseline	1.0	20.9		
Committee recommendation	1.0	20.9		

Committee Recommendation

The Committee recommends $1.0 billion in new direct loan obligations and $20.9 billion in new primary loan guarantee commitments for this function in FY 1983.

Function 700: Veterans Benefits and Services

HISTORICAL DATA

[Outlays—in billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Veterans compensation	5.2	5.7	6.2	6.7	7.4	8.4
Veterans pensions	2.9	3.1	3.2	3.5	3.6	3.8
Veterans education, training, and rehabilitation	5.5	3.7	3.4	2.8	2.3	2.3
Hospital and medical care for veterans	4.0	4.7	5.3	5.6	6.5	7.0
All other	0.8	0.8	1.0	1.3	1.3	1.6
Total function	18.4	18.0	19.0	19.9	21.2	23.0
Nominal growth (percent)	11	−2	6	5	7	8
Real growth (percent)	6	−8	−2	−3	−2	−1

Function 750: ADMINISTRATION OF JUSTICE

Major National Needs Addressed by the Function

—Represent the interest of the public in civil litigation and in other legal matters.

—Provide for the safety of persons and the protection of their property through law enforcement.

—Provide fair and prompt trials for those accused of Federal crimes and for those involved in civil disputes.

—Operate detention and correctional facilities for persons charged with or convicted of crimes.

—Assist in the improvement of State and local criminal justice systems.

Function 750: Administration of Justice

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	4.5	4.8	4.9	5.0
	O	4.6	4.8	4.9	5.0
Committee recommendation	BA	4.5	4.6	4.6	4.6
	O	4.6	4.7	4.6	4.6

Committee Recommendation

The Committee recommends $4.6 billion in budget authority and $4.7 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

Function 750: Administration of Justice

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Federal Bureau of Investigation	0.5	0.5	0.6	0.6	0.6	0.7
Immigration and Naturalization Service	0.2	0.2	0.3	0.3	0.3	0.4
Drug Enforcement Administration	0.1	0.2	0.2	0.2	0.2	0.2
Customs Service	0.3	0.3	0.4	0.4	0.5	0.5
The Judiciary	0.3	0.4	0.4	0.5	0.6	0.6
Law enforcement assistance; research and statistics	0.9	0.8	0.7	0.7	0.7	0.5
Legal Services Corporation	0.1	0.1	0.2	0.3	0.3	0.3
Federal prison system	0.2	0.2	0.3	0.3	0.4	0.4
All other	0.7	0.9	0.7	0.9	1.0	1.1
Total function	3.3	3.6	3.8	4.2	4.6	4.7
Nominal growth (percent)	14	9	6	11	10	2
Real growth (percent)	8	2	−1	1	1	−7

Function 800: GENERAL GOVERNMENT

Major National Needs Addressed by the Function

—Provide a legislative system responsive to the Nation's people.

—Provide national executive leadership and development of Federal management policy.

—Ensure efficiency and accountability in the use of public resources.

—Formulate tax and fiscal policies and conduct the operations of the Federal Government efficiently and effectively.

—Provide central services for all Federal agencies, including property and personnel management.

Function 800: General Government

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	5.2	5.2	5.0	5.2
	O	5.0	5.0	4.9	4.9
Committee recommendation	BA	5.2	5.0	4.7	4.7
	O	5.0	4.8	4.6	4.4

Committee Recommendation

The Committee recommends $5.0 billion in budget authority and $4.8 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

Function 800: General Government

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	0.1	....	0.1	....
Committee recommendation	0.1	....	0.1	....
FY 1983:				
Baseline	0.1	....	0.1	....
Committee recommendation	0.1	....	0.1	....

Committee Recommendation

The Committee recommends $0.1 billion in new direct loan obligations for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 800: General Government

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Legislative branch	0.7	0.8	0.9	0.9	1.0	1.0
Internal Revenue Service	1.7	1.8	1.9	2.1	2.3	2.5
General Services Administration	0.1	0.1	0.2	0.2	0.4	0.2
All other	0.4	0.6	0.7	1.0	0.8	1.0
Total function	2.9	3.2	3.7	4.1	4.5	4.6
Nominal growth (percent)	−7	10	16	11	10	9
Real growth (percent)	−10	1	9	2	1	−7

Function 850: GENERAL PURPOSE FISCAL ASSISTANCE

Major National Needs Addressed by the Function

—Strengthen the Federal system by providing financial assistance to State and local governments.

—Strengthen the capacities of State and local governments to finance essential public services and cushion the fiscal impact of adverse economic conditions.

—Assist States and localities by sharing receipts generated by Federal land management activities.

Function 850: General Purpose Fiscal Assistance

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	6.4	6.6	7.1	7.6
	O	6.3	6.5	7.0	7.5
Committee recommendation	BA	6.4	6.6	6.7	6.9
	O	6.3	6.5	6.7	6.8

Committee Recommendation

The Committee recommends $6.6 billion in budget authority and $6.5 billion in outlays for this function in FY 1983.

The Committee recommendation assumes that spending for discretionary programs will be held to the FY 1982 baseline budget authority levels during FY 1983.

Function 850: General Purpose Fiscal Assistance

CREDIT PROGRAMS

[In billions of dollars]

	Activity levels		FFB transactions	
	New direct loan obligations	New primary loan guarantee commitments	Conversion of guarantees into off-budget direct loans	Loan asset purchases
FY 1982:				
Baseline	0.2	0.8		
Committee recommendation	0.2	0.8		
FY 1983:				
Baseline	0.2			
Committee recommendation	0.2			

COMMITTEE RECOMMENDATION

The Committee recommends $0.2 billion in new direct loan obligations for this function in FY 1983.

The Committee recommendation assumes that the FY 1982 appropriation act limitations on credit activities in this function will be maintained in FY 1983.

Function 850: General Purpose Fiscal Assistance

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
General revenue sharing	6.2	6.8	6.8	6.8	6.8	5.1
Payments and loans to the District of Columbia	0.3	0.3	0.4	0.4	0.4	0.5
Antirecession fiscal assistance		1.7	1.3			
All other	0.7	0.7	1.1	1.2	1.3	1.2
Total function	7.2	9.5	9.6	8.4	8.6	6.9
Nominal growth (percent)	1	32	1	−13	2	−20
Real growth (percent)	−4	24	−6	−20	−6	−27

Function 900: INTEREST

MAJOR NATIONAL NEEDS ADDRESSED BY THE FUNCTION

Interest is the cost of borrowing or the income from lending money. The interest function includes both interest paid and interest received by the Federal Government.

Function 900: Interest

SPENDING PROGRAM

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	102.3	127.8	156.0	170.0
	O	102.3	127.8	156.0	170.0
Committee recommendation	BA	102.0	115.1	119.8	111.6
	O	102.0	115.1	119.8	111.6

COMMITTEE RECOMMENDATION

The Committee recommends $115.1 billion in budget authority and $115.1 billion in outlays for this function in FY 1983.

The Committee recommendation assumes reductions in interest costs consistent with the deficit reductions contained in the recommended budget.

The Committee recommendation also assumes that compared to the baseline economic assumptions, enactment of the plan would result in a 0.6 percentage point reduction in interest rates beginning July 1, 1982 with further reductions reaching 2.5 percentage points beginning January 1, 1983. Interest rates for the calendar year 1983–85 period would be 2.5 percentage points below the baseline interest rate estimates.

Function 900: Interest

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Interest on the public debt	37.1	41.9	48.7	59.8	74.8	95.5
Other interest	−2.3	−3.9	−4.7	−7.3	−10.3	−13.0
Total function	34.5	38.0	44.0	52.6	64.5	82.5
Nominal growth (percent)	12	10	16	20	23	28
Real growth (percent)	7	4	8	10	13	17

Function 920: ALLOWANCES

Allowances are included in the budget to provide for unspecified requirements or savings that may arise. Such allowances do not represent specific program decisions. Once specific program decisions are made, the allowances shown here are replaced by changes in the appropriate functions of the budget.

Function 920: Allowances

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	1.5	2.3	4.9	7.1
	O	1.6	2.4	5.1	7.6
Committee recommendation	BA	0.7	−2.0	−0.8	−0.8
	O	0.8	−2.0	−0.8	−0.6

Committee Recommendation

The Committee recommends −$2.0 billion in budget authority and −$2.0 billion in outlays for this function in FY 1983.

The Committee recommendation assumes no pay raise for Federal employees in October 1982, a 4 percent pay raise in October 1983, and 4 percent raise in October 1984. This applies to all Federal employees. Savings related to military and civilian employees of the Department of Defense are carried in function 050. Savings related to other Federal employees are carried in this function.

The Committee recommendation also assumes the President's FY 1982 pay supplemental request which requires 54 percent absorption of the costs associated with the October 1981 pay raise for agencies other than the Department of Defense. Savings associated with this spending restraint are assumed to continue in future years and have been allocated to the appropriate functions as part of the savings to be achieved in non-defense discretionary spending.

The Committee recommendation also assumes, beginning in FY 1983, the President's management initiatives in this function for reduction in waste, fraud, and abuse and for improved debt collection.

Function 950: UNDISTRIBUTED OFFSETTING RECEIPTS

Major National Needs Addressed by the Function

Offsetting receipts are generally deducted from outlays and budget authority at the function, subfunction, or account level. In three instances, however, such payments are deducted from the budget totals as undistributed offsetting receipts. Payments for rents and royalties on the Outer Continental Shelf are very large and their inclusion in a particular function would distort the presentation of Federal program costs. Deductions for interest received by trust funds and for the payments that each agency makes as its share of employee retirement costs are included as part of this category to eliminate double counting of budget authority and outlays in order to reflect properly transactions with the public. Disposal of Federal surplus property is included as an undistributed offsetting receipt because all properties to be sold have not been identified and therefore receipts cannot be allocated among specific programs or functions.

Function 950: Undistributed Offsetting Receipts

SPENDING PROGRAMS

[In billions of dollars]

		FY 1982	FY 1983	FY 1984	FY 1985
Baseline	BA	−30.5	−34.7	−38.1	−42.2
	O	−30.5	−34.7	−38.1	−42.2
Committee recommendation	BA	−30.5	−39.3	−44.8	−47.3
	O	−30.5	−39.3	−44.8	−47.3

Committee Recommendation

The Committee recommends −$39.3 billion in budget authority and −$39.3 billion in outlays for this function in FY 1983.

The Committee recommendation assumes lower receipts as a result of: (1) reduced employer contributions to employee retirement funds caused by the pay recommendations, and (2) reduced interest income to trust funds because of lower interest rates.

The Committee recommendation also assumes the President's management initiatives savings for accelerated OCS leasing and disposal of surplus Federal property. These changes more than offset the lower receipts mentioned above.

Function 950: Undistributed Offsetting Receipts

HISTORICAL DATA

[Outlays—billions of dollars]

Major program	Actual					
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Rents and royalties on the outer continental shelf	−2.7	−2.4	−2.3	−3.3	−4.1	−10.1
Interest received by trust funds	−7.8	−8.1	−8.5	−10.0	−12.0	−16.1
Employer share, employee retirement	−4.2	−4.5	−5.0	−5.3	−5.8	−7.6
Total function	−14.7	−15.1	−15.8	−18.5	−21.9	−30.3
Nominal growth (percent)	4	3	5	17	18	38
Real growth (percent)	−0.04	−3	2	8	9	27

CHAPTER IX. ALLOCATIONS TO SENATE COMMITTEES

In support of the Committee recommendation that Senate committees begin immediately to operate on the basis of the Senate Resolution pending final agreement with the House of Representatives, the allocations to Senate committees pursuant to section 302 of the Congressional Budget Act are set forth below for fiscal years 1982 and 1983.

SENATE COMMITTEE ALLOCATIONS PURSUANT TO SEC. 302 OF THE CONGRESSIONAL BUDGET ACT, FY 1982

[In millions of dollars]

	Direct spending jurisdiction		Entitlements funded in annual appropriation acts	
	Budget authority	Outlays	Budget authority	Outlays
Appropriations Committee	457,712	436,446		
Agriculture, Nutrition, and Forestry Committee	766	12,679	89	125
Armed Services Committee	59	55	15,192	15,155
Banking, Housing, and Urban Affairs Committee	2,688	109		1
Commerce, Science, and Transportation Committee	1,684	804	279	434
Energy and Natural Resources Committee	1,156	928	53	55
Environment and Public Works Committee	10,183	2,047	6	6
Finance Committee	351,505	351,712	43,844	45,485
Foreign Relations Committee	13,701	11,365		
Governmental Affairs Committee	42,984	29,839	(1)	(1)
Judiciary Committee	539	522	59	60
Labor and Human Resources Committee	5,412	5,511	5,504	5,341
Rules and Administration Committee	46	8		
Small Business Committee				
Veterans Affairs Committee	1,363	1,024	15,711	15,212
Select Committee on Indian Affairs	515	362		
Not allocated to committees	−112,710	−112,711		
Total, budget	777,600	740,700	80,737	81,874

[1] Less than $500 thousand.

Note: Details may not add to totals due to rounding.

SENATE COMMITTEE ALLOCATIONS PURSUANT TO SEC. 302 OF THE CONGRESSIONAL BUDGET ACT, FY 1983

[In millions of dollars]

	Direct spending jurisdiction		Entitlements funded in annual appropriation acts	
	Budget authority	Outlays	Budget authority	Outlays
Appropriations Committee	490,392	461,652		
Agriculture, Nutrition, and Forestry Committee	618	9,451	94	90
Armed Services Committee	82	92	15,989	15,982
Banking, Housing, and Urban Affairs Committee	3,064	−94		
Commerce, Science, and Transportation Committee	1,201	121	345	400
Energy and Natural Resources Committee	1,129	920	53	50
Environment and Public Works Committee	11,194	1,748	6	6
Finance Committee	389,616	389,381	42,022	46,510
Foreign Relations Committee	14,777	12,225		
Governmental Affairs Committee	46,061	32,027	(1)	(1)
Judiciary Committee	539	522	62	62
Labor and Human Resources Committee	5,808	5,607	5,126	5,201
Rules and Administration Committee	48	10		
Small Business Committee				
Veterans Affairs Committee	1,469	1,012	14,113	14,654
Select Committee on Indian Affairs	548	414		
Not allocated to committees	−134,847	−135,989		
Total budget	831,700	779,100	77,810	82,957

[1] Less than $500 thousand.

Note: Details may not add to totals due to rounding.

ROLLCALL VOTES IN COMMITTEE

Rollcall votes taken during Committee consideration of this legislation are as follows:

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1. Hart motion to adopt the Congressional Budget Office "Pessimistic Alternative Economic Assumptions" as the economic mark.

   Motion rejected by 2 Yeas 15 Nays.

   Yea: Hart
   Moynihan

   Nay: Kassebaum
   Hatch
   Kasten
   Quayle
   Gorton
   Hollings
   Chiles
   Biden
   Sasser
   Metzenbaum
   Exon
   Tower
   Johnston
   Boschwitz
   Domenici

2. Domenici motion to adopt the Congressional Budget Office baseline economic assumptions with adjustment for 1982 interest rate assumptions.*

   Motion agreed to by 16 Yeas 1 Nay

   Yea: Kassebaum
   Hatch
   Quayle
   Gorton
   Hollings
   Chiles
   Biden
   Sasser
   Hart
   Metzenbaum
   Moynihan
   Exon
   Tower
   Johnston
   Boschwitz
   Domenici

   Nay: Kasten

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* This Committee decision was modified by consensus later in mark-up when the Chairman presented a revised baseline, developed during the Congressional-White House working groups efforts to produce a budget compromise.

3. Kasten motion to assume revenues change of:

FY82	FY83	FY84	FY85
--	+5	+28	+50

Motion rejected: 4 Yeas 17 Nays

Yeas: Hatch, Symms, Grassley, Kasten

Nays: Armstrong, Kassebaum, Boschwitz, Andrews, Quayle, Gorton, Hollings, Chiles, Biden, Johnston, Sasser, Hart, Metzenbaum, Riegle, Moynihan, Exon, Domenici

4. Metzenbaum motion to use CBO current policy baseline for Function 050, National Defense.

Motion rejected: 9 Yeas 12 Nays

Yeas: Hollings, Chiles, Biden, Johnston, Sasser, Hart, Metzenbaum, Riegle, Moynihan

Nays: Armstrong, Kassebaum, Boschwitz, Hatch, Andrews, Symms, Grassley, Kasten, Quayle, Gorton, Exon, Domenici

5. Metzenbaum motion to use CBO baseline for revenues.

Motion rejected: 6 Yeas 15 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Biden		Kassebaum
	Hart		Boschwitz
	Metzenbaum		Hatch
	Riegle		Andrews
	Moynihan		Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Chiles
			Johnston
			Sasser
			Exon
			Domenici

6. Hollings motion to endorse the following aggregate totals proposed in the President's budget as re-estimated by CBO.

	FY82	FY83	FY84	FY85
Outlays	738.3	785.5	846.3	914.7
Revenues	624.3	653.1	710.4	778.3
Deficit (-)	-113.9	-132.4	-135.9	-136.4

Motion rejected: 0 Yeas 20 Nays

Yeas:	Nays:	
		Armstrong
		Kassebaum
		Boschwitz
		Andrews
		Symms
		Grassley
		Kasten
		Quayle
		Gorton
		Hollings
		Chiles
		Biden
		Johnston
		Sasser
		Hart
		Metzenbaum
		Riegle
		Moynihan
		Exon
		Domenici

Mr. Hatch voted "present".

7. Hollings motion to assume revenues change of:

FY82	FY83	FY84	FY85
+6	+35	+71	+92

Motion rejected: 7 Yeas 15 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Chiles		Kassebaum
	Biden		Boschwitz
	Johnston		Hatch
	Hart		Tower
	Metzenbaum		Andrews
	Exon		Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Sasser
			Riegle
			Moynihan
			Domenici

8. Exon motion to defer the 1983 tax cut and to balance the budget by 1985.

Motion rejected by: 5 Yeas 12 Nays

Yeas:		Nays:	
	Andrews		Armstrong
	Hollings		Kassebaum
	Johnston		Boschwitz
	Sasser		Symms
	Exon		Grassley
			Kasten
			Quayle
			Gorton
			Chiles
			Riegle
			Moynihan
			Domenici

9. Riegle motion to strike Domenici Social Security proposal.

Motion rejected: 9 Yeas 10 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Chiles		Kassebaum
	Biden		Boschwitz
	Johnston		Andrews
	Sasser		Symms
	Hart		Grassley
	Riegle		Kasten
	Moynihan		Quayle
	Exon		Gorton
			Domenici

10. Domenici motion to approve compromise budget plan producing deficits of:

FY82	FY83	FY84	FY85
-117.7	-106.1	-69.0	-39.5

Motion agreed to: 11 Yeas 9 Nays

Yeas:		Nays:	
	Armstrong		Hollings
	Kassebaum		Chiles
	Boschwitz		Biden
	Hatch		Johnston
	Andrews		Sasser
	Symms		Hart
	Grassley		Riegle
	Kasten		Moynihan
	Quayle		Exon
	Gorton		
	Domenici		

If present, Senator Metzenbaum would have voted nay.

11. Metzenbaum motion to set totals in Function 500, Education, Training, Employment, and Social Services at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
25.4	28.1	30.1	28.5	31.3	30.8	32.5	31.8

Motion rejected: 3 Yeas 15 Nays

Yeas:
Hart
Metzenbaum
Riegle

Nays:
Armstrong
Boschwitz
Hatch
Andrews
Symms
Grassley
Kasten
Quayle
Gorton
Hollings
Chiles
Biden
Johnston
Exon
Domenici

12. Hollings motion to set totals of Function 500, Education, Training, Employment, and Social Services at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
---	---	26.8	27.0	27.5	27.2	27.6	27.5

Motion rejected: 9 Yeas 10 Nays

Yeas:
Andrews
Hollings
Chiles
Biden
Johnston
Hart
Metzenbaum
Riegle
Exon

Nays:
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Grassley
Kasten
Quayle
Gorton
Domenici

13. Hart motion to set totals of Function 500, Education, Training Employment, and Social Services at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
--	--	26.6	27.1	26.8	27.1	26.3	26.2

Motion rejected: 6 Yeas 8 Nays

Yeas:	Hollings Chiles Johnston Sasser Hart Riegle	Nays:	Kassebaum Boschwitz Hatch Symms Grassley Quayle Gorton Domenici

14. Chiles motion to set totals of Function 750, Administration of Justice at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
--	--	4.9	4.9	5.0	5.0	5.1	5.1

Motion rejected: 5 Yeas 11 Nays

Yeas:	Chiles Biden Johnston Sasser Exon	Nays:	Armstrong Kassebaum Boschwitz Hatch Andrews Symms Grassley Kasten Quayle Gorton Domenici

15. Chiles motion to set totals of Function 700, Veterans Benefits and Services at:

FY82		FY83		FY84		FY85	
BA	0	BA	0	BA	0	BA	0
--	--	24.9	24.7	26.2	25.5	27.2	26.9

Motion rejected: 4 Yeas 10 Nays

Yeas:
Chiles
Biden
Johnston
Exon

Nays:
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Grassley
Kasten
Quayle
Gorton
Domenici

16. Chiles motion to set totals of Function 250, General Science, Space and Technology at:

FY82		FY83		FY84		FY85	
BA	0	BA	0	BA	0	BA	0
7.0	7.0	7.8	7.6	7.7	7.8	7.3	7.4

Motion rejected: 5 Yeas 11 Nays

Yeas:
Hollings
Chiles
Biden
Johnston
Exon

Nays:
Armstrong
Kassebaum
Boschwitz
Hatch
Symms
Grassley
Kasten
Quayle
Gorton
Riegle
Domenici

17. Johnston motion to adopt the modified Holling's plan, revised to exclude changes in cost-of-living adjustments.

Motion rejected: 6 Yeas 10 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Chiles		Kassebaum
	Biden		Boschwitz
	Johnston		Hatch
	Hart		Symms
	Riegle		Grassley
			Kasten
			Quayle
			Gorton
			Domenici

18. Chiles motion to set totals in Function 550, Health at:

FY82		FY83		FY84		FY85	
BA	0	BA	0	BA	0	BA	0
--	--	80.5	79.2	94.0	88.7	106.2	100.4

Motion rejected: 7 Yeas 11 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Chiles		Kassebaum
	Biden		Boschwitz
	Johnston		Hatch
	Hart		Tower
	Riegle		Symms
	Moynihan		Grassley
			Kasten
			Quayle
			Gorton
			Domenici

19. Riegle motion to set totals in Function 370, Commerce and Housing Credit at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
11.6	3.8	6.9	3.7	7.4	3.4	7.2	3.1

Motion rejected: 5 Yeas 13 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Chiles		Kassebaum
	Biden		Boschwitz
	Hart		Hatch
	Riegle		Tower
			Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Johnston
			Moynihan
			Domenici

20. Riegle motion to set totals in Function 050, National Defense at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
216.0	190.1	243.9	214.8	214.8	275.0	309.5	276.3

Motion rejected: 2 Yeas 15 Nays

Yeas:		Nays:	
	Riegle		Armstrong
	Moynihan		Kassebaum
			Boschwitz
			Tower
			Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Hollings
			Chiles
			Biden
			Johnston
			Hart
			Domenici

21. Moynihan motion to set totals in Function 400, Transportation at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
--	--	21.8	20.1	22.2	19.9	23.0	20.1

Motion rejected: 5 Yeas 12 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Biden		Kassebaum
	Hart		Boschwitz
	Riegle		Hatch
	Moynihan		Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Chiles
			Johnston
			Domenici

22. Hollings motion to set totals in Function 600, Income Security at:

FY82		FY83		FY84		FY85	
BA	O	BA	O	BA	O	BA	O
--	--	281.8	272.6	301.3	288.7	333.8	310.6

Motion rejected: 6 Yeas 10 Nays

Yeas:		Nays:	
	Hollings		Armstrong
	Biden		Kassebaum
	Johnston		Boschwitz
	Hart		Hatch
	Riegle		Symms
	Moynihan		Grassley
			Kasten
			Quayle
			Gorton
			Domenici

23. Domenici motion to adopt Federal Credit levels as follows:

New direct loan obligations:	63.6
New primary loan guarantee commitments:	102.5
New secondary loan guarantee commitments:	68.3

Motion agreed to by unanimous consent.

24. Domenici motion to retain Sections 2(b)(3) and 2(b)(7) in the resolution.

Motion agreed to: 7 Yeas 6 Nays

Yeas:		Nays:	
	Hatch		Kassebaum
	Symms		Boschwitz
	Grassley		Hollings
	Kasten		Chiles
	Quayle		Johnston
	Gorton		Moynihan
	Domenici		

25. Chiles motion to amend enforcement provisions to include a modification of the application of the "germaneness" provision to reconciliation bill to allow spending cuts or tax changes different from those reported by committees, but not to allow non-budgetary provisions.

Motion rejected: 6 Yeas 11 Nays

Yeas:		Nays:	
	Hollings		Kassebaum
	Chiles		Boschwitz
	Biden		Hatch
	Johnston		Tower
	Metzenbaum		Andrews
	Exon		Symms
			Grassley
			Kasten
			Quayle
			Gorton
			Domenici

26. Domenici substitute for the Sasser, Riegle, Moynihan motion to include sense of Congress language on monetary policy, as amended by Quayle.

Motion agreed to by unanimous consent.

27. Domenici motion to report the resolution favorably to the Senate.

May 6, 1982

FIRST BUDGET RESOLUTION FOR FY 1983

AS REPORTED BY SENATE BUDGET COMMITTEE

($ billions)

Function	FY 1982 BA	FY 1982 O	FY 1983 BA	FY 1983 O	FY 1984 BA	FY 1984 O	FY 1985 BA	FY 1985 O
050: National Defense	216.9	190.3	251.7	215.3	278.3	243.0	316.5	277.7
150: International Affairs	16.8	11.4	16.2	12.1	16.7	12.3	21.0	12.2
250: General Science, Space, and Technology	7.0	7.1	7.0	7.1	6.9	7.0	6.9	7.0
270: Energy	4.8	6.4	4.9	4.8	4.2	3.6	4.1	3.3
300: Natural Resources and Environment	10.3	12.8	9.9	11.4	9.3	10.3	8.9	9.3
350: Agriculture	9.9	13.8	6.6	10.1	8.3	8.2	6.7	7.3
370: Commerce and Housing Credit	6.5	3.8	6.9	2.8	7.4	2.4	7.2	2.1
400: Transportation	20.8	21.3	21.3	19.9	21.5	19.6	21.8	19.5
450: Community and Regional Development	6.7	8.5	6.9	7.7	6.9	7.5	7.0	7.4
500: Education, Training, Employment, and Social Services	25.4	28.1	25.5	26.4	25.2	25.5	24.4	24.6
550: Health	78.5	73.7	79.7	76.5	92.6	83.9	104.3	94.5
600: Income Security	260.9	251.5	281.7	272.5	300.8	288.2	332.9	309.7
700: Veterans Benefits and Services	24.8	23.8	23.4	22.7	24.2	23.6	24.4	24.4
750: Administration of Justice	4.5	4.6	4.6	4.7	4.6	4.6	4.6	4.6
800: General Government	5.2	5.0	5.0	4.8	4.7	4.6	4.7	4.4
850: General Purpose Fiscal Assistance	6.4	6.3	6.6	6.5	6.7	6.7	6.9	6.8
900: Interest	102.0	102.0	115.1	115.1	119.8	119.8	111.6	111.6
920: Allowances	0.7	0.8	-2.0	-2.0	-0.8	-0.8	-0.8	-0.6
950: Undistributed Offsetting Receipts	-30.5	-30.5	-39.3	-39.3	-44.8	-44.8	-47.3	-47.3
Total Spending	777.6	740.7	831.7	779.1	892.3	825.0	966.0	878.5
Revenues		623.0		667.0		739.0		822.0
Social security solvency		---		-6.0		-17.0		-17.0
Deficit		-117.7		-106.1		-69.0		-39.5
Public Debt		1,144.2		1,290.0		1,414.6		1,522.9

Motion agreed to: 12 Yeas 10 Nays

Yeas: Armstrong, Kassebaum, Boschwitz, Hatch, Tower, Andrews, Symms, Grassley, Kasten, Quayle, Gorton, Domenici

Nays: Hollings, Chiles, Biden, Johnston, Sasser, Hart, Metzenbaum, Riegle, Moynihan, Exon

28. Motion to authorize staff to complete calculations and make minor technical corrections.

Motion agreed to by unanimous consent.

ADDITIONAL VIEWS OF SENATOR WILLIAM L. ARMSTRONG

The Federal budget deficit reductions recommended by the Senate Budget Committee, and endorsed by President Reagan, set the stage for a dramatic recovery of the U.S. economy. Persistent high interest rates have stifled economic growth, caused thousands of business failures and resulted in millions of lost jobs nationwide.

Our plan is a bold, credible, and fair approach to reduce the enormous Federal budget deficits which have caused high interest rates. Leading economists agree that prompt action to reduce deficits will result in substantially lower interest rates within the immediate future. Therefore the committee budget:

—cuts projected deficits for fiscal years 1983–85 by $417 billion, from $631 billion to $215 billion in the 3-year period;
—reduces the FY 1985 deficit by more three quarters, from $232.5 billion to $39.5 billion;
—provides a balanced program of spending restraint in entitlement programs and appropriated accounts including defense spending reductions and modest revenue increases;
—calls for approximately $3 of spending restraint for every dollar of new reveune; and
—protects the personal and business tax reductions enacted last year; projected revenue increases can be achieved through loophole closings, user fees, excise taxes, etc. . . . without dismantling the President's 3-year tax program and personal tax rate indexing.

I have surveyed a number of the nation's most distinguished economists, not only the economists who are often quoted in the national news magazines, but a broad cross-section of economists in the nation's universities, in banking institutions, on Wall Street, and elsewhere, and put to them a series of questions about what they would expect to happen in the event that the Congress enacted measures of budget restraint similar to the Committee's plan which would substantially reduce the deficit. I have included my letter and some of their responses as an addendum to my views. Their general response has been that a change in the deficit of this magnitude in fact would cause interest rates to drop by four or five points within a very short period of time. That is the kind of pattern which, if the predictions are even approximately correct, would spell a recovery of dramatic proportions. The country would see a huge increase in housing starts, a recovery of automobile sales, and the unemployed going back to work.

It is now up to the Senate to act upon the Committee's recommendations. The alternative to our program are deficits of $660 billion over the next 3 years. If Congress ignores its responsibility and leaves the credit markets saddled with these kinds of deficits, current interest rates not only cannot come down, but they are certain to go up. There is no way of knowing where the top is, because the pressure on the capital markets is unprecedented. Suffice it to say that we will come to look back on a 16-percent prime, and an economy operating at only three-quarters of its potential as "the good old days."

The people of this country know that deficit-caused high interest rates are the only thing standing in the way of economic growth and prosperity. If we act now, the golden years of America are ahead of us.

WILLIAM L. ARMSTRONG.

U.S. SENATE,
Washington, D.C., April 5, 1982.

DEAR SIR: As the Senate budget committee begins its work on the First Concurrent Budget Resolution for 1983, the issue causing greatest concern is the high level of interest rates. Given the size of projected deficits over the foreseeable future, it is difficult to see how the economy can expect any relief unless Congress acts aggressively to reduce these deficits.

Recognizing this, several Members of the Budget Committee have devised deficit reduction programs (see attached). You will note that all the plans involve some very tough choices. I do not believe that Congress will bite the bullet and take the necessary actions unless there is the clear payoff of lower interest rates.

It would be very helpful to the Budget Committee's and Congress' deliberations if we had *some* sense of what these deficit reduction plans would mean for interest rates. To be specific, if a Domenici, Hollings, or any of the other plans, were *enacted,* what range of short term and long term interest rates might we expect in the near term and, say, six months from now? I would greatly appreciate your thoughts.

Best regards.

Sincerely,

WILLIAM L. ARMSTRONG.

Enclosure.

DEFICIT REDUCING OPTIONS

[All numbers are reductions of the Baseline[1] deficits except where indicated by "+"; in fiscal years]

	Domenici			Hollings			Boschwitz			Kasten			Gorton			Grassley		
	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985
Revenues	18.0	49.0	55.0	31.5	61.1	80.8	23.1	41.3	59.6	5.6	28.5	40.5	40.1	71.1	83.9	18.0	37.0	40.0
Defense	+0.5	+3.7	+12.0	6.3	15.3	17.3	+2.2	+5.9	+14.7	+2.2	+9.0	+22.8						
Pay raises	5.7	8.2	10.7	5.7	8.2	10.7	3.3	7.1	11.2	1.1	2.3	4.5	5.7	8.2	10.7	3.2	7.0	7.7
Discretionary nondefense	3.4	8.8	15.8				3.6	9.4	16.6	8.3	17.0	25.0	3.6	9.4	16.6	3.6	9.4	16.6
COLA's	17.8	26.3	35.2	16.7	25.6	32.3	11.8	21.2	32.5	9.9	19.7	30.4	17.8	26.3	35.2	17.1	31.8	45.2
Other entitlement savings	8.6	11.4	14.3				14.9	26.9	39.5	11.0	16.7	23.1	2.6	6.4	11.4	11.0	16.9	23.7
User fees	1.0	1.9	2.2				0.5	1.3	1.4	1.0	1.9	2.2						
Management savings	3.7	6.7	8.4	2.2	3.7	4.2	1.5	3.0	4.0	17.9	22.5	27.6	3.7	6.7	8.4	3.7	6.7	8.4
Interest savings	16.2	38.5	59.1	17.2	40.1	61.5	15.9	37.9	59.2	5.0	16.3	30.2	6.9	21.8	39.7	16.2	38.5	59.5
Total deficit reduction	73.9	147.1	188.7	79.6	154.0	206.8	72.4	142.2	209.3	57.6	115.9	160.7	80.4	149.9	205.9	72.8	147.3	201.1
Remaining deficit (−) or surplus (+)	−83.8	−41.0	−16.6	−78.1	−34.1	+1.5	−85.3	−45.9	+4.0	−100.1	−72.2	−44.6	−77.3	−38.2	+0.6	−84.9	−40.8	−4.2

[1] Baseline refers to CBO current policy. The Baseline makes the following economic assumptions:

	1982	1983	1984	1985
Nominal GNP	7.5	11.9	10.4	9.7
GNP deflator	7.5	7.3	6.6	6.0
Unemployment	8.9	8.0	7.4	7.2
91-day T-bills	12.0	13.2	11.3	9.4

DILLON, READ & CO., INC.,
New York, April 8, 1982.

Senator WILLIAM L. ARMSTRONG.
U.S. Senate,
Washington, D.C.

DEAR SENATOR: Many thanks for your letter of April 2nd asking my opinion of the impact of various deficit reduction programs on interest rates. The answers in this letter are the results of discussions with my partner, Pete Flanigan, and reflect the opinion of Dillon, Read & Co. Inc.

The reason interest rates remain high in the face of falling inflation is the prospect for continued extraordinarily high demands by the Federal Government on the credit markets. The argument that projected deficits are modest in relation to GNP is not germane. Deficits are financed from savings, not from GNP, and the Federal Government's preemption of savings has grown dramatically in the last few years (Table 1).

In the decade ending 1974, Federal and Federal Related Borrowings averaged *25 percent* of Net National Savings. In 1982 these Borrowings are estimated to absorb over 90 percent of savings (Table 11), leaving less than 10 percent of savings for borrowings by cities and states, utilities, industries, mortgage institutions, consumers, etc. Future deficits under the current Administration's proposals would increase this already destructive level of Federal absorption of savings.

As the five charts on Table III make absolutely clear, a high level of Federal and Federal Related Borrowings as a percent of Net National Savings has historically called forth an equivalent increase in money supply, which has resulted in an equivalent increase in the CPI.

Hence, as the fifth chart indicates, high Federal borrowings have in the past resulted in inflation. That being the case, lenders who foresee high Federal borrowings also foresee high inflation and demand high interest rates to offset it.

All the budgets, except the Kasten alternative, in the table sent with your letter, call for a fiscal 1983 deficit of about $80 billion as does the Administration-Congress budget compromise discussed in today's Wall Street Journal and approximate balance in 1985. The Kasten option also differs in that it relies heavily on "Management Savings" which experienced observers in the financial world have learned to mistrust. Thus, the five alternatives other than Kasten's produce essentially produce the same bottom line results and would have the same effect on interest rates. Our estimate is that, while short term rates would remain at double digit levels, the effect on long term rates would be as follows:

[In percent]

	Current		Effect	
	Government	AA industrial	Government	AA industrial
5-year	14.19	15.12	10	10½
10-year	14.13	15.12	10¼	10¾
Long-term	13.67	15.75	11	12¼

I trust this answers your questions. If you wish to discuss this further, please call either Pete Flanigan or me.

Very truly yours,

RICHARD A. BIANCO,
Managing Director.

DEAN WITTER REYNOLDS INC.,
New York, N.Y., April 8, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: It has been my position for the past year that the mammoth Federal deficits that were expected in fiscal years 1982–84 would lead to record intrest rates in 1981–82 and no growth in the economy . I was therefore delighted to receive your letter showing five alternative proposals to bring the fiscal year 1984 deficit down to $40 billion. I would expect short term interest rates to decline by 4–5 percent if that came about, and similarly bond rates would decline by 3 percent over a 6–12 month time horizon.

The tough budget-trimming numbers you show range between $160–200 billion by fiscal 1985. The financial markets would heartily embrace significant deficit trimming as these numbers imply. However, if only cosmetic changes of $30 billion by fiscal 1984 are made, it would be considered inappropriate and would lead to significantly higher interest rates.

Since you haven't supplied the details of how revenues will be raised, I assume it is either a business or personal tax increase. The President's staff has told me the Administration will not accept an elimination or deferral of the 1983 personal tax cut. I would offer for your consideration a suggestion that the third year of the personal tax cut be given to individuals in the form of a tax-free government savings bond paying market rates at the time of issue and non-redeemable for five years. This would eliminate $44 billion of fiscal year 1984 financing. It would give individuals their tax cut as a form of forced saving near term and potential buying later on. This would offer the beleaguered bond market some respited from government borrowing, and allow some corporate financing to occur.

I heartily endorse your courageous budget proposals and if you would like further elaboration of these points, please contact me.

Sincerely,

ARNOLD X. MOSKOWITZ.

AUBREY G. LANSTON & CO., INC.,
New York, N.Y., April 12, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: Thank you for your request for my views regarding the impact on interest rates of various deficit reduction plans now being proposed in the Senate. The deficit cutting plans for fiscal 1983–85 are in my view vital in bringing about significant declines in interest rates. Such declines are, in turn, essential to cushion the current economic slump and to eventually pave the way to economic recovery.

Please allow me to underscore the seriousness of the problem. Our current estimates suggest that without further Congressional action the fiscal 1983 Federal budget deficit will soar to approximately $180 billion. This shocking prospect highlights the fundamental flaw in the Reagan economic program. On one hand it encourages commendable Federal Reserve efforts to starve the economy for new money and credit in order to permanently depress inflationary pressures and inflation psychology; while, on the other hand, the Reagan program has resulted in widely escalating borrowing demands by the Federal government that threaten to shut many consumers, farmers, and business borrowers completely out of the financial markets. The fear is that this financial squeeze could lead to a tidal wave of bankruptcies and economic collapse.

In essence, there are only three ways to exert downward pressure on interest rates and to get out of the Reagan policy trap. One way might be for the Fed to cave in and open the new credit and money floodgates; but this would only lead to a future acceleration of inflationary pressures as in the past. Another way would be for Congress and the Administration to agree on deep cuts in the Federal deficit in the "out" years of fiscal 1983, 1984 and 1985 (as in the Senate proposals) in order to lessen the clash between the Federal government and private consumer, farmer, and business borrowers and to aid the overburdened Fed in its lonely anti-inflation efforts. Still another way to lower interest rates might be through a deeper and longer recession, eventually leading to further spending cutbacks and reduced borrowing by consumers and, particularly, businesses; but the resulting weakening in job market conditions would likely push the unemployment rate well above 10 percent and the political consequences might be severe.

Clearly, the most desirable alternative is to make deep cuts in the Federal budget deficits in fiscal 1983–85. At a minimum, the deficit cutting measures for fiscal 1983 should be $80 billion (in line with the options of Senators Hollings and Gorton). A good rule of thumb might be for roughly one half ($40 billion) of the needed deficit cut to come in the form of increased revenues (e.g., a $5 a barrel tax on imported oil, a 4-percent surcharge on incomes over $40,000 and a closing of corporate tax loopholes). The other half ($40 billion) should come in the form of spending cuts, but with even greater than proposed declines in defense spending.

In the event that such a deficit cutting agreement would be forthcoming by, say, May, it would greately ease pressures on interest rates. Not only would Fed's anti-inflation burden be eased, but also the financial market's fears of a financial crisis and eventually higher interest rates would be eased. As a result, it could be expected that short-term interest rates, including the prime rate, might fall by at least 6 percentage points by late 1982 or early 1983 while longer term bond rates should fall by 4 percentage points or so.

If I can be of further assistance please let me know.

Sincerely,

DAVID M. JONES.

IRVING TRUST,
New York, N.Y., April 14, 1982.

Hon. WILLIAM D. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: Thank you for the opportunity to comment on the likely interest rate effects of bringing the Federal deficit under control. It is clear that we will not see sustained real growth in our economy until interest rates come down significantly. But it must be remembered that, although a significant reduction in interest rates is a necessary condition for growth, it is not sufficient. To see that this is so it may simply be noted that, if economic activity were to continue to decline this year, then interest rates would surely resume the drop they began last fall. But this decline of interest rates in a continuing recession is surely not what we want.

What we do want is lower interest rates along with the 4 percent or better real growth targeted by the Reagan Administration over the next several years and no accelaration in inflation. I am sure this could be achieved if the following two-part policy were adopted:

The financial markets must be sent a clear message that a program is in place to bring the Federal budget into balance as the economy moves back up toward full employment (which I take to be a 6 percent unemployment rate). The deficits must fall in a consistent and convincing manner overtime under a realistic set of future economic forecasts as the economy recovers and unemployment falls. This will foster the expectations necessary to bring down long-term rates.

At the same time the Federal Reserve must also relax its monetary targets, which are too rigid and may allow insuffficent room for real growth. Otherwise, there may not be sufficient transaction balances available to support an expanding economy, and therefore interest rates (which are the price of money) will remain very high. I believe the Fed's monetary growth targets must be broadened so that various unpredictable factors that impact money demand will not keep interest rates unduly high and prevent growth.

It is critical to its success that both parts of this policy be adopted. If it is, I am confident that we can have single digit short-term money market rates and a 12 percent or so residential mortgage rate within six months. At the same time, I believe, we will also begin the 4 percent-plus real growth targeted by the Administration. And we will see no accelaration in the inflation rate over the next several years.

I fully realize that the monetary part of this policy package is not within the scope of the Congress. Nevertheless, I believe we need not only an accord between the Administration and the Congress over the budget, but just as critically between the Administration, the Congress, and the Federal Reserve over both parts of the above policy.

This would indeed be a historic step, but I believe the economic situation requires it. The unemployment rate is at a postwar high, and business defaults are running at the highest rate since the depression. Moreover, we are seeing slop from our grasp a once in a lifetime opportunity to dramatically reverse the trend towards an ever increasing role of government in the economy.

I hope you find these thoughts of some use in your deliberations. I would, of course, be happy to help clarify any points that may remain unclear.

Best regards.

Cordially,

GORDON B. PYE.

U.S. TRUST,
New York, N.Y., April 20, 1982.

Senator WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: I have given the questions in your letter of April 5 a good deal of thought. I wish it were possible to give you unequivocal answers to them, but the extreme dependence of financial markets on expectations and shifts in expectations makes any views, as best, informed guesses.

Clearly the financial markets, as well as the Government and the public, are upset by the prospect of continuously increasing $100+ billion deficits. Even more important, in my opinion, is the fear that no one really understands these numbers and how to control them. So my first observation is that whatever budget plan is agreed upon should be credible and adhered to. If this means "accepting" a $125 billion deficit for fiscal year 1983, that is better than aiming at a $100 billion figure and them exceeding it.

My second observation is that you must be able to show a declining trend in the deficit over the next few years, bringing it down to no more than 2 percent of GNP by the time the economy is fully recovered—probably 1984.

Finally, I believe the Treasury needs to be much more innovative in financing what will be an enormous volume of securities even under the most optimistic assumptions. Money managers, after all, are risking other people's money and are understandably afraid to invest in long-term bonds on a permanent basis until fiscal restraint has been proved. That may take several years. Individuals, however, can be appealed to on many grounds and, in my opinion, would be willing to provide funds in the two to three year maturity range at well under the 14 percent rate on marketable securities.

In this connection, I would like to recommend strongly that we revitalize the Savings Bond program. The Canadian government financed almost its entire annual deficit in its savings bond drive last fall. Certainly if higher-income tax payers had a choice between a tax rate hike and a forced savings program, they would opt for forced savings.

We should recognize that a significant part of the current deficit is caused by the decline in inflation and therefore a lower "inflation tax," without a compensating decline in interest rates. The financing gap created by this development needs to be covered by longer-term bonds sold to the public directly. A key advantage of this approach is that it would tend to slow the growth in the reported monetary aggregates and make the Fed's targets less binding.

Assuming that all of this happens—a moderate-sized but credible budget reduction program, more innovative financing of the necessary borrowings and Federal Reserve Policy evolving away from extreme focus on one money variable and toward overall credit expansion and economic activity—it should be possible to bring interest rates down significantly over the next year or so. More specifically, the prime rate could be down to a more normal 3–4 points over the inflation rate, which by mid-1983 could be in the 5–6 percent range. Thus a 10 percent prime is not an impossibility. Over the next few months, the current monetary cycle could accommodate a decline in the prime to the 14 percent zone with long-term U.S. Treasuries in the 12½–13 percent range. Unfortunately, current Federal Reserve procedures are likely to result in a rebound in rates back to present levels toward year-end. It is this prospect which must be forestalled.

Sincerely,

THOMAS W. SYNNOTT III,
Chief Economist.

BANKERS TRUST CO.,
New York, N.Y., April 16, 1982.

Senator WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: I appreciate your invitation to comment on current fiscal policy and its implications for financial markets in connection with the forthcoming deliberations of the Senate Budget Committee. The members of the Committee clearly face some very tough choices in their consideration of the First Concurrent Budget Resolution for 1983, and the decisions that emerge may be crucial in influencing the behavior of interest rates during the remainder of 1982 and even more so in the period beyond.

As one who is fairly closely in touch with the nation's money and capital markets, let me assure you that the primary reason that interest rates, particularly bond yields and other long-term rates, are holding at such lofty levels in the face of the current recession and the encouraging headway made this past year in slowing inflation is the alarming and deteriorating Federal budget situation. Without prompt and meaningful action to improve the fiscal picture, it is obvious that we face triple-digit budget deficits as far ahead as one can see. Unless this trend is arrested and reversed, interest rates not only will stay elevated, but they may go appreciably higher, bringing greater financial problems for businesses and the thrifts and other financial institutions, thereby short-circuiting the widely hoped-for economic recovery.

Whereas in earlier years, Federal budget deficits tended to shrink more or less automatically with a revival in business activity in the aftermath of business recessions, this is no longer the case. Because of both the broadening of eligibility requirements and the indexing of the major Federal entitlement programs—Social Security, Medicare, military and civil service pensions, etc.—and the undermining of the Federal revenue base that has resulted from last year's large and extended tax cuts, budget deficits cannot be reduced now without specific acton being taken by the Congress and the Administration. In addition to a significant slowing of the growth of Federal spending, including a real curb on the entitlement programs and some reduction in defense expenditures, these steps must encompass more than a modest increase in Treasury receipts. Moreover, there must be legislation to insure that the restraints on Government outlays will endure for a period of years.

Only then will major participants in the credit and capital markets become sufficiently reassured about the longer run inflation outlook and that Government borrowing will not "crowd out" private sector financing to go ahead and extend their security portfolios, thereby easing the upward pressure on long-term interest rates. Only then too, can the Federal Reserve afford to loosen credit somewhat and ease pressures in the money markets.

As for how much interest rates might be expected to decline, given a meaningful and convincing improvement in the Federal budget picture, is very hard to say, in view of the deeply-rooted skepticism that presently exists in the financial markets. And it is even more difficult to assess the timing. It would certainly seem reasonable, though, with an early resolution of the budget dilemma to expect that long-term rates might fall by 2 or as much as 3 percentage points by the end of summer, and short-term rates somewhat more. If the Domenici, Hollings or other deficit reduction plans indicated were to be enacted, within a year long-term rates could well be down 4 or 5 percentage points.

I would emphasize again, however, that simply agreeing on a budget reducing target will not be enough to have a material and lasting impact of interest rates. It must be implemented by the appropriate legislation. The prevailing uneasiness in the money and capital markets was a long time in developing and will almost surely give ground gradually as well.

I trust these observations well prove helpful and I wish you and the Committee every success in the difficult task that now confronts the Congress and the Administration in putting the nation's fiscal house in order.

Sincerely,

DONALD E. WOOLLEY,
Senior Vice President.

MELLON BANK N.A.,
Pittsburgh, Pa., April 13, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: In response to your letter of April 2, I am pleased to submit the following comments.

First of all, there is little or no doubt that hopes for a sustained and vigorous economic recovery depend heavily on lower interest rates. And it is very difficult indeed to see a significant drop in interest rates until the projected budget deficits for the next several years are decisively reduced. In other words the budget deficits now in sight for fiscal 1983 and beyond are constituting a major roadblock in the path of economic recovery.

All the various plans which were enclosed with your letter contemplate deficit reductions of a scale which I believe would elicit a very favorable market response. For example, enactment of the Domenici, Hollings or Boschwitz plans would dramatically curb the Treasury's claim on the nation's available supply of credit. This combined with the recent substantial progress toward a lower inflation rate would in my judgment bring about a sizable three pecentage point drop in both short- and long-term rates. Thus if any of the plans were enacted, the yield on a AA industrial new issue might fall to the neighborhood of 12 percent or even a little lower. And with short-term market rates of interest dropping to around 10 percent, we could look for a prime rate in the vicinity of 12 percent. This decline in rates should certainly occur within six months of the enactment of a deficit-reducing program.

Incidentally, since each budget-cutting plan assumes that the 91-day Treasury bill will fall to 9.4 percent by 1985, it follows that the reduction in interest expense in fact constitutes one of the largest items of planned savings. Since no one really knows the extent to which interest rates may fall in response to realized cuts in government spending and/or tax increases, it might be better to exclude these large interest savings from the various deficit-reducing options.

I hope these few thoughts will be of some use to the Senate Budget Committee and if there is anything else I might do, please let me know.

Sincerely,

NORMAN ROBERTSON.

AMERICAN ENTERPRISE INSTITUTE FOR
PUBLIC POLICY RESEARCH,
Washington, D.C., April 16, 1982.

Senator WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: The simple answer to your question about interest rates is that I don't know and I don't think anyone else does, just as no one knows why interest rates are now as high as they are. My own view is that with continued monetary restraint strengthening the belief that the inflation rate will be significantly and durably reduced, and with any of the plans listed in your enclosure, interest rates would come down substantially. "Real" interest rates would be higher than in the pre-1980 past, because of continuing deficits and tax incentives to invest, but they would be much lower than today. If forced to make a guess, I would expect long term rates to be about 10 percent a year from now.

Sincerely,

HERBERT STEIN.

LAZARD FRERES & CO.,
New York, N.Y., April 14, 1982.

Hon. WILLIAM L. ARMSTROMG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: You have solicited our views on the probable direction of interest rates if the various deficit reductions currently being proposed by members of the Senate's Budget Committee were to be adopted.

Judging by the strong sentiment in the financial community, we are drawn to the conclusion that any indication of a material shrinkage in the budget deficit for the next three fiscal years would provide relief for the credit markets. Some legislators are still clinging to the hope that a surplus might be achieved by the mid-80's. If such were to be the case, we believe that it would have to be primarily the consequence of strong business conditions in an environment of moderate interest rates rather than through higher tapes or sweeping paring of expenditures. With the national debt having an average maturity of less than four years, a reduction of one percentage point in interest rates would save well in excess of $3 billion in annual carrying cost; similarly, an increase in Real Gross National Product of one percent could add $10–$15 billion in revenues, including savings on some transfer payments.

Although we do not fully agree with every element of each Committee member's proposals, we find Senator Domenici's outline to be the most acceptable of the six, provided that it does not rely on any material modification in the remaining portion of the Economic Recovery Tax Act of 1981. The sacrifices appear to be widely distributed, while the proposed figures do not include Management Savings that may be difficult to achieve, such as those being advanced by Senator Kasten. In addition, Senator Domenici's approach to defense spending appears to be conducive to public acceptance and consistent with the realities of the world in which we live. Finally, his proposed savings on entitlements programs would probably prove to be far less punitive.

Senator Domenici has often been quoted in the press as supporting the repeal or delay of the tax relief provisions due on July 1, 1982 and again in 1983. If adopted, this would do irreparable damage to the conomy, both in the short and long term. We believe it would almost immediatedly deepen the recession, reduce savings, and aggravate the condition of domestic underinvestment with adverse consequences on our already unfavorable competitive position in world trade. Once the tax measures now in place are delayed or cancelled, the Congress may find it expedient never to reinstate it. In the meantime, the perception in the credit markets and among the public at large would be that Washington is reverting to the highly inflationary policies of the past.

The focal point of your inquiry was interest rates. These rates do not only reflect the balance of supply and demand for money and credit, but also are greatly influenced by psychological factors. At the present time psychology is particularly adverse. Concern that the budget deficits in coming years would effectively crowd out the private sector has kept rates perhaps three to four percentage points above where they should be, economic activity and the level of inflation considered. The Congress should seize upon the current favorable sentiment on inflationary expectations and quickly translate it into much lower interest rates. This can only be accomplished through clear signals of a compromising attitude on the part of the Administration and a bi-partisan approach to the reduction of the deficit.

Thank you for soliciting our views.

Sincerely,

STANLEY A. NABI,
General Partner and
Chief Investment Officer.

BROWN BROTHERS HARRIMAN & CO.,
New York, N.Y., April 22, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: Your letter of April 5th poses a proper, interesting, and an almost unanswerable question. Our feeling here at Brown Brothers Harriman & Co. is that all of the Deficit Reduction Options will tend to lower interest rates. Because current interest rate levels appear to have a rather large psychological element, however, a judgment as to how much of a decline will take place is subject to a wide range of uncertainty.

We would like to make the following observations:

1. Any deficit reduction which results merely from a decrease in the interest rate assumptions made by Congress, will not impress the market very much.
2. We feel that true reductions in Government expenditures will count for more in the market than increases in taxes. One of our partners closely associated with the credit markets believes that a $1 expenditure cut will have about the same effect on interest rates as a $2 tax increase. It is extremely important that the government share of the economy be reduced so as to permit the expansion of the private sector.
3. Although we are aware of the political difficulties inherent in any change in the direction of government policy, we feel that what would impress the market is the elimination of entire programs and/or Departments.
4. It is very important that whatever reductions are proposed are capable of being implemented. The market would be very discouraged by a budget which is balanced merely by assumptions.

If the markets could believe that the deficit would approach zero in the next three years the "fear" or uncertainty premium now in the markets should substantially decline. Past history suggests that, over time, the level of interest rates is closely associated with the rate of inflation plus some constant which may be called the "real rate of interest". Therefore, if inflation were to average six or seven percent over the next three years (as we believe it should, given the aims of monetary policy) and the long-term real interest rate is 3.0 percent, nominal long-term interest rates should average around 9 to 10 percent over the same period vs. 13 percent for a long-term government bond today. Moreover, the yield curve should be positively sloped with short rates lower than long rates. This being the case, Treasury Bills should average less than 9 to 10 percent vs. 12½ to 13½ percent today.

We wish you success with your efforts to get the budget under control. If someone on your staff has done the work, it would be interesting for us to see the details as to how the members of the Committee estimated the interest savings shown in your outline.

Sincerely,

EDWARD J. CAMPBELL,
Manager and Chief Economist.

AMERICAN ENTERPRISE INSTITUTE FOR
PUBLIC POLICY RESEARCH,
Washington, D.C., April 8, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: Thank you for your letter of April 2.

The economic situation is so volatile that no one can promise with certainty that nominal interest rates will come down from current levels if the deficit is brought under control. A wave of major bankruptcies, erratic monetary policy and a thousand other things could keep them high.

However, the future deficit outlook is so horrible unless taxes are raised and outlays cut substantially that I feel confident in saying that if any of the plans in your enclosure were adopted, short and long interest rates would, in the future, be lower than they would be otherwise. How much lower is hard to say since we are now dealing with a psychological phenomenon called "fear."

But if a credible plan to lower deficits is combined with a renewed commitment by the Fed to adhere to its enunciated targets, I would not be shocked if long-rates were to tumble 300 basis points while short rates fell by a greater amount all other things equal.

Best wishes,

RUDOLPH G. PENNER,
Resident Scholar.

MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.,
New York, N.Y., April 12, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

SIR: Needless to say, any of the plans outlined by you that would substantially reduce prospective budgetary deficits over fiscal years

1983–85 would sufficiently bring down interest rates to encourage a sustained economic recovery. However, the actual magnitude of decline in rates and with it the potential magnitude of the resulting recovery would hinge not only on the ultimate size of budgetary deficits—or surpluses—but on the composition of the alterations to the CBO baseline outlay and revenue projections. Another critical determinant in interest rate movements would be the relationship between projected deficits in the alternative plans outlined and current market participant expectations as to what the deficits is as now constituted will be.

Taking the latter consideration first, it is doubtful that the markets have discounted into the yield structure deficits of the magnitude of the CBO's baseline projections. As a result, a plan that incorporates actual budgetary deficits not dramatically lower than CBO projections would not have much of a positive impact on the financial markets. On the other hand, it appears certain that most in the market are cynical about the administration's optimistic projections of steadily declining deficits from the projected $91.5 billion level for fiscal 1983. It would be my estimate that the yield structure has built in the anticipation of deficits in the $100–$150 billion range for the next several fiscal years. On this score, therefore, all six plans outlined showing sub-triple digit deficits on a declining plane over the out years would bring down interest rates—if in fact they were enacted and perceived to be viable and sustainable.

Herein lies the importance of the contour of the alterations in the baseline outlay and revenue assumptions. In this regard, it is my view that the financial markets are sympathetic to the President's views that the major budgetary difficulty over the past fifteen years or so has been on the expenditure side. Indeed, revenues have been unfairly boosted through inflation-induced tax bracket creep. As such, much of the tax "reductions" merely represent a cancellation of bracket creep tax "increases" that would have gone into effect without the tax cut package. It is also my belief that a reduction in projected deficits that comes primarily from the revenue side could prove quite transitory as Congress would probably find ways to convert such savings into higher outlays. In this vein, the Hollings and Gorton plans would be least desirable and the Grassley plan the most desirable.

The proposed areas of reductions on the outlay side are also critical in terms of composition. The financial markets are aware of the need to rebuild our military capability and realize that too small a defense budget would not be realistic or sustainable in the present troubled times throughout the world. On the other hand, the markets are troubled about the inflationary nature of defense spending. Some realistic balance has to be struck between these two considerations. On one side of this spectrum is the Hollings plan that probably calls for unrealistically large defense cuts, and on the other are the Gorton and Grassley plans that call for none. Since I am not a military expert, I do not know whether the recommended cuts put forth in the Domenici or the Boschwitz plans are most ideal. Both of these plans in terms of defense trimming, however, are ideal to the others.

In terms of further reductions in discretionary nondefense spending, the Kasten plan seems ideal—but too ambitious, given the reality of the situation. The Domenici plan, on the other hand, could be more ambitious and the Hollings plan is most definitely unacceptable.

After viewing these plans in a general way of taking into account the actual aggregate deficit that would result in each, the relative contribution of budgetary reductions on the revenue and outlay sides and the composition of expenditure reductions, I would find the Domenici and Boschwitz plans the most ideal. While the two plans would probably have the same impact on interest rates over fiscal years 1983 and 1984, the Boschwitz plan would obviously have the most favorable impact on rates in fiscal 1985. Not that the $18.1 billion differential between the two (a swing from the Domenici deficit of $16.6 billion to the Boschwitz surplus of $1.5 billion) would have a major fundamental impact in an economy of $4 trillion or so. But it most certainly would have a beneficial psychological impact on the credit markets if the budget were to actually show a surplus.

The most favorably impacted area of the yield curve from the enactment of these two plans would be in the intermediate and long end. The short end would continue to remain responsive to monetary policy. However, it too would receive a boost to the extent that the Treasury could dramatically reduce its reliance on Treasury bill financing. It is my view that, in light of the historically high premium built into long-term yields at present, deficits of the size incorporated into these two plans could bring down long-term rates by 2 percent-3 percent—maybe even more—within six months without any problem. Short-term rates, on the other hand, probably would not benefit dramatically until actual borrowing demands by the Treasury diminish toward fiscal 1984—since they respond to actual not expected future financing needs. However, with the knowledge that deficits would be shrinking and that fiscal policy would be significantly less expansive in the future, the Fed would probably feel more leeway to loosen its grip on the monetary side. As a result, even three-month bill rates could decline 2 percent-3 percent over the next six months.

Sincerely,

DONALD E. MAUDE,
Chief Financial Economist,
Chairman, Interest Rate Policy Committee.

CLAREMONT MCKENNA COLLEGE,
Claremont, Calif., April 22, 1982.

Hon. WILLIAM L. ARMSTRONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR ARMSTRONG: Thank you for your letter concerning the effects of budget deficits on interest rates. In my judgment, the current deficit, since it is to a substantial extent the result of the recession, has not been a major cause of the current high level of interest rates. However, widespread expectations that under current policies deficits will remain a high percentage of GNP even after a return to full employment have been a major factor. Historically large high, employment deficits have induced higher rates of monetary expension. If repeated, this would increase the inflationary expectations premium in nominal interest rates. Alternatively if the Fed did hold firm on its projected course of gradually slowing the rate of monetary expansion, large deficits would raise real interest rates and crowd out private investment.

Under either scenario considerable upward pressure would be placed on nominal interest rates. I believe that the current anticipation of this dilemma has had a major adverse impact on longer run inflationary expectations and interest rates. Budget action to reduce these concerns about the larger run budget outlook should have a substantial impact on interest rates now.

Because expectations are so important in this process, it is difficult to give any hard econometric projections of the magnitude of this effect. Recent quantitative work at the Federal Reserve Board suggests that a $100 billion reduction in the annual deficit would reduce real interest rates by about 200 basis points. This seems like a reasonable order of magnitude and a concomitant dampening of inflationary expectations should contribute to a still larger decline in nominal interest rates. It is important to remember, however, that to the extent that new longer budget projections are not fully believed by the market, the magnitude of any initial impact on interest rates will be lessened.

I hope that you will find these observations of use.

Sincerely,

THOMAS D. WILLETT,
Professor of Economics.

WILLIAM L. ARMSTRONG.

ADDITIONAL VIEWS OF SENATOR STEVEN D. SYMMS

As a Member of the Senate Budget Committee, I am very pleased that this Committee was able to craft a compromise budget package which was accepted by the majority of members on this Committee. While I supported the compromise package, I would like to make some additional comments

In 1981 President Reagan introduced an economic recovery program to reduce inflation, restore economic growth, and provide jobs through reductions in the growth of Government spending, improved capital formation, a less onerous tax burden, fewer repressive Government regulations, and a sound, consistent monetary policy. With the cooperation of Congress, major parts of this program were enacted into law, laying a solid foundation for long-term economic growth with a lower rate of inflation. I strongly supported the basic principles and objectives of the President's economic program and continue to believe that the program's direction is sound and should be pursued. Economic policy must be geared toward the long-range goal of a vigorous, competitive economy with essential price stability.

Real progress has been made in lowering the rate of inflation. However, it was inevitable that all our deep-seated structural economic problems, which developed over a number of years, could not be cured in a short period of time. The simple fact is that 40 years of accumulated debt is coming due. This Congress and this Administration have inherited a situation in which expenditures have been growing faster than GNP and are projected to do so under existing law. At this time, we are all faced with the enormous problems resulting from a 40-year effort to spend ourselves into prosperity.

The Administration's economic recovery program is a a long-range plan, and it as it has moved forward, it has required adjustments, as economic conditions dictate, in order to stay on course. Through a combination of circumstances, we are faced with a recession, unemployment, inordinately high interest rates, and the prospect of continuing substantial budget deficits.

A clear perception has been created which incorrectly blames the recession, unemployment, high interest rates, and the budget deficits on the Reagan program, (i.e., the 1981 tax cuts and the planned increases in the national defense program). Many members of the news media and some misguided members of the Administration and Congress believe that since we can no longer spend our way into economic prosperity, we can tax our way into economic recov-

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ery. The causal chain of concern about deficits goes something like this: Large deficits are causing high interest rates which threatens economic recovery. Therefore, taxes ought to be raised in order to bring down interest rates. At best, this logic is convoluted, particularly since the illiguidity of the private sector has not been considered as a factor in the equation of those favoring tax increases. Interest rates will not decline if the private sector has to borrow additional funds to pay for a higher tax bill. In fact, interest rates will probably increase.

Tax increases reduce consumer spending power and individual saving, and businesses' ability to invest, thus slowing private economic activity and raising unemployment. Tax increases will crimp economic expansion, discourage employment, and reduce the supply of lendable funds, driving up interest rates. Reduced economic activity not only costs the Government revenues, it adds to the demand for outlays such as income maintenance programs. Hence a tax increase may be self-defeating in terms of deficit reduction.

I share the concern that many members of this Committee and others have expressed regarding the large deficits forecast for 1983 and beyond. These deficits can and should be reduced. But the proper way to reduce these deficits is through spending cuts, not tax increases. Concern for deficits, while clearly justified, can be misguided when not related to the primary objective of the program for economic recovery—reducing the share of national income that accrues to Government. This share has reached record levels. Lowering it should be our goal. Debate over the source of this share—taxes, borrowing, or inflationary increases in the money supply—distract from our primary objective of reducing government spending.

The Senate Budget Committee has taken a significant step in attempting to reduce Government spending, and I applaud my colleagues for taking an initial step in grappling with the uncontrolled growth in entitlement programs. Growth in entitlement programs, including social security, medicare, and Federal pensions, had to be reduced. These programs have been increasing in cost at the rate of about 15 percent a year and represent about 60 percent of budgeted expenditures. The deficit problem could not have been responsibly addressed without a reduction in the scheduled increases for these programs.

It is essential that both parties of Congress exercise statesmanship on a bipartisan basis in supporting reforms in entitlement programs. It is important that Members of Congress enact legislation which is beneficial for all citizens, combatting the special interest lobbies, comprised of organized special interest groups, both in and out of Government, including some elected officials who are politically dependent on the "tax, spend, elect" ways of the past.

STEVEN D. SYMMS.

ADDITIONAL VIEWS OF SENATOR CHARLES E. GRASSLEY

The First Concurrent Resolution on the Budget, passed by the Senate Budget Committee May 6, represents a giant step toward financial market revival and economic recovery. This resolution, produced after months of hard work and negotiations, reflects the determination of this Committee to get a handle on uncontrolled Federal spending.

With long-term interest rates at historic levels, it has been clear all along that only a dramatic reduction in future Federal spending growth could bring down interest rates enough to rejuvenate long-term investment markets and revive our sluggish economy. This budget would cut spending by $317 billion by 1985 and reduce projected deficits by $418 billion by the same year. I believe such action would put us on a clear path toward a balanced budget by 1986.

Just as important as a reduction in Federal spending is the way this resolution would accomplish that reduction. The 1-year spending freeze we have adopted distributes the burden of spending restraint evenly and fairly. I have supported this concept of a freeze from the very beginning because the American people perceive it as the only way to proceed.

My original budget proposal called for a 2-year freeze. I believed then, as I do now, that the magnitude of our budget problems requires a freeze on spending until revenues catch up to expenditures. With a 2-year freeze, this could have been accomplished by 1985.

However, in an effort to report swiftly a budget resolution that would have a favorable effect on the nation's financial markets, I settled on the best possible compromise. I feel the action we took is sufficient to lower both long- and short-term interest rates, and maintain our course toward a steady recovery.

This budget resolution also reduces the amount of tax reduction we can expect over the next 3 years by $95 billion. Yet that $95 billion will not come at the expense of the tax incentives enacted last year, nor at the expense of the tax rate cuts and indexing provision now in place for individuals and small businesses. It is my firm belief that economic recovery would be impossible without retention of these two tax provisions.

However, significant tax revision must be made in the interest of fairness, to ensure that all individuals and businesses pay their fair share of taxes. As a member of the Senate Finance Committee, I intend to pursue tax reform designed to increase reporting and compliance. Toward this objective, I have sponsored legislation along with the committee's chairman, Senator Robert Dole, to retrieve a good portion of the more than $90 billion in potential revenue that goes unreported each year. While this nation is in the midst of difficult economic times, we must make every possible effort to see that all our citizens share the burden equally.

I view this budget resolution as a continuation of last year's efforts to control Federal spending and move toward economic recovery. The sooner we can pass this resolution the better. Already we are seeing signs that the economy is poised for a take-off. Inflation has tumbled, inventories are falling, durable goods orders continue to rise, and the buying power of the American consumer is strengthening. All we lack at this point to bring down interest rates and assist in a recovery is a creditable Federal budget that will dramatically reduce the growth in Government spending. I believe this budget resolution will do just that. And when it comes to the Senate floor next week I will do whatever I can to assist in its swift passage.

CHARLES E. GRASSLEY.

ADDITIONAL VIEWS OF SENATOR BOB KASTEN

After many long months of intensive effort, the Senate Budget Committee has produced this document. It is the product of a committee whose members have one common goal—to control the growth in government spending. Unfortunately agreement on a goal does not create agreement on the means of achieving it. As all members of the Committee know, there have been many battles over the spending priorities this budget should contain. Thanks to the leadership of our Chairman, however, this buget resolution meets most of the priorities of the members. Namely, less government spending, the beginning of a strong national defense, and preservation of the third year of the individual tax cuts.

Although this resolution is not exactly what I would like it to be, I voted for it. It is important that Congress demonstrate that it can make fiscal policy work. So far, we have made tremendous progress in bringing down inflation. Interest rates, however, are still high. I believe that this is due to the risk premium the markets attach to the cost of money. The markets have yet to be convinced that fiscal and monetary policy will remain constant. This budget reduces the size of the projected deficit through spending cuts of $320 billion over the next 3 years. Clearly this is signal to the financial markets that Congress is committed to controlling the growth in government spending.

One provision in the budget that will not be a postive signal to the markets is the $95 billion increase in taxes over the next 3 years. Real economic growth and spending restraint are the only way to bring about economic recovery. We have tried to balance the budget through tax increases in the past, and all we have to show for the effort is more spending, less savings and investment, and less economic productivity. Tax increases over the past 25 years are part of the reason that we are in economic trouble today.

During deliberations on the budget, I proposed that we increase taxes no more than $73 billion over the next 3 years. This is $25 billion more than the President requested, and a good compromise between the President's request and the initial Domenici mark. Unfortunately, I was not successful. The budget we passed includes tax increases of $95 billion over the next 3 years. These tax increases, however, do not specifically include any change in the third year of the personal tax cuts. One key element of the President's support of the budget, in fact, is based on the perservation of the full 10-percent tax cut in July 1983 and indexing in 1985. I have been assured that the President is adamantly opposed to changes in the individual tax cuts, and would reject any legislation that tampers with them.

The tax increase in 1983 is relatively small—$20 billion—and it is likely that this can be raised by closing inefficient tax loopholes. If it were any larger, Congress would have to raise the revenue by increasing taxes on working Americans. This would be unacceptable. The recession is not a time to raise taxes. On this point, both Keynesians and supply-siders agree. The revenue path in this budget resolution calls for larger tax increases in the outyears. I agreed to this knowing that the economy would better withstand them after the recovery.

It is even possible that we will not need to raise these taxes to reduce the deficits. According to recent Treasury data, revenues are coming in stronger than previously estimated. In the first 5 months of the year, the deficit ran at a low annual rate of approximately $57 billion. By the end of the year, the deficit could be as much as $20 billion less than projected. If this trend continues, the increase in taxes may not be needed, and I will take action to reduce the tax increases accordingly.

On the spending side, I find that I must also make adjustments in the area of foreign assistance. The budget resolution assumes that spending for non-defense discretionary programs will be frozen at the 1982 baseline in 1983. Due to the peculiar technical calculations of the Congressional Budget Office, my Foreign Operations Subcommittee of the Appropriations Committee will receive less budget authority in 1983 than it did in 1982. I have no quarrel with the technical calculation, but this reduction in budget authority will not allow my subcommittee to accommodate the current level for the Export-Import Bank and the President's request for additional security assistance funding. There will be a conflict in funding both of these programs at the level everyone requires. This potential conflict could have been avoided if the technical methodology had maintained my 1982 budget authority in 1983. This is a difference of $800 million.

I realize that the overall discretionary freeze figures will be "crosswalked" to the Appropriations Committee, which in turn will allocate funds to each subcommittee. There is no guarantee that any level for any given program can be maintained in this process. To accomplish an $800 million increase in budget authority for my subcommittee, I will have to fight it out during the appropriations deliberations. I am committed, however, to maintaining all appropriation bills within the aggregate totals agreed to by the President and Congress.

In the months ahead, the Senate will begin deliberations on this budget and its associated legislation. I hope that my colleagues in the House of Representatives will contribute to the process. Last year we set the stage to bring about the economic recovery this country needs. Through the joint efforts of both the Senate and House of Representatives, as well as the President, we can continue the program to turn our economy around.

Bob Kasten.

MINORITY VIEWS OF SENATOR ERNEST F. HOLLINGS

President Reagan finally has his budget compromise. However, since the majority party in the Senate chose to go it alone fashioning this budget, they will have to go it along defending it. I did not support the Reagan/Domenici budget in committee; I cannot support it on the floor of new Senate.

This budget resolution is a restatement of misplaced faith in the Kemp/Roth review of massive tax reduction, and it implies a complicated, piece work approach to revenue increases. The budget reduction sadly fails the test of equity. It is almost certain to be an adequate and insufficient signal to the markets that we are serious enough about deficit reduction to bring about a healthy cut in interest rates. And many of the dollar savings are only illusions, phantom inducements suspended from doctored numbers.

Wall Street and the economy will not be reassured by more promises. They must have specifics, details, in order to gauge the budget's credibility. Unfortunately, this budget is totally lacking in such fundamental information. The budget numbers materialized out of closed-door meetings of Republicans without any consideration of programs. How can we have any faith in numbers which are pulled out of a hat; which have no specifics, indeed no policy behind them? What are the details of the entitlement cuts? We were not told. What defense programs would receive smaller increases? We were not told. Where will the additional revenue come from? Again, we were not told. All that is said is that other committees must make those decisions. True enough. But the Budget Committee is shirking its responsibility to the Senate in not presenting a credible set of assumptions to back up the numbers.

This Reagan/Domenici budget is far from bipartisan. Instead, it is a highly partisan measure that essentially by-passed the formal budget process and converted this year's budget debate into a Republican caucus. The heart of this compromise was framed offstage and out of sight. It is less a firm attack on our economic problems than a truce among Republicans that the Senate Budget Committee was asked to ratify. Perhaps the President and his party are satisfied they have reached an agreement. They did not reach beyond themselves, however, either to the members of the Democratic party or to the many people who are to be victimized by the Republican agreement.

The resolution slaps the face of the congressional budget process. When it became clear to the Republicans that the process would certainly end up repudiating a Republican President, they turned off the lights, went private, and ignored the statutory process. Because that process was designed as a neutral device favoring neither Republican nor Democrat, because it is objective, because it exposes the sins as well as the virtures of any plan before it, the majority realized it could not be used to their advantage. So this budget was built in back rooms and at night. The shadow process worked. It brought the President aboard the Republican substitute. But the long-term cost to the future of the Congressional Budget Act may be as damaging to its welfare as the budget gymnastics calculated outside it will be damaging to the economy.

REAGANOMICS: STAGE ONE

If this budget resolution is, in the end, a squandered opportunity, it is important to reflect upon the events that led up to it. On February 18, 1981, President Reagan presented his supply-side design for the American economy. The President's original budget promised rapid economic growth as deficits declined—to −$45 billion in fiscal 1982; −$22.8 billion in fiscal 1983; virtual budget balance in fiscal 1983, and a $5.8 billion budget surplus in fiscal 1985.

With those promises as a background, the President exerted his great reserves of charm and communications skill to move his program through Congress. In that effort, the congressional budget process was brutalized. The First Concurrent Budget Resolution approved in April of 1981 by the Senate Budget Committee was fashioned in a supply-side dream world made even more haunting by ghost numbers.

The Committee rejected the economic assumptions of the Congressional Budget Office [CBO]. In place of the CBO estimates, the Committee voted to use Reaganomics numbers, figures which predicted twice the growth rate for 1982, far more than any reputable economist had ventured to assume. The result was a budget resolution which claimed to be in balance in fiscal 1984 when the actual CBO figures predicted an $80 billion deficit for that year. In defense alone, the resolution assumed what I described then as a program that was "purposely and grossly under priced by over $20 billion." Yet, the rush into the embracing arms of Reaganomics was underway, and with a Republican majority in the Senate, there was no logic, no objectivity that could head it off.

By the end of July, Congress had agreed to the President's package of program cuts and consolidations in the Omnibus Budget Reconciliation Act of 1981, involving more than $35 billion in spending reductions.

At virtually the same time, the Economic Recovery Tax Act of 1981 was moving through Congress. In 3, yearly stages, the package called for tax reductions of 25 percent, yielding a revenue loss of the Federal Government of $750 billion over a 5-year span. The tax cut, more than any other feature of his program was the darling of the President. Under the relentless whip of Jack Kemp, the Administration concluded that what had worked for Treasury Secretary Mellon in the 1920's was certain to work as well in the 1980's.

I, for one, rejected the notion that a balanced budget could ever be achieved with revenue cuts in multiples of spending changes. That prescription meant the people in greatest need would end up paying a disproportionate share of the freight while remaining budget deficits and higher interest rates would greatly reduce the prospects for economic recovery.

Yet, one August 13, 1981, the President signed the spending cuts and the revenue hemorrhage legislation into law. Many doubted the program would work, but not enough to restrain its enactment.

In September, the first clear signs of trouble began to unfold. On September 24, the President went on national television to request what was termed a "mid-course correction" of his economic game plan. In order to come close to the deficit reduction figure he had promised in July for fiscal 1982 to fiscal 1984, the President was now requesting additional spending cuts and tax increases of $16 billion in fiscal 1982, $28.3 billion in fiscal 1983, and $35.8 billion in fiscal 1984.

To a Nation and a Congress only recently subjected to the promise-laden world of supply-sided dogma, the President's speech was an uncomfortable hint of trouble. But before the chickens came home to roost on the economy, they landed first on the shoulders of Budget Director David Stockman.

In a series of blunt confessions to the *Atlantic Monthly,* Mr. Stockman confirmed that the foundation of Reaganomics was made of sand. "There was less there than met the eye." Said the Budget Director, and "nobody has figured it out yet." He candidly admitted that, "We didn't add up all the numbers. We didn't make all the thorough, comprehensive calculations about where we really needed to come out . . .".

Whatever immediate pain his interviews cost the Budget Director, the suspicions had become facts. The Reagan numbers had been a fraud. And those fraudulent numbers had been the basis of the budget cuts and tax plans rammed through Congress by the President. Any doubts they were not working as advertised were erased in February of this year when the President released his budget for fiscal 1983.

REAGANOMICS: STAGE TWO

Where the President's first budget submission in March of 1981 had shown deficits totaling $67.3 billion in fiscal 1982–84, his February 1982 budget for fiscal 1983 showed a deficit of $91.5 billion for that year alone. Total deficits over fiscal 1982–84 were expected to reach $273 billion. By April, the President's budget deficits for fiscal year 1983–85 were estimated to be $405 billion.

The effect was immediate and overwhelmingly hostile. Senator Laxalt called the projected deficits, "numbing." Senator Armstrong, a Republican member of the Senate Budget Committee conceded, "we can't live with deficits of the magnitude of those projected in the President's budget." The director of London's Royal Institute of International Affairs said the President's budget was "a major calamity, not just for the United States, but for the West as a whole and for the world."

The President's reply to the widespread criticism of his budget was, "Put up or shut up." He said that on February 9. On February 10 I offered a comprehensive substitute budget to put us on a glide path to a balanced budget by fiscal 1985. It called for a freeze and reform of COLA's, indexed entitlement programs, a 1-year freeze on defense spending and Federal pay raises, and cancellation of part of the Kemp/Roth tax plan. My plan would have yielded a budget surplus in fiscal 1985.

Within weeks Senator Domenici, Boschwitz, and Gorton had offered substitutes of their own, each of them acknowledging that the President's February budget was an economic and political disaster.

While Members of Congress from both parties turned their backs on the President's budget, the business community did the same. The Business Roundtable, one of the most distinguished assemblies of business executives in the country balked at the size of the deficits and what they would mean to interest rates and recovery.

The Chairman of DuPont conceded that, despite his original support for the President, "circumstances have changed and it's time for a correction." Economists around the land warned of the peril inherent in approval of the Reagan budget. Allen Sinai of Data Resources, Inc., cautioned, "We're walking the brink and it's very worrisome. One thing is for sure. Without adjustments now in the current thrust of policies, the U.S. economy runs the risk of a major collapse, unprecedented in the post war period."

Yet, the President ignored them all. Until late March. On March 25th, news reports announced that the President had finally authorized members of his staff to sit down and talk with congressional leaders about the budget. Eventually, 13 meetings were held. We met in White House Chief of Staff James Baker's home. We met in the Indian Treaty Room at the White House and we even met in the White House Theatre. At first, they were solid, fair, frank bipartisan meetings with give and take, fair and open. But we were working under a severe handicap. Jim Baker make it clear the Kemp/Roth hurricane tax cut could not be touched. The warning flags were put up, not so people could take shelter, but just to let them know the hurricane was coming and there was nothing to be done to stop it.

Jim Baker told us that at no time could we discuss revenues. He said the President was not giving up on Kemp/Roth. That was his program. That was the *quid pro quo*, and we're not discussing it anymore.

With Kemp/Roth chained off, the President was assuming the classic Henry Ford position; we could have any color car we wanted so long as it was black. We could have any kind of substitute budget, the President was insisting, so long as it was his. We ended up talking about energy fees, excise taxes, surtaxes, and a long shopping list of little ideas we could add up to make small a substitute. It was just too small, and the talks came apart.

Another reason for the breakdown was the taint of partisanship that crept in as the talks approached a productive point. Treasury Secretary Regan made a speech in San Francisco in which he alleged that the source of high deficits was congressional refusal to adopt the President's budget.

I though after 5 weeks we were past that sort of thing. But here was the President's chief economic spokesman running for the protection of partisan brambles and undermining the future of the talks.

Next, the President and Speaker O'Neill met to work out a compromise. That failed when the President protested that the options he was offered were threats to his digestive tract, only a choice between passing a pineapple or a cactus.

Throughout the budget talks, conducted almost entirely outside the formal budget process—a process even interrupted at the President's request in favor of further private talks—the President failed to see that he was the problem. Surrounded by supply-side sentinels, he had made up his mind to stick with his plan while heaping blame for his own recalcitrance on the Democrats.

It is, therefore, appropriate to note two important facts. First of all, the budget the President gave us in February had no support other than his own and from within his official White House family, and perhaps a few die-hard supplysiders in Congress. That is not a matter of dispute. It is a fact. On May 5 the Senate Budget Committee rejected the Reagan budget by a vote of 20 to 0. Not a single member of the President's own party suggested that the President's program was even remotely realistic.

Second, there must be no mistake that the President's repeated suggestions about opponents wanting to raise taxes are anywhere near the truth. Not even close. No one put it better than Senator Andrews, our distinguished Republican colleague on the Budget Committee. During the May 5 committee markup, Senator Andrews nailed the truth up in public for all to see:

> The resolution of our Chairman [Mr. Domenici] and the resolution of the Senator from South Carolina [Mr. Hollings] are not tax hike resolutions. We are not raising anybody's taxes. Last year, this Congress voted for $750 billion in tax cuts over 5 years, and we are coming to our senses now and realizing that this is too damned high; that is too deep a cut. It is not working. We are adjusting the figures.

Those facts are central to the history behind the Reagan/Domenici resolution the Budget Committee has reported. They are important, as well, in assessing the substitute program I proposed.

When I first offered my plan, the reactions, were favorable. Federal Reserve Chairman Paul Volcker said the Hollings plan "would have a galvanizing effect on the markets" and would be a "movement in the right direction." The CBO said it would lead to "easier credit conditions" which "would facilitate more investment and economic growth." CBO also acknowledged the "possibility that inflationary expectating would improve dramatically, resulting in substantially lower interest rates and faster economic growth."

In light of the President's intransigence, which led to the breakdown of the budget negotiations, I refined my original plan in order to form the basis of a bipartisan congressional compromise.

The plan I submitted to the Budget Committee on May 5 retained most of the key elements of my original plan.

HOLLINGS PLAN

[In billions of dollars]

	1982	1983	1984	1985
Baseline deficit	119	182	216	233
Freeze elements:				
—All COLA (starting July 1982) with CPI minus 3 percent in FY 1984–85. Exclude SSI, food stamps, veterans compensation.	3	17	25	32
—All Federal pay in FY 1983. 4 percent in FY 1984 and 1985		7	11	15
Reform restraint elements:				
—Defense	1	7	11	17
—Management initiatives		7	9	9
Revenues:				
—5 percent cut in July 1982, eliminate July 1983 cut, repeal indexing.	4	22	48	64
—Repeal leasing	1	3	5	6
—ACRS reform: Repeal FY 1985–86 acceleration; basis adjustment to avoid negative tax rates		1	3	7
—Corporate and individual minimum tax		3	7	7
—Management initiatives		2	2	1
—Compliance gap legislation		4	6	7
Total revenues	(6)	(35)	(71)	(92)
Resulting interest cost benefits:				
—Market effect	1	12	24	34
—Debt Service savings	1	7	21	34
Deficit reduction total	11	92	172	233
Deficit	−108	−90	−44	0

First, starting in July of 1982, cost-of-living adjustments in Federal pension programs would be frozen. COLAs for 1984 and 1985 would be set at the level of the Consumer Price Index [CPI] less 3 percent. Excluded from the freeze would be supplemental security income [SSI], food stamps, and veterans' compensation.

This freeze and reform proposal was clear, specific, and certain. Beneficiaries could plan ahead, the basic benefits would be untouched, and enough savings would be achieved to preserve the solvency of the various pension funds.

Second, all Federal pay raises would be frozen for 1 year and limited to 4 percent in 1984 and 1985. Together, the two freeze proposals would save $110 billion by 1985.

Third, the plan called for $36 billion in savings from the President's defense budget by limiting the growth in defense spending to roughly 6 percent per year, 1983–85. Readiness programs would not be jeopardized. Under this plan, defense spending would *not* be cut; it would actually increase by $22 billion, 1983 over 1982.

On the revenue side, my plan reduced the 10 percent tax cut scheduled for July, 1982, to 5 percent, saving $17 billion. It eliminated the July 1983 tax cut, for a savings of $36 billion. In total, my revenue proposal represented a simple and effective way of preventing a revenue hemorrhage that would perpetuate massive budget deficits and keep interest rates intolerably high.

The revenue losses from the Kemp/Roth tax cut—$39 billion in fiscal year 1982, $95 billion in fiscal year 1983; $148 billion in fiscal year 1984, and $189 billion in fiscal year 1985—are the principal cause of the huge budget deficits which are destroying the nation's economy. My plan responded to the deficit problem by directly attacking its primary source.

Republican Budget

All those who rejected the President's budget and hoped that the Senate Budget Committee would produce a credible, workable, and balanced budget will be dismayed at the budget reported by the Committee.

It is not credible. The Committee reported plan claims to reduce the deficit to $40 billion by fiscal year 1985. Yet it is based, like last year's budget resolution, on unspecified deficit reductions—this time affecting social security. This is nothing more than a $40 billion plug. This is the first budget resolution in which the deficit is not the difference between revenues and outlays.

It is not workable. The Republicans have declared the third year of the tax cut "off limits." This means that Congress will have to enact numerous small tax increases, which will be extremely difficult, if not impossible, to achieve. Further, it assumes large cuts in such programs as medicare and medicaid, education, food stamps, and child nutrition. These programs were all cut last year and Republican Committee chairmen with jurisdiction over them have expressed grave reservations about making further cuts.

Finally, *it is unbalanced.* The Republican budget makes excessive cuts in domestic programs while allowing for too rapid growth in defense spending. It also relies too heavily on spending cuts in order to preserve the exorbitant tax cuts enacted last year.

In the tradition we have come to expect from the White House, the Republican budget emphasizes cuts in programs for people who need help the most, in favor of relief for those who need it least. Cuts run deepest in such programs as food and nutrition aid, health care, and education. These cuts also short change the investment we must make in our future.

Social Security

The Republican budget assumes 3-year savings in social security of $40 billion. However, it fails to specify how those savings will be made, leaving open the possibility that social security payroll taxes could go up again, on top of large increases enacted in 1977 which are being phased in through 1985. Alternatively, basic benefits could be cut.

The intent of these future "savings" is to maintain the solvency of the Social Security Trust Fund. However, the $40 billion target assumes that social security must continue to borrow from the equally bankrupt medicare fund. Such robbing of Peter to pay Paul may buy time, but it should not be falsely represented as ensuring the solvency of anything.

The millions of social security recipients, both present and future, deserve a more credible solution to the problem than this. My temporary freeze and moderate reform plan would have preserved the integrity of the system without unfairly penalizing any beneficiary, and it would have done so in a specific, certain way. The Republican solution is a mystery plan, wrapped up in May, not to be opened until after the election. Nothing is more cruel to beneficiaries that uncertainty, and nothing is less credible fiscal policy than "unspecified savings."

Human Investment

The Republican majority believes spending cuts are the only way to a balanced budget. Yet many legitimate programs which cost money today actually save money tomorrow.

WOMEN, INFANTS AND CHILDREN (WIC)

This program provides nutritious food supplements to low-income women and children judged to be a nutritional risk. Studies have shwon that food supplements have reduced the infant mortality rate and reduce the incidence of low-birth-weight babies. The Harvard School of Public Health has documented that each $1 spent on the prenatal component of WIC saves $3 in future hospital costs.

The Administration, however, wants to shut down the WIC program and fold it into block grants at greatly reduced funding levels. The Republicans on the Senate Budget Committee rejected my amendment to increase WIC funding to keep up with inflation. Instead they agreed to freeze the program at fiscal year 1982 levels for the next 3 years, meaning that 200,000 low-income women, infants, and children would be eliminated from the program in 1983.

EDUCATION

Title I Compensatory Education would be frozen at this year's reduced levels for the next 3 years, resulting in a loss of purchasing power of 30 percent between 1981 and 1985. Yet studies have shown title I to be a good investment. Disadvantaged students score significant achievement gains in English and mathematics as a result of the program. If title I and the students it serves will suffer, so will the participants in the guaranteed student loan program. The Republican budget chops $2 billion from that program by fiscal 1985. The year's Republican proposal on GSL would force at least another 300,000 students out of the program and force them to assume a greater debt burden.

FOOD STAMPS

The Republican budget assumes benefit cuts for all recipients of over $3 billion over the fiscal year 1983–85 period. A family of four, no matter how poor, would lose nearly $200 a year in stamps. This program was cut over $2 billion last year.

VETERANS

The Republican freeze in veterans health care will require significant cutbacks in services as the cost of drugs, medical supplies, and technology will continue to rise. Further, the freeze on COLAs for veterans' pensions and the disabled is especially unfair, if all other COLAs are not also frozen.

MEDICARE AND MEDICAID

The Republican budget targets medicare and medicaid for a $25 billion reduction over the next 3 years. These cuts can only add to the distress of our poor and elderly citizens already living on limited resources and could prevent many of them from seeking and getting necessary health care.

While many in need are short-changed by the Republican budget, important public investment in our future are neglected as well. The budget would exact savings from research, law enforcement, the space program and highway maintenance and other areas. In effect, the budget provides far less than is necessay to continue programs vital to the country's welfare and security.

LAW ENFORCEMENT

The Republican budget is $100 million *below* the President's request and could force layoffs of up to 2,000 employees, undoubtedly affecting the FBI, Drug Enforcement Administration, and Immigration and Naturalization Service. The FBI is already short 354 agents and this situation would simply be exacerbated by the Republican budget. The Republican budget also includes a $100 million cut for Federal courts which could force cutbacks of 2,000 persons.

SPACE SHUTTLE AND SCIENTIFIC RESEARCH

The Republican budget cuts $1.5 billion from space and science programs over 3 years. A reduction of this size could cut the number of shuttle flights by about one-third and delay others, including those missions vital to our national defense. The budget also takes a short-sighted view of the need to improve our scientific research base.

HIGHWAY AND BRIDGE MAINTENANCE

The Republican budget would allow for no increase in spending for our nation's highway and bridge systems, both badly in need of major rehabilitation. Currently, almost 8,000 miles of the interstate highway system and two out of every five bridges must be rebuilt. Without the needed increase, our Federal investment will continue to deteriorate.

STRATEGIC PETROLEUM RESERVE

The Republican budget would reduce funding for facility construction for SPRO by $0.2 billion, thereby severely hampering construction of needed storage facilities.

ENERGY CONSERVATION

The Republican budget would continue the decline in energy conservation funding allowing $600 million less than was spent in fiscal year 1981. This despite documentation that energy conservation accounted for 23 percent of all energy savings in 1980.

If the President's economic package last year was the result of some sleight-of-hand, this Republican budget shows the back of the hand to people clinging to the "safety net." If the budget is not acceptable—and it is not—the process which brought it to life raised serious questions, as well. •

Although the formal budget process was largely set aside until the eleventh hour, it still harbored some surprises. Late in the evening of the final markup session, proposed resolution language was circulated among the Budget Committee members. Prior to that time, no Democratic member had seen the language, no Democratic member had been consulted, no staff of any Democratic member had been contacted.

The final element of that draft resolution provided that if, by September 15, Congress had not acted upon a second budget resolution, the language of the first would prevail. The leadership called that "automatic conversion." What it really amounted to was an automatic perversion of the budget process.

To have accepted that provision would have meant cancelling out the feature of the Budget Act that gives Congress the time to survey changing economic conditions and revise the budget figures in their light. What we would have had left is a single budget resolution with no chance for a second look. The decisions in May would have stood as the economic testament until the flowers grew again the following spring.

I accept the Chairman's statement that this provision was not premeditated. But it was still permitted, speaking volumes, I think, for the lone-wolf mentality prevalent throughout this year's entire budget process. Fundamental changes in the law were slipped into the draft resolution by a staff working in an environment which led them to believe their maneuver was proper behavior. The provision was withdrawn after strong Democratic protest. But the entire episode was further evidence of the problems endemic to one-party budgeting.

After weeks of budget talks, both up-front and back room, the problem is still the same. The President insists that supply-side economics is the key to prosperity. But his approach has brought the nation 9.4 percent unemployment, and we must fairly ask what good his tax cuts have brought to those who have no work.

It must be fairly asked what magic his economic program has worked on a prime interest rate that remains at 16.5 percent.

It must be fairly asked what good his approach has brought to an auto industry whose output is down 30 percent from a year ago.

How can the President fairly ask more of the same?

This Republican budget does not deliver any hope to the financial community who wait for a signal from Washington that budget deficits will be reduced; to American industry distraught with bankruptcies and failures; to the millions of unemployed facing a long period of idleness; and to America's poor and aged and its middle class who once again face disheartening and unfair sacrifices in order to defend Reagan's flawed and failing economic program.

In the end, the Republican budget is not the final step in the Senate budget process, but a strong caution that the search for a fair and workable budget must be continued on the Senate floor.

ERNEST F. HOLLINGS.

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MINORITY VIEWS OF SENATORS ERNEST F. HOLLINGS, J. BENNETT JOHNSTON, JIM SASSER, GARY HART, HOWARD M. METZENBAUM, DONALD W. RIEGLE, JR., DANIEL PATRICK MOYNIHAN, J. JAMES EXON

Today, the American economy faces the most perilous economic conditions since the Great Depression. At this writing, unemployment has reached 9.4 percent, affecting over 10 million Americans. Yet the recession has still not bottomed out.

The prime interest rate remains above 16 percent, despite the fact that inflation has been reduced to less than 7 percent per year. Indeed, the 1981 average annual prime rate was 18.9 percent, up nearly 6 percentage points from the 12.7 percent annual prime of 1979. Even more disturbing however, are the record levels of real interest rates which have hovered in the range of 8 to 10 percent for months—a rate without precedent in the history of the Republic.

Housing starts have fallen below 1 million units a year. Business failures, which totaled just over 17,000 last year, will be over 25,000 this year if there is no change in policy. Investor confidence is dismal at best, and the American people are growing increasingly impatient and worried about the future economic health of the country.

Faced with this crisis in confidence, we believe a constructive, bipartisan budget plan must be developed. To be successful, it must be both fair and credible. The plan must be equitable and touch all areas of the budget without unduly penalizing the needy. To be credible, the plan must be based on realistic data and have a reasonable chance of being enacted into law. Unfortunately, the budget plan approved by this Committee on May 5 fails on both counts.

It was approved on a strictly partisan basis and developed through negotiations held exclusively between the White House and members of the majority party in the Senate. Indeed, it was a Republican plan, not a bipartisan compromise.

It is unfair in that it penalizes the needy by drastically slashing programs which are vital to the health and welfare of older Americans, infants and children, the disabled and handicapped, and those who served in the armed forces and suffered disabilities as a result.

Even more unfairly though, it proposes $40 billion in social security cuts, cuts so deep that redical changes in basic retirement benefits will occur if the proposed targets are enacted. It fundamentally violates the contractual agreement between the government and America's senior citizens, who have worked hard and paid into the system throughout their working lives.

We believe the plan adopted by the Republican majority will fail to turn around our deteriorating economy. It will merely maintain the existing economic policy which is exacerbating the current crisis. We fear that we may lose the opportunity to make the "mid-course correction" that is so badly needed to begin the long-awaited recovery. And unless we make this correction, the unacceptably high interest rates, high unemployment, and high deficits will continue unabated.

From the beginning of this budget cycle, we have been willing to join in a bipartisan, constructive effort to develop a budget that would help end the deepening recession. We remain willing to join in any effort to forge a bipartisan compromise that will be both credible and fair. Because the budget recommended by this Committee fails this test, we cannot support it.

ERNEST F. HOLLINGS.
J. BENNETT JOHNSTON.
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J. JAMES EXON.

ADDITIONAL VIEWS OF SENATOR LAWTON CHILES

I am deeply disappointed to not be able to vote in favor of the 1983 Budget Resolution as reported by the Budget Committee. Reducing the Federal deficit must be our top priority, so that interest rates can come down and allow the economy to recover from the recession. I am pleased to see the Resolution start toward a major reduction in the massive federal deficits. While the total of $215 billion of additional deficit spending by 1985 is still too great, reducing the projected 1985 deficit from $232 billion to $40 billion would be a major accomplishment. However, I do not believe this resolution will achieve that purpose. Of the planned reduction in the deficit, $40 billion is slated to come from Social Security cuts, and $24 billion from cutting Medicare health benefits to the elderly. Since such drastic reductions are unlikely to be achieved, the actual deficits are likely to be much higher.

I also do not believe that the Committee has arrived at a fair mix of deficit reduction components. Leaving aside interest on the national debt, the package cuts spending by $209 billion, but only cuts tax breaks by $95 billion. Since last year's tax cuts gave an average benefit of over $15,000 to each household over $80,000 a year income, this 2 to 1 ratio is unbalanced.

Social Security

The Budget Resolution contains instructions to reduce the Social Security program's financing gap by $40,000. While I have been calling for Congress to face up to the financial difficulties of the Social Security Trust Funds, I do not believe this should be done in the context of reducing the federal deficit. Over a year ago, I introduced a bill to solve the long-term financing problems of the Social Security system and would welcome speedy action on that bill separate from the budget.

Despite putting fuzzy language in the Resolution, the Committee's leaders made it clear during the Committee's debate that by "reducing the financing gap," they mean cutting benefits.

Veterans' Pensions and Compensation

I do not believe it is fair to impose a freeze on veterans' pensions and compensation payments as the Committee's majority would do. Pensions go only to low income veterans, and compensation payments go to veterans with service-connected disabilities. We owe a basic sustenance to those who gave their health and strength in the Nation's defense.

Medicare Cuts

The Committee plan requires drastic cuts in Medicare health benefits for the elderly. Their 3-year, $24 billion cut includes a 13-percent reduction in Medicare spending by 1985. That would require substantial increases in out-of-pocket medical expenses for the elderly, who already pay one-third of their own health costs. The Committee assumes billions of dollars will be raised by higher Medicare premiums, by requiring 8 to 10 percent copayments for hospital care and requiring 20 percent copayments for home health care. The Committee rejected the alternative I offered of $12 billion in savings over 3 years which is the most that can be achieved by reducing costs of care, and not by increasing copayments or cutting eligibility and benefits.

Housing

Despite the critically depressed condition of the Nation's housing industry, the Budget Committee refused to leave room for the Lugar bill or any other emergency housing program. Since the Lugar bill was reported 16–0 from the Banking Committee, I do not believe the Budget Resolution reflects the true will of Congress or of the Nation.

The Committee's 3-year freeze on domestic appropriations will cut vital services in several areas where programs are directly operated by the federal government, rather than through grants, and where most of the budget goes for salaries.

Freeze on Federal Law Enforcement

First and foremost, the Budget Resolution cuts law enforcement activities by $600 million from what it will take to keep them at current levels. I believe it is necessary to provide at least $135 million a year more for the FBI, the Drug Enforcement Agency, the Customs Service and the Immigration and Naturalization Service. We cannot tolerate a situation where organized crime hires more people and has better equipment than our law enforcement agencies. Drugs, crime and uncontrolled immigration are undermining the economy and well-being of large parts of the country. Organized crime has not put a three your "freeze" on their activities, so we should not put a freeze on federal law enforcement.

Veterans' Medical Care

The Committee also cut $300 million below the President's request for Veterans medical facilities, and rejected my amendment to restore those funds. Even that request is $200 million below what the Veterans Administration needs to keep up with the costs of drugs, equipment and professional staff.

Space Shuttle, Science, and Technology

The Resolution cuts $1.6 billion from the level which the President requested to fund the operations of the Space Program and to provide a minimal level of growth in our science and technology programs. If we starve those programs, our nation's industrial technology is going to fall below that of our competitors, and we will not get the improved productivity our economy needs.

I believe it is possible to meet the nation's economic needs by reducing the deficit, while still meeting our needs for critical services, if we have a fair balanced package of spending cuts and tax changes. This Resolution is not such a package. The amendments which I offered in committee to meet the nation's basic needs could have been afforded within the level of revenues originally proposed by Chairman Domenici, without adding to the projected deficits. A fair set of revenue adjustments would allow the deficit to be reduced much further, and bring us close to a balance in 1985.

Germaneness Amendment

I have been a strong supporter of the Reconciliation process. In fact, the first Reconciliation we carried out on the First Budget Resolution was done pursuant to my motion to this Committee back in 1980. I also included reconciliation in my opening motion for the Committee to make major reductions in the deficit, because I think Reconciliation is the only way we can, actually pass the legislative changes necessary to achieve those reductions.

However, I think we have to make one modification to ensure a fair process. The Budget Act contains a "germaneness" provision, which was designed to prevent extraneous non-budgetary amendments from being added to Budget Resolutions. This had an unintended effect on the procedures used for reconciliation. Any alternative spending cut or tax change, not included by the Authorizing Committees, is subject to a point of order if offered as an amendment during consideration of the bill by the full Senate. There are several problems with the use of germaneness in this way. Suppose the authorizing committee, by a single vote margin, decided to cut program "A", but not program "B". When the bill was on the floor, Reconciliation would prohibit any member from offering an amendment to substitute a cut in program B. A narrow majority of one committee would therefore dictate its will to the Senate.

A second problem is that germaneness biases action on Reconciliation bills against reducing the deficit. Let us suppose it is clear that a majority of the Senate is prepared to reject a particular cut. It would not be in order for the Committee to come up with a new offsetting cut to restore the original cost savings.

Finally, germaneness invites Committees to play the "Washington Monument Game." If they do not really want to reduce their programs, they could report something clearly intolerable, such as grounding the entire Air Force for a year or eliminating feeding programs for the elderly. A motion to strike those cuts would be in order, and would obviously pass, thereby increasing the deficit. However, it would not be permissible to offer an amendment to substitute reasonable cuts in other programs. I do not think the Budget Act really intended to hamstring the Senate that way. And I do not think it is fair to prevent votes on alternative provisions when the bill comes to the floor.

I therefore offered an amendment to include a section in the Budget Resolution similar to the enforcement provisions, that would modify germaneness to allow alternative spending cuts or tax changes. The amendment contained a proviso so that it would not open the door to non-budgetary items.

We checked the language with the Parliamentarian and he told us it was workable and would be in order on the Resolution.

I believe the Committee was quite unwise, and inflicted great harm on the fairness of the budget process, by rejecting my amendment.

LAWTON CHILES.

ADDITIONAL VIEWS OF SENATORS JIM SASSER, DONALD W. RIEGLE, AND DANIEL PATRICK MOYNIHAN

For many months, we have tried to alert this Committee and the Congress to the crisis facing the nation's economy and the congressional budget process. We confronted a difficult task: find a course of action that both eases the distress of major economic sectors and reduces the escalating deficits, which are jeopardizing prospects for a lasting economic recovery. We announced our willingness to join in a constructive, bi-partisan effort to accomplish that task. We regret that the Committee majority and the Administration decided to forgo such an effort. The Committee majority and the Administration now offer a budget resolution that we cannot support.

The current economic and budgetary crisis refutes the Administration's claims for its economic policies. When Congress enacted the Administration's economic program last year, the Administration promised the nation that real GNP would increase 4.2 percent in 1982. In fact, real GNP has *declined* at rates of 3.9 percent and 3.4 percent over the last two quarters, and today 30 percent of America's manufacturing capacity lies idle.

Last year, the Administration and the majority promised the nation that this year's unemployment rate would average 7.2 percent. Last Friday, the Labor Department announced that 9.4 percent of the nation's work force is now unemployed, breaking all post-war records.

The Administration and the majority also promised that interest rates would drop 1.5 percentage points this year under their program. Today, interest rates continue at levels unprecedented for a deep recession, and real interest rates hover near all-time highs for any period Interest-sensitive industries, like housing and automobiles, are in a slump comparable to the Great Depression. Similar conditions now threaten steel, machinery, and other sectors. According to the Commerce Department latest survey fixed business investment is expected to fall, in real terms, below last year's already low levels.

As recently as last September, the Administration confidently projected that budget deficits would decline to $22 billion in 1983 and achieve balance in 1984. The baseline deficit has now reached $183 billion for 1983 and $216 billion for 1984, about three times the highest previous deficits in American history.

The President's own budget proposal would produce deficits of $121 billion in 1983, $129 billion in 1984, and $140 billion in 1985, according to Congressional Budget Office estimates. To its credit, this Committee rejected the President's proposal by a unanimous 20-0 vote.

The Committee recommends an alternative to reduce the large and growing deficits that would result from the President's budget. However, the Committee budget, which has the Administration's endorsement, would maintain the current, failed economic policy and would focus further hardship on the most vulnerable groups in American society.

On social security, the most fundamental social program in America, the budget of the Committee majority and the Administration would break a solemn pledge to the American people. The fiscal pressures on the Social Security System must be relieved. The President has appointed a distinguished Commission to develop measures to do so. But now, before the Commission has completed its study, the majority on this Committee and the Administration propose to cut $40 billion out of social security to solve their current deficit problem. They have created a new budget category, called "social security solvency," under which they propose budget reductions of $6 billion in 1983, $17 billion in 1984, and another $17 billion in 1985.

We will do everything in our power to prevent the Administration from raiding social security and reducing the basic incomes of America's elderly, to relieve deficits created by mismanaged economic policies.

This resolution is unacceptable in other respects as well. It would allocate to the nation's health programs—including medicare and medicaid—$6.7 billion less than the amount required to keep pace with inflation. Programs for education, job training, employment, and social services, which absorbed a 16 percent real cut in last year's budget, would be reduced, in real terms, by 24.8 percent more under the majority plan. Commerce and housing programs—areas especially devastated by the current economic decline—face reductions of 31 percent in real terms, following a 5 percent real decline in last year's budget. Mass transit and other transportation programs, which absorbed a 14 percent real reduction under last year's budget, now face another 12.7 percent cut. General revenue sharing, one of the most successful Federal initiatives of recent years, aiding over 39,000 general purpose local governments, will lose some $800 million in 1984 and 1985.

We do not accept the proposition that the root cause of our current economic crisis lies in those programs designed to provide basic security or equal opportunity for the nation's disadvantaged, unemployed, disabled, and elderly. Nor can we accept any budget that tries to achieve short-term gains by sacrificing basic elements of the nation's social and economic infrastructure, which are the basis for long-term growth and productivity.

We have established that an alternative does exist. On March 31, we proposed a budget plan that includes an end to the current conflict of monetary and fiscal policy. Our plan, which was developed in consultation with the Joint Economic Committee, proposed a change in the mix of fiscal and monetary policy to accommodate lower interest rates and speed economic recovery. It would break the budget impasse and provide a mid-course correction in economic policy. It would reduce budget deficits and distribute the burdens of fiscal restraint fairly.

We offered measures to close the budget deficit through responsible fiscal restraint, and to alter current monetary policy to permit lower interest rates and a rapid return to economic growth.

—First, we proposed to raise $121 billion in additional revenues by deferring the indexing of tax rates until 1987, by accepting about half of the Administration's proposals to revise tax regulation and improve tax collection, and by closing $86 billion in tax loopholes over 3 years.

—We counseled moderation in expenditures. Last year, Congress cut $35.2 billion from the Federal Government's discretionary spending programs. Congress should now consolidate and evaluate the impact of these reductions. Government should not be expanded. But neither should we waste the nation's investment in human and physical capital by additional drastic reductions in education, transportation, energy, and other related areas. Additional funding in many such areas may be justified, but we would restrain discretionary expenditures to 1982 levels adjusted for inflation. The majority now proposes cuts that will jeopardize the long-term growth, efficiency, and productivity of the nation's economy.

—Budgetary restraints also dictate more rigorous scrutiny of the Defense Department's weapons procurement policies. The nation's defense can best be protected by maintaining the readiness, operations, and maintenance of our armed forces. America's security can be effectively and safely maintained with 5 percent annual increases in defense budgetary authority, and this we proposed.

We tied these proposals for responsible fiscal restraint to a shift in monetary policy. The Administration has repeatedly endorsed a monetary policy that has brought a precipitous drop in the growth rate of the money supply. The central measure of the money supply, M_1, dropped from 7.3 percent in 1980 to 2.3 percent in 1981. That is the sharpest decline in post-war history and the tightest monetary policy since 1959.

Our budget alternative proposed that the Federal Reserve revise its current monetary targets to bring down interest rates in relation to the rate of inflation. We proposed returning the money supply growth to the path originally proposed in the Administration's economic recovery plan of February 1981. This path assumed an average 0.6 percentage-point annual reduction in M_1, growth, so that the growth rate would have been 6.7 percent in 1981.

Accordingly, we offered the following amendment to the budget resolution:

> It is the sense of the Congress that, as Congress moves to restore fiscal responsibility and to reduce projected budget deficits, the Federal Reserve System should ease current monetary target ranges, so as to conform to the growth path proposed by the Administration in "America's New Beginning: A Program for Economic Recovery" issued by the White House February 18, 1981.

We submitted our entire proposal to one of the nation's pre-eminent econometric forecasting firms, Data Resources, Inc. [DRI], for their analysis. DRI reported that our program would quickly bring down interest rates and rapidly revive the interest-sensitive sectors of the economy: housing, automobile sales, agriculture, small business, and productive capital investment. The DRI analysis showed that our plan would sharply increase economic growth this year and through 1983.

DRI also reported that this renewed economic growth would help relieve the deficit by producing additional tax revenues amounting to $38.9 billion in 1983, $38 billion in 1984, and $38 billion in 1985. And the sharply declining interest rates would reduce the Government's expenditures for debt service by some $26.8 billion in 1983, $48.2 billion in 1984, and $62.2 billion in 1985.

Under this program, according to the DRI analysis, the Federal deficit would fall to $78.1 billion in 1983, $64.2 billion in 1984, and $43.7 billion in 1985. By coordinating fiscal and monetary actions, we could maintain the Government's basic social and human commitments, while reducing the projected baseline deficit by $443 billion over 3 years and the 3-year deficit projected under the Administration's proposal by some $219 billion.

We are pleased that we were able to persuade the majority to attach an amended version of our monetary policy directive to the budget resolution, the first such statement in the history of the budget process:

> It is the sense of the Congress that if Congress acts to restore fiscal responsibility and reduces projected deficits in a substantial and permanent way, then the Federal Reserve Open Market Committee shall reevaluate its monetary targets in order to assure that they are fully complementary to a new and more restrained fiscal policy.

Nevertheless, we cannot accept the majority's arbitrary reductions in the nation's social programs nor its large increases in defense expenditures, and we strenuosly reject any breach of faith with the American people over social security. Regretfully, we must decline to support this budget resolution.

JIM SASSER.
DONALD W. RIEGLE.
DANIEL PATRICK MOYNIHAN.

MINORITY VIEWS OF SENATOR J. JAMES EXON

The budget embodied in this resolution is a step backward. It moves away from the kind of a bipartisan budget compromise which this country needs to bring down high interest rates. The Senate Budget Committee was presented with a historic opportunity to do the country a great service. I believe it would have been possible, and certainly preferable, for the Budget Committee to emerge from our day and night mark-up sessions with a bipartisan budget which would have been fair, realistic, and acceptable to all parties who are seeking a genuine compromise rather than partisan oneupsmanship.

Early in the mark-up session both the Chairman and the Ranking Minority Member offered budget plans which contained a great number of similarities. As one member of the Committee, I was prepared to accept a budget which resolved most of the differences somewhat equally between the two proposals. Such a compromise would have resulted in lowering federal budget deficits for the next 3 years significantly, and put a balanced budget in reach by 1985 and certainly 1986. Reductions in the deficits could have been achieved by approximately equal amounts of spending cuts and revenue increases, just as the President proposed during the April budget negotiations with Congress. The budget as reported by the Committee's actually moves back closer to the President's February budget, which our Committee wisely turned down on a vote of 20-0.

In fact, this budget is even less desirable in certain aspects compared to the President's February proposals. There will have to be even deeper spending cuts in some areas, notably social security. It must not go unobserved as to how the new social security cuts came about: the original plan under consideration contained a freeze on social security cost of living adjustments for 1982, with percentage limitations in the years thereafter. In the final document, these cuts were moved clumsily into a new category called "social security solvency," and a few billion dollars more in cuts were added for good measure. If Congress actually adopts this budget, it will be very difficult to explain an inequitable Federal policy on cost of living adjustments to various categories of retirees. To social security recipients, we are apparently saying that they will receive costs of living adjustments based on the consumer price index for each of the next 4 years. To railroad retirees, military retirees, civil service retirees, postal retirees, and all other retirees who participate in a federally supported retirement system, we are saying that they will not receive a cost of living adjustment in fiscal year 1983, and less than the increase in the CPI in subsequent years. This is again a step backward from what has been the policy of the Senate Budget Committee over the past several years, as we have tried to put all retirees on similar, once-annual cost of living adjustment schedules.

But that may be the least of the inequities. By requiring $40 billion of cuts to social security recipients over the next 3 years, surely some current or soon-to-be recipients will be cut back severely in their benefits or dropped altogether from the social security roles. The rationale for this is presumably to achieve solvency for the Social Security System. But it will be hard to explain to social security recipients why they must bear $40 billion in cuts when the social security program is, in reality, in a better position than the other retirement funds from a standpoint of being self-supporting.

This incredible policy on social security and the other retirement funds concerns me not only because it is poor retirement policy, but also because it will not be convincing to the money markets of this country. When it is generally recognized that this resolution does not bring about a balanced budget, but rather a $40 billion deficit in 1985, and that will be achieved only by cutting $40 billion out of social security over the next 3 years, then the money markets will conclude that Washington is still not serious about controlling high deficits and real interest rates will remain at historically high levels.

In a last minute attempt to rescue this budget, I offered an amendment during the markup session to defer the third year of the individual tax cut which is scheduled for July 1, 1983. My calculations, as confirmed by the Congressional Budget Office, indicated that this amendment to the budget would have resulted in a balanced budget by 1985. Had this amendment been adopted, the money markets would have been convinced that Washington was at last serious and was prepared to make the necessary political as well as economic sacrifices necessary to bring interest rates down.

Lastly, I must note that this past markup session has hit a new low in terms of what was envisioned for the Budget Committee under the 1974 Budget Act. In past years, at least as long as I have been on the Budget Committee, members carefully evaluated the priorities represented by the 19 different budget functions. Issues were presented in carefully prepared and documented markup books. During the last few days, however, the markup books were not even opened, and the only important budget negotiations on priorities were between the majority members and the White House. The only opportunity that all members had to discuss priorities and functions came after the real decisions had already been made. Predictably, efforts to discuss the priorities of law enforcement, veterans, assistance for the housing industry, and other important matters were not successful.

Perhaps this was inevitable in this highly charged, partisan atmosphere. I believe the budget the majority has recommended is not the Chairman's first choice, as he has put forth much more commendable and realistic budget plans both last fall and this spring.

As a member of the minority on the Senate Budget Committee, I stand ready to join in a bipartisan budget compromise, and I hope one can still be achieved through future actions on the floor of the Senate or in conference committee with the House of Representatives.

J. JAMES EXON.

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