BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

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TO: Federal Open Market Committee

FROM: Murray Altmann M.A.

Attached for your information is a memorandum prepared in the Board's Division of Research and Statistics, dated February 19, 1981, providing information concerning the administration's economic program.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 19, 1981

To Board of Governors

Subject: President Reagan's Proposed Economic Recovery Program

From Government Finance Section
(Messrs. Fralick, Ramm and Ms. Lepper)

A Description of President Reagan's "Program for Economic Recovery"

Overview:

The economic program proposed yesterday by President Reagan is comprised of four elements:

- o a large and comprehensive reduction in the growth of Federal spending resulting from a $41.4 billion cut in FY 1982 budget outlays from a current services base line, a $5.7 billion cut in off-budget outlays and a $2.0 billion increase in user charges for certain Federal services;
- o large reductions in taxes comprised of a 5 percent cut in calendar year 1981 personal income tax rates, followed by 10 percent reductions in 1981 and 1982 and a final 5 percent reduction in 1983 ($44.2 billion revenue reduction in FY 1982), and a modified version of the 10-5-3 depreciation reform phased in over 5 years ($9.7 billion reduction in revenues in FY 1982);
- o reform of Federal regulations to be implemented by a Presidential Task Force on Regulatory Relief and by substantially intensified review and coordination of regulatory procedures by the Office of Management and Budget as a result of authority granted under the Paperwork Reduction Act of 1980;
- o support for a steady monetary policy of reduction in the growth of the money and credit aggregates to rates in 1986 of about one half the 1980 rates.

Table 1 shows that the new Administration expects full implementation of its proposals to result in a deficit of $54.5 billion in the current fiscal year and $45.0 billion in fiscal year 1982. Table 2 presents the budget and economic projections for the 5-year budget planning period. The table shows that additional spending reductions (to be presented subsequently) of $20 billion to $30 billion are planned for the fiscal years 1983 through 1986 in order to reach balance in 1984 and achieve modest surpluses thereafter.

The White House Report on the program emphasizes two assumptions crucial to the economic and budget projections:

- o prospects for sharply reduced growth in Federal spending as well as lowered marginal tax rates, reduced costs of compliance with Federal regultions and reduced growth of the monetary and credit aggregates will sharply and dramatically reduce expectations of inflation; this will reduce actual inflation and permit reductions in interest rates.
- o lower taxes will result in higher saving and a steady increase in business fixed investment; this will prevent inflationary capacity bottlenecks, increase productivity and reduce the growth of production costs.

<u>President Reagan's Outlay Proposals</u>

On the outlay side, the Administration's program calls for a substantial slowing in the growth of federal spending and a significant shift in the budget's priorities. As indicated earlier, the President has proposed $7 billion in defense expenditure initiatives in fiscal year 1982 but this increase is offset by over $41 billion in proposed reductions. The major features of the proposed spending cuts are as follows:

Table 1

EFFECT OF REAGAN PROPOSALS ON CURRENT SERVICES BUDGET
(Billions of dollars; fiscal years)

	Actual	Reagan Admin. Estimates	
	1980	1981	1982
Receipts:			
Current Services	520.0	609.0	702.4
Proposed Reductions(-)		-8.9	-53.9
Proposed Increases		0.0	2.0
Budget Receipts	520.0	600.2	650.5
Outlays:			
Current Services	579.6	657.8	729.7
Proposed Reductions(-)		-4.4	-41.4
Proposed Increases, Defense		1.3	7.2
Budget Outlays	579.6	654.7	695.5
Surplus or Deficit:			
Current Services	-59.6	-48.8	-27.3
Budget Surplus or Deficit	-59.6	-54.5	-45.0

Table 2
Reagan's Budget and Economic Projections

	1981	1982	1983	1984	1985	1986
			(FISCAL YEARS)			
Target Outlays ($ billions)	654.7	695.5	733.1	771.6	844.0	912.1
Proposed reductions	(4.8)	(41.4)	(58.5)	(73.7)	(86.6)	(95.8)
Cuts to be proposed subsequently			(21.2)	(30.7)	(31.0)	(28.0)
Receipts after tax reduction plan ($ billions)	600.2	650.5	710.2	772.1	850.9	942.0
Tax cuts	(8.9)	(53.9)	(100.0)	(148.1)	(185.7)	(221.7)
User charge increases		(2.0)	(2.6)	(3.0)	(3.5)	(3.9)
Deficit (-) or surplus ($ billions)	-54.5	-45.0	-22.9	+10.5	+6.9	+29.9
Share of GNP (percent):						
Outlays	23.0	21.8	20.4	19.3	19.2	19.0
Receipts	21.1	20.4	19.7	19.3	19.3	19.6
			(CALENDAR YEARS)			
GNP ($ billions)	2,920.0	3,293.0	3,700.0	4,098.0	4,500.0	4,918.0
(Percent change)	11.1	12.8	12.4	10.8	9.8	9.3
Real GNP ($ billions, 1972 dollars)	1,497.0	1,560.0	1,638.0	1,711.0	1,783.0	1,858.0
(Percent change)	1.1	4.2	5.0	4.5	4.2	4.2
GNP Deflator (Percent change, year to year)	9.9	8.3	7.0	6.0	5.4	4.9
Consumer Price Index (Percent change, year to year	11.1	8.3	6.2	5.5	4.7	4.2
Unemployment Rate (Percent, annual average)	7.8	7.2	6.6	6.4	6.0	5.6
Treasury bill rate, 3-month (Percent)	11.1	8.9	7.8	7.0	6.0	5.6

- eligibility requirements are tightened in many entitlement programs (foodstamps, trade adjustment assistance, extended unemployment benefits, medicaid and secondary social security benefits). See Table 3 for details.
- numerous programs are reduced or terminated, including public service jobs, impact aid, foreign aid and federal support for the arts.
- categorical grants--especially for education, health and social services--are consolidated into a few block grants.

  Direct federal subsidies are reduced for synfuels development and Export-Import Bank activities.
- public construction projects--wastes treatment, highways and mass transit--are stretched-out into future years.

  Federal personnel costs are reduced through employment cuts and pay reforms.

It should be noted that the $7 billion increase in defense expenditures over current policy levels does not fully reflect the increase in military spending embodied in the administration's new budget. As illustrated in Table 4, the growth of budget authority for the Defense Department is expected to rise from the 14% rate registered in fiscal year 1980 to over 25% in fiscal year 1982. In real terms, the President is calling for a 8-1/4% increase in defense outlays for the coming fiscal year.

Overall the pace of Federal spending in nominal terms is expected to moderate from fiscal year 1981's 13% rate to 6% in fiscal 1982. In real terms, this moderation translates into a 2% drop in federal spending in the coming fiscal year. As a result of this slowing, the share of GNP devoted to

Table 3

The Reagan Administration's Proposed Spending Reductions
(Fiscal years; billions of dollars)

	Item	1981	1982
1]	Entitlement Revisions; Tighten Eligibility Requirements (subtotal)	1.4	12.1
	Foodstamps	.2	1.8
	Secondary Social Security Benefits	.1	2.3
	AFDC	--	0.5
	Medicaid	0.1	1.0
	Subsidized Housing	--	0.2
	Extended Unemployment Benefits	0.5	1.2
	Trade Adjustment Assistance	--	1.2
	Federal Retirement (annual indexation)	--	0.5
	Black Lung	--	0.4
	Other	0.5	3.0
2]	Program Reductions or Terminations (subtotal)	1.7	7.6
	Public Service Jobs	0.6	3.6
	Impact Aid	0.1	0.5
	Foreign Aid	0.1	0.4
	National Endowment for the Arts	--	.2
	NASA	0.1	.2
	Youth Conservation Corps	--	.2
	Other	0.8	2.5
3]	Grant Consolidation (subtotal)	--	2.6
	Education Programs	--	0.1
	Health and Social Service	--	2.5
4]	Cuts in Federal Subsidies	1.1	6.3
	Dairy Price Supports	0.1	1.1
	Economic and Regional Development	--	0.4
	Synfuels	0.3	0.9
	Mass Transit	--	0.4
	Export-Import Bank	0.1	0.4
	Postal Service	0.3	0.6
	Other	0.3	2.5
5]	Federal Pay Reforms and Personnel Cuts	.5	6.0
	Federal Comparability Standards	--	2.1
	Civilian Employment	.4	1.3
	Other (DOD military)	.1	2.6
6]	Smaller But Unspecified Reductions (subtotal)	--	6.8 1/
7]	Grand Total of Budget Spending Cuts	$4.7	$41.4

1/ The details behind these reductions will be supplied by the Administration in its formal budget document which is expected on March 10, 1981.

Table 4

Military Spending in the Reagan Budget
(Fiscal year, billions of dollars)

Fiscal Years	Budget Authority	Percent Change	Nominal Outlays	Percent Change
1978	117.9	--	105.2	7.9
1979	127.8	8.4	117.7	11.9
1980	145.8	14.1	135.9	15.5
1981	177.7	21.9	157.9	16.2
1982	222.8	25.4	185.8	17.7
1983	255.8	14.8	221.1	19.0

outlays is expected to drop from the current 23 percent to 21.8 percent in fiscal year 1982. Without the proposed cuts, the ratio would have remained at about 23 percent.

President Reagan's Revenue Proposals

The tax portion of the President's program proposes sizable cuts in personal taxes, phased in over a three year period, and a phased-in reduction in asset depreciation lives which will cut business taxes substantially. However, a small portion of the revenue losses from these tax cuts will be offset by new user charges. Under current law, federal receipts will rise from 20.3 percent of GNP in 1980 to 23.5% in 1985. The tax cut package will reduce this percentage to 19.3% in 1985 (table 5).

For individuals, marginal tax rates will be reduced 5 percent in calendar 1981,[1/] 15 percent in calendar 1982, 25 percent in calendar 1983 and 30 percent thereafter, from the current 14 to 70 percent range (table 6). The President's proposal, thus, is similar to the "Roth-Kemp" program of across the board cuts in marginal tax rates of 10 percent per year for the next 3 years starting on July 1, 1981. However, the President's proposal does not call for indexing the tax system for inflation after the third year.

For business firms, the President's program proposes an "accelerated Cost Recovery System" (ACRS) which is a modified 10-5-3 program of accelerated depreciation allowances. Most machinery and equipment would be placed in one of two asset classes:

- 3 year class. Automobiles, light trucks, and equipment used in research and development activities would be depreciated on an accelerated 3 year schedule.

1/ Withholding rates would be cut 10 percent on July 1, 1981, so the full years effect of the 5 percent cut in tax rates would be felt in the second half of the year.

Table 5

THE TAX REDUCTION PROGRAM
(Fiscal years; billions of dollars)

	1980 (actual)	1981	1982	1983	1984	1985
Receipts under current law	520.0	609.0	702.4	807.6	917.2	1033.2
Personal tax cuts		-6.4	-44.2	-81.4	-118.1	-141.5
Accelerated cost recovery system		-2.5	- 9.7	-18.6	- 30.0	- 44.2
Proposed user charges			2.0	2.6	3.0	3.5
Receipts after proposed tax changes	520.0	600.2	650.5	710.2	772.1	850.9
Percent of GNP:						
Current law receipts	20.3	21.4	22.0	22.4	22.9	23.5
After proposed tax changes.	20.3	21.1	20.4	19.7	19.3	19.3

Table 6

PHASE-IN FEATURES OF THE TAX CUT PROGRAM

	1980 (present law)	1981	1982	1983	1984	1985
Personal Tax Cut						
Percentage reduction in marginal tax rates		5	15	25	30	30
Range of marginal tax rates (percent)	14-70	13-66	12-60	11-53	10-50	10-50
Revenue loss (fiscal years, billions of dollars)		6.4	44.2	81.4	118.1	141.5
Memo:						
Maximum capital gains tax rate (percent) 1/	28	26.4	24	21.2	20.0	20.0
Maximum tax rate on "earned income" (percent)	50	50	50	50	50	50
Accelerated Cost Recovery System						
3-year class (asset life in years)	3.5 2/	3	3	3	3	3
5-year class "	10.2 3/	9	8	7	6	5
10-year class "	32.5 4/	18	16	14	12	10
15-year class "	"	18	16	15	15	15
18-year class "	"	18	18	18	18	18
Revenue loss (fiscal years, billions of dollars)		2.5	9.7	18.6	30.0	44.2

1/ There are no explicit capital gains tax law changes in the President's package. These rates are reduced, since the capital gains tax rate is 40% of the personal income tax rate.
2/ Estimate of "best allowable" recovery period for cars and light trucks under current law.
3/ Estimate of "best allowable" recovery period for other machinery and equipment under current law.
4/ Estimate of "best allowable" recovery period for buildings under current law.

- 5 year class. All other machinery and equipment, except for some long-lived public utility property would be depreciated on an accelerated 5 year schedule.

Real estate and factories would be placed in one of the following 3 asset classes.

- 10 year class. Factory buildings, retail stores, and warehouses used by their owners would be depreciated on an accelerated 10-year schedule. Public utility property for which present guideline lives exceed 18 years is also included in this class.

- 15 year class. Nonresidential structures not included in the 10-year class and low income rental housing would be depreciated over 15 years on a straight-line schedule.

- 18 year class. Other residential rental structures would be depreciated on a straight-line schedule over an 18-year period.

The full 10 percent investment tax credit would apply to machinery and equipment in the 5 year class and the public utility equipment included in the 10-year class (factories, stores, and warehouses in the 10-year class would not receive any credit, consistent with current law). A 6 percent credit would be received for assets in the 3-year class. Under current law assets with a life of less than 3 years receive no credit, a 3-1/3 percent credit is received for assets with a useful life between 3 and 5 years, a 6-2/3 percent credit is received by assets with a life between 5 and 7 years, and the full 10 percent credit is received by assets whose life exceeds 7 years.

The proposed reduction in asset lives would be phased in over a 3 to 5 year period. Assets in the 5 year class could be assigned a useful life as long as 9 years in 1981. The maximum life assignable to new investments in this class would then be reduced to 5 years over the next 4 years. New investment in the 10-year class would have an 18 year life in 1981. The recovery period for new investments in this class would be reduced annually in 2 year increments until a 10 year useful life is established for new assets acquired in 1985 and thereafter. Similarly, recovery periods in the 15 year class are phased in over 3 years, beginning at 18 years in 1981 and reaching 15 years in 1983.

The tax program also includes new user fees to eliminate subsidies to airport and airway users, inland waterway users, and boat and yacht users. These changes are expected to raise $2.0 billion in fiscal year 1982 and $2.6 billion in fiscal 1983.

Initiatives to Reduce Regulatory Burdens

President Reagan has requested cabinet agencies and the Environmental Protection Agency to postpone, to the extent permitted by law, the effective date of new regulations that would have become effective before March 29 and to refrain from issuing new final regulations before that time. Rules pertaining to bilingual education, passive restraints (airbags) in large cars, the labeling of dangerous chemicals in the workplace, garbage truck noise and overtime payments for executives have been withdrawn or postponed. The President has created a Task Force on Regulatory Relief and signed a new Executive order to improve the management of the regulatory process. The new order is to be administered by the Office of Management and Budget under the overall direction of the Task Force on Regulatory Relief. The order calls for careful analysis of the costs and benefits of new and existing regulations and determination that the most cost-effective approach is used for meeting regulatory objectives.

Domestic oil prices have been immediately decontrolled and the wage-price standards program of the Council on Wage and Price Stability has been rescinded.

Monetary Policy

The White House Report notes that "the Administration supports the announced objective of the Federal Reserve to continue to seek gradual reduction in the growth of money and credit aggregates during the years ahead." It also notes that the Federal Reserve has undertaken a study of last year's experience in operating under the new procedures adopted in October 1979 and urges the Federal Reserve to make any changes that appear warranted in order to achieve steadier growth in the monetary aggregates and greater success in meeting its targets. The Administration assumes that if monetary growth rates are restrained expectations of inflation and interest rates will decline. The economic projections are reported to incorporate the assumption that growth rates of money and credit are steadily reduced from the 1980 rates to half those rates by 1986. Although specific numerical targets for growth in the monetary aggregates are not reported, the assumptions would imply growth of M1-A by 4.2 percent in 1982 and 2.5 percent in 1986, growth of M1-B by 5.9 percent in 1982 and 3.6 percent in 1986 and growth of M2 by 8.0 percent in 1982 and 4.8 percent in 1986.

A Comparison of the FR Staff's and Reagan Administration's Economic and Budget Outlooks

Comparison of Economic Assumptions

The economic outlook presented with President Reagan's budget proposals differs substantially from the FR staff's January forecast and from the Carter Administration's earlier forecast. The projections of both the Carter and Reagan Administrations differ from the FR staff's forecast in expecting faster growth in real GNP, lower unemployment and lower interest rates throughout the forecast period.

Despite much similarity in the net fiscal effect of the FR staff and the Reagan budget projections, differences between the FR staff and Reagan forecasts of real GNP growth and unemployment widen in 1982. The difference between the Reagan administration and the FR staff forecasts for inflation are, however, relatively small (lower inflation in the Reagan Administration's forecast for the consumer price index reflects, at least in part, their assumption of declining interest rates).

Table 7 shows that the Reagan administration now forecasts a 1.4 percent increase in real GNP between the fourth quarter of 1980 and the fourth quarter of 1981, only slightly less than the 1.7 percent rise forecast by the Carter Administration but substantially greater than the 0.1 percent increase forecast by the FR staff in January. Real GNP is expected to decline in the second quarter of 1980 in both the Reagan Administration and the FR staff forecasts. As a result, unemployment rises in mid-year. The subsequent economic recovery forecast by the Reagan Administration is expected to result in a 7.7 percent unemployment rate in the fourth quarter of 1981; the staff's more pessimistic economic outlook, however, results in an unemployment rate of 8.5 percent by the end of this year. The rise in the GNP deflator forecast by the Reagan administration over the four quarters of 1981 is the same as in the FR staff forecast.

In 1982, the Reagan administration expects that real GNP will rise by 5.2 percent and that unemployment will fall further to 7.0 percent by the final quarter of the year. This contrasts with very slow growth of real GNP in the FR staff forecast and a further increase in unemployment to 9.0 percent by the fourth quarter of 1982. Inflation (as measured by the GNP deflator) is expected by the Reagan administration to slow to 7.7 percent

Table 7

COMPARISON OF ECONOMIC ASSUMPTIONS
(Calender years)

	1981			1982		
	Reagan Admin.	Jan. FR Staff 1/	Carter Admin.	Reagan Admin.	Jan. FR Staff 1/	Carter Admin.
Gross National Product						
current dollars:						
Amount ($ billions)	2920	2910	2928	3293	3162	3312
Percent change (fourth quarter over fourth quarter	11.0	9.6	12.3	13.3	8.5	12.6
constant dollars:						
Amount ($ billions)	1497	1490	1493	1559	1497	1545
Percent change (fourth quarter over fourth quarter)	1.4	0.1	1.7	5.2	0.7	3.5
Prices (percent change)						
GNP deflator (fourth quarter over fourth quarter)	9.5	9.5	10.4	7.7	7.8	8.8
CPI (fourth quarter over fourth quarter)	10.5	12.4	12.6	7.2	8.0	9.6
Unemployment rate (percent)						
Yearly average	7.8	8.1	7.8	7.2	8.9	7.5
Fourth quarter	7.7	8.5	7.7	7.0	9.0	7.4
Interest rate, 91-day Treas.	11.1	16.2	13.5	8.9	17.0	11.0

1/ Economic forecast included in the January greenbook. The forecast ranges for 1981 presented in the draft Humphrey-Hawkins report are as follows:

	percent change fourth quarter to fourth quarter
Nominal GNP	9 to 12
Real GNP	-1 1/2 to 1 1/2
GNP deflator	9 to 10 1/2
	level in fourth quarter
Unemployment rate	8 1/4 to 8 1/2

No forecast is given in the Humphrey-Hawkins report for 1982.

during 1982, quite similar to the FR staff forecast. The three-month Treasury bill rate in the Reagan forecast is expected to fall from 11.1 percent in 1981 to 8.9 percent in 1982.

Comparison of Outlay Assumptions and Projections

The $726 billion outlay forecast presented in the last Greenbook differs substantially from the $695.5 billion target recommended by the Reagan administration. Table 8 shows that this difference is due to assumptions regarding both the budget cuts and the economic outlook. The staff, for example, had assumed $25 1/2 billion in budget reductions from the current policy baseline in fiscal 1982, around $13 billion below the $41.4 billion target set by the Reagan administration. Differences in projected levels of unemployment and interest rates also boosted the staff's outlay total. These additions, however, were partially offset by the staff's assumption of a slightly lower level of military spending than was proposed by the President. In the current fiscal year, the staff had assumed slightly higher levels of spending for defense and interest than the new Administration but had also assumed larger fiscal year 1981 cuts in nondefense outlays.

Table 8

RECONCILIATION OF FR STAFF AND REAGAN OUTLAY PROPOSAL
(Billions of dollars; unified budget)

	Fiscal Years 1981	1982
Reagan Outlay Proposal	654.7	695.5
Difference due to Size of Assumed Nondefense Budget Cuts1/	-1.3	+13.1
Economic Assumptions		
Unemployment Compensation and Income Security	--	+ 5.0
Higher Interest Rates	+1.3	+13.4
Differences in Defense Outlays (Net)	+1.5	- 1.0
FR Staff Outlay Forecast	656.2	726.0

1/ A positive member implies that the staff estimate included less budget cuts than announced by the administration.

Comparison of Revenue Assumptions and Projections

On the receipts side of the budget, the differences between the Reagan and the January FR staff projections are relatively small as is shown in Table 9.

Table 9

RECONCILIATION OF FR STAFF AND REAGAN RECEIPTS PROPOSAL
(billions of dollars; unified budget)

	Fiscal Years	
	1981	1982
Reagan Receipts Proposals	600.2	650.5
Differences due to:		
Economic assumptions	+1.6	-12.1
Size of annual tax cut	-2.3	+ 6.6
FR Staff Receipts Forecast	599.5	645.0

For fiscal year 1981 there are only very minor differences due to either policy or economic assumptions. In 1982, $12 billion less receipts are generated by the lower nominal income growth forecast by the FR staff. This is partially offset, however, by the smaller tax cut assumed by the FR staff.

Economic Prospects with the Reagan Budget

The Reagan budget proposes both larger reductions in outlays and larger tax cuts then were assumed by the FR staff in January. Although the difference in the magnitude of outlay reductions exceeds the difference between the assumed tax cuts, the probable slow response of State and local governments to the reductions in grants implies that the fiscal impact of the Reagan budget proposal is slightly less restrictive than the FR staff assumptions.

Table 10 shows the economic forecast for 1981 and 1982 prepared for the January greenbook and the corresponding forecast (second columns for each year) if the Reagan budget proposals are substituted for the FR staff budget assumptions (monetary policy assumptions are the same in the two

Table 10

COMPARISON OF ECONOMIC CONSEQUENCES OF
FR STAFF AND REAGAN BUDGET PROJECTIONS
(Calendar years)

	1981			1982		
	Jan. FR Staff	Staff est. of Reagan 1/	Reagan budget	Jan. FR Staff	Staff est. of Reagan 1/	Reagan budget
Real GNP growth (percent, fourth quarter over fourth quarter)	.1	.1	1.4	.7	1.1	5.2
GNP deflator, percent change (fourth quarter over fourth quarter)	9.5	9.5	9.5	7.8	7.8	7.7
Unemployment rate (percent, fourth quarter)	8.5	8.5	7.7	9.0	8.8	7.0
Interest rate, 91-day Treas. Bills (percent)	16.2	16.2	11.1	17.0	17.4	8.9
Federal surplus, NIA budget	-71.2	-69.5	n.a.	-99.0	-100.2	n.a.

1/ Derived from a simulation of the Board's quarterly econometric model.

shown in the faster growth of real GNP in 1982--1.1 percent compared to 0.7 percent if the budget proections of the FR staff are assumed--and the lower rate of unemployment in the fourth quarter of 1982. Nevertheless, the growth of real GNP in 1982, assuming full implementation of the Reagan budget proposals, is forecast by the FR staff to be much slower than the 5.2 percent growth forecast by the Reagan administration. This difference in real growth rates is attributable to the effects of the much higher interest rates forecast by the FR staff.

If interest rates were to rise as forecast by the FR staff and real growth were to be constrained, outlays would rise and revenues would fall short of the Reagan Administration's projections. The unified budget deficit in fiscal 1982 would be approximately $75.5 billion in contrast to the deficit of $45 billion forecast by the new Administration.

The same issue pertains to fiscal 1983. The Administration projects a 12.4 percent rate of growth in nominal GNP in 1983 but a further decline in interest rates (an average 3-month Treasury bill rate of 7.8 percent) and in the growth rates of the monetary aggregates (about 3.8 percent growth in M1-A). On the basis of these economic assumptions, the Administration forecasts a reduction in the unified budget deficit to $22.9 billion, given full implementation of their budget plan including an additional $21 billion of outlay cuts beyond those resulting from the fiscal 1982 proposals. Clearly, either substantially higher interest rates and slower real economic growth or failure to achieve the additional spending cuts would jeopardize the reduction in the budget deficit.