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CLASS II - FOMC

February 4, 1983

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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THE DOMESTIC NONFINANCIAL ECONOMY

Auto sales

Sales of domestic autos remained near the 6 million unit (annual rate) level during January. Since November, domestic auto sales have averaged around a 6-1/4 million unit pace, compared with about a 5-1/2 million unit rate during much of 1982. Foreign-made autos sold at a 2.6 million unit annual rate in January, the same as in the preceding two months.

Employment, unemployment, and wages

Data for mid-January indicate a clear improvement in the job market. Nonfarm payroll employment rose 340,000; the bulk of the increase, however, occurred in retail trade and construction, and probably does not signal a sudden surge in labor demand. The swing in retail trade was exaggerated because pre-Christmas hiring late last year fell far short of seasonal expectations and, subsequently, there were fewer January layoffs. In addition, the unseasonably mild January weather may have boosted construction employment. In manufacturing, employment stabilized or rose slightly in most industries except machinery. The factory workweek, a leading indicator, jumped 3/4 hour from a very depressed December reading to 39.7 hours in January. The rise may be overstated, in part, because of the influence of the severe weather in January 1982 on the seasonal factors.

The household survey reported a sharp drop in unemployment in January, but little change in total employment. As a result, the civilian labor force fell 580,000, and the civilian unemployment rate dropped from 10.8 percent in December to 10.4 percent in January. An important reason for the decline was that unemployment due to job loss, on a not seasonally adjusted basis, rose less than usual over the month.

Beginning this month the BLS is reporting a new national unemployment rate that adds persons in the resident Armed Forces to employment and the labor force. Assuming little change in the size of the resident Armed Forces, this measure of joblessness will average 0.1 to 0.2 percentage point below the civilian rate. The staff projections are based on the civilian concept; the Administration forecast uses the national unemployment rate.

The index of average hourly earnings posted another moderate gain, 0.4 percent, in January. For the year ending last month, the rise in the index was 5-1/2 percent.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1982						1983
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Total	7.5	7.8	8.6	7.6	9.5	8.7	8.6
Foreign-made	2.0	2.2	2.5	2.3	2.6	2.6	2.6
U.S.-made	5.5	5.6	6.1	5.3	6.8	6.1	6.0
Small	2.5	2.6	2.8	2.3	3.3	2.9	n.a.
Intermediate & standard	3.0	2.9	3.3	2.9	3.6	3.3	n.a.

Note: Components may not add to totals due to rounding.

CHANGES IN EMPLOYMENT<1>
(Thousands of employees; based on seasonally adjusted data)

	1981	1982	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1982 Dec.	1983 Jan.
			-Average monthly changes-					
Nonfarm payroll employment<2>	-7	-176	-113	-155	-191	-244	-215	339
Strike adjusted	-8	-174	-111	-141	-195	-249	-220	340
Manufacturing	-40	-129	-119	-130	-119	-148	-52	29
Durable	-32	-100	-78	-96	-101	-126	-27	17
Nondurable	-8	-29	-41	-34	-18	-22	-25	12
Construction	-22	-18	-31	2	-19	-24	-42	115
Trade	16	-18	44	-20	-34	-62	-119	243
Finance and services	56	29	25	33	37	21	16	57
Total government	-26	-13	-19	-9	-23	-2	2	-88
Private nonfarm production workers	-8	-149	-90	-124	-152	-230	-175	379
Manufacturing production workers	-48	-110	-103	-109	-95	-131	-30	32
Total employment<3>	2	-49	-27	28	-46	-150	-43	10
Nonagricultural	25	-65	-76	27	-43	-166	12	9

<1> Average change from final month of preceding period to final month of period indicated.
<2> Survey of establishments. Strike-adjusted data noted.
<3> Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1981	1982	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1982 Dec.	1983 Jan.
Civilian, 16 years & older	7.6	9.7	8.8	9.4	10.0	10.7	10.8	10.4
Teenagers	19.6	23.2	22.0	22.7	23.8	24.3	24.5	22.7
20-24 years old	12.2	14.8	13.8	14.4	15.0	15.9	15.9	15.9
Men, 25 years and older	5.1	7.5	6.5	7.1	7.8	8.6	8.8	8.2
Women, 25 years and older	5.9	7.3	6.6	7.2	7.3	7.9	8.2	7.9
White	6.7	8.6	7.7	8.4	8.8	9.5	9.7	9.1
Black	14.2	17.3	16.0	17.0	17.7	18.6	18.8	19.0
Fulltime workers	7.3	9.6	8.6	9.2	9.8	10.6	10.8	10.3
Memo:								
Total National <1>	7.5	9.5	8.7	9.3	9.8	10.5	10.7	10.2

<1> Includes resident Armed Forces as employed persons.

HOURLY EARNINGS INDEX<1>
(Percentage change at annual rates;
based on seasonally adjusted data)<2>

			1982					1983
	1981	1982	Q1	Q2	Q3	Q4	Dec.	Jan.
Total private nonfarm	8.4	6.0	6.5	6.4	6.2	4.8	7.3	4.4
Manufacturing	8.8	6.2	8.7	6.6	6.4	3.0	3.2	5.5
Durable	8.8	6.1	9.0	6.2	7.5	1.7	1.1	7.0
Nondurable	8.7	6.3	8.2	7.3	4.3	5.4	6.7	2.9
Contract construction	8.1	5.0	9.0	2.3	3.4	5.2	24.5	.7
Transportation and public utilities	8.5	6.2	7.4	6.0	4.5	6.9	7.0	12.0
Total trade	7.1	4.9	3.8	6.4	4.5	4.8	3.0	1.7
Services	9.1	6.7	5.1	7.6	8.5	5.5	11.1	.1

<1> Excludes the effect of interindustry shifts in employment and fluctuations in overtime hours in manufacturing.
<2> Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are compounded annual rates; monthly changes are not compounded.

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1982					1983	QIV '81 to QIV '82	Jan. '82 to Jan. '83P
	Q2	Q3	Q4	Nov.	Dec.	Jan.P		
	--Percentage change at annual rates--							
Money stock measures								
1. M1	3.3	3.5	16.1	16.9	8.8	12.5	8.5	7.8
2. (M1)[2]	(4.5)	(4.6)	(14.4)	(17.5)	(8.9)	(5.5)	(8.5)	(7.9)
3. M2	9.5	9.8	8.9	11.6	7.6	30.5	9.8	11.4
4. M3	10.7	12.1	8.3	9.6	1.6	12.8	10.3	10.2
Selected components								
5. Currency	9.3	6.9	6.8	3.7	10.0	10.9	7.9	8.2
6. Demand deposits	-5.8	-1.4	11.9	10.7	10.1	-3.0	1.0	0.2
7. Other checkable deposits	19.6	11.4	41.2	52.2	7.1	50.9	33.7	30.2
8. M2 minus M1 (9+10+11+14)	11.5	11.7	6.7	9.8	7.1	36.3	10.2	12.5
9. Overnight RPs and Eurodollars, NSA[3]	-8.4	15.2	23.8	31.3	-40.7	76.3	24.8	12.3
10. General purpose and broker/dealer money market mutual fund shares, NSA	21.4	31.7	9.9	16.3	-58.5	-112.2	26.4	3.9
11. Commercial banks	17.2	12.2	8.5	9.1	33.2	103.6	12.3	23.2
12. savings deposits, SA, plus MMDAs, NSA[4]	2.0	-9.7	35.0	35.4	170.5	486.3	9.0	65.6
13. small time deposits	23.8	21.3	-1.7	-0.9	-21.8	-75.9	13.8	4.5
14. Thrift institutions	6.0	6.4	3.6	7.4	6.9	16.0	4.5	6.4
15. savings deposits, SA, plus MMDAs, NSA[4]	0.6	-7.8	32.6	31.0	89.6	250.6	8.9	35.7
16. small time deposits	8.1	11.7	-6.8	-1.4	-24.9	-83.2	2.8	-4.8
17. M3 minus M2 (18+21+22)	16.9	23.8	5.6	0.3	-27.0	-75.3	12.9	4.5
18. Large time deposits	19.1	19.6	0.4	-7.4	-27.1	-82.6	12.5	2.4
19. at commercial banks, net[5]	19.9	21.4	-6.2	-20.2	-35.0	-91.0	10.6	-0.4
20. at thrift institutions	15.5	11.5	30.4	49.2	5.5	-48.9	21.2	14.6
21. Institution-only money market mutual fund shares, NSA	15.2	104.0	31.1	13.4	-58.3	-52.9	40.1	26.8
22. Term RPs, NSA	6.2	-25.7	28.8	84.3	3.6	-7.1	-5.7	2.8
	--Average monthly change in billions of dollars--							
MEMORANDA:								
23. Managed liabilities at commercial banks (24+25)	6.3	1.6	-4.1	-4.1	-13.8	-37.2	2.3	-22.5
24. Large time deposits, gross[6]	5.8	5.7	-6.5	-7.0	-13.4	-28.2	2.9	-5.5
25. Nondeposit funds[6]	0.5	-4.1	2.4	2.9	-0.4	-9.0	-0.6	-17.0
26. Net due to related foreign institutions, NSA[6]	0.4	-4.4	-0.8	3.0	-2.9	-14.3	-1.7	-30.3
27. Other[6,7]	0.1	0.3	3.2	-0.1	2.5	5.2	1.1	13.2
28. U.S. government deposits at commercial banks[8]	-2.5	0.2	0.3	-3.8	1.7	4.0	0.0	2.1

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.
2. M1 seasonally adjusted using alternative model-based procedure applied to weekly data.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers. Excludes retail RPs, which are in the small time deposit component.
4. Beginning December, 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Savings deposits excluding MMDAs declined at commercial banks at annual rates of 20.5 percent in December and 74.4 percent in January. At thrift institutions, savings deposits excluding MMDAs declined during December and January at annual rates of 11.5 percent and 63.5 percent, respectively.
5. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
6. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to September 1982.
7. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
p--Preliminary.
n.a.--not available.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1982						QIV '81 to QIV '82
	Q2	Q3	Q4	Oct.	Nov.	Dec.	
			--Commercial Bank Credit--				
1. Total loans and investments at banks[2,3]	8.0	5.8	6.3	6.8	1.5	10.5	7.8[4]
2. Investments[3]	4.7	4.8	15.9	12.1	9.0	26.1	6.5
3. Treasury securities	4.9	8.3	43.0	41.6	40.2	42.7	13.5
4. Other securities[3]	4.8	3.0	2.5	-2.5	-7.1	17.3	3.1
5. Total loans[2,3]	9.1	6.2	3.0	4.9	-1.0	5.1	8.2
6. Business loans[2,3]	15.0	9.0	-.2	6.7	-7.3	.0	11.7
7. Security loans	-26.8	63.6	37.2	85.0	-39.7	66.7	15.9
8. Real estate loans	6.6	2.8	4.9	3.6	4.4	6.4	5.9
9. Consumer loans	2.8	3.0	4.6	2.5	1.9	9.5	3.3
			--Short- and Intermediate-Term Business Credit--				
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)[3]	13.2	9.2	n.a.	-1.5	-9.9	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	15.9	9.0	.6	6.6	-4.5	-.3	12.1
12. Commercial paper issued by nonfinancial firms[5]	16.8	-6.0	-59.9	-71.4	-69.4	-48.4	1.0
13. Sum of lines 11 & 12[3]	16.0	7.0	-7.1	-3.4	-12.6	-5.6	10.7
14. Line 13 plus loans at foreign branches[3,6]	15.8	8.3	-7.3	-3.5	-12.9	-5.6	11.3
15. Finance company loans to business[7]	1.5	15.8	n.a.	-5.7	-24.4	n.a.	n.a.
16. Total bankers acceptances outstanding[7]	10.2	6.6	n.a.	14.7	27.4	n.a.	n.a.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to September 1982.
4. Growth of bank credit from the FOMC's December-January base through the fourth quarter of 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 7.1 percent. Adjusted for such shifts after January, growth over this period was 7.6 percent.
5. Average of Wednesdays.
6. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
7. Based on average of current and preceding ends of month.
n.a.--Not available.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981 highs	1982 FOMC Oct. 5	1982 FOMC Dec. 21	1983 Feb. 3	Change from: FOMC Oct. 5	Change from: FOMC Dec. 21
Short-term rates						
Federal funds[2]	20.06	10.77	8.69	8.53	-2.24	-.16
Treasury bills						
3-month	17.01	8.14	7.90	8.15	.01	.25
6-month	15.93	9.18	8.01	8.30	-.88	.29
1-year	15.21	9.66	8.11	8.34	-1.32	.23
Commercial paper						
1-month	18.63	10.23	8.48	8.38	-1.85	-.10
3-month	18.29	10.42	8.43	8.43	-1.99	0
Large negotiable CDs[3]						
1-month	18.90	10.33	8.59	8.47	-1.86	-.12
3-month	19.01	10.72	8.62	8.64	-2.08	.02
6-month	18.50	10.98	8.78	8.86	-2.12	.08
Eurodollar deposits[2]						
1-month	19.80	11.23	9.44	9.06	-2.17	-.38
3-month	19.56	11.59	9.56	9.35	-2.24	-.21
Bank prime rate	21.50	13.50	11.50	11.00	-2.50	-.50
Treasury bill futures						
Mar. 1983 contract	14.20	8.93	7.85	8.24	-.69	.39
Sept. 1983 contract	14.07	10.56	8.63	8.82	-1.74	.19
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	11.62	9.87	10.02	-1.60	.15
10-year	15.84	11.69	10.54	10.93	-.76	.39
30-year	15.21	11.81	10.53	11.06	-.75	.53
Municipal (Bond Buyer)	13.30	10.48[4]	10.05[4]	9.74	-.74	-.31
Corporate--Aaa utility Recently offered	17.72	13.27e	11.96e	12.30p	-.97	.34
S&L fixed-rate mortgage commitment	18.63	15.13[5]	13.63[5]	13.10[5]	-2.03	-.53

	1981 highs	1982 FOMC Dec. 21	1983 Feb.3	Percent change from: 1981 highs	Percent change from: FOMC Dec. 21
Stock Prices					
Dow-Jones Industrial	1,024.05	1030.26	1064.66	4.0	3.3
NYSE Composite	79.14	79.74	83.26	5.2	4.4
AMEX Composite	380.36	328.48	360.65	-5.2	9.8
NASDAQ (OTC)	223.47	228.52	249.44	11.6	9.2

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.
p--preliminary. e--estimated.

APPENDIX*

THE FEDERAL BUDGET

I. Introduction

The Administration's federal budget proposals for fiscal years 1983 to 1988 were formally presented to Congress on January 31. The projected budget deficits shown in Table 1 are of unprecedented size and, consequently, the Administration has included a substantial amount of deficit-reducing measures in its proposals. In the following section, current services estimates of outlays, receipts, and the deficit are presented. In the final section, Administration proposals to reduce the current services deficit and change the composition of outlays are discussed.

II. Current Services Budget

In order to provide a base against which budgetary alternatives may be assessed, it is useful to have a benchmark that represents what might happen to the budget if no changes in current laws or policies were made. The "current services" budget provides such a baseline. In the construction of this budget, the effects of projected inflation on receipts and outlays are generally taken into account. In the case of discretionary (non-entitlement) programs, as well as formally indexed programs, cost estimates are usually raised to provide maintenance of the program levels in real terms. In budget projections prior to last year's, the current services budget always showed a tendency to move quickly into surplus. Revenue growth, due to the combination of relatively high tax rates and a progressive rate structure applied to nominal incomes, outpaced growth of outlays even though these outlays were raised in pace with forecast inflation. In contrast, this year's (as well as last year's) estimates project rising current services deficits because the Economic Recovery Tax Act of 1981 has sharply reduced the level and growth path of taxes, relative to what they otherwise would have been by lowering personal tax rates and indexing the individual income tax structure for inflation (in 1985); these tax reductions substantially outweigh the tax increases enacted last year. The lowering of current services receipts has not been matched on the outlay side by reductions in the growth of indexed programs providing benefit, health, and retirement entitlements. Moreover, the Administration has specified current services outlays to include the sizable increases in defense spending that are thought necessary to achieve "adequate" levels.

The Administration's current services budget for fiscal years 1983 to 1988 is presented in Table 2, and the underlying economic assumptions are found in Table 3. Between FY1983 and FY1988, current services revenues and outlays are a roughly constant percentage of GNP, although some narrowing of the gap between outlays and revenues occurs in 1988.

*Prepared by Darrel Cohen, Economist, Government Finance Section, Division of Research and Statistics.

Consequently, the total current services deficit hovers around 7 percent of GNP through FY1987 and then falls to 6.4 percent in FY1988. In dollar terms, however, the deficit increases each year from its level in FY1983 over the projection horizon, as outlays and receipts both grow at an average annual growth rate of around 9 percent. In the absence of subsequent and substantial policy changes, the 1983-1988 deficits would be the largest in post-war history, both in absolute terms and as a percentage of GNP. Indeed, by virtually any calculations (in particular, those of the Congressional Budget Office as well as those of the Administration, shown in Table 4), the current services deficit would be large even if it were evaluated at high employment levels of real activity. As a result, the Administration has proposed substantial deficit-reducing measures.

III. Budget Initiatives

The Administration's deficit reducing initiatives are summarized in Table 5. In fiscal years 1984 and 1985, taxes are increased primarily through the social security plan recently proposed by the Presidential Commission on Social Security Reform. This plan calls for (1) the acceleration of scheduled increases in the Old Age and Survivors and Disability Insurance (OASDI) payroll tax rate, (2) an increase in the self-employment OASDI payroll tax rate (with one-half of total taxes paid allowed as a business cost deduction), (3) expansion of coverage to all new federal civilian employees and employees of non-profit organizations, and (4) taxation of one-half of social security benefits for single taxpayers with more than $20,000 of income from non-social security sources ($25,000 for married couples filing joint return). In addition, there are proposals to tax employees on employer-paid health insurance premiums above a specified level and to increase employee contributions to civil service retirement. A few small tax-reducing measures are also proposed such as a tuition tax credit, a jobs tax credit, and enterprise zone tax incentives.

Although these tax proposals continue to grow in dollar magnitude through FY1988, they have, in total, less than half the budget impact of the "contingency tax" plan over the period FY1986 to FY1988. This plan—proposed for enactment in 1983—consists of a 5 percent surcharge on individual and corporate income taxes, plus an excise tax on both domestic and imported oil of $5 per barrel. Together, these would total slightly less than one percent of GNP. Such contingency taxes would become effective at the start of fiscal year 1986 only if (1) Congress adopts the Administration's other deficit reduction measures; (2) if the unified deficit for fiscal year 1986 is forecasted by the Administration, on July 1, 1985, to be above 2.5 percent of GNP; and (3) the economy is growing at that time. The plan would remain in effect for a maximum of three years.

Outlay reductions (relative to a current services baseline including adequate defense) are much larger than the tax increases in fiscal years 1984 and 1985 but—due to the contingency tax plan—are roughly the same order of magnitude in fiscal years 1986 to 1988. Major outlay savings are proposed through a 6-month postponement (starting

July 1983) of cost-of-living increases for social security and related indexed programs and elimination of any increase in federal pay (including military) and retirement in FY1984. Outlay savings roughly comparable in magnitude result from an aggregate one-year "freeze" on discretionary domestic programs (although some programs such as law enforcement, highway construction, and training and employment services are increased and others are reduced). Savings would also be achieved in the defense area; somewhat smaller savings are proposed to be implemented through structural reform of entitlement and transfer payments focused on health care and means-tested benefits (that is, welfare, foodstamps, and medicaid).

The Administration's proposed budgets, which include the effects of these receipt and outlay initiatives, are shown in Table 1. Outlays in nominal terms are projected to grow at an average annual rate of 7 percent between FY1983 and FY1988; this is below the 9 percent growth rate of current services outlays and the 12 percent rate over the decade prior to 1982. In real terms, outlays grow at a 5 percent rate in FY1983, remain constant in FY1984 and grow at about a 2.5 percent annual rate thereafter; this contrasts with the 4 percent average annual rate experienced over the past decade. In addition, the composition of outlays is changed.

Between FY1983 and FY1986 defense spending rises from one-quarter to one-third of the budget. Social security, medicare, and net interest outlays each show very little change and together rise from about 39 to 40 percent of the budget. All other programs fall as a share of the budget. Indeed, in FY1984, they decline in nominal terms (even after disregarding the fall in unemployment compensation outlays expected as the economy starts to recover); a large part of the decline is attributable, however, to assumed lower payments for farm price supports. In contrast, these programs increased by 5 percent in FY1983, again without unemployment compensation.

Budget receipts are projected to grow at an average annual rate of 11 percent between FY1983 and FY1988, exceeding the 9 percent growth rate of current services receipts. The projected rate of 11 percent is roughly the same as the rate that occurred during the past decade. This growth over the past decade has been associated with rising social insurance contributions and individual income taxes as a share of total receipts and with a declining share accounted for by corporate income taxes. In contrast, in the new proposals social insurance contributions and individual income taxes together are projected to remain a roughly constant share of total receipts (as the effect of personal income tax cuts are roughly offset by the contingency income tax surcharge and future payroll tax increases) and corporate income taxes are projected to rise as a share of total receipts between FY1983 and FY1988 (and, indeed, stay constant between FY1984 and FY1988). This reflects the projected increase in the share of corporate profits that is normally associated with economic recovery.

Congressional Budget Office Report

The Congressional Budget Office released its annual reports, The Outlook for Economic Recovery and Baseline Budget Projections for Fiscal Years 1984-88 on February 3. The CBO anticipates slightly stronger growth of real GNP in 1983 and 1984 (2.1 and 4.7 percent, respectively) than does the Administration and is slightly more optimistic about the prospects for inflation (4.6 and 4.7 percent, respectively). The CBO budget baseline also differs from the Administration's current services budget because CBO projects defense outlays on the basis of Congressional policy, which implies slower growth in defense spending. The budget deficits projected by CBO are shown in Table 4.

Table 1

Administration Unified Budget Proposal
(fiscal years)

	1983	1984	1985	1986	1987	1988
---Billions of dollars---						
Revenues	597.5	659.7	724.3	841.9	916.3	1010.3
Outlays	805.2	848.5	918.5	989.6	1058.4	1126.9
On-budget Deficit	270.7	188.8	194.2	147.7	142.1	116.6
Off-budget Outlays	17.0	14.0	10.5	9.5	9.6	9.2
Combined Deficit	224.8	202.8	204.7	157.1	151.7	125.8
---Percent of GNP---						
Revenues	18.7	18.9	19.0	20.3	20.3	20.7
Outlays	25.2	24.3	24.1	23.9	23.5	23.0
On-budget Deficit	6.5	5.4	5.1	3.6	3.2	2.4
Off-budget Outlays	0.5	0.4	0.3	0.2	0.2	0.2
Combined Deficit	7.0	5.8	5.4	3.8	3.4	2.6

Note: Details may not add to totals due to rounding.
Source: Budget of the United States Government, Fiscal Year 1984.

Table 2

Current Services Budget
(fiscal years)

	1983	1984	1985	1986	1987	1988
			Billions of dollars			
Revenues	597.5	648.8	713.3	780.9	849.1	926.7
Outlays	806.1	880.3	966.4	1051.7	1140.8	1227.0
On-budget Deficit	208.6	231.5	253.1	270.8	291.7	300.3
Off-budget Outlays	16.9	17.1	14.2	13.6	16.4	15.1
Combined Deficit	225.5	248.6	267.3	284.4	308.1	315.4
			Percent of GNP			
Revenues	18.7	18.6	18.7	18.8	18.8	18.9
Outlays	25.2	25.2	25.4	25.4	25.3	25.1
On-budget Deficit	6.5	6.6	6.7	6.5	6.5	6.1
Off-budget Outlays	0.5	0.5	0.3	0.3	0.4	0.3
Combined Deficit	7.1	7.1	7.0	6.9	6.9	6.4

Note: Details may not add to totals due to rounding.
Source: Budget of the United States Government, Fiscal Year 1984.

Table 3

Projections of Economic Activity[1]
(calendar year)

	1983	1984	1985	1986	1987	1988
Gross National Product						
current dollars:						
Amount ($ billions)	3262	3566	3890	4232	4599	4995
Percent change (year over year)	6.7	9.3	9.1	8.8	8.7	8.6
constant dollars:						
Amount ($ billions)	1496	1555	1617	1682	1749	1819
(year over year)	1.4	3.9	4.0	4.0	4.0	4.0
Prices (percent change)						
GNP deflator (year over year)	5.2	5.2	4.9	4.6	4.5	4.4
CPI (year over year)	4.9	4.6	4.6	4.6	4.5	4.4
Unemployment rate (percent)						
Yearly average	10.7	9.9	8.9	8.1	7.3	6.5
Interest rate, 91-day Treasury (calendar average)	8.0	7.9	7.4	6.8	6.5	6.1

1. The Administration numbers for 1983 and 1984 represent forecasts for that period while those for 1985 to 1988 are not forecasts but projections consistent with economic policy objectives that assume steady progress in reducing unemployment, inflation, and interest rates.

Source: <u>Budget of the United States Government, Fiscal Year 1984</u>.

Table 4

Estimates of Combined Deficit and High Employment Deficit, Current Services Basis
(billions of dollars, fiscal years)

	1983	1984	1985	1986	1987	1988
Administration Estimates:						
Combined (Unified plus off-budget) Deficit	225	249	267	284	308	315
High Employment Deficit[1,3] (Combined)	154	181	210	243	284	306
CBO Estimates:						
Unified Deficit	194	197	214	231	250	267
Combined Deficit	210	212	231	250	267	284
Standard-Employment Deficit[2,3] (unified)	69	91	128	159	187	215

1. Assumes 6-1/2 percent benchmark unemployment rate.
2. Assumes 6 percent benchmark unemployment rate.
3. High employment budget estimates shown in the Federal Sector Accounts table in Part 1 of the Greenbook are on a NIPA basis and reflect staff assumptions of policy changes from a current services baseline.

Sources: Budget of the United States Government, Fiscal Year 1984 and Congressional Budget Office, The Outlook for Economic Recovery.

Table 5

INITIATIVES PROPOSED IN THE ADMINISTRATION'S FY1984 BUDGET
(Fiscal years, billions of dollars)

	1983	1984	1985	1986	1987	1988
Current Services Baseline Deficits	-208.5	-231.5	-253.1	-270.8	-291.7	-300.4
Outlay Reductions:						
1a. Freeze on 1984 COLAs in federal civilian pay and indexed transfers[1]		8.9	11.8	12.6	13.6	14.4
1b. Freeze in 1984 on the total of discretionary domestic programs		6.2	10.0	12.8	16.5	20.8
2. Health care and "means-tested" entitlements changes		3.3	5.8	7.4	9.4	11.6
3. Defense		8.4	8.1	9.2	10.4	11.0
4. Interest		2.0	6.1	12.5	22.1	32.9
5. Other (net)		3.0	6.1	7.6	10.3	9.4
Total Outlay Reductions	0.8	31.8	47.9	62.1	82.3	100.1
Receipts Increases:						
6. Social security[1]		8.2	5.8	8.9	10.7	22.3
7. Taxation of health insurance premiums		2.3	4.4	6.0	8.0	10.7
8. Contributions to federal retirement		1.2	2.3	2.1	1.9	1.7
9. Other		-0.8	-1.5	-2.0	-2.3	-2.5
Subtotal	0.0	10.9	11.0	15.0	18.3	32.2
10. Contingency plan		—	—	46.0	49.0	51.4
Total Receipts Increase	0.0	10.9	11.0	61.0	67.3	83.6
Total Deficit Reducing Measures	0.8	42.7	58.9	123.1	149.6	183.7
Deficits in Proposed Budget	-207.7	-188.8	-194.2	-147.7	-142.1	-116.7

Footnotes follow on next page.

Source: Budget of the United States Government, Fiscal Year 1984.

1. Current services plus "adequate defense" defined as the defense outlays proposed by the Administration in 1982.

2. Excludes effects of the military pay freeze. The indexed transfer payment programs affected by the one-year freeze on COLAs include Social Security (following the *Commission report proposal*), Supplemental Security Income (SSI), nutrition programs (principally food stamps and school lunches), and veterans benefits. The total deficit reductions resulting from all the Social Security proposals are $12.2 billion, $10.0 billion, $13.6 billion, $15.8 billion, and $27.7 billion in fiscal years 1984 through 1988, respectively.

3. Some specific programs are increased (e.g., law enforcement, prevention of drug abuse, Head Start, and highway construction) and others are reduced.

4. Changes in medicare and medicaid intended to contain cost increases and changes in food stamps, AFDC, SSI, and child nutrition programs.

5. Includes effects of military pay and retirement proposals as well as other cost reductions.

6. Interest cost savings resulting from lowering the deficits from current services levels.

7. Principally tuition tax credit, jobs tax credit, and enterprise zone tax incentives.