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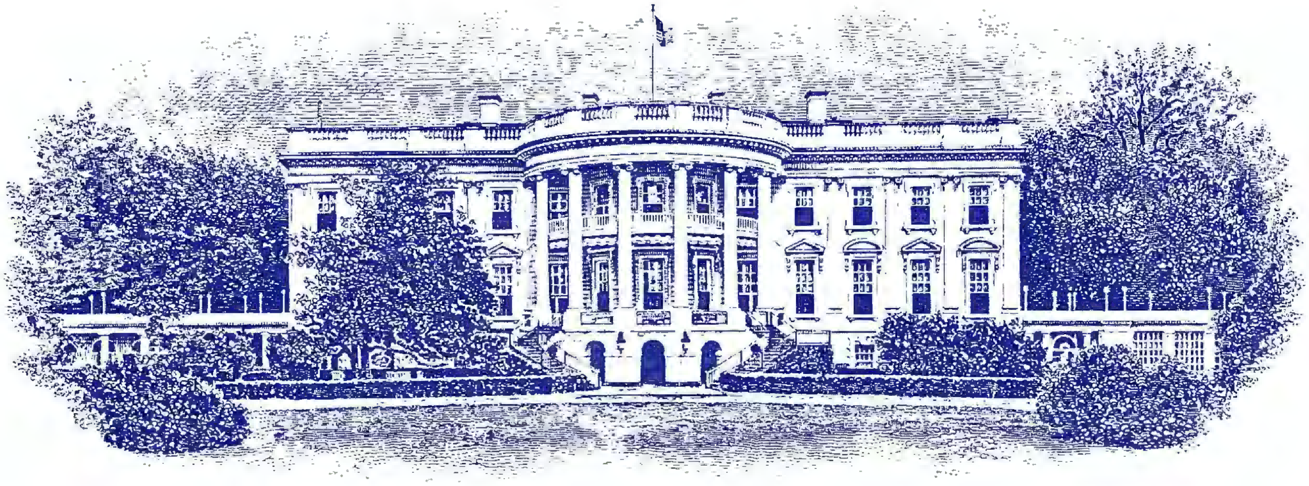

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

A REPORT TO THE PRESIDENT

SUBMITTED TO THE EXECUTIVE COMMITTEE FOR CONSIDERATION AT ITS MEETING ON JANUARY 15, 1984

VOLUME II OF II

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> I place economy among the first and most important virtues, and public debt as the greatest of dangers to be feared. To preserve our independence, we must not let our rulers load us with perpetual debt... If we can prevent the government from wasting the labor of the people, under the pretense of caring for them, they will be happy.
>
> -- Thomas Jefferson

In establishing PPSS, the President drew not only upon his experience as Governor of California, but on a rich tradition of public-private partnership as well, as evidenced by such historical precedents as the Taft Commission on Economy and Efficiency (1910-1912), the Brownlow Committee (1936-1937), Hoover I (1947-1949) and Hoover II (1953-1955), the Ash Council (1969-1971), and the Carter Reorganization Project (1977-1979).

Q: Why did President Reagan decide to establish the President's Private Sector Survey on Cost Control?

A: The President has always had a long-standing philosophical commitment to the goal of conducting the affairs of Government according to principles of sound business and fiscal management, to reducing and ultimately eliminating the public debt, and to ensuring the worth and dignity of the people by guaranteeing that their labors will be both productive and fruitful.

Faced with an operating budget that exceeded revenues by $500,000 daily when he became Governor of California, Ronald Reagan asked leading representatives of the private sector to undertake a review of state operations for the purpose of identifying waste, inefficiency, overlap, and duplication. That effort was successful, with then Governor Reagan convinced that the methodologies of the private sector could be effectively applied to the many aspects of government operations.

Fifteen years later as President and faced with a national debt of $1.25 trillion and no sign that rampant Government spending would abate in the near future, he announced, on February 17, 1982, the establishment of the President's Private Sector Survey on Cost Control. On June 30, 1982, he signed Executive Order 12369 formalizing its mandate and objectives.

Q: What makes the private sector particularly qualified to undertake such a huge and challenging endeavor?

A: Private sector management is driven by the need to ensure the enterprise's continued economic survival. This is a precondition for profit or any other measure of success and the satisfaction of this precondition requires constant attention to managerial efficiency and the effective use of resources in a competitive arena. The unforgiving tests of both the balance sheet and the marketplace must be met. Failure to meet the demands of either will, in time, bring the enterprise to an end, with the attendant consequences not only to management but to the investors, employees, suppliers, customers, and the community as well. In short, the private sector cannot operate with a continuing and growing deficit. Failure to operate efficiently and to ensure a satisfactory return to investors will cause the private sector enterprise to fail, with devastating effects on all its components -- particularly its employees.

Government has no such incentive to survive, let alone succeed, nor any such test to meet. The Government, unlike private sector enterprise, is not normally managed as if it were subject to the consequences of prolonged managerial inefficiency or persistent failure to control costs. Such consequences have historically been avoided in the public sector -- or, more accurately, postponed -- by Government's propensity to increase tax revenues, engage in deficit spending, and spend yet more money on failed programs with the result of masking their ineffectiveness.

The members of the President's Private Sector Survey on Cost Control (PPSS) believe that the disciplines necessary for survival and success in the private arena <u>must</u> be introduced into Government to a far greater degree than previously has been the case. It is that belief which motivated the PPSS effort. A government which cannot efficiently manage the people's money and the people's business will ultimately fail its citizenry by failing the same inescapable test which disciplines the private sector: those of the competitive marketplace and of the balance sheet.

Q: But aren't there critical and fundamental differences between the goals and objectives of the public sector and those of the private sector?

A: Participants in PPSS recognized that the public sector performs roles which have no counterpart in the business community or, indeed, anywhere in the private sector. There are obviously <u>unique</u> Government functions involving such things as safeguarding the personal security and well-being of the people, the administration of justice, and the provision of numerous public services which cannot be strictly subjected to the same tests as in the private sector. The Survey, therefore, focused much of its attention on those critical factors which have a <u>comparable</u> impact upon both the management of Government and the management of the private sector, such as human resources management, fiscal management and control, procurement, automated data processing, etc. Indeed, in many ways, the Federal Government <u>is</u> the world's largest conglomerate -- the largest power producer, insurer, lender, borrower, hospital system operator, landowner, tenant holder, holder of grazing land, timber seller, grain owner, warehouse operator, shipowner, and tank fleet operator.

In addition, the Executive Committee and other participants in PPSS represented both the for-profit and the not-for-profit sectors. As a consequence, the managerial views and perspectives of those whose primary objective is profit maximization were combined with those whose primary objective is the delivery of goods and services within identified constraints of survivability and efficiency, but where profit maximization is not the principal goal.

Q: When you talk about PPSS and the "private sector," exactly what do you mean?

A: PPSS was guided and directed in its survey by a 161-member Executive Committee, under the Chairmanship of J. Peter Grace. The 161 members of the Executive Committee, most of whom also served as Co-chairs of the Survey's individual Task Forces, constitute a major segment of the business leadership of the United States. About 80 percent are either chairmen, presidents, chief executive officers or chief operating officers of the Nation's leading corporations. The rest are principals of top law, accounting, investment and management consulting firms; former high-level Government officials; the heads of foundations and trade associations; and leaders from other private sector fields, including education, medicine, labor, and the media.

Among the Executive Committee members are representatives of:

- o about a quarter of the _Fortune_ top 100 companies;
- o nearly a third of the top 50 commercial banks, including the five largest;
- o the three largest insurance firms;
- o three of the top ten diversified financial services firms;
- o three of the top 30 retailers;
- o the largest transportation company; and
- o the largest advertising agency.

In addition to the Executive Committee, over 2,000 individuals participated in the Survey as Task Force members, Survey Management Office personnel, or PPSS advisors. A total of over 850 corporations, professional firms, and other private sector organizations contributed people, money, and/or services and equipment to the fulfillment of the President's mandate. A list of these participants is included at the end of this Report.

Because the numbers were so large, so varied in the skills represented, and stem from so many private sector sources, it seems safe to say that there is very little in the way of economic, social, financial, and managerial capabilities and experiences which did not exist somewhere in the Survey's reservoir of talent.

Q: What criteria were used for selecting Executive Committee members? Was it really a nonpartisan effort?

A: The President and the Chairman of the Executive Committee sought those individuals who had proven ability to effectively and efficiently manage their own enterprises -- whether for-profit or not-for-profit. They sought and succeeded in recruiting the top business and managerial talent in America and asked those individuals to work like "tireless bloodhounds" in identifying waste and inefficiency in the Federal Government. Political affiliation was not a consideration for membership on the Executive Committee, nor was it a consideration in selecting PPSS Task Force members, Management Office personnel, etc. Instead, recruitment efforts were concentrated on finding "the best and the brightest" in the private sector, people who were willing to serve and provide needed resources and who could bring these resources and expertise to Washington in what was probably the most extensive, far-reaching demonstration of the public-private partnership to date.

Q: What about conflicts of interest?

A: Obviously, a private sector study on cost control and managerial efficiency in the Federal Government needed the help of private citizens who possessed the experience and the capacity to understand the processes of the Federal Government, analyze them intelligently, and recommend operational improvements in response to the President's mandate. Because of this understandable need to call upon people knowledgable in the functions to be studied, the Survey was highly sensitive to possible conflicts of interest and took every reasonable step to avoid them, including the establishment of internal rules and standards that went beyond the requirements of the law. It is the Survey's view that it brought the best expertise of the private sector into the public analysis of Government, while avoiding compromise of the public trust.

Specifically, all members of the Executive Committee were cleared for appointment to that Committee by the White House Office of Legal Counsel. In addition, members of the Executive Committee who were asked to serve as Co-chairs of individual Task Forces were cleared for those assignments, not only by the White House Office of Legal Counsel, but also by the respective departments and agencies. In addition, Task Force members, who were not subject to the same conflict of interest statutes as were appointees to the Executive Committee, were subjected to an internal review for purposes of identifying and, if necessary, eliminating any potential or perceived conflicts of interest.

Q: What specifically did the President ask the private sector to do?

A: Specifically, the President directed PPSS "to conduct a Private Sector Survey on Cost Control in the Federal

Government and . . . advise the President and the Secretary of Commerce, and other Executive Agency Heads, with respect to improving management and reducing costs."

PPSS's mandate, as stated by the President in those broad terms, was to review the operations of the entire Executive Branch of Government and to bring the experience and expertise of the private sector to bear on the management practices of the Federal Government. In a word, the President asked the PPSS Executive Committee to look at the component parts of the Executive Branch of Government with the same degree of detail and consideration with which a private company would consider a new acquisition.

Q: Given the size and complexity of the Federal Government, how did PPSS structure and organize such a massive undertaking by the private sector?

A: The first task was to divide the challenge into manageable pieces. Specifically, 36 Task Forces were established for purposes of reviewing some 98 percent of the Federal dollars and 100 percent of the Federal work force. Of the 36 Task Forces, 22 focused on specific departments and agencies and 14 were horizontal, cross-cutting Task Forces. In some instances, more than one Task Force was assigned a department or agency and in other instances a Task Force looked at a collection of departments and agencies (for example, those specifically focusing on business, banking, etc.). The horizontal, cross-cutting Task Forces focused on those issues which cut across all of Government, such as personnel, procurement, automated data processing, etc. In addition, the Survey Management Office issued a series of Selected Issues Reports on topics not covered by the Task Forces because of limited time and resources or, in some instances, on topics of sufficient import to warrant further study and a separate report.

Particular attention was devoted to coordinating the efforts of the Task Forces, so that overlap and duplication would be minimized and consistency ensured. Each Task Force was co-chaired by two or more members of the Executive Committee and had a full-time, Washington-based project manager who oversaw the day-to-day operations of the Task Forces.

Q: What did the Task Forces do?

A: Task Forces ranged in size from 20 to 90 members and divided their review of departments and agencies into four distinct phases: organization and start-up, diagnostic survey, in-depth survey, and report preparation.

The work of the Task Forces was monitored and coordinated by the Survey Management Office. Reporting to the Chairman, the Management Office consisted of a Director, Deputy Director (the sole Government employee designated as the Government liaison by the White House), Chief Operating Officer, and a staff of about 50 office personnel. Of particular importance were 12 "desk officers," most of whom were senior Washington-based executives with broad experience in working with the Federal Government. Each desk officer was responsible for the orientation of three to four Task Forces, guiding their efforts toward the most productive areas of review; coordinating planning and communications, monitoring progress, and assuring the quality of final Task Force reports. The work of this group supplemented and expanded upon that of a Government resources group, which included the Inspectors General offices, the Office of Management and Budget (OMB), the General Services Administration, and the Assistant Secretaries for Management. These two groups acted as a bridge between members of the Task Forces and the departments and agencies they reviewed.

Q. What was PPSS's focus -- operations or policy?

A: It was not the principal purpose of PPSS to examine basic public policy, which reflects the major goals of the people as expressed through the democratic process. For example, PPSS did not focus on whether the Federal Government should concentrate its resources on defense, education, highways, health and welfare, or nutrition, nor did it address the question of what priority should be accorded each of these endeavors. PPSS concentrated, instead, on overall Government operations as distinguished from policy but included an examination of the execution of policy. Its primary concern was the degree of efficiency in the expenditure of tax resources and whether those expenditures achieved the desired public purpose at an acceptable cost through workable mechanisms and organizations equipped with the proper tools.

In carrying out its investigation, therefore, PPSS concentrated first and foremost on operations. At times, however, it was extremely difficult to draw a precise line clearly separating operations and policy. Indeed, there were numerous instances where a very significant overlap existed between operations and policy, with Task Forces unable to look at one without the other. It is interesting to note that many of the historical initiatives which preceded PPSS, particularly Hoover I and Hoover II, also found it difficult to make this differentiation. During the past decade, the separation of operations from policy has become even more difficult as policies have become more complex and as their administration has become more highly regulated.

Q: How were you received by the departments and agencies and by OMB? Wasn't PPSS, in effect, telling them they had not done their job properly and being critical of them simply by virtue of its presence?

A: The members of PPSS found a welcomed degree of receptivity in the departments and agencies. In addition, OMB was helpful in providing background data and continuing guidance to the members of the Task Forces.

The fact of the matter is that the press of business, at both the departments and agencies and OMB, simply precludes an in-depth, comprehensive survey, such as that conducted by PPSS. That certainly does not mean that the departments and agencies and OMB are not doing their job; it simply means that because of immediate needs departments and agencies and OMB find it difficult to address more than the issues "of the moment." Additionally, the value derived from a "fresh look" by outsiders with the capability to evaluate and recommend adoption of proven and cost effective private sector systems, techniques, and management tools could not be realized by an "in house" study.

The cooperative spirit which PPSS received from departments and agencies is demonstrated by the Central Intelligence Agency (CIA), which PPSS did not review. Following the completion of the Task Force reviews, the CIA contacted the Survey Management Office and asked for a listing of cross-cutting issues which might be applicable to the Agency, since it, too, wished to undertake an internal review based on PPSS findings.

In addition, a General Accounting Office report on PPSS noted:

Most agency contacts viewed the task forces as positive attempts to identify cost savings. They generally viewed task force members as very talented experts who provided free advice and an objective view point. Given these perceptions, most agencies surveyed were willing to help the task forces and had an open mind on the findings.

Q: The Task Force reports contain some very precise calculations with respect to cost savings, revenue generation, and cash acceleration. How were these calculations derived and aren't the numbers duplicated in some instances?

A: A series of guidelines were provided to all of the Task Forces for purposes of standardizing calculations. Some of these guidelines were specifically suggested by OMB, such as the 10 percent inflation rate PPSS used at the beginning of the project (June 1982). Now, clearly, the current inflation rate is significantly lower, although it is unknown where it will go in the future. Accordingly, the Chairman's letter to the President contains certain economic forecasts which include an average annual inflation rate of 7 percent from now until the year 2000. In addition, some of the savings and revenue opportunities have been duplicated in individual Task Force reports. These duplications have been netted out for purposes of this Report to the President, but individual Task Force reports contain all savings and revenue opportunities identified by the Task Forces and including cash acceleration opportunities.

Of the total $544.985 billion in three-year cost savings and revenue generation identified in the 47 PPSS reports, approximately $120.634 billion represented duplications, resulting in net three-year savings and revenue of $424.351 billion.

Although PPSS has tried to be consistent and technically accurate in its calculations, its figures are, of necessity, of a planning rather than a budget quality. Emphasis, first and foremost, should be on the specific opportunity reported, with exact dollar savings and/or revenues to be a secondary effort and determined in concert with the departments and agencies and OMB.

Q: Given the calibre of the people who served on PPSS and the magnitude of their task, what percentage of waste, overlap, and duplication was PPSS able to identify?

A: Responding to this question requires that it be divided into two parts. In terms of how much PPSS found in total potential dollars that could be saved ... it's probably about 35 percent. In terms of specifically identified opportunities for improvement ... it's probably about 15 percent. That does not mean that those who were here did not work hard; it simply means that there are limits to what a volunteer effort can do. It also means that the problems which need to be addressed are numerous, complex, and overwhelming in nature. In short, all the Survey really did was provide a beginning and, it is hoped, leave behind a reservoir of sound management practices and ideas which can be applied to those areas which PPSS had neither the time nor the resources to address.

Unlike past attempts to improve the management of the Federal Government, and in contrast to the numerous Federal advisory committees and other private groups which at any given time are working to serve specific agency projects, this Private Sector Survey took a very broad look at the Executive Branch of the Federal establishment.

The broad scope of the Survey, and the relatively short time which could be devoted to Survey activities in view of the time and financial burdens imposed on its private sector participants, have understandably prevented the in-depth investigations demanded by complex situations. While over 2,000 private sector leaders and professionals donated many months of their time and significant resources to this intensive Survey, the subject is nevertheless too complex, and the public expenditures involved too huge, to permit complete investigation and full analysis of every cost saving and management improvement opportunity. However, patterns and examples were identified by the Task Forces and provided a basis for projecting cost saving opportunities to functions not specifically addressed by PPSS. Therefore, this effort is, in many respects, more truly a survey rather than an audit.

Q: What did this entire effort cost the Federal Government?

A: Except for the one full-time Government employee assigned it, PPSS cost the Federal Government <u>nothing</u>. A private, not-for-profit Foundation was established for purposes of raising gifts in kind as well as financial contributions to support the work of the Survey Management Office (including space, equipment, and support staff) and the overall administration of the Task Forces. Approximately $3.3 million was raised by the Foundation.

More specifically, members of the Executive Committee, the Survey Management Office and the Task Forces served without cost to the Federal Government. All their salaries and expenses, including travel, hotel, and other out of pocket costs, were paid by their private sector employers who volunteered their services or by them personally. A rough calculation of private sector contributions in terms of time and personnel resources dedicated to the PPSS effort totals over $75 million. The extent to which PPSS was a private sector, volunteer, no-cost-to-the-Government effort makes it a particularly unique undertaking. Virtually all of its historical precedents were financed by Congressionally appropriated funds.

Q: Given some of its historical precedents, how unique is PPSS?

A: PPSS differs significantly from any previous study of the Federal Government in several ways. First, as noted, it has been funded and staffed entirely by the private sector and without cost to the taxpayers; second, it has concentrated upon applying the managerial experience and techniques of the private sector to the process of managing the national Government, rather than applying traditional public sector standards and techniques; and third, the sheer number and variety of Executive Committee members, senior advisors, and hundreds of Task Force participants, plus the broad scope of their combined experience and that of their firms, would indicate that PPSS's findings, conclusions and recommendations are representative of the views of the American business community, and, it is believed, the private sector as a whole.

With respect to the Reagan Administration, while PPSS is unique to the extent that it is a private sector effort, it is not unique in terms of the President's overall commitment to eliminating waste, duplication, and inefficiency in the Federal Government. Other initiatives the President has undertaken and which need to be viewed in concert with PPSS include the President's Council on Integrity and Efficiency, Reform 88, the Cabinet Council on Management and Administration and a greatly expanded and reinforced Inspector General program.

Q: What is the final end product of PPSS?

A: PPSS produced 36 Task Force Reports and 11 Management Office Selected Issues Reports, which contain a total of 2,478 recommendations which, as indicated earlier, represent $424.351 billion in three-year, unduplicated cost savings and revenue enhancements. An additional 54 recommendations and 188 issue areas for further study also were identified by PPSS. Three-year savings and revenue potential associated with the 54 specific recommendations for further study total $30.2 billion. The PPSS Task Forces also produced a series of appendices and a comprehensive set of working papers to supplement data contained in the Task Force reports. Executive Summaries for each of the PPSS reports are contained in this Volume. Work papers and supplemental data are on file with the Department of Commerce.

Q: What is the time framework of the PPSS recommendations?

A: The work of PPSS focused on both short-term and long-term opportunities. In many instances, some of the PPSS recommendations can be easily and immediately implemented at the agency or department level. In other instances, implementation of PPSS recommendations will require Congressional legislation and, therefore, will take a much longer time period for implementation. For this reason, reference in the reports is made to "Year 1," "Year 2," and "Year 3," rather than to any specific fiscal year or time frame. PPSS considers its recommendations ageless.

Many of the major recommendations formulated by some of the historical precedents to PPSS took years to implement. For example, the idea of a unified national executive budget was first recommended by the Taft Commission on Economy and Efficiency in 1912 and implemented nine years later in the Budget and Accounting Act of 1921. The concept of a Senior Civil Service was recommended in the Second Hoover Commission Report of 1955, but was not implemented until 23 years later as part of the Civil Service Reform Act of 1978.

Q: What percentage of the PPSS recommendations can be implemented administratively and what percentage will require Congressional authority?

A: Approximately 73 percent of the duplicated dollar savings and revenue opportunities identified by PPSS will require Congressional approval before they can be realized. In addition, given the pervasive role which

Congress plays in the affairs of the Executive Branch, particularly via the appropriations process, it is entirely possible that an even greater percentage will require Congressional concurrence.

Q: When do you think the PPSS recommendations will be implemented?

A: Many of the PPSS recommendations are already in the process of being implemented. Indeed, the White House has put together a comprehensive mechanism for the purpose of reviewing with the departments and agencies, OMB, and the Office of Policy Development each and every issue contained in the Task Force and Management Office reports. In addition, representatives from PPSS actively participate in those deliberations so as to ensure that the ultimate decision reflects the full input of the Survey.

Q: Many of the historical precedents to PPSS failed to have their recommendations implemented. Why does implementation seem to be moving so rapidly with respect to those recommendations contained in the PPSS reports?

A: In formulating its recommendations, PPSS sought to focus on specific and concrete examples and to be as detailed and precise as possible with respect to describing the problem, recommending the solution, projecting the potential cost savings/revenue enhancement, and indicating the appropriate implementation authority -- Congressional, Agency, or President.

In addition, the timing is right. There is a growing awareness, both inside Government and out, that we no longer can afford the luxury of "business as usual."

Q: With the completion of the Task Force reports, the Management Office Special Issue Reports, and the Final Report to the President, what happens next?

A: Although the primary work of PPSS now obviously is completed, that does not mean that its work is over. Over 2,000 private sector volunteers spent a considerable period of time in Washington and PPSS is committed to advising them as to the implementation of their specific recommendations. Accordingly, key PPSS personnel will continue to work in close cooperation with the White House, OMB, and the departments and agencies so as to provide PPSS participants and the

American people to whom this entire effort is dedicated with periodic status reports vis-a-vis their recommendations.

PPSS believes with the President that the hour is very late, and that a supreme effort to bring managerial and financial responsibility to the Federal Government is a matter of highest priority. It does not believe, however, that the situation is beyond recall, <u>provided</u> both the public and private sectors recognize the magnitude of the problem, understand its chief elements, and share a belief that prompt, effective, and well motivated action can create within the Federal establishment more responsible management and a greater respect for the people's money.

VII. LONG-TERM ECONOMIC IMPACT OF PPSS SAVINGS

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The Federal government comprises a major and growing share of the economy, with total Federal outlays -- including transfer payments and interest -- running at one-quarter of GNP. Thus any significant shift in Federal finances cannot help but have a profound impact on the overall economy. Examples of such shifts in Federal finances in the Post-World War II period are the Great Society program, started in the 1960's, and the Vietnam War, the impacts of which are shown in the following:

Federal Spending and Economic Performance, 1947-1983

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Federal Budget Outlays As a Percent of GNP								
Fiscal Year	National Defense	Transfer Payments	Net Interest(a)	Other	Total	Real GNP	Indus. Prod.	Inflation	Unemployment
	-------(Average for Period)-------					(Avg. Ann. % Increase)		(Avg. for Period)	
(1) 1947-1960	8.7%	4.0%	1.5%	3.3%	17.4%	3.1%	4.7%	3.3%	4.6%(b)
(2) 1961-1970	8.3	5.7	1.3	4.3	19.6	3.9	5.0	2.9	4.7
(3) 1971-1980	5.4	9.7	1.6	4.3	21.0	3.1	3.2	6.9	6.4
(4) 1981-1983	5.6	11.9	2.6	3.6	23.8	1.4	0.1	6.5	9.0

(a) Interest payments to non-Federal entities.

(b) 1948-1960

As the share of transfer payments tripled from the 4.0% average during 1947-1960 to 11.9% of GNP during 1981-1983 and net interest almost doubled from 1.5% to 2.6% over the same period, spending on National Defense and other traditional functions of government declined from 12.0% of GNP during 1947-1960 to 9.2% during 1981-1983. Initially, the increase in transfer payments appears to have helped to stimulate the economy, as real GNP growth accelerated to 3.9% per year during the 1960's from 3.1% in the earlier period. Similarly, industrial production edged up to 5.0% and inflation dropped from a 3.3% rate to 2.9%. However, at the same time that transfer payments were increasing, National Defense spending remained relatively constant as a percent of GNP and other spending increased its share from 3.2% to 4.3% of GNP.

By the 1970's, much of the impetus provided by transfers had worn off, despite their continued growth, while defense and other expenditures were declining as a percent of GNP. Thus, real GNP growth slowed to 3.1% per year in the 1970's and 1.4%, 1981-1983, industrial production dropped even more sharply, and the rate of inflation more than doubled.

Also, the rate of unemployment has increased steadily in each period shown. This reinforces the fundamental condition that, as the Federal government hands out money, the incentive to seek productive employment falls, lowering output. Since the money supply has been enlarged, however, prices are bid up.

In order to assess the economic ramifications of the changes in Federal finances proposed by PPSSCC, Federal revenues and outlays were forecast through 2000 by Data Resources Inc. (DRI) using their econometric model of the U.S. economy. As a first step, a basic forecast was produced, assuming the status quo of present policies. A further projection was made to take account of savings recommended by PPSSCC. The differences between these two cases are solely the result of the PPSSCC recommendations.

Status Quo of Present Policies

The following summarizes Federal finances from 1962 through 1983 and projected through 2000, assuming policies and programs in force continue in place and continue to evolve as they have in the past.

(Table on following page)

Federal Revenues and Outlays,
1962-2000: Status Quo of Current Policies
($ Billions)

		(1)	(2)	(3)	(4)
	Fiscal Year	Total Revenues	Total Outlays	Surplus/ (Deficit)	Outlays as A Multiple of Revenues
(1)	1962	$ 99.7	$ 106.8	$ (7.1)	1.07x
(2)	1965	116.8	118.4	(1.6)	1.01
(3)	1970	192.8	195.7	(2.8)	1.01
(4)	1975	279.1	324.2	(45.2)	1.16
(5)	1980	517.1	576.7	(59.6)	1.12
(6)	1981	599.3	657.2	(57.9)	1.10
(7)	1982	617.8	728.4	(110.6)	1.18
(8)	1983	600.6	795.9	(195.4)	1.33
(9)	1985	754.8	939.9	(185.1)	1.25
(10)	1990	1,246.5	1,633.3	(386.7)	1.31
(11)	1995	2,089.2	2,864.6	(775.4)	1.37
(12)	2000	3,567.3	5,533.3	(1,966.0)	1.55
	Avg. Ann. % Inc./(Dec)				
(13)	1962-1983	8.9%	10.0%	(17.1)%	
(14)	1965-1983	9.5	11.2	(30.6)	
(15)	1980-1983	5.1	11.3	(48.6)	
(16)	1983-2000	11.0	12.1	(14.5)	

Note: In this and subsequent tables, totals and percents have been calculated using unrounded numbers.

From the 1983 base of $601 billion, revenues are projected to exceed $1.2 trillion by 1990 and to climb further to $3.6 trillion by 2000, averaging 11.0% per year growth over 1983-2000. Over the same period, outlays are projected to grow 12.1% per year, i.e., 1.1% points faster than revenues. This results in an increasing deficit which reaches $2.0 trillion by 2000. Even after adjusting for inflation of 7.1% per year the deficit in 2000 is $605 billion in constant 1983 dollars.

As shown in column 4, as a multiple of revenues, outlays are projected in this case to reach 1.55x in 2000 versus 1.33x in 1983. Outlays as a multiple of revenues drops in 1985 to 1.25x and then begins to rise over the projection period. This drop is a result of the continued economic recovery. During this period, some entitlement programs, such as unemployment insurance, are projected to drop, while certain tax revenues, such as corporate taxes, are projected to rise. These changes do not result from any changes to laws currently on the books but rather reflect economic conditions -- e.g., corporate taxes rise because corporate profits are higher.

The following table summarizes the economic environment consistent with DRI's status quo projections:

(Table on following page)

Economic Environment
For DRI Projections:
Status Quo of Current Policies

	Fiscal Year	(1) Nominal GNP	(2) Real GNP	(3) Inflation	(4) High Grade Corporate Bond Rate	(5) 3-Month T-Bill Rate	(6) Unemployment Rate	(7) Industrial Production	(8) Real Business Fixed Investment	(9) Housing Starts	(10) Federal Spending $ Billions	(11) Federal Spending % of GNP	(12) Surplus/(Deficit) $ Billions	(13) Surplus/(Deficit) % of GNP
		---(Avg. Ann. % Inc/(Dec))--			-------(Avg. For Period)------			(Avg. Ann. % Inc/(Dec)		(Avg. For Period) (000)	---------------(End of Period)-------------			
(1)	1962-1983	8.8%	3.2%	5.5%	8.19%	6.54%	5.8%	3.4%	4.1%	1,558	$ 795.9	24.6%	$ (195.4)	(6.0)%
(2)	1962-1980	9.0	3.6	5.2	7.30	5.72	5.3	4.2	5.0	1,606	576.7	22.4	(59.6)	(2.3)
(3)	1962-1970	7.4	4.2	3.1	5.63	4.59	4.2	5.8	6.7	1,429	195.7	20.2	(2.8)	(0.3)
(4)	1970-1980	10.3	3.1	6.9	8.63	6.62	6.2	3.0	3.7	1,748	576.7	22.4	(59.6)	(2.3)
(5)	1980-1983	7.8	0.7	7.1	13.58	11.49	8.8	(1.5)	(1.3)	1,270	795.9	24.6	(195.4)	(6.0)
	Projected													
(6)	1983-1985	9.2%	4.6%	4.4%	11.68%	9.37%	8.3%	7.8%	5.3%	1,704	$ 939.9	24.4%	$ (185.1)	(4.8)%
(7)	1985-1990	9.7	3.5	6.0	11.88	10.21	6.5	4.8	2.9	1,587	1,633.3	26.7	(386.7)	(6.3)
(8)	1990-1995	10.2	1.9	8.2	12.38	10.77	5.8	2.2	1.8	1,357	2,864.6	28.8	(775.4)	(7.8)
(9)	1995-2000	10.1	1.4	8.5	14.75	14.32	6.5	1.4	1.5	1,101	5,533.3	34.4	(1,966.0)	(12.2)
(10)	1983-2000	9.9	2.5	7.2	12.85	11.48	6.5	3.4	2.4	1,390	5,533.3	34.4	(1,966.0)	(12.2)

As shown in the table, the projections for nominal GNP at 9.9% per year, 1983-2000, look about in line with recent past trends and are above the long term 1962-1983 performance of 8.8% per year growth. However, as shown in columns 2 and 3, this is a misleading impression.

From a recovery-oriented growth, 1983-1985, the rate of growth of real GNP slows steadily over the forecast period to an average 1.4% per year in 1995-2000. Real growth averages 2.5% per year over the entire 1983-2000 period.

By contrast, real growth averaged 3.6% per year, 1962-1980, before slowing to 0.7%, 1980-1983. And that 1962-1980 period contained three recessions -- two of which followed from the oil shocks of 1973-1974 and 1979-1980.

At the same time, inflation -- stimulated by growing deficits -- heats up to the 8.5% range in the 1990's from 4.4% per year, 1983-1985. On a year-by-year basis, inflation peaks at 8.7% in 1996/1997, and then edges down to 8.2% by 2000, as follows:

	GNP Deflator (% increase)
1983	4.4%
1985	4.6
1990	6.9
1995	8.6
1996	8.7
1997	8.7
1998	8.5
1999	8.3
2000	8.2

The lowering inflation during the late 1990's is not a healthy sign, but rather a symptom of a weak economy, reflecting the low level of real business fixed investment during the late 1980's and 1990's. The low level of fixed investment, is responsible in large part for real GNP growing at only 1.4% per year, 1990-1995 -- i.e., less than two-thirds its potential -- and it is this slack that takes the upward pressure off prices.

With inflation moving up again in the 1980's and early 1990's, it is not surprising that interest rates also rise. The high grade corporate bond rate, which is projected to hold reasonably steady for the rest of this decade at under 12%, rises to average 14.75% over 1996-2000. The 3-month T-Bill rate is more reactive, averaging 10.77%, 1991-1995, and 14.32%, 1996-2000. However, even after adjusting for inflation, real interest rates remain very high as the continually growing deficits and rekindling of inflation lead to expectations of even higher rates of inflation. Following a modest drop during 1986-1995, real interest rates return to and surpass their current record levels as follows:

(Table on following page)

Nominal and Real
Interest Rates, 1963-2000:
Status Quo of Current Policies

		(1)	(2)	(3)	(4)	(5)
	Fiscal Year	Inflation	High Grade Corp. Bond Rate Nominal	Real	3-Month T-Bill Rate Nominal	Real
(1)	1963-1983	5.5%	8.21%	3.76%	6.57%	1.40%
(2)	1963-1980	5.2	7.32	3.35	5.75	0.83
(3)	1963-1970	3.1	5.62	3.44	4.55	1.85
(4)	1971-1980	6.9	8.68	3.27	6.71	0.01
(5)	1981-1983	7.1	13.58	6.21	11.49	4.86
	Projected					
(6)	1984-1985	4.4%	11.68%	5.84%	9.37%	5.16%
(7)	1986-1990	6.0	11.88	6.19	10.21	4.25
(8)	1991-1995	8.2	12.38	5.36	10.77	2.88
(9)	1996-2000	8.5	14.75	6.89	14.32	6.28
(10)	1984-2000	7.2	12.85	6.11	11.48	4.55
(11)	Memo: 2000	8.2	16.08	8.21	16.30	8.86

The 8.21% real rate projected for high-grade corporate bonds in 2000 compares to 4.45% in 1983 and 7.48% in 1982 while the 8.86% for T-Bills is 350 basis points above the 1981 record of 5.36%. This continuing high cost of credit puts a further damper on economic growth -- in particular residential and non-residential investment, industrial production, and, hence, employment. It is also significant that the spread between corporates and T-Bills narrows and then reverses, as government is forced to go into the credit markets on an increasing basis to finance its growing debt. Thus, over the 1962-1983 period, the yield on corporates at 8.21% was 164 basis points above that on T-Bills. During the 1996-2000 period, the spread is projected to drop to 43 basis points on average, and in 2000 it is projected at (22) basis points -- as T-Bills yield 16.30% to corporates' 16.08%.

The unemployment rate drops to a low of 5.8% in the 1990-1995 period and begins to rise after that.

Following the pattern of real GNP, industrial production, which averages 7.8% per year growth during the 1983-1985 recovery, drops to the 1.4-2.2% range over the 1990-2000 period, growth in real business fixed investment drops to 1.5%, 1995-2000, and housing starts average only 1.1 million units per year in the last five years of the projection period.

Both the slowdown in real activity and the run-up in inflation and interest rates result from the intrusion of the Federal government on the private sector with spending in 2000 reaching 34.4% of GNP and the deficit reaching (12.2)% of GNP.

The following table shows more detail on the revenue side of the projections:

(Table on following page)

Summary of Federal Revenues,
1962-2000: Status Quo of Current Policies
($ Billions)

	Fiscal Year	(1) Personal Income Taxes	(2) Revenues For Five Specially Funded Transfer Programs	(3) All Other	(4) Total
(1)	1962	$ 45.6	$ 17.0	$ 37.1	$ 99.7
(2)	1965	48.8	22.3	45.8	116.8
(3)	1970	90.4	44.4	58.0	192.8
(4)	1975	122.4	84.5	72.2	279.1
(5)	1980	244.1	157.8	115.2	517.1
(6)	1981	285.9	182.7	130.6	599.3
(7)	1982	297.7	201.5	118.5	617.8
(8)	1983	288.9	208.9	102.7	600.6
(9)	1985	332.1	272.5	150.3	754.8
(10)	1990	553.9	437.9	254.7	1,246.5
(11)	1995	965.5	762.4	361.2	2,089.2
(12)	2000	1,608.0	1,353.3	606.0	3,567.3
		Average Annual Percent Increase/(Decrease)			
(13)	1962-1983	9.2%	12.7%	5.0%	8.9%
(14)	1965-1983	10.4	13.2	4.6	9.5
(15)	1980-1983	5.8	9.8	(3.8)	5.1
(16)	1983-2000	10.6	11.6	11.0	11.0
		As a Percent of Total			
(17)	1962	45.7%	17.1%	37.2%	100.0%
(18)	1965	41.8	19.1	39.2	100.0
(19)	1970	46.9	23.0	30.1	100.0
(20)	1975	43.9	30.3	25.9	100.0
(21)	1980	47.2	30.5	22.3	100.0
(22)	1981	47.7	30.5	21.8	100.0
(23)	1982	48.2	32.6	19.2	100.0
(24)	1983	48.1	34.8	17.1	100.0
(25)	1985	44.0	36.1	19.9	100.0
(26)	1990	44.4	35.1	20.4	100.0
(27)	1995	46.2	36.5	17.3	100.0
(28)	2000	45.1	37.9	17.0	100.0
		As a Percent of GNP			
(29)	1962	8.3%	3.1%	6.8%	18.2%
(30)	1965	7.4	3.4	6.9	17.7
(31)	1970	9.3	4.6	6.0	19.9
(32)	1975	8.3	5.7	4.9	18.9
(33)	1980	9.5	6.1	4.5	20.1
(34)	1981	9.9	6.3	4.5	20.8
(35)	1982	9.7	6.6	3.9	20.2
(36)	1983	8.9	6.5	3.2	18.6
(37)	1985	8.6	7.1	3.9	19.6
(38)	1990	9.1	7.2	4.2	20.4
(39)	1995	9.7	7.7	3.6	21.0
(40)	2000	10.0	8.4	3.8	22.2

The fastest growing segment of revenues through the year 2000 is expected to be revenues for the five specially funded transfer programs -- old age and survivors and disability insurance (Social Security), hospital insurance (Medicare), railroad retirement, civil service retirement, and unemployment insurance (col. 2). These programs, which grew at 12.7% per year 1962-1983, is projected to rise 11.6% per year, 1983-2000. All personal income taxes are projected to grow 10.6% a year, 1983-2000, reaching $1.6 trillion in 2000, or 10.0% of GNP in 2000 versus 8.9% in 1983.

Because all three categories are projected to grow at roughly similar rates -- i.e., 10.6% to 11.6% per year -- their individual shares of total revenues do not change greatly. This is in sharp distinction to the period between 1962 and 1975 when social insurance taxes and contributions rose from a 17.1% share to 30.3% of total revenues and all other contibutions except personal income taxes fell from 37.2% to 25.9%.

Of particular note, all three categories are projected to increase as a percent of GNP, i.e., the 9.9% growth of nominal GNP, 1983-2000, is slower than those for revenues.

The following table summarizes outlays by major function:

(Table on following page)

Outlays by Function, 1962-2000: Status Quo of Current Policies ($ Billions)

	Fiscal Year	(1) National Defense	(2) Education, Training, Employment & Social Services	(3) Health	(4) Income Security	(5) Veterans Benefits	(6) All Other Except Interest	(7) Subtotal Before Interest	(8) Net Interest	(9) Total	(10) Surplus/ (Deficit)
(1)	1962	$ 49.0	$ 1.2	$ 1.2	$ 22.7	$ 5.6	$ 20.2	$ 99.9	$ 6.9	$ 106.8	$ (7.1)
(2)	1965	47.5	2.1	1.8	25.7	5.7	27.0	109.8	8.6	118.4	(1.6)
(3)	1970	78.6	8.6	12.1	43.1	8.7	30.2	181.3	14.4	195.7	(2.8)
(4)	1975	85.6	15.9	25.7	108.6	16.6	48.7	301.2	23.2	324.2	(45.2)
(5)	1980	135.6	30.8	55.2	193.1	21.2	88.4	524.2	52.5	576.7	(59.6)
(6)	1981	159.8	31.4	66.0	225.1	23.0	83.2	588.5	68.7	657.2	(57.9)
(7)	1982	187.4	26.3	74.0	248.3	24.0	83.6	643.7	84.7	728.4	(110.6)
(8)	1983	210.5	25.7	81.2	280.2	24.8	85.7	708.1	87.8	795.9	(195.4)
(9)	1985	268.6	28.0	98.1	306.5	27.5	90.2	819.0	120.9	939.9	(185.1)
(10)	1990	486.1	39.3	164.9	521.8	40.0	128.8	1,381.0	252.3	1,633.3	(386.7)
(11)	1995	796.9	54.1	288.2	920.4	62.0	202.0	2,323.7	540.9	2,864.6	(775.4)
(12)	2000	1,286.7	83.8	527.4	1,691.6	94.8	328.1	4,012.6	1,520.7	5,533.3	(1,966.0)
	Avg. Ann. % Inc./(Dec.)										
(13)	1962-1983	7.2%	15.5%	22.2%	12.7%	7.3%	7.1%	9.8%	12.9%	10.0%	17.1%
(14)	1965-1983	8.6	14.8	23.6	14.2	8.5	6.6	10.9	13.8	11.2	30.6
(15)	1980-1983	15.8	(5.8)	13.7	13.2	5.5	(1.0)	10.5	18.7	11.3	48.6
(16)	1983-2000	11.2	7.2	11.6	11.2	8.2	8.2	10.7	18.3	12.1	14.5
		As a Percent of Total									
(17)	1962	45.9%	1.2%	1.1%	21.2%	5.3%	18.9%	93.6%	6.4%	100.0%	(6.7)%
(18)	1965	40.1	1.8	1.5	21.7	4.8	22.8	92.8	7.2	100.0	(1.3)
(19)	1970	40.1	4.4	6.2	22.0	4.4	15.5	92.7	7.3	100.0	(1.5)
(20)	1975	26.4	4.9	7.9	33.5	5.1	15.0	92.8	7.2	100.0	(13.9)
(21)	1980	23.5	5.3	9.6	33.5	3.7	15.3	90.9	9.1	100.0	(10.3)
(22)	1981	24.3	4.8	10.0	34.3	3.5	12.7	89.5	10.5	100.0	(8.8)
(23)	1982	25.7	3.6	10.2	34.1	3.3	11.5	88.4	11.6	100.0	(15.2)
(24)	1983	26.4	3.2	10.2	35.2	3.1	10.8	89.0	11.0	100.0	(24.5)
(25)	1985	28.6	3.0	10.4	32.6	2.9	9.6	87.1	12.9	100.0	(19.7)
(26)	1990	29.8	2.4	10.1	32.0	2.5	7.9	84.6	15.4	100.0	(23.7)
(27)	1995	27.8	1.9	10.1	32.1	2.2	7.1	81.1	18.9	100.0	(27.1)
(28)	2000	23.3	1.5	9.5	30.6	1.7	5.9	72.5	27.5	100.0	(35.5)
		As a Percent of GNP									
(29)	1962	8.9%	0.2%	0.2%	4.1%	1.0%	3.7%	18.2%	1.3%	19.5%	(1.3)%
(30)	1965	7.2	0.3	0.3	3.9	0.9	4.1	16.7	1.3	18.0	(0.2)
(31)	1970	8.1	0.9	1.3	4.4	0.9	3.1	18.7	1.5	20.2	(0.3)
(32)	1975	5.8	1.1	1.7	7.3	1.1	3.3	20.4	1.6	21.9	(3.1)
(33)	1980	5.3	1.2	2.1	7.5	0.8	3.4	20.4	2.0	22.4	(2.3)
(24)	1981	5.5	1.1	2.3	7.8	0.8	2.9	20.4	2.4	22.8	(2.0)
(25)	1982	6.1	0.9	2.4	8.1	0.8	2.7	21.1	2.8	23.8	(3.6)
(26)	1983	6.5	0.8	2.5	8.7	0.8	2.7	21.9	2.7	24.6	(6.0)
(27)	1985	7.0	0.7	2.5	8.0	0.7	2.3	21.3	3.1	24.4	(4.8)
(28)	1990	8.0	0.6	2.7	8.5	0.7	2.1	22.6	4.1	26.7	(6.3)
(29)	1995	8.0	0.5	2.9	9.3	0.6	2.0	23.4	5.4	28.8	(7.8)
(30)	2000	8.0	0.5	3.3	10.5	0.6	2.0	25.0	9.5	34.4	(12.2)

The rates of increase of spending for education, training, health, and income security are all projected to slow from those of 1962-1983, while those for national defense, veterans' benefits, all other except interest, and net interest, are projected to accelerate.

National defense (col. 1), which was $210.5 billion in 1983, is projected to grow 11.2% per year to 2000 -- 4.0% points faster than during 1962-1983 -- reaching $1.3 trillion. As a percent of GNP, it is projected to rise from 6.5% in 1983 to 8% by 1990, and to remain at that level through 2000.

This forecast is in line with the Reagan Administration's budget plan through 1988, and is well below the peacetime experience between Korea and Vietnam, when defense averaged 9.8% of GNP. Furthermore, as a percent of total outlays, national defense expenditures are projected to fall from 26.4% in 1983 to 23.3% in 2000. They amounted to 45.9% in 1962 -- twice the forecast for 2000 and 1.74 times the 1983 level.

Veterans' benefits (col. 5) are projected to accelerate over the forecast horizon, from a 7.3% annual rate of increase, 1962-1983, to 8.2% per year, 1983-2000, when they are projected to reach $94.8 billion versus $24.8 billion in 1983. The acceleration primarily reflects rising medical costs and increasing claims from Vietnam veterans.

Net interest (col. 8) is, by far, the most rapidly rising expenditure category over the projection period, increasing 18.3% per year, compared to 12.9% per year, 1962-1983. Furthermore, by 2000 at $1.5 trillion, it is second in size -- and a close second -- only to income security.

It is interesting to examine the role that net interest plays in total spending and the deficit. While the overall growth of spending, 1983-2000, is 12.1% per year (col. 9), spending before interest (col. 7) grows at 10.7% per year, with net interest growing at 18.3% per year. This effect is shown clearly in the second tier, where interest, which was 11.0% of total spending in 1983 climbs to 27.5% of spending in 2000. Thus, spending before interest drops over the same period from 89.0% to 72.5% of total spending. As a percent of GNP, however, spending before interest rises from 21.9% in 1983 to 25.0% in 2000 -- again highlighting the slow growth of the economy. Total spending rises from 24.6% of GNP last year to 34.4% in 2000 -- i.e., over one third of the whole economy accounted for by the Federal government. The deficit as a percent of GNP, which was at (6.0)% in 1983, more than doubles to (12.2)% of GNP -- exceeded only by the years during World War II.

Obviously, the deficit is the result of the whole mix of spending and tax policies currently in place. However, it is interesting to note that of the $1.8 trillion <u>increase</u> in the deficit 1983-2000, $1.4 trillion or 80.9% of the increase is accounted for by the <u>increase</u> in net interest, i.e., only 19.1% of the increase in the deficit is being used to fund programs, with the remaining 80.9% simply servicing debt. This highlights the cost of continuing large deficits as shown in the following:

(Table on following page)

Net Interest and the Deficit,
1962-2000: Status Quo of Current Policies
($ Billions)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Outlays			Surplus/(Deficit)		Net Interest as a % of the Deficit
	Fiscal Year	Total Revenues	Excluding Interest	Net Interest	Total Outlays	Before Net Interest	Including Interest	
(1)	1962	$ 99.7	$ 99.9	$ 6.9	$106.8	$(0.3)	$ (7.1)	96.4%
(2)	1965	116.8	109.8	8.6	118.4	7.0	(1.6)	537.5
(3)	1970	192.8	181.3	14.4	195.7	11.5	(2.8)	505.2
(4)	1975	279.1	301.2	23.2	324.4	(22.1)	(45.3)	51.3
(5)	1980	517.1	524.2	52.5	576.7	(7.1)	(59.6)	88.1
(6)	1981	599.3	588.5	68.7	657.2	10.8	(57.9)	118.6
(7)	1982	617.8	643.7	84.7	728.4	(25.9)	(110.6)	76.6
(8)	1983	600.6	708.1	87.8	795.9	(107.5)	(195.4)	45.0
(9)	1985	754.8	819.0	120.9	939.9	(64.2)	(185.1)	65.3
(10)	1990	1,246.5	1,381.0	252.3	1,633.3	(134.4)	(386.7)	65.2
(11)	1995	2,089.2	2,323.7	540.9	2,864.6	(234.5)	(775.4)	69.8
(12)	2000	3,567.3	4,012.6	1,520.7	5,533.3	(445.2)	(1,966.0)	77.4
Avg. Ann. % Inc./(Dec)								
(13)	1962-1983	8.9%	9.8%	12.9%	10.0%	33.3%	17.1%	
(14)	1965-1983	9.5	10.9	13.8	11.2	ND	30.6	
(15)	1980-1983	5.1	10.5	18.7	11.3	147.4	48.6	
(16)	1983-2000	11.0	10.7	18.3	12.1	8.7	14.5	

Net interest is projected to account for about two-thirds of the total deficit during 1985-1995 and then rise to 77.4% -- over three-fourths -- by 2000.

An alternative way of looking at Federal outlays is to group them as payments for individuals (or transfer payments) and other outlays -- including net interest, the purchase of goods and services, and other expenditures related to the traditional functions of government. The following table shows transfer payments and other outlays:

(Table on following page)

Transfer Payments and Other Outlays, 1962-2000: Status Quo of Current Policies

($ Billions)

	Fiscal Year	(1) Total Transfer Payments(a)	(2) Other Outlays: Net Interest	(3) Other Outlays: National Defense(a)	(4) Other Outlays: All Other Outlays	(5) Total Outlays
(1)	1962	$ 29.5	$ 6.9	$ 48.1	$ 22.2	$ 106.8
(2)	1965	33.7	8.6	46.1	30.1	118.4
(3)	1970	66.0	14.4	75.7	39.6	195.7
(4)	1975	156.6	23.2	79.3	65.1	324.2
(5)	1980	283.0	52.5	123.7	117.5	576.7
(6)	1981	330.3	68.7	146.0	112.1	657.2
(7)	1982	363.5	84.7	172.5	107.7	728.4
(8)	1983	402.8	87.8	194.3	111.0	795.9
(9)	1985	452.6	120.9	250.4	116.0	939.9
(10)	1990	764.0	252.3	454.1	162.9	1,633.3
(11)	1995	1,338.9	540.9	741.3	243.5	2,864.6
(12)	2000	2,440.0	1,520.7	1,194.8	377.8	5,533.3
		Average Annual Percent Increase/(Decrease)				
(13)	1962-1983	13.2%	12.9%	6.9%	8.0%	10.0%
(14)	1965-1983	14.8	13.8	8.3	7.5	11.2
(15)	1980-1983	12.5	18.7	16.2	(1.9)	11.3
(16)	1983-2000	11.2	18.3	11.3	7.5	12.1
		As a Percent of Total				
(17)	1962	27.7%	6.4%	45.1%	20.8%	100.0%
(18)	1965	28.4	7.2	38.9	25.4	100.0
(19)	1970	33.7	7.3	38.7	20.2	100.0
(20)	1975	48.3	7.2	24.4	20.1	100.0
(21)	1980	49.1	9.1	21.4	20.4	100.0
(22)	1981	50.3	10.5	22.2	17.1	100.0
(23)	1982	49.9	11.6	23.7	14.8	100.0
(24)	1983	50.6	11.0	24.4	13.9	100.0
(25)	1985	48.2	12.9	26.6	12.3	100.0
(26)	1990	46.8	15.4	27.8	10.0	100.0
(27)	1995	46.7	18.9	25.9	8.5	100.0
(28)	2000	44.1	27.5	21.6	6.8	100.0
		As a Percent of GNP				
(29)	1962	5.4%	1.3%	8.8%	4.1%	19.5%
(30)	1965	5.1	1.3	7.0	4.6	18.0
(31)	1970	6.8	1.5	7.8	4.1	20.2
(32)	1975	10.6	1.6	5.4	4.4	21.9
(33)	1980	11.0	2.0	4.8	4.6	22.4
(34)	1981	11.5	2.4	5.1	3.9	22.8
(35)	1982	11.9	2.8	5.6	3.5	23.8
(36)	1983	12.5	2.7	6.0	3.4	24.6
(37)	1985	11.7	3.1	6.5	3.0	24.4
(38)	1990	12.5	4.1	7.4	2.7	26.7
(39)	1995	13.5	5.4	7.5	2.4	28.8
(40)	2000	15.2	9.5	7.4	2.4	34.4

(a) Military pensions are a transfer payment and, hence, are excluded from national defense outlays in this table.

As discussed above, net interest is projected to be the most rapidly increasing expenditure category, rising 18.3% per year, 1983-2000. National defense and transfer payments are projected to grow almost in lock step at 11.3% and 11.2%, respectively, while all other outlays slow to just 7.5% per year, barely keeping pace with inflation. Together, transfer payments and interest are projected to total $4.0 trillion in 2000 -- equal to 71.6% of total outlays, i.e., almost $3 out of every $4 spent by the government is simply a redistribution of income and makes no net contribution to GNP. And despite total Federal outlays growing at 12.1% per year, 1983-2000 -- 2.2% points more rapidly than GNP -- productive expenditures by the government are projected to grow at only 10.1% -- just 0.2% point faster than GNP. This is shown in the bottom tier where the sum of National Defense and all other outlays remains almost constant as a percent of GNP, going from 9.4% in 1983 to 9.8% in 2000.

The following table shows details on payments for individuals:

(Table on following page)

Transfer Payments, 1962-2000:
Status Quo of Current Policies
($ Billions)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Five Specially Funded Social Programs									
	Fiscal Year	Social Security	Railroad Retire-ment	Civil Service Ret.	Unem-ployment Assist.	Hospital Insurance	Subtotal	Memo: Revenues	Memo: Surplus/ (Deficit)	All Other Transfers	Total Transfers
(1)	1962	$ 13.9	$ 1.0	$ 1.1	$ 3.8	-	$ 19.8	$ 17.0	$ (2.8)	$ 9.7	$ 29.5
(2)	1965	16.9	1.1	1.4	2.8	-	22.3	22.3	-	11.4	33.7
(3)	1970	29.6	1.6	2.8	3.4	$ 5.0	42.3	44.4	2.1	23.7	66.0
(4)	1975	65.2	3.1	7.1	13.5	10.6	99.4	84.5	(14.9)	57.2	156.6
(5)	1980	117.1	4.7	14.7	18.0	24.3	178.8	157.8	(21.0)	104.2	283.0
(6)	1981	137.9	6.0	17.6	19.7	29.2	210.4	182.7	(27.7)	119.9	330.3
(7)	1982	153.9	5.7	19.4	23.8	34.9	237.7	201.5	(36.2)	125.8	363.5
(8)	1983	170.1	6.2	20.7	29.8	38.7	265.5	208.9	(56.6)	137.3	402.8
(9)	1985	200.6	7.6	23.9	17.4	47.7	297.2	272.5	(24.7)	155.4	452.6
(10)	1990	357.4	10.5	43.1	26.0	81.8	518.7	437.9	(80.8)	245.3	764.0
(11)	1995	641.1	16.6	75.7	41.7	156.6	931.7	762.4	(169.3)	407.2	1,338.9
(12)	2000	1,177.1	26.1	137.4	76.7	306.2	1,723.6	1,353.3	(370.3)	716.4	2,440.0
	Avg. Ann. % Inc./(Dec.)										
(13)	1962-1983	12.7%	8.9%	15.2%	10.3%	ND	13.1%	12.7%	15.4%	13.5%	13.2%
(14)	1965-1983	13.7	9.9	16.0	14.1	ND	14.8	13.2	51.0	14.8	14.8
(15)	1980-1983	13.3	9.4	12.1	18.2	16.8%	14.1	9.8	39.2	9.6	12.5
(16)	1983-2000	12.1	8.8	11.8	5.7	12.9	11.6	11.6	11.7	10.2	11.2
		As a Percent of Total									
(17)	1962	13.0%	1.0%	1.0%	3.6%	-	18.6%	16.0%	(2.6)%	9.1%	27.7%
(18)	1965	14.3	1.0	1.2	2.4	-	18.8	18.8	-	9.6	28.4
(19)	1970	15.1	0.8	1.4	1.7	2.5%	21.6	22.7	1.1	12.1	33.7
(20)	1975	20.1	0.9	2.2	4.1	3.3	30.6	26.1	(4.6)	17.6	48.3
(21)	1980	20.3	0.8	2.5	3.1	4.2	31.0	27.4	(3.6)	18.1	49.1
(22)	1981	21.0	0.9	2.7	3.0	4.5	32.0	27.8	(4.2)	18.2	50.3
(23)	1982	21.1	0.8	2.7	3.3	4.8	32.6	27.7	(5.0)	17.3	49.9
(24)	1983	21.4	0.8	2.6	3.7	4.9	33.4	26.2	(7.1)	17.3	50.6
(25)	1985	21.3	0.8	2.5	1.9	5.1	31.6	29.0	(2.6)	16.5	48.2
(26)	1990	21.9	0.6	2.6	1.6	5.0	31.8	26.8	(4.9)	15.0	46.8
(27)	1995	22.4	0.6	2.6	1.5	5.5	32.5	26.6	(5.9)	14.2	46.7
(28)	2000	21.3	0.5	2.5	1.4	5.5	31.1	24.5	(6.7)	12.9	44.1
		As a Percent of GNP									
(29)	1962	2.5%	0.2%	0.2%	0.7%	-	3.6%	3.1%	(0.5)%	1.8%	5.4%
(30)	1965	2.6	0.2	0.2	0.4	-	3.4	3.4	-	1.7	5.1
(31)	1970	3.1	0.2	0.3	0.3	0.5%	4.4	4.6	0.2	2.5	6.8
(32)	1975	4.4	0.2	0.5	0.9	0.7	6.7	5.7	(1.0)	3.9	10.6
(33)	1980	4.5	0.2	0.6	0.7	0.9	6.9	6.1	(0.8)	4.0	11.0
(34)	1981	4.8	0.2	0.6	0.7	1.0	7.3	6.3	(1.0)	4.2	11.5
(35)	1982	5.0	0.2	0.6	0.8	1.1	7.8	6.6	(1.2)	4.1	11.9
(36)	1983	5.3	0.2	0.6	0.9	1.2	8.2	6.5	(1.8)	4.3	12.5
(37)	1985	5.2	0.2	0.6	0.5	1.2	7.7	7.1	(0.6)	4.0	11.7
(38)	1990	5.8	0.2	0.7	0.4	1.3	8.5	7.2	(1.3)	4.0	12.5
(39)	1995	6.4	0.2	0.8	0.4	1.6	9.4	7.7	(1.7)	4.1	13.5
(40)	2000	7.3	0.2	0.9	0.5	1.9	10.7	8.4	(2.3)	4.5	15.2

The first 7 columns relate to the five specially funded transfer programs. Within that group, unemployment assistance particularly stands out, growing only 5.7% per year 1983-2000. This results from the reduced unemployment rate expected in the future versus the postwar record 1983 level of 10.2%.

Hospital insurance, or Medicare, is projected to continue to be the fastest growing of the funded transfer programs, with outlays rising at 12.9% per year, 1983-2000, when they are expected to reach $306 billion, or 5.5% of total outlays. The two major retirement programs -- Social Security and Civil Service Retirement -- are each projected to grow at 12% per year, 1983-2000, when together they will total $1.3 trillion, or 23.8% of all outlays. Railroad Retirement, the smallest of the funded programs, is projected to increase at 8.8% per year, in line with its historical growth.

Of note, the total spending for these five programs (column 6) is expected to reach $931.7 billion by 1995 -- about equal to the total projected spending only ten years earlier in 1985. As a percent of GNP, these five programs are projected to be at 10.7% in 2000 versus 3.6% of GNP in 1962, a multiple of 3.0x. The deficit of these five programs is projected at $(169.3) billion in 1995. This deficit, which is the net of the spending in these five programs and the revenues taken in for these five programs, is only $16 billion less than the record 1983 deficit for the entire government. By 2000 this deficit is projected to be $(370.3) billion, or 2.3% of GNP.

The total of payments for individuals (col. 10) was $403 billion in 1983, and is projected to exceed $2.4 trillion in 2000 -- more than the whole country's GNP in 1979. These programs will account for 15.2% of GNP in 2000 versus 12.5% in 1983 and 5.4% in 1962.

The following table breaks out the major unfunded transfer programs shown in column 9:

(Table on following page)

Unfunded Payments for Individuals, 1962-2000: Status Quo of Current Policies ($ Billions)

	(1)	(2)	(3)	(4)	(5)
			Ranked	Average Annual % Increase/(Decrease)	
	1962	1983	2000	1962-1983	1983-2000
(1) Federal Employee Retirement & Insurance Excl. Civil Service	$3.0	$26.7	$133.4	11.0%	9.9%
(2) Medicaid	0.1	19.1	123.0	28.3	11.6
(3) Public Assistance, etc.	4.0	24.3	110.5	9.0	9.3
(4) Food Stamps	0.01	12.2	93.3	38.0	12.7
(5) Supplemental Medical Insurance	-	17.7	90.9	21.4(a)	10.1
(6) Housing Assistance	0.2	9.6	49.5	21.3	10.1
(7) VA Medical Care	1.0	7.5	35.7	10.2	9.6
(8) Guaranteed Student Loans	-	2.2	27.9	71.5(b)	16.1
(9) Child Nutrition	0.2	3.4	26.9	15.3	13.0
(10) Other	1.3	14.6	25.3	12.3	3.3
(11) Total	$9.7	$137.3	$716.4	13.5%	10.2%

(a) 1967-1983 Growth Rate
(b) 1970-1983 Growth Rate

The fastest growing transfer payments programs since 1962 have been Medicaid, Food Stamps, Supplemental Medical Insurance, Housing Assistance, and Guaranteed Student Loans, all of which grew in excess of 20% per year. Together these programs now total over $60 billion, and they are projected to rise at 11.5% per year to $384.5 billion in 2000 -- virtually equal to personal income taxes plus all other receipts by the Federal government in 1983 excluding those earmarked for the specially funded transfer programs.

The following table summarizes the outlook for transfer payments, interest, and personal income taxes.

(Table on following page)

Transfer Payments,
Interest, and Personal Income Taxes,
1962-2000: Status Quo of Current Policies
($ Billions)

	Fiscal Year	(1) Personal Income Taxes	(2) Total Trans-fers	(3) Net Inter-est	(4) Total Interest and Transfer Payments	(5) Federal Contributions to Transfer Programs plus Interest: Amount	(6) Federal Contributions to Transfer Programs plus Interest: As a % of Personal Income Taxes
(1)	1962	$ 45.6	$ 29.5	$ 6.9	$ 36.4	$ 19.4	42.5%
(2)	1965	48.8	33.7	8.6	42.3	20.0	41.0
(3)	1970	90.4	66.0	14.4	80.4	36.0	39.9
(4)	1975	122.4	156.6	23.2	179.9	95.3	77.9
(5)	1980	244.1	283.0	52.5	335.5	177.7	72.8
(6)	1981	285.9	330.3	68.7	399.0	216.3	75.7
(7)	1982	297.7	363.5	84.7	448.2	246.7	82.9
(8)	1983	288.9	402.8	87.8	490.7	281.8	97.5
(9)	1985	332.1	452.6	120.9	573.5	301.0	90.6
(10)	1990	553.9	764.0	252.3	1,016.3	578.4	104.4
(11)	1995	965.5	1,338.9	540.9	1,879.8	1,117.4	115.7
(12)	2000	1,608.0	2,440.0	1,520.7	3,960.7	2,607.4	162.1
	Avg. Ann. % Inc./(Dec.)						
(13)	1962-1983	9.2%	13.2%	12.9%	13.2%	13.6%	NA
(14)	1965-1983	10.4	14.8	13.8	14.6	15.8	NA
(15)	1980-1983	5.8	12.5	18.7	13.5	16.6	NA
(16)	1983-2000	10.6	11.2	18.3	13.1	14.0	NA

Of particular note is the last column, showing Federal contributions to transfer programs (i.e., excluding the revenues from the five specially funded programs) plus net interest as a percent of personal income taxes. This measure stood at 42.5% in 1962. The 1983 level was at 97.5% -- almost all the income taxes are expended in these programs. By 2000 this percentage is expected to rise to 162.1%.

PPSSCC Savings

The PPSSCC identified savings possibilities both within individual agencies and across government. This approach inevitably resulted in some overlapping or duplication of savings recommended in different reports. Also, although this scheme of reporting makes it easy to determine where, and by whom, action should be taken, it does not correspond precisely with the Federal budget system of identifying outlays by function and subfunction. Conversely, the DRI model corresponds exactly to the Federal system of accounts.

In order to put the savings recommendations in a form in which they could be analyzed using the DRI model, several steps were taken.

- Each recommendation was determined to be either a one-time saving or an ongoing saving. One-time savings are primarily cash accelerations, while ongoing savings are generally cost reductions or revenue generations. In some cases the recommendation resulted in savings over several years, but fewer than the seventeen-year time horizon of PPSSCC. Here the present value of the saving stream was calculated and treated as a one-time saving.

- All recommendations touching on the same or related activities were carefully screened for overlaps and duplications, which were then eliminiated -- i.e., the savings were only counted once.

- After being divided into the one-time and ongoing categories and after eliminating duplications, all savings were phased in over a five-year period beginning in 1984, as follows:

	Savings Implementation	
Fiscal Year	One-Time	Ongoing
1984	10%	10%
1985	20	30
1986	30	60
1987	20	80
1988	20	100

- Finally, the savings were assigned to specific subfunctions in the Federal budget system.

Each recommendation clearly falling under a specific subfunction in the Federal accounts was assigned to that subfunction. In cases where a recommendation covered more than one subfunction, the savings were allocated. In cases such as Personnel, savings were allocated to subfunctions based on the payroll associated with each subfunction; or for general Research and Development, savings were allocated based on obligations earmarked for R&D by agency -- e.g., NASA.

The following summarizes actual Federal finances from 1962 through 1983 and projected through 2000, assuming all the PPSSCC recommendations are implemented, but nothing else in the economy changes from the Status Quo of Present Policies Case, e.g. no increases or decreases in tax rates.

Federal Revenues and Outlays,
1962-2000: PPSSCC Savings
($ Billions)

		(1)	(2)	(3)	(4)
	Fiscal Year	Total Revenues	Total Outlays	Surplus/ (Deficit)	Outlays as A Multiple of Revenues
(1)	1962	$ 99.7	$ 106.8	$ (7.1)	1.07X
(2)	1965	116.8	118.4	(1.6)	1.01
(3)	1970	192.8	195.7	(2.8)	1.01
(4)	1975	279.1	324.2	(45.2)	1.16
(5)	1980	517.1	576.6	(59.6)	1.12
(6)	1981	599.3	657.2	(57.9)	1.10
(7)	1982	617.8	728.4	(110.6)	1.18
(8)	1983	600.6	795.9	(195.4)	1.33
(9)	1985	758.5	894.2	(135.7)	1.18
(10)	1990	1,173.2	1,199.8	(26.6)	1.02
(11)	1995	1,807.8	1,870.3	(62.6)	1.03
(12)	2000	3,052.7	3,089.9	(37.1)	1.01
	Avg. Ann. % Inc./(Dec.)				
(13)	1962-1983	8.9%	10.1%	17.1%	NA
(14)	1965-1983	9.5	11.2	30.6	NA
(15)	1980-1983	5.1	11.3	48.6	NA
(16)	1983-2000	10.0	8.3	(9.3)	NA

From $600.6 billion in 1983, revenues are projected to increase to $3.1 trillion in 2000, a 10.0% per year annual increase. Outlays are projected to increase at 8.3% per year over the period -- 1.7% points slower than revenues -- and to reach $3.1 trillion in 2000. This more rapid growth of revenues compared to outlays is projected to decrease -- but not eliminate -- the deficit to $37 billion by 2000.

As brought out in column 4, outlays as a Multiple of Revenues are projected to drop from the peak of 1.33x in 1983 to 1.18x in 1985, and then remain in the 1.01x-1.03x range during 1990-2000. The surge in 1983 to 1.33x occured as tax revenues fell and unemployment and other transfer payments increased because of the recession.

The following summarizes the economic environment consistent with DRI's PPSSCC savings projections:

(Table on following page)

Economic Environment
For DRI Projections: PPSSCC Savings

	Fiscal Year	(1) Nominal GNP	(2) Real GNP	(3) Inflation	(4) High Grade Corporate Bond Rate	(5) 3-Month T-Bill Rate	(6) Unem-ployment Rate	(7) Industrial Production	(8) Real Business Fixed Investment	(9) Housing Starts	(10) Federal Spending $ Billions	(11) Federal Spending % of GNP	(12) Surplus/(Deficit) $ Billions	(13) Surplus/(Deficit) % of GNP
		---(Avg. Ann. % Inc/(Dec))---			------(Avg. For Period)------			(Avg. Ann. % Inc/(Dec)		(Avg. For Period) (000)	-------------(End of Period)-------------			
(1)	1962-1983	8.8%	3.2%	5.5%	8.19%	6.54%	5.8%	3.4%	4.1%	1,558	$ 795.9	24.6%	$ (195.4)	(6.0)%
(2)	1962-1980	9.0	3.6	5.2	7.30	5.72	5.3	4.2	5.0	1,606	576.7	22.4	(59.6)	(2.3)
(3)	1962-1970	7.4	4.2	3.1	5.63	4.59	4.2	5.8	6.7	1,429	195.7	20.2	(2.8)	(0.3)
(4)	1970-1980	10.3	3.1	6.9	8.63	6.62	6.2	3.0	3.7	1,748	576.7	22.4	(59.6)	(2.3)
(5)	1980-1983	7.8	0.7	7.1	13.58	11.49	8.8	(1.5)	(1.3)	1,270	795.9	24.6	(195.4)	(6.1)
	Projected													
(6)	1983-1985	8.4%	3.8%	4.4%	11.19%	8.09%	8.7%	6.4%	4.9%	1,728	$ 894.2	23.6%	$ (135.7)	(3.6)%
(7)	1985-1990	8.5	3.5	4.8	9.95	6.22	7.4	4.9	5.1	1,690	1,199.8	21.1	(26.6)	(0.5)
(8)	1990-1995	8.8	2.4	6.2	10.05	6.78	6.7	2.9	3.1	1,606	1,870.3	21.6	(62.6)	(0.7)
(9)	1995-2000	9.3	1.9	7.3	11.33	8.99	7.1	2.3	2.4	1,521	3,089.9	22.8	(37.1)	(0.3)
(10)	1983-2000	8.8	2.7	5.9	10.53	7.42	7.2	3.7	3.7	1,620	3,089.9	22.8	(37.1)	(0.3)

As shown, the long-term projections to 2000 for nominal and real GNP, and hence, inflation are all in line with the 1962-1983 experience:

- Nominal GNP projected up 8.8% per year vs. 8.8%, 1962-1983.
- Real GNP projected up 2.7% per year vs. 3.2%, 1962-1983.
- Inflation projected at 5.9% vs. 5.5%, 1962-1983.

All of these long-term projections are quite favorable to the recent past, with nominal GNP growing at 7.8% per year, real GNP up 0.7% per year, and an inflation rate of 7.1%, all 1980-1983 (line 5, cols. 1-3).

Yields on Treasury Bills are also expected to return to close to historical levels, dropping from an 11.49% average during 1980-1983, to 8.09%, 1984-1985 and 7.42%, 1984-2000. Corporate bond rates are projected to continue to remain high, however, -- although lower than current levels -- as follows:

Nominal and
Real Interest Rates,
1963-2000: PPSSCC Savings

	Fiscal Year	(1) Inflation	(2) High Grade Corp. Bond Rate Nominal	(3) High Grade Corp. Bond Rate Real	(4) 3-Month T-Bill Rate Nominal	(5) 3-Month T-Bill Rate Real
(1)	1963-1983	5.5%	8.21%	3.76%	6.57%	1.40%
(2)	1963-1980	5.2	7.32	3.35	5.75	0.83
(3)	1963-1970	3.1	5.62	3.44	4.55	1.85
(4)	1971-1980	6.9	8.68	3.27	6.71	0.01
(5)	1981-1983	7.1	13.58	6.21	11.49	4.86
	Projected					
(6)	1984-1985	4.4%	11.19%	5.36%	8.09%	3.95%
(7)	1986-1990	4.8	9.95	4.75	6.22	1.26
(8)	1991-1995	6.2	10.05	4.35	6.78	0.53
(9)	1996-2000	7.3	11.33	4.66	8.99	1.85
(10)	1984-2000	5.9	10.53	4.68	7.42	1.54
(11)	Memo: 2000	7.3	12.15	5.24	10.33	3.19

Real rates for high-grade corporates are projected to average 4.68% over the 1984-2000 period -- 92 basis points above the 1963-1983 average -- as they first decline, then rise to 5.24% by 2000. Real rates for T-Bills are projected to average 1.54% -- 14 basis points above the 1963-1983 average -- as they fall to an average 0.53% during 1991-1995, before rising to 3.19%.

The healthy economy and lower real interest rates combine to stimulate investment. At 3.7% per year, business fixed investment is the fastest growing sector of the U.S. economy over the 1983-2000 period. Industrial production also grows at 3.7% per year, 1983-2000, 8.8% faster than the 1962-1983 rate of 3.4%, and a sharp reversal from the (1.5)% per year decline, 1980-1983.

Employment benefits, as the unemployment rate trends down from an average of 8.8% during 1980-1983 to 6.7% during 1990-1995. During 1995-2000, the unemployment rate moves back up to 7.1%.

As a percent of GNP, Federal spending drops from the 1983 level of 24.6% to 21.1% in 1990, before rising to 22.8% in 2000. The deficit as a percent of GNP virtually disappears, falling from 6.1% in 1983 to 0.3% in 2000, its lowest level since 1969 -- when there was a surplus.

The following provides more detail on the revenue side of the projections.

(Table on following page)

Federal Government Receipts
by Type, 1962-2000: PPSSCC Savings
($ Billions)

	Fiscal Year	(1) Personal Income Taxes	(2) Five Specially Funded Social Programs	(3) All Other	(4) Total
(1)	1962	$ 45.6	$ 17.0	$ 37.1	$ 99.7
(2)	1965	48.8	22.3	45.8	116.8
(3)	1970	90.4	44.4	58.0	192.8
(4)	1975	122.4	84.5	72.2	279.1
(5)	1980	244.1	157.8	115.2	517.1
(6)	1981	285.9	182.7	130.6	599.3
(7)	1982	297.7	201.5	118.5	617.8
(8)	1983	288.9	208.9	102.7	600.6
(9)	1985	348.7	270.3	139.5	758.5
(10)	1990	551.6	416.5	205.1	1,173.2
(11)	1995	907.9	665.4	234.5	1,807.8
(12)	2000	1,546.8	1,118.4	387.5	3,052.7
		Average Annual Percent Increase/(Decrease)			
(13)	1962-1983	9.2%	12.7%	5.0%	8.9%
(14)	1965-1983	10.4	13.2	4.6	9.5
(15)	1980-1983	5.8	9.8	(3.8)	5.1
(16)	1983-2000	10.4	10.4	8.1	10.0
		As a Percent of Total			
(17)	1962	45.7%	17.1%	37.2%	100.0%
(18)	1965	41.8	19.1	39.2	100.0
(19)	1970	46.9	23.0	30.1	100.0
(20)	1975	43.9	30.3	25.9	100.0
(21)	1980	47.2	30.5	22.3	100.0
(22)	1981	47.7	30.5	21.8	100.0
(23)	1982	48.2	32.6	19.2	100.0
(24)	1983	48.1	34.8	17.1	100.0
(25)	1985	46.0	35.6	18.4	100.0
(26)	1990	47.0	35.5	17.5	100.0
(27)	1995	50.2	36.8	13.0	100.0
(28)	2000	50.7	36.6	12.7	100.0
		As a Percent of GNP			
(29)	1962	8.3%	3.1%	6.8%	18.2%
(30)	1965	7.4	3.4	6.9	17.7
(31)	1970	9.3	4.6	6.0	19.9
(32)	1975	8.3	5.7	4.9	18.9
(33)	1980	9.5	6.1	4.5	20.1
(34)	1981	9.9	6.3	4.5	20.8
(35)	1982	9.7	6.6	3.9	20.2
(36)	1983	8.9	6.5	3.2	18.6
(37)	1985	9.2	7.1	3.7	20.0
(38)	1990	9.7	7.3	3.6	20.6
(39)	1995	10.5	7.7	2.7	20.8
(40)	2000	11.4	8.3	2.9	22.5

Personal income taxes (col. 1) and revenues for the five specially funded transfer programs (col. 2) -- Social Security, Medicare, Railroad Retirement, Civil Service Retirement, and Unemployment Insurance -- are each projected to increase an average 10.4% per year, 1983-2000. All other revenues (col. 3) -- chiefly corporation income taxes, but also including excise taxes, estate and gift taxes, customs duties, deposits of earnings by the Federal Reserve System, and other miscellaneous receipts -- are projected to increase at just 8.1% per year.

All three categories are projected to retain their current approximate shares of total revenues because of their roughly similar growth rates -- i.e., 8.1% to 10.4% per year. In contrast, from 1962 to 1983, revenues earmarked for the five specially funded transfer programs more than doubled as a percent of total, increasing from a 17.1% share to 34.8%. The share of personal income taxes also rose over this period -- largely because of bracket creep -- from 45.7% in 1962 to 48.1% in 1983. Thus, the share of other revenues in the total fell by 54% -- from 37.2% in 1962 to 17.1% in 1983.

Both personal income taxes and revenues earmarked for the five specially funded transfer programs are projected to increase as a percent of GNP, but other revenues edge down from 3.2% in 1983 to 2.9% in 2000, i.e., the 8.8% growth of nominal GNP projected for 1983-2000 is slower than those for income taxes and social insurance and only slightly faster than that for other revenues.

The following table summarizes outlays by function:

(Table on following page)

Outlays by Function, 1962-2000: PPSSCC Savings
($ Billions)

	Fiscal Year	(1) National Defense	(2) Education, Training, Employment & Social Services	(3) Health	(4) Income Security	(5) Veterans Benefits	(6) All Other Except Interest	(7) Subtotal Before Interest	(8) Net Interest	(9) Total	(10) Surplus/ (Deficit)
(1)	1962	$ 49.0	$ 1.2	$ 1.2	$ 22.7	$ 5.6	$ 20.2	$ 99.9	$ 6.9	$ 106.8	$ (7.1)
(2)	1965	47.5	2.1	1.8	25.7	5.7	27.0	109.8	8.6	118.4	(1.6)
(3)	1970	78.6	8.6	12.1	43.1	8.7	30.2	181.3	14.4	195.7	(2.8)
(4)	1975	85.6	15.9	25.7	108.6	16.6	48.7	301.2	23.2	324.2	(45.2)
(5)	1980	135.6	30.8	55.2	193.1	21.2	88.4	524.2	52.5	576.7	(59.6)
(6)	1981	159.8	31.4	66.0	225.1	23.0	83.2	588.5	68.7	657.2	(57.9)
(7)	1982	187.4	26.3	74.0	248.3	24.0	83.6	643.7	84.7	728.4	(110.6)
(8)	1983	210.5	25.7	81.2	280.2	24.8	85.7	708.1	87.8	795.9	(195.4)
(9)	1985	250.9	26.5	94.7	306.5	25.6	76.8	781.0	113.3	894.2	(135.7)
(10)	1990	365.8	30.0	137.8	483.8	27.4	65.8	1,110.6	89.2	1,199.8	(26.6)
(11)	1995	588.8	34.6	218.7	842.4	37.6	85.9	1,808.0	62.3	1,870.3	(62.6)
(12)	2000	937.4	45.1	385.4	1,474.9	53.8	118.1	3,014.8	75.1	3,089.9	(37.1)
	Avg. Ann. % Inc./(Dec.)										
(13)	1962-1983	7.2%	15.5%	22.2%	12.7%	7.3%	7.1%	9.8%	12.9%	10.0%	17.1%
(14)	1965-1983	8.6	14.8	23.6	14.2	8.5	6.6	10.9	13.8	11.2	30.6
(15)	1980-1983	15.8	(5.8)	13.7	13.2	5.5	(1.0)	10.5	18.7	11.3	48.6
(16)	1983-2000	9.2	3.4	9.6	10.3	4.7	1.9	8.9	(0.9)	8.3	(9.3)
	As a Percent of Total										
(17)	1962	45.9%	1.2%	1.1%	21.2%	5.3%	18.9%	93.6%	6.4%	100.0%	(6.7)%
(18)	1965	40.1	1.8	1.5	21.7	4.8	22.8	92.8	7.2	100.0	(1.3)
(19)	1970	40.1	4.4	6.2	22.0	4.4	15.5	92.7	7.3	100.0	(1.5)
(20)	1975	26.4	4.9	7.9	33.5	5.1	15.0	92.8	7.2	100.0	(13.9)
(21)	1980	23.5	5.3	9.6	33.5	3.7	15.3	90.9	9.1	100.0	(10.3)
(22)	1981	24.3	4.8	10.0	34.3	3.5	12.7	89.5	10.5	100.0	(8.8)
(23)	1982	25.7	3.6	10.2	34.1	3.3	11.5	88.4	11.6	100.0	(15.2)
(24)	1983	26.4	3.2	10.2	35.2	3.1	10.8	89.0	11.0	100.0	(24.5)
(25)	1985	28.1	3.0	10.6	34.3	2.9	8.6	87.3	12.7	100.0	(15.2)
(26)	1990	30.5	2.5	11.5	40.3	2.3	5.5	92.6	7.4	100.0	(2.2)
(27)	1995	31.5	1.8	11.7	45.0	2.0	4.6	96.7	3.3	100.0	(3.3)
(28)	2000	30.3	1.5	12.5	47.7	1.7	3.8	97.6	2.4	100.0	(1.2)
	As a Percent of GNP										
(29)	1962	8.9%	0.2%	0.2%	4.1%	1.0%	3.7%	18.2%	1.3%	19.5%	(1.3)%
(30)	1965	7.2	0.3	0.3	3.9	0.9	4.1	16.7	1.3	18.0	(0.2)
(31)	1970	8.1	0.9	1.3	4.4	0.9	3.1	18.7	1.5	20.2	(0.3)
(32)	1975	5.8	1.1	1.7	7.3	1.1	3.3	20.4	1.6	21.9	(3.1)
(33)	1980	5.3	1.2	2.1	7.5	0.8	3.4	20.4	2.0	22.4	(2.3)
(24)	1981	5.5	1.1	2.3	7.8	0.8	2.9	20.4	2.4	22.8	(2.0)
(25)	1982	6.1	0.9	2.4	8.1	0.8	2.7	21.1	2.8	23.8	(3.6)
(26)	1983	6.5	0.8	2.5	8.7	0.8	2.7	21.9	2.7	24.6	(6.0)
(27)	1985	6.6	0.7	2.5	8.1	0.7	2.0	20.6	3.0	23.6	(3.6)
(28)	1990	6.4	0.5	2.4	8.5	0.5	1.2	19.5	1.6	21.1	(0.5)
(29)	1995	6.8	0.4	2.5	9.7	0.4	1.0	20.8	0.7	21.6	(0.7)
(30)	2000	6.9	0.3	2.8	10.9	0.4	0.9	22.3	0.6	22.8	(0.3)

Except for National Defense, the rate of increase of spending is projected to slow from the 1962-1983 period. National Defense, which was $210.5 billion in 1983 is projected to grow at 9.2% per year to 2000 when it will reach $937 billion. The projected rate is 2.0% points faster than during 1962-1983 but (6.6)% points less rapidly than the 15.8% rate of 1980-1983.

Despite the acceleration from its long-term growth trend, Defense spending is projected to remain fairly constant as a percent of GNP, rising from 6.5% in 1983 to about 6.9% in 2000. In contrast, during the 1962-1971 period, defense outlays ranged from 7.2% of GNP to 9.4%. As a percent of total outlays, defense expenditures are projected to rise from 26.4% in 1983 to 30.3% in 2000.

While the other categories of expenditures are projected to decelerate, the major social programs are still expected to increase rapidly. Thus, expenditures for Health Programs (column 3) which grew at 22.2% per year, 1962-1983, and 13.7% per year, 1980-1983, are projected to increase 9.6% per year, 1983-2000, reaching $385 billion or 12.5% of total outlays. Income Security Programs -- the largest component of total outlays -- are projected to slow from 12.7% per year growth during 1962-1983 and the 13.2% rate of 1980-1983 to 10.3%, 1983-2000, and reach $1.5 trillion, or 47.7% of the total.

Alone among the expenditure categories shown, net interest (col. 8) is projected to decrease over the projection period, falling (0.9)% per year compared to a 12.9% per year average increase during 1962-1983 and 18.7% per year, 1980-1983. At $75.1 billion in 2000, it accounts for only 2.4% of total outlays, compared to 11.0% in 1983. By contrast, outlays before interest grow at 8.9%, 1983-2000 -- 9.8% point faster than net interest -- and rise from 89.0% of total spending in 1983 to 97.6% in 2000.

As a percent of GNP, net interest decreases by 2.1% points from 2.7% in 1983 to 0.6% by 2000, compared to a 1.8% point decrease in total outlays from 24.6% of GNP in 1983 to 22.8% in 2000, while spending before interest increases slightly, from 21.9% in 1983 to 22.3% in 2000. The deficit as a percent of GNP drops quickly -- from 6.0% in 1983 to 3.6% in 1985 and 0.5% in 1990 -- and then remains between 0.3% and 0.7% of GNP through 2000. The following table provides further perspective on the relation of interest, total spending, and the deficit:

(Table on following page)

Net Interest and the Deficit,
1962-2000: PPSSCC Savings
($ Billions)

	Fiscal Year	(1) Total Revenues	(2) Outlays: Excluding Interest	(3) Outlays: Net Interest	(4) Outlays: Total Outlays	(5) Surplus/(Deficit): Before Net Interest	(6) Surplus/(Deficit): Including Interest	(7) Net Interest as a % of the Deficit
(1)	1962	$ 99.7	$ 99.9	$ 6.9	$106.8	$(0.3)	$ (7.1)	96.4%
(2)	1965	116.8	109.8	8.6	118.4	7.0	(1.6)	537.5
(3)	1970	192.8	181.3	14.4	195.7	11.5	(2.8)	505.2
(4)	1975	279.1	301.2	23.2	324.4	(22.1)	(45.3)	51.3
(5)	1980	517.1	524.2	52.5	576.7	(7.1)	(59.6)	88.1
(6)	1981	599.3	588.5	68.7	657.2	10.8	(57.9)	118.6
(7)	1982	617.8	643.7	84.7	728.4	(25.9)	(110.6)	76.6
(8)	1983	600.6	708.1	87.8	795.9	(107.5)	(195.4)	45.0
(9)	1985	758.5	781.0	113.3	894.2	(22.5)	(135.7)	83.5
(10)	1990	1,173.2	1,110.6	89.2	1,199.8	62.6	(26.6)	335.1
(11)	1995	1,807.8	1,808.0	62.3	1,870.3	(0.2)	(62.6)	99.7
(12)	2000	3,052.7	3,014.8	75.1	3,089.9	37.9	(37.1)	202.1
Avg. Ann. % Inc./(Dec)								
(13)	1962-1983	8.9%	9.8%	12.9%	10.0%	33.3%	17.1%	
(14)	1965-1983	9.5	10.9	13.8	11.2	ND	30.6	
(15)	1980-1983	5.1	10.5	18.7	11.3	147.4	48.6	
(16)	1983-2000	10.0	8.9	(0.9)	8.3	ND	(9.3)	

Except for interest on the debt, the Federal government would have surpluses of $62.6 billion in 1990 and $37.9 billion in 2000, instead of deficits of $(26.6) billion and $(37.1) billion, respectively. Looked at another way, net interest as a percent of the deficit is projected to jump from 45.0% in 1983 to 335.1% in 1990, drop to 99.7% by 1995, and then jump to 202.1% in 2000.

An alternative way of looking at Federal expentitures is to group them into payments for individuals, or transfer payments, and other outlays -- i.e., net interest, the purchase of goods and services, etc., as follows:

(Table on following page)

Transfer Payments and
Other Outlays, 1962-2000: PPSSCC Savings
($ Billions)

	Fiscal Year	(1) Total Transfer Payments	(2) Other Outlays: Net Interest	(3) Other Outlays: National Defense(a)	(4) Other Outlays: All Other Outlays	(5) Total Outlays
(1)	1962	$ 29.5	$ 6.9	$ 48.1	$ 22.2	$ 106.8
(2)	1965	33.7	8.6	46.1	30.1	118.4
(3)	1970	66.0	14.4	75.7	39.6	195.7
(4)	1975	156.6	23.2	79.3	65.1	324.2
(5)	1980	283.0	52.5	123.7	117.5	576.7
(6)	1981	330.3	68.7	146.0	112.1	657.2
(7)	1982	363.5	84.7	172.5	107.7	728.4
(8)	1983	402.8	87.8	194.3	111.0	795.9
(9)	1985	446.0	113.3	233.6	101.4	894.2
(10)	1990	678.4	89.2	340.8	91.3	1,199.8
(11)	1995	1,148.6	62.3	549.1	110.3	1,870.3
(12)	2000	1,998.4	75.1	874.5	142.0	3,089.9
		Average Annual Percent Increase/(Decrease)				
(13)	1962-1983	13.2%	12.9%	6.9%	8.0%	10.0%
(14)	1965-1983	14.8	13.8	8.3	7.5	11.2
(15)	1980-1983	12.5	18.7	16.2	(1.9)	11.3
(16)	1983-2000	9.9	(0.9)	9.3	1.5	8.3
		As a Percent of Total				
(17)	1962	27.7%	6.4%	45.1%	20.8%	100.0%
(18)	1965	28.4	7.2	38.9	25.4	100.0
(19)	1970	33.7	7.3	38.7	20.2	100.0
(20)	1975	48.3	7.2	24.5	20.1	100.0
(21)	1980	49.1	9.1	21.4	20.4	100.0
(22)	1981	50.3	10.5	22.2	17.1	100.0
(23)	1982	49.9	11.6	23.7	14.8	100.0
(24)	1983	50.6	11.0	24.4	13.9	100.0
(25)	1985	49.9	12.7	26.1	11.3	100.0
(26)	1990	56.5	7.4	28.4	7.6	100.0
(27)	1995	61.4	3.3	29.4	5.9	100.0
(28)	2000	64.7	2.4	28.3	4.6	100.0
		As a Percent of GNP				
(29)	1962	5.4%	1.3%	8.8%	4.1%	19.5%
(30)	1965	5.1	1.3	7.0	4.6	18.0
(31)	1970	6.8	1.5	7.8	4.1	20.2
(32)	1975	10.6	1.6	5.4	4.4	21.9
(33)	1980	11.0	2.0	4.8	4.6	22.4
(34)	1981	11.5	2.4	5.1	3.9	22.8
(35)	1982	11.9	2.8	5.6	3.5	23.8
(36)	1983	12.5	2.7	6.0	3.4	24.6
(37)	1985	11.8	3.0	6.2	2.7	23.6
(38)	1990	11.9	1.6	6.0	1.6	21.1
(39)	1995	13.2	0.7	6.3	1.3	21.6
(40)	2000	14.8	0.6	6.5	1.0	22.8

(a) Military pensions are a transfer payment and, hence, are excluded from national defense outlays in this table.

As shown in the table, transfer payments and outlays for National Defense -- excluding military pensions -- are both projected to grow between 9% and 10% per year, 1983-2000. All other outlays except interest -- those, which along with National Defense comprise the traditional functions of government -- are projected to increase at only 1.5% per year, i.e., 4.4% points slower than inflation. This slow growth is a direct result of the task force recommendations, which enable economies to be realized in these programs. Thus, after increasing at 8.0% per year, 1962-1983, All Other Outlays are projected to fall (17.7)% between 1983 and 1990 -- (2.7)% per year. Modest growth then resumes in these programs and spending increases 3.8% per year, 1990-1995, and 5.2% per year, 1995-2000. As a percent of total, these outlays fall by (66.9)%, from 13.9% in 1983 to 4.6% in 2000, and as a percent of GNP they drop from the 3.4%-4.6% range they occupied during 1962-1983 to just 1.0% in 2000.

As noted above, net interest is projected to drop 0.9% per year, 1983-2000, as a result of the PPSSCC recommendations, and to account for only 2.4% of total outlays in 2000. By comparison, transfer payments at $2.0 trillion in 2000 are projected to account for 64.7% of all outlays, and 14.8% of GNP -- both all time highs. The following table shows details on payments for individuals:

(Table on following page)