

THE WHITE HOUSE
WASHINGTON

July 6, 1987

NOTE TO: SENATOR BAKER

Dan wanted you to have the attached.

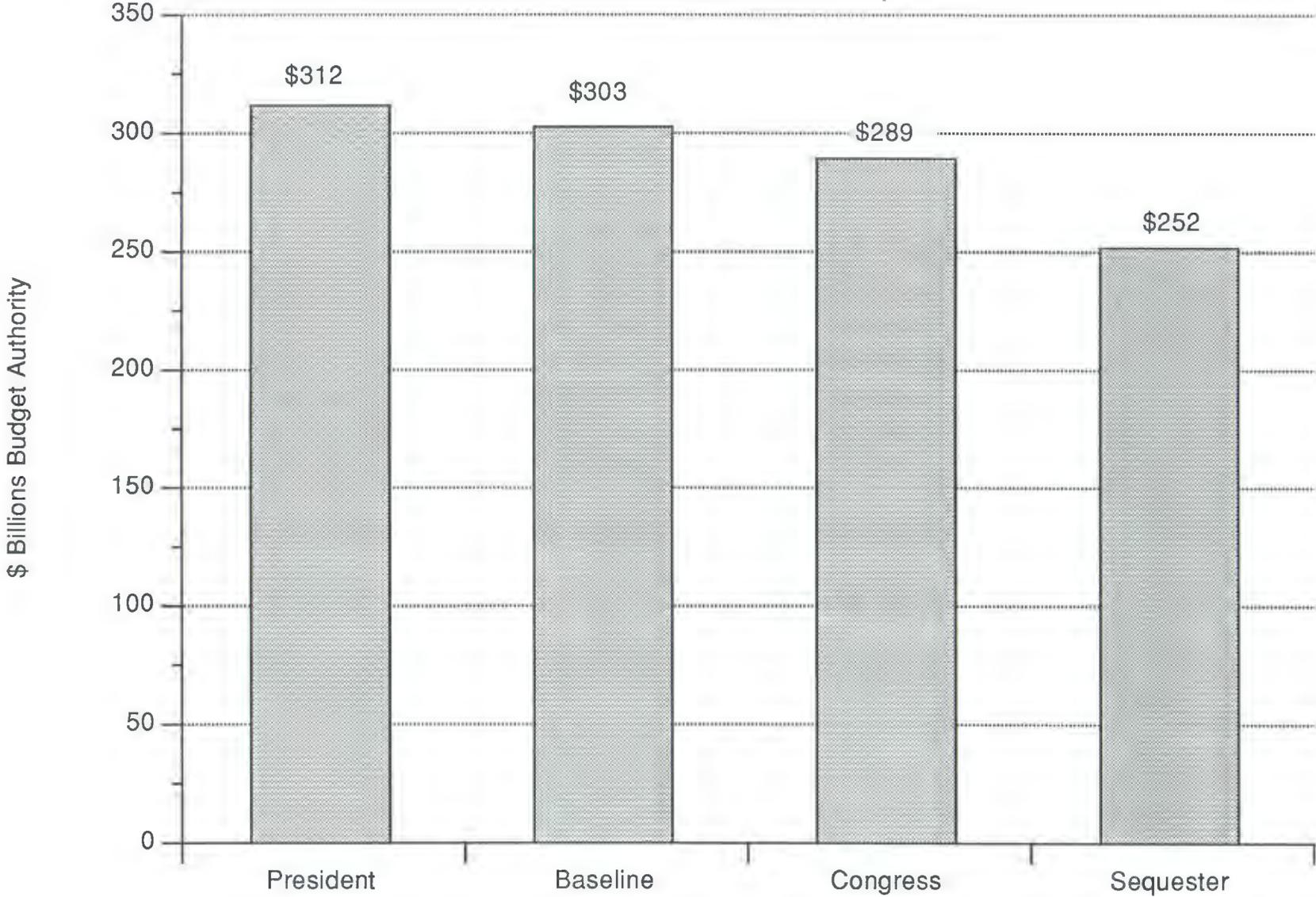
He is basically asking if you like
this format or not.

JOHN C. TUCK
EXECUTIVE ASSISTANT
TO THE CHIEF OF STAFF

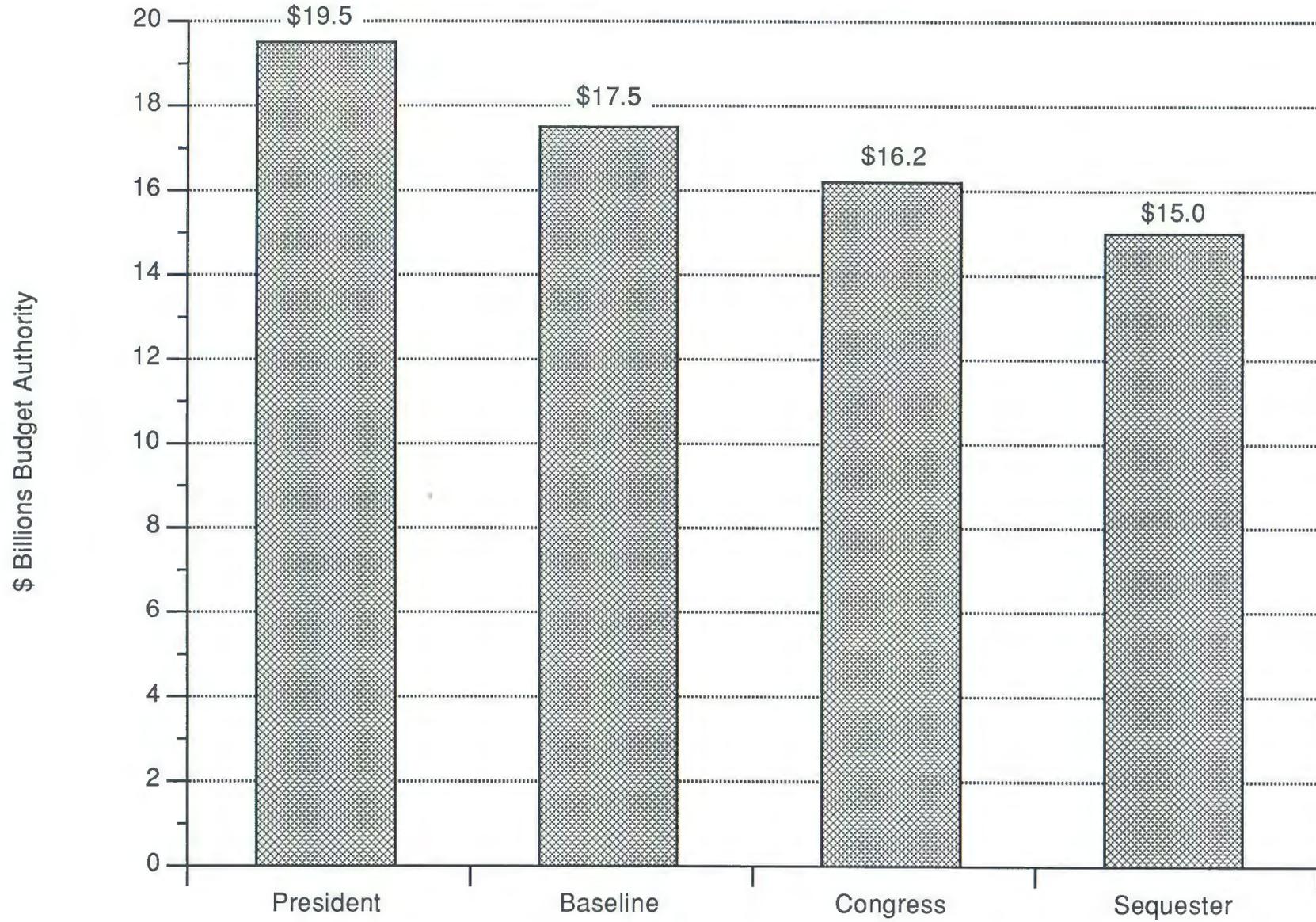
	President	Baseline	Congress	Sequester
Defense				
BA	311.8	302.7	289.0	252.0
Outlays	298.3	290.5	283.6	263.0
International Affairs				
BA	19.5	17.5	16.2	15.0
Outlays	17.4	16.8	16.1	15.0
Social Security	220.8	221.0	220.8	220.7
Entitlements	278.4	292.7	290.6	289.5
Other Domestic	140.0	150.2	147.8	133.3
Net Interest	139.0	140.4	139.2	140.4
Offsetting Receipts	-40.4	-40.4	-40.4	-40.4
New Offsetting Receipts	-13.7	0.0	-8.2	-0.3
Total Outlays	1039.8	1071.2	1049.5	1021.2
Receipts	905.5	900.5	921.6	900.5
Deficit	134.3	170.7	127.9	120.7

	President	Baseline	Congress	Sequester	Plan 1	Plan 2
Defense						
BA	311.8	302.7	289.0	252.0	296.0	301.0
Outlays	298.3	290.5	283.6	263.0	289.5	292.2
International Affairs						
BA	19.5	17.5	16.2	15.0	17.1	17.1
Outlays	17.4	16.8	16.1	15.0	14.6	14.6
Social Security	220.8	221.0	220.8	220.7	220.8	220.8
Entitlements	278.4	292.7	290.6	289.5	287.7	286.5
Other Domestic	140.0	150.2	147.8	133.3	144.8	143.3
Net Interest	139.0	140.4	139.2	140.4	139.2	139.2
Offsetting Receipts	-40.4	-40.4	-40.4	-40.4	-40.4	-40.4
New Offsetting Receipts	-13.7	0.0	-8.2	-0.3	-15.9	-15.9
Total Outlays	1039.8	1071.2	1049.5	1021.2	1040.3	1040.3
Receipts	905.5	900.5	921.6	900.5	906.5	906.5
Deficit	134.3	170.7	127.9	120.7	133.8	133.8

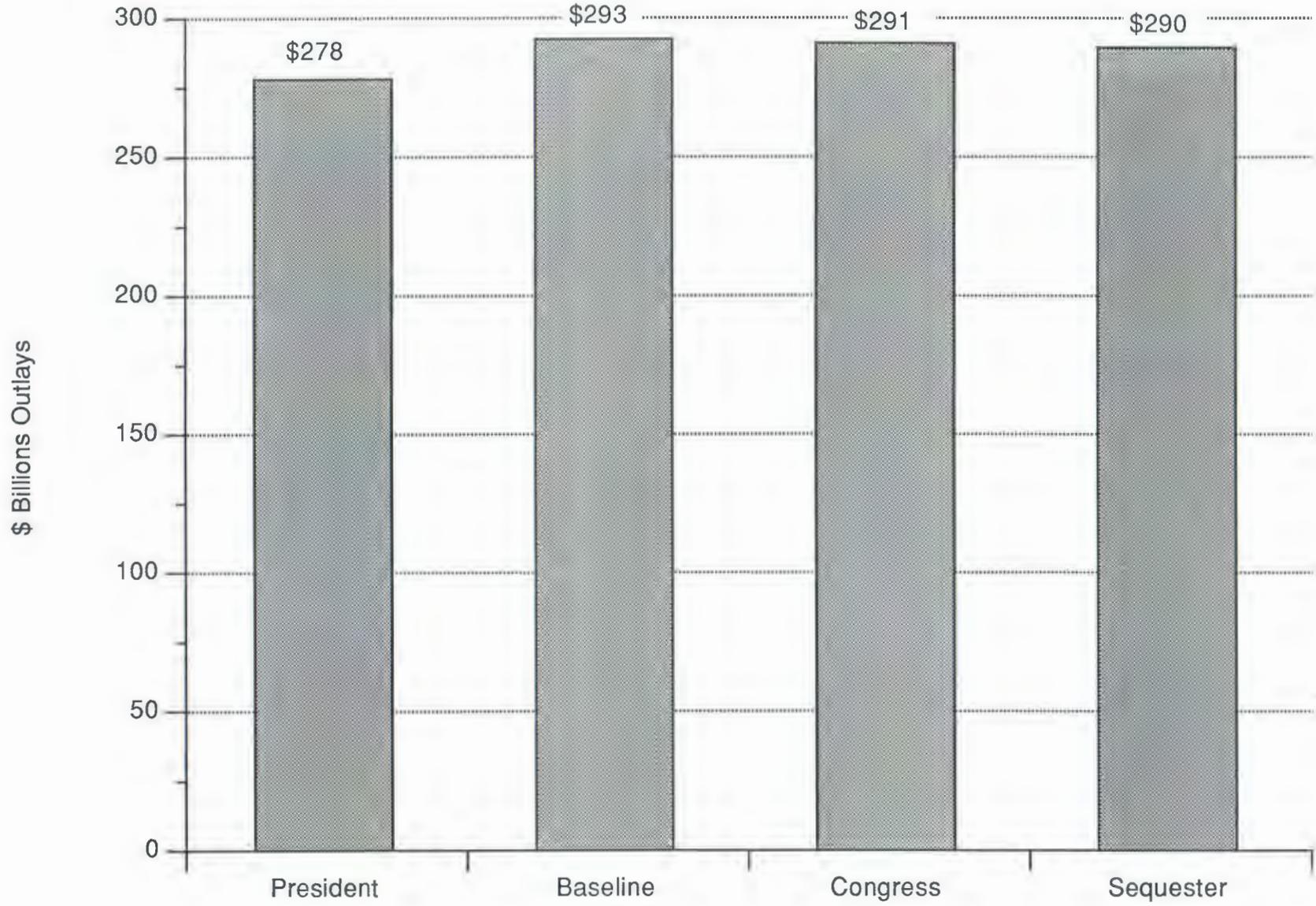
Defense
FY 1988
Budget Authority



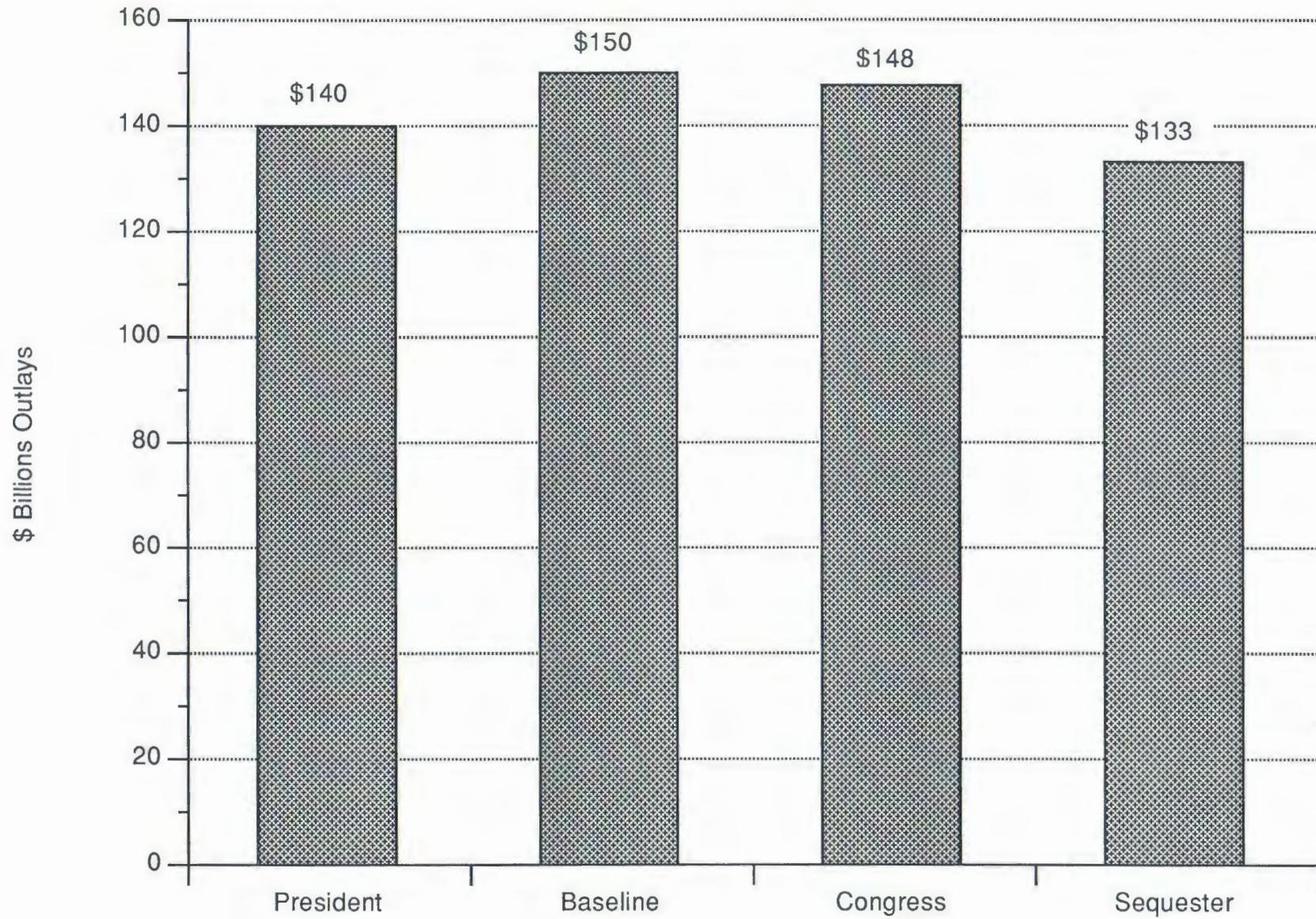
**International Affairs
FY 1988
Budget Authority**



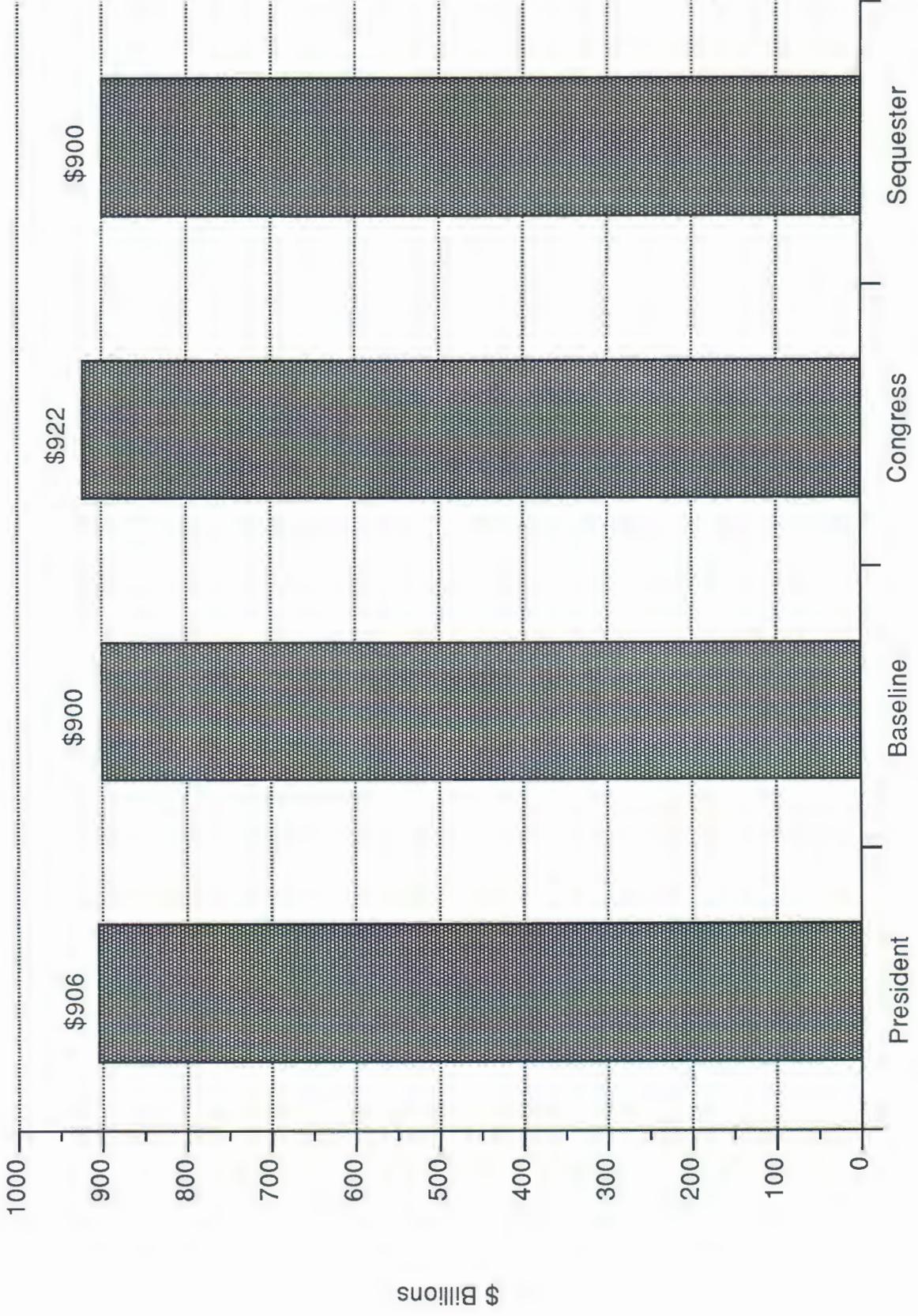
**Non-S.S. Entitlements
FY 1988
Outlays**



Domestic Discretionary
FY 1988
Outlays



Receipts
FY 1988





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

*July 8, 1987
Mid-Session
Review mtg.*

July 7, 1987

MEMORANDUM FOR: ✓ JIM MILNER
JOE WRIGHT
FROM: *Wayne Army*
SUBJECT: Memo on 302/296/289

Attached is our memo on the effects of the 302/296/289 levels. I have also included a copy of my May 8th memo on the effects of sequester.

I am also having the budget comparison tables updated from the 1988 Defense Director's Review. They will compare simply the three percent Real Growth request with the 302/296/289 levels. It should be ready by 6:00 p.m. this evening.

Attachment

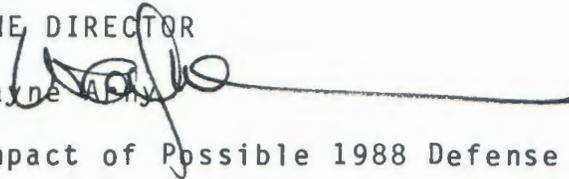


EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 7, 1987

MEMORANDUM FOR THE DIRECTOR

FROM:

Wayne A. 

SUBJECT:

Impact of Possible 1988 Defense Budget Cuts

You asked for the likely programmatic effects of reductions in FY 1988 budget authority in the National Defense (050) function to the following levels:

- o \$302.7 billion, the CBO baseline level and the level reached in the Senate Armed Services Committee mark-up;
- o \$296 billion, the high tier budget resolution level requiring additional taxes of about \$15 billion over the President's Budget request;
- o \$289 billion, the low tier budget resolution level, the level reached in House action on the authorization bill, and the level now assumed in House appropriations mark-up.

(We will also describe the effects that could result if Congress requires us to achieve the artificially low outlay levels provided in the budget resolution; and also the programmatic effect of a possible Gramm-Rudman sequester.)

Table 1 allocates the \$302.7 billion, \$296 billion and \$289 billion levels to major defense budget categories. The allocations are based on House and Senate authorization action to date, and on our estimate of conference action and appropriations action that will occur later.

\$302.7 billion level. The equivalent of the 1987 enacted level, without the supplemental, plus inflation. When the supplemental is included, \$302.7 billion is the equivalent of a one percent decline. Likely programmatic effects are:

- o Adjustments in pay raises consistent with the budget resolution. This decreases military raises from four to three percent, but increases civilian pay from two to three percent.
- o Minor reductions in reserve military end-strengths. Also, a reduction in workyears through a small "early release" program for military personnel whose enlistments are ending.

- o A \$1.7 billion cut from the Operations and Maintenance request, allowing a \$4.8 billion increase over 1987, but no real growth. It covers inflation, but that's it. (Inflation is high here to cover the effects of FERS.) Some planned increases in training and in aircraft and ship operating rates would be cut.
- o A \$3.7 billion cut in procurement, resulting in reduced purchase quantities of a variety of weapons systems. No cancellations, however, are likely.
- o A \$3 billion cut in Research, Development Test and Evaluation. We estimate that about half of this reduction will be in SDI, allowing only minor increases above 1987. The remaining reduction will be distributed over a variety of programs causing some delays and stretchouts.
- o An \$.8 billion cut in construction and family housing to a level about eight percent above 1987 in real terms.
- o Denial of several legislative initiatives to increase military personnel benefits. Programs which could be effected include career sea pay, the medical stipend program, submarine pay, married BOQ, aviation officer continuation pay and Social Security funding for the reserves.
- o Some reduction in DOE defense-related programs, including SDI-related research.

\$296 billion level. About three percent less in real terms than the 1987 enacted level plus the \$1.3 billion supplemental. Likely additional programmatic effects are:

- o Further reductions in procurement, resulting in more slowdowns and stretchouts of systems procurement, including several major programs such as Aegis destroyers and mine countermeasures ships and AMRAAM anti-air missiles.
- o Further cuts in RDT&E, including some stretchout of Peacekeeper rail mobile and small ICBM development, but also delays in several tactical programs such as the Army LHX helicopter.

\$289 billion level. About five percent less in real terms than the 1987 level including the \$1.3 billion supplemental. Likely additional effects are:

- o Two percent rather than three percent civilian pay raise.

- o Denial of most military end strength active and reserve increases above 1987. This affects mainly the Navy and could affect the manning of new ships.
- o Reduction of O&M to about two percent below the 1987 real level, eliminating most planned improvements in training and operating rates. This could complicate increased Mid-East naval deployments.
- o Further reductions in Procurement and RDT&E, possibly resulting in the cancellation of several programs including Harrier AV-8B aircraft, the Bigeye binary chemical bomb and the Advanced Lightweight Torpedo, as well as in the further stretchout of ongoing programs.
- o Further cuts in military construction and family housing below the 1987 nominal level.

Although these reductions will delay the achievement of major Administration defense objectives, they do not require that these objectives be abandoned, if they only last for one year. If growth is not restored in FY 1989 and beyond, these reductions will imply cuts in the current force structure or cancellations of high priority investment programs. Even if the growth is restored, these levels for FY 1988 do imply that there could be some reduction in readiness levels.

Outlay Levels. To make matters worse, if Congress requires that we live by the low outlay levels provided in the budget resolution, the effect could be devastating.

For example, the \$284 billion outlay level reported in the budget resolution will support a budget authority level of about \$277 billion, rather than \$289 billion, unless large cuts are made in fast spending programs -- military personnel, and operations -- with devastating effects on readiness. Alternatively, Congress could make further budget authority reductions in slower-spending investment programs to levels well below 1987. This would lead to serious delays in meeting force objectives and serious diseconomies, including higher unit costs. Congress may, of course, simply avoid the consequences of the outlay mismatch by such devices as slipping bill payments and pay dates. Some of these have already been proposed in the House Authorization Bill.

Sequester. The effect of a Gramm-Rudman sequester would be even more severe. As I have already indicated, in the attached May 8 memorandum, even a Government-wide sequester of \$35 billion in outlays would reduce the defense budget authority levels to about \$260 billion. Since the reduction would be applied across-the-board to all programs, projects and activities, there would be large cuts in military end-strengths -- about 400,000 or about 20 percent of current end strength. This would inevitably lead to force structure changes that would be hard to reverse.

Attachments

Possible 1988 National Defense (050) Budget Levels
(billions of dollars)

	<u>1987 Enacted plus \$1.3B Supplemental</u>	<u>President's Budget</u>	<u>CBO Baseline</u>	<u>1988 Resolution High Tier</u>	<u>Resolution Low Tier</u>
<u>Budget Authority</u>	290.9	312.0	302.7	296.0	289.0
<u>Pay Raises</u>		2.5	2.3	2.3	2.0
Military	--	2.0	1.5	1.5	1.5
Civilian	--	0.5	.8	.8	.5
<u>Program</u>					
<u>DOD</u>	<u>282.9</u>	<u>300.8</u>	<u>291.9</u>	<u>285.3</u>	<u>278.6</u>
Military Personnel	73.8	76.3	75.9	75.9	75.6
Operations & Maint.	79.6	86.1	84.4	84.1	83.1
Procurement	85.1	84.0	81.3	78.6	76.3
Research, Development Test & Evaluation	36.1	43.7	40.7	38.3	35.9
(SDI)	(3.3)	(5.2)	(3.7)	(3.5)	(3.3)
(Other)	(32.8)	(38.5)	(37.0)	(34.8)	(32.6)
Military Construction & Family Housing	8.3	10.1	9.3	8.3	7.6
Legislative Contingen- cies, Receipts, Stock Fund	--	.6	.3	.1	.1
<u>Other National Defense</u>	<u>8.0</u>	<u>8.7</u>	<u>8.5</u>	<u>8.4</u>	<u>8.4</u>
<u>Outlays</u>					
Printed	282.2	297.6	290.5	289.5	283.6
OMB estimate	281.6	297.1	293.0	290.7	287.8



EXECUTIVE OFFICE OF THE
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 18 1987

MEMORANDUM FOR THE DIRECTOR

FROM: Wayne Army 1/5 //

SUBJECT: Effect of 1988 Sequester on National Defense

As shown in the attachment, government-wide sequesters of \$35 billion and \$55 billion in outlays equate to reductions in sequesterable national defense resources of 9.8 percent and 15.5 percent, respectively. Assuming that these reductions are applied to an appropriated level of \$288.6 billion in both cases, the resulting defense levels would be \$260.1 billion and \$243.9 billion, with negative real growth of 14 percent and 19 percent, respectively. Thus, the 9.8 percent sequester would reduce national defense to the 1982 level and the 15.5 percent sequester would reduce it to almost the 1981 level!

The required program reductions would be devastating, not only because of their magnitude but also because they must be applied equally across-the-board to all programs, projects and activities in the budget. This requirement leads to large cuts in military personnel.

At the 9.8 percent sequester, active military end strength would have to be cut by about 400,000 from a projected strength of 2,171,000, a reduction of almost 20 percent. This cut would require early releases, discharges, and recruiting cut-backs. In essence, this would result in unacceptable force structure cuts of about 20 percent, that is the equivalent of four active Army divisions, seven Air Force tactical air wings, 100 Navy ships and one Marine Corps division. Even these reductions may not be sufficient when severance costs are considered.

At the 15.5 percent sequester, active military end strength would have to be cut by 700,000, a cut of over 30 percent with correspondingly higher force unit cuts.

At both sequester levels, military end strength would be reduced to levels of the late 1940's -- after the World War II demobilization and prior to the Korean buildup!

The following table summarizes the effect of the sequester:

	(\$ Billions)				
	1987	President's Budget	1988		
			Assumed Appropriation	Gov't-wide Sequester	
			\$35B	\$55B	
BA	\$289.6	\$312.0	\$288.6	\$260.1	\$243.9
BA Real Growth		+3%	-4.7%	-14.1%	-19.4%
Military End Strength (000)	2,174	2,172	2,171	1,771	1,471
Percentage change in military end strength from previous year		-.1%	-.1%	-19%	-32%

Attachment

National Defense (050)

Effect of 1988 GRH Sequester
(\$ in billions)

Government-wide
Sequester of:
-\$35B -\$55B
National Defense
outlay cut of:
-17.5 -27.5
Sequester % of:
-9.8% -15.5%

	1987 enacted	1988 President's Budget	Assumed 1988 Appro- priation (Aspin)		
Budgetary Resources					
1988 Budget Authority	289.6	312.0	288.6	-28.5	-44.7
Pay raises	0.0	2.5	1.5	-0.1	-0.2
Military		2.0	1.0	-0.1	-0.2
Civilian		0.5	0.5	.0	-0.1
Program	289.6	309.5	287.1	-28.3	-44.5
DOD	281.6	300.8	278.7	-27.5	-43.2
Military personnel	73.8	76.3	75.5	-7.4	-11.7
O&M	78.5	86.1	82.6	-8.1	-12.8
Procurement	85.0	84.0	76.4	-7.5	-11.8
RDT&E	36.0	43.7	35.8	-3.5	-5.5
SDI	3.0	5.2	3.0	-0.3	-0.5
Other	33.0	38.5	32.8	-3.2	-5.1
MilCon	5.1	6.6	5.1	-0.5	-0.8
Fam. Hsg.	3.1	3.5	3.2	-0.3	-0.5
Revolving funds	0.7	1.2	0.9	-0.1	-0.1
Proposed legislation		0.2	0.0		
Receipts & other	-0.7	-0.7	-0.7		
Energy & other	8.0	8.7	8.4	-0.8	-1.3
Energy	7.5	8.1	7.8	-0.8	-1.2
Other	0.5	0.6	0.6	-0.1	-0.1
Unobligated Balances		47.8	47.8	-4.7	-7.4
Total change in sequesterable resources				-33.2	-52.1
Outlays	282.2	297.6	287.3		
Exempt from GRH		109.5	109.5		
Sequesterable		188.1	177.8		

MAY 19 1987

Programmatic Effect of GRH Sequester on National Defense (050)
Assuming 1988 Appropriation of \$289 Billion

9.8 Percent
Sequester

15.5 Percent
Sequester

Military Personnel

- Cut of 400,000 (18 percent) from current strength of 2,174,000.

- Cut of 700,000 (32 percent).

Operation and
Maintenance

- Real cut (after inflation) of 10 percent from 1987.
- Reduce projected year end civilian employment of one million by about 120,000 and furlough all employees for about two weeks.
- Operating rates and deployments would be reduced in accordance with military strength cut.

- Real cut (after inflation) of 16 percent from 1987.
- Reduce projected year end civilian employment by about 210,000 and furlough all employees for about three weeks.
- Operating rates and deployments would be reduced in accordance with military strength cut.

Procurement

- Real cut of 22 percent from 1987.
- Delays in all modernization programs.
- All weapon system quantities would be cut at least 10 percent below appropriated level with accompanying increases in unit costs. For example, F-16 aircraft would be reduced to 162 from 1988 request and 1987 level of 180. Where only one item is being procured, for example Trident submarine, the 1988 program would be cancelled.
- Substantial reduction in spares and support equipment resulting from sequester on top of usual Congressional appropriations cuts.

- Real cut of 26 percent from 1987.
- Further delays in all modernization programs.
- All weapon system quantities would be cut at least 16 percent below appropriated level with further increases in unit costs. For example, F-16 aircraft would be cut to 152.
- Further cuts in spares and support equipment.

9.8 Percent
Sequester

15.5 Percent
Sequester

RDT&E

- Real cut of 14 percent from 1987.
 - Delays in all programs.
 - Defense SDI cut to about \$2.7 billion, compared to request of \$5.2 billion and 1987 level of \$3.0 billion, significantly reducing prospects for early deployment.
 - Some civilian employees in laboratories would be dismissed.
- Real cut of 19 percent from 1987.
 - Further delays in all programs.
 - Defense SDI cut to about \$2.5 billion.
 - Further cut in civilian employment.

Military
Construction

- Real cut of 13 percent from 1987.
 - Delays in all programs potentially leading to cancellations or incremental funding.
- Real cut of 19 percent from 1987.
 - Delays in all programs.

Family Housing

- Real cut of nine percent from 1987.
 - Some reductions in housing maintenance.
- Real cut of about 15 percent from 1987.
 - Further reductions in housing maintenance.

Energy

- Real cut of nine percent from 1987.
 - Delays in all projects including SDI.
- Real cut of about 15 percent from 1987.
 - Further delays in all projects including SDI.

Unobligated
Balances

- Cut would lead to having inadequate support equipment for weapon systems under contract.
- Could require some restructuring of existing contracts, especially shipbuilding, as well as support equipment cuts.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
June 11, 1987

MEMORANDUM FOR DAN CRIPPEN

FROM:

Wayne Army
Wayne Army

SUBJECT: Effect of 1988 Sequester on National Defense

This is in response to your questions about my May 8 memorandum on this same subject.

The earlier paper indicated that \$109.5 billion of 1988 national defense (050) outlays would be exempt from a sequester. These outlays consist of the following items that are specifically exempted by law:

	<u>\$ in billions</u>
Prior year obligated balances	110.0
Receipts from sales of miscellaneous material and services	-.7
Settlement of claims	.1
CIA Retirement fund	.1
	<u>109.5</u>

The earlier paper indicated what the effect of a 400,000 cut in military end strength would be in terms of force structure equivalents. The following table shows the planned levels and the effects of 400,000 and 700,000 end strength cuts.

	<u>Projected Strength</u>	<u>9.8 Percent Sequester</u>	<u>15.5 Percent Sequester</u>
Active military personnel end strength	2,171,000	-400,000	-700,000
By service, the cut would be equivalent to the following:			
Active Army divisions	18	-4	-6
Active Marine Corps divisions	3	-1	-1
Navy battle force ships*	582	-100	-175
Air Force Tactical air wings*	37	-7	-11

*Includes effect of cut in reserve as well as active strength.

MID-SESSION REVIEW STRATEGIES, FY 1983-1987
(Dollars in billions)

<u>Fiscal Year</u>	<u>Date of transmittal</u>		<u>Deficit</u>	<u>Receipts</u>	<u>Total outlays</u>	<u>Defense</u>	<u>Nondefense programs</u>	<u>All other</u> ^{1/}
1983	July 30, 1982	Prior estimate	-101.9	665.1	767.0	221.4	473.2	73.4
		Policy changes	10.9	7.9	-3.0	---	-3.0	---
		Other changes	-24.0	-26.5	-2.5	0.1	-0.5	-2.1
		MSR estimate	-115.0	646.5	761.5	221.5	469.7	71.3
1984	July 25, 1983	Prior estimate	-190.2	653.7	843.9	245.4	517.0	81.5
		Policy changes	1.0	0.5	-0.5	-0.7	0.2	---
		Other changes	9.7	14.3	4.6	-2.4	6.0	1.2
		MSR estimate	-179.7	668.4	848.1	242.3	523.3	82.5
1985	August 15, 1984	Prior estimate	-193.8	753.1	946.9	272.0	586.3	88.6
		Policy changes	11.7	5.2	-6.5	-5.9	---	-0.6
		Other changes	2.0	5.4	3.5	0.1	-5.0	8.4
		MSR estimate	-180.2	763.8	943.9	266.2	581.3	96.2
1986	August 30, 1985	Prior estimate	-177.4	794.3	971.7	285.7	581.7	104.3
		Policy changes	14.4	-0.3	-14.7	-18.6	4.4	-0.6
		Other changes	-14.9	-14.2	0.7	---	3.3	-2.6
		MSR estimate	177.8	779.8	757.7	267.1	589.4	101.2
1987	August 6, 1986	Prior estimate	-143.6	850.4	994.0	282.0	595.5	116.3
		Policy changes	-1.8	-0.4	-2.2	-0.1	1.2	-3.3
		Other changes	2.2	-18.8	-16.6	---	-9.5	-7.1
		MSR estimate	-143.9	831.2	975.1	282.0	587.1	105.8

1/ Interest and undistributed offsetting receipts.

clean sheet

108

no ~~HRH~~

Amended debt limit
note:

1) trigger

2) change targets

3) enhanced revenue (2)

4) 296 w/o tax

Byrd Tamar

July 7, 1987

SUMMARY OF GRAMM-RUDMAN-HOLLINGS PROPOSALS

Item	Current Law	Senate Passed	Gramm (S.75)	Rostenkowski 1/	Michel 1/	Other
Deficit targets changes	1988 - \$108 billion 1989 - 72 billion 1990 - 36 billion 1991 - zero	No change	No change	Modified to reach zero in 1992 (annual numbers not provided). \$36 billion reduction from current services sufficient to avoid sequester.	Constant \$36 billion per year reduction target assumed to result in: 1986 - \$221 billion 1987 - 185 billion 1988 - 149 billion 1989 - 113 billion 1990 - 77 billion 1991 - 33 billion 1992 - 0 \$18 billion limit on actual sequester (\$10 billion leeway eliminated).	Biennial targets; \$36 billion per year.
Constitutional sequester mechanism	Fallback provision (joint resolution sent to President).	OMB sends report to President	OMB sends report to President	OMB sends report to President Automatic sequester for FY 88 and 89 only.	OMB sends report to President	Establish commission to send report to President.
Sequester calculation assumption	OMB & CBO make their own for economic, spendout rate, pay absorption then average.	Congress may legislate economic assumptions within OMB-CBO range.	Congress may legislate assumptions within OMB-CBO range. - GAO	No Change, but targets "held harmless" for economic and technical reestimates.	No change, but targets "held harmless" for economic and technical reestimates.	
Proposals to narrow sequester base (exceptions)	Enacted since GRH: COLA's, Panama Canal, certain VA programs, and trust territories.	WMATA interest subsidies	WMATA interests subsidies	Military pay & benefits (increases Medicare reduction).	Not addressed	Thrift savings Fund, WMATA, and similar interest subsidies.
Defense flexibility	Ability to shift reductions among O50 accounts limited to FY 1986.	No provision	No provision	Reduces by exempting military pay and benefits.	Not addressed	Not addressed
Special rules	Some rules ambiguous (e.g., timing of assets sales, treatment of appropriated entitlements pay absorption, spend-out rates).	Attempts to clarify Fixes pay absorption and spend-out ratios.	Attempts to clarify Fixes pay absorption and spend-out ratios.	Maximum Medicare reductions increased from 2% to 4%. Said to clarify ambiguities.	Not addressed	Attempts to clarify

1/ Based on a summary provided by staff on June 25; draft legislation not available.

1988-92 Budget Alternatives: Programmatic Summary

	Options			
	(1) 3% RG	(2) 0% RG	(3) -2% RG	(4) Freeze (-4% RG)
<u>FY 1988 BA (\$ in billions)</u>	312	303	296	290 <i>289</i>
<u>Strategic Force Programs</u>				
° Procure 100 B-1 bombers by 1988; 1 TRIDENT sub/year; develop TRIDENT II missile	Yes	Yes	Yes	Yes
° Develop and procure at least 100 Stealth bombers	Yes	Yes	Yes	Maybe
° Deploy 100 PEACEKEEPER missiles	Yes	Yes	Yes	Delay
° Midgetman IOC of 12/92	Yes	12/93	12/93	12/94
° Strategic Defense Initiative annual real growth percent	27	10	5	0 <i>6</i>
<u>Conventional Force Structure</u>				
° 18 active and 10 reserve Army divisions	Yes	Yes	Yes	Yes
° 600 ship Navy by 1989	Yes	585 ships	575 ships	566 ships
° 15 Navy carriers by 1990	Yes	14	14	13
° 37 Air Force air wings	Yes	Yes	Yes	Yes

	Options			
	(1) 3% RG	(2) 0% RG	(3) -2% RG	(4) Freeze (-4% RG)
<u>Conventional Force Modernization</u>				
° Procure 7,834 M-1 tanks and 6,882 Bradley Fighting Vehicles for Army	Yes	Yes	Yes	7,579 M-1 6,447 Bradley
° Procure C-17 to improve airlift	Yes	Yes	Yes	No
° Procure Air Force fighter aircraft				
° 210 F-15	Yes	180	150	120
° 870 F-16	Yes	750	675	600
° Procure 710 Navy fighter/attack aircraft	Yes	584	510	435
° Procure 97 Navy ships	Yes	78	76	75
° Conventional forces R&D; total real \$ 1988-92 investment (1983-87 = \$115 billion)	\$122 Billion	\$106 Billion	\$96 Billion	\$86 Billion
<u>Force Readiness and Sustainability</u>				
° Attract high quality recruits and retain skilled military personnel	Yes	Yes	Yes	Yes
° 2,199,000 active military strength	Yes	2,170,000 (1987 level)	2,170,000 (1987 level)	2,170,000 (1987 level)
° Equipment maintenance backlogs of \$.6 Billion	Yes	\$2+ Billion	\$3+ Billion	\$5 Billion
° Days of munitions supplies (1987 = 34 days)	52	50	50	49
° Procure adequate spares and support equipment. Constant 1988\$ (1983-87 = \$106.8 billion)	\$126 Billion	\$108 Billion	\$97 Billion	\$86 Billion

1988-1992 Budget Alternatives: Force Size and Capabilities, Relative to Present

ALTERNATIVES

3 Percent Real Growth

0 Percent Real Growth

-4 Percent Real Growth

STRATEGIC FORCES

Size
Capabilities

Same as now. →
Major improvements. → Some delays. →

CONVENTIONAL

Naval Forces

Size

Capabilities

Increase to 600 ships & 15 carrier groups. Hold at 14 carrier air wings. → Increase to 585 ships. 14 carrier groups and air wings. → Hold at 564 ships. Reduce to 13 carrier groups and 13 carrier air wings.
Continued modernization of ships and aircraft. → Slower pace of modernization. → Further delays.

Army Forces

Size
Capabilities

Same as now. → Continued modernization of tanks and fighting vehicles. → Slower pace of modernization.

Mobility Forces

Size
Capabilities

More airlifters. → Same as now. → Major improvements in airlift and sealift. → Some sealift gains. → Same as now.

Air Forces

Size
Capabilities

Same as now. → Continued modernization. → Slower pace of modernization. → Further delays.

Readiness and Sustainability

Size
Capabilities

Troop strength increases. → Same as now. → High recruit quality & skill rates. → Depot maintenance backlogs same as now. → Larger backlogs. → Very large backlogs.
More AF flying-hours per pilot. → Same as now. → Cut-backs.
Large increases in days of supply of munitions. →

Technological Superiority

Capabilities

More R&D than 1983-87. → Development stretch-outs. → Further delays.

Preparative
FY 1989 Budget ~~Resolution~~

- Consultation
 - Congress
 - House (Michel; Chaney)
 - Senate (Dole; Simpson)
 - Administration
 - Cabinet Officers (breakfast)
 - West Wing?
 - Think Tanks
 - AEI
 - Heritage
 - Brookings
 - Citizens for a Sound Economy (plus others)
 - Deficit Reduction Coalition
- Formulation (themes, parameters, major initiatives)
- Review (Baker, Duberstein, Carlucci, Ball, Cribb, *C. Miller, C. ...*, Donatelli, Miller and Wright)
- The President
 - Briefing/reaction
 - Presentation to Cabinet



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 9, 1987

M-87-28

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM:

James G. Miller III
Director

SUBJECT:

Budget Reduction Proposals

The Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings Act) sets deficit targets that decline to zero by 1991 and requires that the President submit budgets, including Mid-Session Reviews of the budget, consistent with that goal.

Meeting the President's goal in this year's Mid-Session Review will not be easy. Economic conditions, technical factors, and Congressional action in increasing spending and inaction in accepting reductions proposed by the President have added significantly to the initial estimated deficit for FY 1988. In fact, having to incorporate into the FY 1988 Mid-Session Review the effects of the FY 1987 Supplemental Appropriations Act will cause that report to be transmitted in August rather than in July. The task before us is to bring the FY 1988 deficit back into line with the President's goal.

Toward this objective, we need your proposals for significant reductions in your agency's spending during the period FY 1988-1992, with particular emphasis on FY 1988. In addition, your strong support is essential in preventing add-ons to the budget from any source. In this connection, the only sources of recognizable increases are completed Congressional action, revisions in Administration policy that have been approved and announced by the President, and mandatory effects of revised economic assumptions and changes in technical factors. Should spending increases occur despite your efforts, I urge you to seek out, identify, and institute offsetting reductions.

In seeking ideas for possible savings, please consider suggestions made in the past by the General Accounting Office, the Congressional Budget Office, Inspector General studies, the Grace Commission and other sources, as well, of course, as those of your staff. A fundamental criterion must be the President's oft-repeated admonition to limit Federal activities to those that

are proper functions of the Federal government. The success of the President's policy of achieving steady and significant annual reductions in the budget deficit depends ultimately on the adoption of cost-saving initiatives that you propose and on continued and well-disciplined adherence to budget targets.

Attached are instructions and a format for reporting your deficit reduction proposals. They should be delivered, by noon, Friday, July 17, 1987, to the Office of Management and Budget representative responsible for the review of your agency's budget.

Thank you for your cooperation.

Attachments

Attachment

Instructions for Preparing the Budget Reduction Proposal

A report in the attached format will be prepared for reductions that could be proposed to keep the deficit estimate resulting from enactment of the President's budget below the \$108 billion target for FY 1988. Agencies are required to provide information on budget authority and outlays (1) as presented in the President's January budget, (2) as revised for the FY 1988 Mid-Session review including credit reform (current estimates), and (3) reflecting further reductions in outlays or increases in offsetting receipts necessary to reduce the deficit. The January data and current estimates presented in the report should be consistent with the data reported on the analysis of change sheets required for the Mid-Session Review in Bulletin 87-13.

In most cases the changes will be reported for single accounts. However, agencies may be required to show aggregations of accounts for selected program areas upon the request of the agency OMB representative.

Agencies will provide explanations of the changes in the estimates from the January Budget to the current (Mid-Session Review) estimates. The current estimates should include effects of Congressional action on the supplemental appropriations bill. Agencies will also explain the nature of the proposed reductions, including the mechanism for achieving such reductions.

A separate report should be prepared for offsetting receipt accounts. Offsetting receipts should be entered as negative amounts, with additional higher collections also shown as larger negative amounts.

Inquiries should be addressed to the agency OMB representative.

Agency contact: _____
Phone: _____

Budget Reduction Proposal
Mid-Session Review of the 1988 Budget
(in millions of dollars)

Agency: _____

Program name: _____

Account number: _____

	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>FY 1991</u>	<u>FY 1992</u>
<u>January Budget estimate:</u>					
BA.....					
O.....					
<u>Change:</u>					
BA.....					
O.....					
<u>Current Mid-Session estimate:</u>					
BA.....					
O.....					
<u>Proposed reduction:</u>					
BA.....					
O.....					
<u>Revised estimate:</u>					
BA.....					
O.....					

Explanation of change from January to Mid-Session: (Describe the nature of the changes from the January Budget to the current (Mid-Session) estimate.)

Explanation of proposed reduction: (Describe briefly the nature of the proposed reduction including the mechanism for achieving these reductions, i.e., budget amendments, administrative action, reductions in credit or obligation limitations, or changes in substantive legislation required.)

July 2, 1987

Dear Senator Domenici:

Howard Baker asked me to thank you for your letter of June 19 enclosing a copy of the Budget Committee's minority staff analysis of the Conference Agreement on the fiscal year 1988 Budget Resolution.

As always, we appreciate your leadership, and look forward to working with you.

With best wishes,

Sincerely,

William L. Ball, III
Assistant to the President

The Honorable Pete Domenici
United States Senate
Washington, D.C. 20510

WLB:KRY:HLB:hlb (RJ)

cc: w/copy of inc to Howard Baker - FYI

THE WHITE HOUSE
WASHINGTON

Date: 7/2/87

TO: WILL

FROM: KATHY RATTE JAFFKE
Office of Legislative Affairs

I asked Larry to take another look at this letter to Domenici and he suggested this one sentence 2nd paragraph.

LAWTON CHILES FLORIDA CHAIRMAN

ERNEST F. HOLLINGS SOUTH CAROLINA
J. BENNETT JOHNSTON LOUISIANA
JIM SASSER TENNESSEE
DONALD W. RIEGLE JR. MICHIGAN
J. JAMES EXON NEBRASKA
FRANK R. LAUTENBERG NEW JERSEY
PAUL SIMON ILLINOIS
TERRY SANFORD NORTH CAROLINA
TIMOTHY E. WIRTH COLORADO
WYCHE FOWLER JR. GEORGIA
KENT CONRAD NORTH DAKOTA
CHRISTOPHER J. DODD CONNECTICUT

PETE V. DOMENICI NEW MEXICO
WILLIAM L. ARMSTRONG COLORADO
NANCY LONDON KASSEBAUM KANSAS
RUDY BOSCHWITZ MINNESOTA
STEVEN D. SYMMS IDAHO
CHARLES E. GRASSLEY IOWA
ROBERT W. KASTEN JR. WISCONSIN
DAN QUAYLE INDIANA
JOHN C. DANFORTH MISSOURI
DON NICKLES OKLAHOMA
WARREN B. RUDMAN NEW HAMPSHIRE

RICHARD N. BRANDON STAFF DIRECTOR
G. WILLIAM HOAGLAND, MINORITY STAFF DIRECTOR

United States Senate 503800

COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510-6100

June 19, 1987

The Honorable Howard Baker
Chief of Staff
The White House
Washington, D.C. 20500

Dear Howard:

The Conference Agreement on the FY 1988 Budget Resolution will be considered by the Senate next week. It represents a serious reversal of recent year's progress in reducing our federal deficits through spending constraint.

I am enclosing a copy of the Budget Committee's minority staff analysis of the conference agreement. Your staff will find it helpful in preparing for floor consideration of the conference agreement.

Let me know if I can be of any further assistance.

Sincerely,



PETE V. DOMENICI
United States Senator

Enclosure

1988 Budget Resolution

Analysis of Conference Agreement

Prepared by the Republican Staff
U.S. Senate Committee on the Budget

June 19, 1987

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. SUMMARY TABLES	
Deficit Reduction in Conference Agreement	3
FY 1988 Deficit Reduction	4
FY 1988-90 Deficit Reduction	5
National Security vs Domestic Spending	6
Conference Agreement Compared to 1987 level and 1988 Baseline	7
Function Summary	8
Conference Agreement Compared to CBO Baseline	10
Conference Agreement Compared to Senate-passed budget	12
Conference Agreement Compared to House-passed budget	14
III. FUNCTION-BY-FUNCTION ANALYSIS	
Revenues	16
Debt Subject to Limit	18
050: National Defense	19
150: International Affairs	21
250: General Science, Space and Technology	23
270: Energy	25
300: Natural Resources and Environment	28
350: Agriculture	30
370: Commerce	32
400: Transportation	34
450: Community and Regional Development	36
500: Education, Training, Employment and Social Services	38
550: Health	41
570: Medicare	43
600: Income Security	45
650: Social Security	47
700: Veterans' Benefits and Services	49
750: Administration of Justice	51
800: General Government	53
850: General Purpose Fiscal Assistance	55
900: Net Interest	57
920: Allowances	58
950: Undistributed Offsetting Receipts	60

TABLE OF CONTENTS

	<u>Page</u>
IV. RECONCILIATION	62
V. DESCRIPTION OF MISCELLANEOUS PROVISIONS	66

GENERAL NOTES:

1. In this document, all dollar amounts for the conference agreement on the 1988 Budget Resolution exclude adjustments for the President's economic assumptions.
2. The Balanced Budget and Emergency Deficit Control Act of 1985 required the social security trust funds to be moved off-budget. The 1988 Budget Resolution complies with this directive. However, this analysis presents all figures on a unified budget basis.
3. In the case of all tables, (a) details may not add to totals due to rounding, and (b) asterisks (*) mean less than \$50 million.

BUDGET RESOLUTION CONFERENCE AGREEMENT

INTRODUCTION

The conference agreement on the FY 1988 budget resolution represents a serious reversal of the recent progress made to reduce deficit spending. The Congressional fiscal blueprint, embodied within the conference agreement shows: non-defense spending increasing, taxes increasing, and our national security being jeopardized by procedural brinkmanship.

SPENDING

- o Spending is not restrained. Total spending would increase nearly 4.5 percent next year under the Democratic budget conference agreement compared to 2.5 percent last year.
- o Spending would increase nearly \$46 billion next year, reaching \$1.1 trillion.
- o Using CBO economic assumptions, total spending in the conference agreement is \$1,055 billion, which is actually higher than outlay levels in either the House or the Senate budgets as they went into conference.

TAXES

- o Taxes increase significantly. The conference agreement assumes over \$73 billion in taxes over the next three years; \$21.1 billion in total taxes next year alone.
- o If these taxes are raised through excise taxes, recent studies show that this would eliminate all of the tax benefits provided last year in the Tax Reform Act to households with incomes below \$20,000. This would mean a substantial increase in taxes for the working poor.

DEFICITS

- o The agreement's real deficit of \$134 billion misses the Gramm-Rudman-Hollings target by over \$26 billion.
- o Using the CBO economic assumptions, 80 percent of the plan's so-called \$36.8 billion in deficit reduction next year comes from just three areas: taxes, REA financing, and defense cuts.

NON-DEFENSE

- The Democratic plan assumes \$93 billion in reconciled savings over the next three years--3/4 or over \$70 billion in savings from just REA refinancing and taxes, alone.
- The plan's remaining real savings of only \$22.9 billion over the next three years, comes almost entirely from just three areas--farmers, Medicare, and civil service worker's pay.
- Domestic spending will increase under the conference agreement by nearly \$41 billion next year compared to the 1987 level. No domestic programs are assumed to be terminated in the conference plan.
- Compared to the CBO baseline excluding the savings from an assumed freeze, agriculture, and Medicare, the plan also increases other domestic spending authority relative to the CBO baseline nearly \$5.2 billion next year. Non-defense spending is not held hostage to tax increases.
- Relative to the Senate-passed budget resolution, the conference agreement actually picked up additional spending of \$2.5 billion above the current policy baseline in the areas of health, Medicare, income security, and housing.

DEFENSE

- The conference agreement holds hostage our national security to reconciled tax increases of \$64 billion. For this \$64 billion in three year taxes, the defense budget for next year would be adjusted by \$7 billion.
- Even if the Appropriations Committee added \$7 billion to defense, defense would still be reduced in real terms over 2 percent next year. The defense funding level would be below the Senate-passed resolution level, below the Senate authorization level, and significantly below the President's request..
- Defense spending authority would decline nearly \$39 billion below the CBO defense baseline under the "high-tier" path, and by \$68 billion under the "low-tier" path.

SUMMARY OF FY 1988-90 DEFICIT REDUCTION IN CONFERENCE AGREEMENT

(\$ billions)

	1988	1989	1990	1988-90
CBO BASELINE DEFICIT.....	170.7	164.3	136.7	
Spending reductions:				
Defense.....	-1.0	-11.1	-17.9	-30.0
Non-defense.....	-5.4	-9.5	-13.6	-28.5
Interest savings.....	-1.2	-3.4	-6.9	-11.5
Total spending reductions.....	-7.6	-24.0	-38.4	-70.0
Revenue increases:				
President's tax proposals (IRS initiative).....	-1.8	-2.9	-3.1	-7.8
Other revenue-generating proposals (i.e., asset sales, user fees, etc.).....	-1.0	-1.1	-0.8	-2.9
REA refinancing.....	-7.2	0.8	0.8	-5.6
Reconciled tax increase.....	-19.3	-22.0	-23.0	-64.3
Total revenue increases.....	-29.3	-25.2	-26.1	-80.6
TOTAL DEFICIT REDUCTION.....	-36.8	-49.2	-64.5	-150.5
DEFICIT.....	133.9	115.1	72.2	

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

SUMMARY OF FISCAL YEAR 1988 DEFICIT REDUCTION

(\$ billions)

	House	Senate	Conference	Sequester	President _a/
CBO BASELINE DEFICIT.....	170.7	170.7	170.7	170.7	170.7
Spending reductions:					
Defense.....	-8.8	—	-1.0	-30.1	7.8
Non-defense.....	-6.2	-6.4	-5.4	-30.1	-24.7
Interest savings.....	-1.3	-1.3	-1.2	-2.0	-1.4
Total spending reductions.....	-16.3	-7.7	-7.6	-62.2	-18.3
Revenue increases:					
President's tax proposals.....	-1.8	-1.8	-1.8	—	-5.0
Other revenue-generating proposals (i.e., asset sales, user fees, etc.).....	-2.0	-2.2	-1.0	—	-13.1
REA refinancing.....	—	-7.2	-7.2	—	—
New taxes.....	-18.0	-18.3	-19.3	—	—
Total revenue increases.....	-21.8	-29.5	-29.3	—	-18.1
TOTAL DEFICIT REDUCTION.....	-38.2	-37.1	-36.8	-62.2	-36.4
DEFICIT.....	132.5	133.6	133.9	108.5	134.3

_a/ As re-estimated by CBO.

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

SUMMARY OF FISCAL YEAR 1988-90 DEFICIT REDUCTION

(\$ billions)

	House	Senate	Conference	President _a/
Spending reductions:				
Defense.....	-41.7	-26.5	-30.0	31.0
Non-defense.....	-27.3	-35.3	-28.5	-110.9
Interest savings.....	-13.3	-14.7	-11.5	-11.0
Total spending reductions.....	-82.3	-76.5	-70.0	-90.9
Revenue increases:				
President's tax proposals.....	-7.8	-7.8	-7.8	-19.8
Other revenue-generating proposals (i.e., asset sales, user fees, etc.).....	-5.2	-5.6	-2.9	-30.5
REA refinancing.....	—	-7.2	-5.6	—
New taxes.....	-57.0	-79.3	-64.3	—
Total revenue increases.....	-70.0	-99.9	-80.6	-50.3
TOTAL DEFICIT REDUCTION.....	-152.3	-176.3	-150.5	-141.8

_a/ As re-estimated by CBO.

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

SPENDING COMPARISONS: NATIONAL SECURITY VS. DOMESTIC SPENDING

(\$ billions)

	1988		CONFERENCE COMPARED TO			
	CONFERENCE		1987 LEVEL		1988 BASELINE	
	BA	O	BA	O	BA	O
National Security:						
Defense.....	296.0	289.5	+11.7	+9.9	-6.7	-1.0
International Affairs.....	16.2	16.1	+0.9	+2.3	-1.3	-0.7
Subtotal.....	312.2	305.6	+12.6	+12.2	-8.0	-1.6
Domestic:						
Discretionary freeze.....	N/A	N/A	N/A	N/A	-4.6	-2.1
Agriculture.....	29.5	28.6	-1.0	-1.6	-1.4	-1.4
Social Security.....	256.8	220.8	+29.9	+12.8	---	-0.2
Medicare.....	92.9	81.6	+9.3	+7.9	-0.5	-1.5
All other domestic spending.....	377.9	327.6	+23.8	+21.3	+5.2	-0.1
Subtotal.....	757.0	658.5	+62.0	+40.5	-1.3	-5.4
Net interest.....	139.3	139.3	+5.7	+5.7	-1.2	-1.2
Offsetting receipts.....	-40.6	-47.9	-5.4	-12.7	-0.2	-7.5
Total spending.....	1167.9	1055.5	+74.9	+45.6	-10.7	-15.7
Revenues.....		921.7		+87.5		+21.1

NOTE: Details may not add to totals due to rounding.

Prepared by SBC Republican Staff

CONFERENCE AGREEMENT COMPARED TO 1987 LEVEL AND 1988 BASELINE

(\$ billions)

FUNCTION	CONFERENCE COMPARED TO					
	1988 CONFERENCE		1987 LEVEL		1988 BASELINE	
	BA	O	BA	O	BA	O
050: National Defense.....	296.0	289.5	+11.7	+9.9	-6.7	-1.0
150: International Affairs..	16.2	16.1	+0.9	+2.3	-1.3	-0.7
250: Science & Space.....	11.3	11.1	-0.9	+1.6	+0.7	+0.4
270: Energy.....	4.5	4.6	-0.7	+0.8	-0.9	-0.9
300: Natural Resources.....	15.9	15.1	+2.7	+1.3	-0.6	-0.4
350: Agriculture.....	29.5	28.6	-1.0	-1.6	-1.4	-1.4
370: Commerce & Housing.....	12.5	7.8	+0.4	-0.9	-0.6	-0.5
400: Transportation.....	29.2	28.3	+2.4	+2.9	-0.5	-0.5
450: Community Development..	7.5	6.6	-0.9	-0.7	-0.4	-0.2
500: Education.....	36.5	32.9	+3.5	+2.6	+2.1	+0.3
550: Health.....	45.7	44.9	+4.9	+4.5	+1.1	+0.7
570: Medicare.....	92.9	81.6	+9.3	+7.9	-0.5	-1.5
600: Income Security.....	168.6	131.5	+10.4	+7.2	+0.6	---
650: Social Security.....	256.8	220.8	+29.9	+12.8	---	-0.2
700: Veterans Benefits.....	27.9	27.4	+1.0	+1.2	---	-0.1
750: Admin. of Justice.....	9.6	9.4	+1.2	+1.3	+0.2	+0.2
800: General Government.....	7.7	7.2	+0.8	+0.5	+0.4	+0.3
850: Gen. Fiscal Assistance.	1.8	1.8	+0.2	+0.1	-0.1	-0.1
900: Net Interest.....	139.3	139.3	+5.7	+5.7	-1.2	-1.2
920: Allowances.....	-0.7	-0.7	-1.1	-1.1	-1.6	-1.6
950: Undist. Offset. Rcts...	-40.6	-47.9	-5.4	-12.7	-0.2	-7.5
TOTAL SPENDING.....	1167.9	1055.5	+74.9	+45.6	-10.7	-15.7
REVENUES.....		921.7		+87.5		+21.1

NOTE: Details may not add to totals due to rounding.

Prepared by SBC Republican Staff

H.CON.RES. 93, CONFERENCE AGREEMENT

Function Summary

	(\$ billions)		
	1988	1989	1990
050: National Defense....BA	296.00	303.70	311.00
O	289.50	292.30	299.20
150: International Affairs.....BA	16.20	21.70	18.45
O	16.10	15.25	15.20
250: General Science, Space & Technology..BA	11.30	13.50	15.00
O	11.10	13.00	14.60
270: Energy.....BA	4.50	5.05	4.65
O	4.55	4.15	4.25
300: Natural Resources...BA	15.90	16.45	16.85
O	15.10	16.15	17.25
350: Agriculture.....BA	29.45	29.95	25.55
O	28.60	26.10	22.35
370: Commerce & Housing Credit.....BA	12.50	12.05	15.35
O	7.80	5.00	6.80
400: Transportation.....BA	29.20	29.50	30.20
O	28.25	27.85	27.65
450: Community and Regional Development.....BA	7.50	7.65	7.80
O	6.60	6.40	6.70
500: Education, Training, Employment & Social Services.....BA	36.45	38.05	39.25
O	32.90	35.70	37.50
550: Health.....BA	45.65	49.75	54.20
O	44.85	49.45	53.70
570: Medicare.....BA	92.85	102.30	113.05
O	81.60	89.45	99.95

H.CON.RES. 93, CONFERENCE AGREEMENT

Function Summary

	(\$ billions)		
	1988	1989	1990
600: Income Security.....BA	168.60	176.65	183.15
O	131.45	139.00	144.60
650: Social Security.....BA	256.80	281.50	310.60
O	220.75	235.40	252.00
700: Veterans Benefits...BA	27.90	28.15	28.25
O	27.35	27.55	27.90
750: Administration of Justice.....BA	9.60	9.55	9.50
O	9.35	9.55	9.55
800: General Government..BA	7.70	7.65	7.85
O	7.15	7.00	7.20
850: General Purpose Fiscal Assistance...BA	1.80	1.85	1.90
O	1.80	1.85	1.90
900: Net Interest.....BA	139.25	143.30	144.55
O	139.25	143.30	144.55
920: Allowances.....BA	-0.70	-0.30	0.35
O	-0.70	-0.55	0.05
950: Undistributed Offsetting Receipts BA	-40.60	-41.95	-43.55
O	-47.90	-41.90	-43.50
Total spending.....BA	1,167.85	1,236.05	1,293.95
O	1,055.45	1,102.00	1,149.40
Revenues.....	921.65	986.95	1,077.10
Deficit.....	-133.80	-115.05	-72.30

PLEASE NOTE: Details may not add to totals due to rounding.
Excludes adjustments for President's economic
assumptions.

H.CON.RES. 93, CONFERENCE AGREEMENT
 COMPARED TO CBO REVISED BASELINE

Function	(\$ billions)			Total 1988-90
	1988	1989	1990	
050: National Defense.....BA	-6.7	-12.6	-19.6	-38.9
O	-1.0	-11.1	-17.9	-30.0
150: International Affairs.....BA	-1.3	-1.6	-1.6	-4.4
O	-0.7	-1.1	-1.3	-3.0
250: General Science, Space & Technology.....BA	+0.7	+2.4	+3.4	+6.6
O	+0.4	+1.5	+2.7	+4.7
270: Energy.....BA	-0.9	-1.2	-1.8	-3.8
O	-0.9	-1.1	-1.2	-3.4
300: Natural Resources.....BA	-0.6	-1.0	-1.5	-3.1
O	-0.4	-0.8	-1.2	-2.4
350: Agriculture.....BA	-1.4	-1.9	-3.0	-6.3
O	-1.4	-1.9	-3.0	-6.2
370: Commerce & Housing Credit BA	-0.6	-0.9	-0.8	-2.3
O	-0.5	-0.8	-0.7	-2.0
400: Transportation.....BA	-0.5	-1.0	-1.3	-2.8
O	-0.5	-1.6	-2.4	-4.5
450: Community and Regional Development.....BA	-0.4	-0.4	-0.4	-1.2
O	-0.2	-0.3	-0.4	-0.8
500: Education, Training, Employment & Social Services.....BA	+2.2	+2.0	+1.8	+5.9
O	+0.2	+1.0	+1.0	+2.3
550: Health.....BA	+1.1	+1.4	+1.6	+4.1
O	+0.7	+1.3	+1.6	+3.6
570: Medicare.....BA	-0.5	-0.9	-1.2	-2.6
O	-1.5	-3.1	-4.4	-9.1

H.CON.RES. 93, CONFERENCE AGREEMENT
 COMPARED TO CBO REVISED BASELINE

Function	(\$ billions)			Total 1988-90
	1988	1989	1990	
600: Income Security.....BA	+0.6	+0.6	+0.6	+1.7
O	+(*)	+0.2	+0.2	+0.4
650: Social Security.....BA	---	---	---	---
O	-0.2	-0.2	-0.2	-0.7
700: Veterans Benefits.....BA	---	-0.1	-0.3	-0.4
O	-0.1	-0.1	-0.2	-0.4
750: Administration of Justice BA	+0.2	---	-0.2	+(*)
O	+0.2	+0.1	-0.1	+0.2
800: General Government.....BA	+0.4	+0.2	+0.1	+0.8
O	+0.3	+0.1	---	+0.4
850: General Purpose Fiscal Assistance.....BA	-0.1	-0.1	-0.1	-0.2
O	-0.1	-0.1	-0.1	-0.2
900: Net Interest.....BA	-1.2	-3.4	-6.9	-11.4
O	-1.2	-3.4	-6.9	-11.4
920: Allowances.....BA	-1.6	-3.4	-5.0	-10.1
O	-1.6	-3.9	-5.7	-11.2
950: Undistributed Offsetting Receipts.....BA	-0.2	+0.9	+1.8	+2.5
O	-7.5	+1.0	+1.8	-4.7
Total spending.....BA	-10.7	-20.8	-34.3	-65.8
O	-15.7	-24.3	-38.4	-78.4
Revenues.....	+21.2	+25.0	+26.1	+72.2
Deficit.....	-36.9	-49.3	-64.4	-150.6

PLEASE NOTE: Details do not add to totals due to rounding.
 Excludes adjustments for President's economic assumptions.

(*) Less than \$50 million.

H.CON.RES. 93, CONFERENCE AGREEMENT
 COMPARED TO SENATE-PASSED BUDGET RESOLUTION

Function	(\$ billions)			Total 1988-90
	1988	1989	1990	
050: National Defense.....BA	-5.50	-3.60	+0.60	-8.50
O	-1.10	-2.70	+0.20	-3.60
150: International Affairs.....BA	+0.40	+1.40	+2.45	+4.25
O	+0.30	+0.95	+1.90	+3.15
250: General Science, Space & Technology.....BA	-0.20	-0.20	-0.20	-0.60
O	-0.10	-0.10	-0.20	-0.40
270: Energy.....BA	-0.30	-0.35	-0.35	-1.00
O	-0.25	-0.35	-0.35	-0.95
300: Natural Resources.....BA	-0.10	-0.05	-0.05	-0.20
O	---	-0.05	-0.05	-0.10
350: Agriculture.....BA	+0.05	-0.15	+0.05	-0.05
O	---	-0.10	+0.05	-0.05
370: Commerce & Housing Credit BA	+0.30	-0.35	-0.05	-0.10
O	+0.30	-0.40	---	-0.10
400: Transportation.....BA	-0.20	-0.10	-0.10	-0.40
O	-0.15	-0.05	-0.05	-0.25
450: Community and Regional Development.....BA	+0.10	+0.35	+0.60	+1.05
O	-0.10	---	+0.20	+0.10
500: Education, Training, Employment & Social Services.....BA	+0.45	+1.65	+1.55	+3.65
O	---	-0.20	+0.60	+0.40
550: Health.....BA	+0.55	+1.75	+2.40	+4.70
O	+0.45	+1.35	+2.10	+3.90
570: Medicare.....BA	-0.35	-0.40	-0.15	-0.90
O	+1.50	+0.35	+0.15	+2.00

H.CON.RES. 93, CONFERENCE AGREEMENT
 COMPARED TO SENATE-PASSED BUDGET RESOLUTION

Function	(\$ billions)			Total 1988-90
	1988	1989	1990	
600: Income Security.....BA	+0.60	+1.15	+1.65	+3.40
O	+0.85	+1.40	+1.70	+3.95
650: Social Security.....BA	---	---	---	---
O	+0.05	---	---	+0.05
700: Veterans Benefits.....BA	-0.10	+0.05	+0.25	+0.20
O	-0.05	+0.05	-0.20	+0.20
750: Administration of Justice BA	-0.20	-0.05	-0.10	-0.35
O	-0.15	-0.05	-0.05	+0.25
800: General Government.....BA	+0.10	+0.05	+0.05	+0.20
O	+0.05	---	---	+0.05
850: General Purpose Fiscal Assistance.....BA	---	+0.15	+0.10	+0.25
O	---	+0.15	+0.10	+0.25
900: Net Interest.....BA	+0.05	+1.10	+2.05	+3.20
O	+0.05	+1.10	+2.05	+3.20
920: Allowances.....BA	-0.40	-0.30	-0.25	-0.95
O	-0.10	-0.25	-0.25	-0.60
950: Undistributed Offsetting Receipts.....BA	-0.20	+0.05	+0.05	-0.10
O	-7.50	+0.10	+0.10	-7.30
Total spending.....BA	-4.95	+2.15	+10.55	+7.75
O	-5.95	+1.20	+8.40	+3.65
Revenues.....	-6.15	-8.45	-7.60	-22.20
Deficit.....	+0.20	+9.65	+16.00	+25.85

PLEASE NOTE: Details do not add to totals due to rounding.
 Excludes adjustments for President's economic assumptions.

H.CON.RES. 93, CONFERENCE AGREEMENT
 COMPARED TO HOUSE-PASSED BUDGET

Function	(\$ billions)			Total 1988-90
	1988	1989	1990	
050: National Defense.....BA	+7.30	+4.50	+0.40	+12.20
O	+7.80	+3.30	+0.60	+11.70
150: International Affairs.....BA	-0.15	-0.35	-0.30	-0.80
O	-0.10	-0.30	-0.25	-0.65
250: General Science, Space & Technology.....BA	+1.05	+2.75	+3.75	+7.55
O	+0.65	+1.90	+3.00	+5.55
270: Energy.....BA	+1.25	+0.90	+0.45	+2.60
O	+0.95	+0.85	+1.00	+2.80
300: Natural Resources.....BA	+2.00	+1.65	+1.30	+4.95
O	+1.30	+1.60	+1.50	+4.40
350: Agriculture.....BA	-0.05	-0.05	-0.60	-0.70
O	-0.05	---	-0.65	-0.70
370: Commerce & Housing Credit BA	-0.20	-0.55	-0.50	-1.25
O	-0.30	-0.55	-0.30	-1.15
400: Transportation.....BA	+0.85	+0.45	+0.10	+1.40
O	+0.30	-0.10	-0.70	-0.50
450: Community and Regional Development.....BA	-0.10	-0.10	-0.10	-0.30
O	-0.10	-0.10	-0.10	-0.30
500: Education, Training, Employment & Social Services.....BA	---	---	---	---
O	-0.05	---	---	-0.05
550: Health.....BA	-0.05	---	---	-0.05
O	-0.05	---	---	-0.05
570: Medicare.....BA	-0.35	-0.30	-0.25	-0.90
O	---	+0.20	+1.20	+1.40

H.CON.RES. 93, CONFERENCE AGREEMENT

COMPARED TO HOUSE-PASSED BUDGET

Function	(\$ billions)			Total 1988-90
	1988	1989	1990	
600: Income Security.....BA	---	---	---	---
O	+0.10	-0.10	-0.15	-0.15
650: Social Security.....BA	---	+0.05	---	+0.05
O	-0.20	-0.15	-0.20	-0.55
700: Veterans Benefits.....BA	---	-0.10	-0.25	-0.35
O	-0.05	-0.10	-0.25	-0.40
750: Administration of Justice BA	+0.40	+0.20	---	+0.60
O	+0.35	+0.25	+0.05	+0.65
800: General Government.....BA	---	-0.35	-0.35	-0.70
O	---	-0.40	-0.45	-0.85
850: General Purpose Fiscal Assistance.....BA	---	---	---	---
O	---	---	---	---
900: Net Interest.....BA	+0.15	+0.85	+0.95	+1.95
O	+0.15	+0.85	+0.95	+1.95
920: Allowances.....BA	-0.50	-2.25	-2.80	-5.55
O	-0.50	-2.60	-3.35	-6.45
950: Undistributed Offsetting Receipts.....BA	-0.25	---	---	-0.25
O	-7.55	+0.05	+0.05	-7.45
Total spending.....BA	+11.35	+7.30	+1.80	+20.45
O	+2.65	+4.60	+1.95	+9.20
Revenues.....	+1.35	+3.00	+2.95	+7.30
Deficit/Surplus.....	+1.30	+1.60	-1.00	+1.90

PLEASE NOTE: Details do not add to totals due to rounding.
Excludes adjustments for President's economic assumptions.

ANALYSIS OF CONFERENCE AGREEMENT

Revenues

	(\$ billions)				
	1987	1988	1989	1990	1991
Conference.....Rev	N/A	921.6	987.0	1077.1	N/A
Senate-passed.....Rev	834.1	927.8	995.4	1084.7	1181.7
House-passed.....Rev	N/A	920.3	984.0	1074.2	N/A
CBO Baseline.....Rev	834.1	900.5	962.0	1051.0	1138.9
Conference over (+)/ under (-):					
Senate-passed.....Rev	N/A	-6.2	-8.4	-7.6	N/A
House-passed.....Rev	N/A	+1.3	+3.0	+2.9	N/A
CBO Baseline.....Rev	N/A	+21.1	+25.0	+26.1	N/A

Major Issues

The Senate-passed budget counted as revenues contributions resulting from the prepayment of the REA guaranteed loan portfolio. The conference agreement treats REA contributions as offsetting receipts.

Not shown in the conference agreement figures above are additional revenues of \$11.2 billion in FY 1988, \$7.0 billion in FY 1989, and -\$10.5 billion in FY 1990. This multi-billion dollar "plug" was incorporated into the conference agreement revenue levels as a result of adopting the "President's estimating assumptions" and in order to meet the G-R-H deficit target of \$108 billion in FY 1988.

The plug in the conference agreement uses CBO figures for economic and technical reestimates, as well as an adjustment for reestimates of policy recommendations. A correct adjustment for "President's estimating assumptions" should include only economic and technical differences. The reestimates of policy raise the revenue level by \$0.6 billion in FY 1988 and by \$0.7 billion in both FY 1989 and FY 1990. If policy adjustments are excluded, the conference agreement does not meet the Gramm-Rudman-Hollings deficit target in FY 1988.