PART I — BUDGET TOTALS — PRESIDENT'S BUDGET FREEZE AND REFORM PLAN

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FY 84 Budget file.
Thanks
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BUDGET TOTALS AT A GLANCE

	1983	1984	1985	1986	1987	1988
OUTLAYS . . .	805	848	919	990	1,058	1,127
RECEIPTS . . .	597	660	724	842	916	1,010
DEFICIT	208	189	194	148	142	117

HIGHLIGHTS

- PRESIDENT'S BUDGET FREEZE AND REFORM PLAN RESULTS IN NO REAL GROWTH IN 1984 BUDGET
- REDUCES DEFICIT BY $43 BILLION IN 1984 AND $558 BILLION OVER 1984-88
- MAINTAINS ESSENTIAL DEFENSE BUILD-UP AT $55 BILLION LOWER 5-YEAR COST
- CAUSES DEFICIT SHARE OF GNP TO STEADILY DROP—KEEPING BUDGET ON A PATH CONSISTENT WITH SUSTAINED ECONOMIC RECOVERY

1983	1985	1988
6.5%	5.1%	2.4%

FOUR-POINT BUDGET FREEZE AND REFORM PLAN

1) 1984 Spending Freeze Measures

- No increase in civilian/military pay and retirement.
- 6-month COLA freeze for Social Security and related indexed benefits.
- Freeze on aggregate non-defense discretionary programs, medical provider reimbursement and farm price supports.

2) Long-term Structural Reform

- Bipartisan Social Security Solvency Plan which cuts $79 billion from 1984-88 budget deficit.
- Health care reform and efficiency incentive package involving $58 billion in 5-year savings from Medicare/Medicaid and private health insurance cap.
- Major reforms of civil service retirement, better targeting of means-tested entitlements and veterans benefits.

3) Maintenance of Defense Build-up at Lower Cost

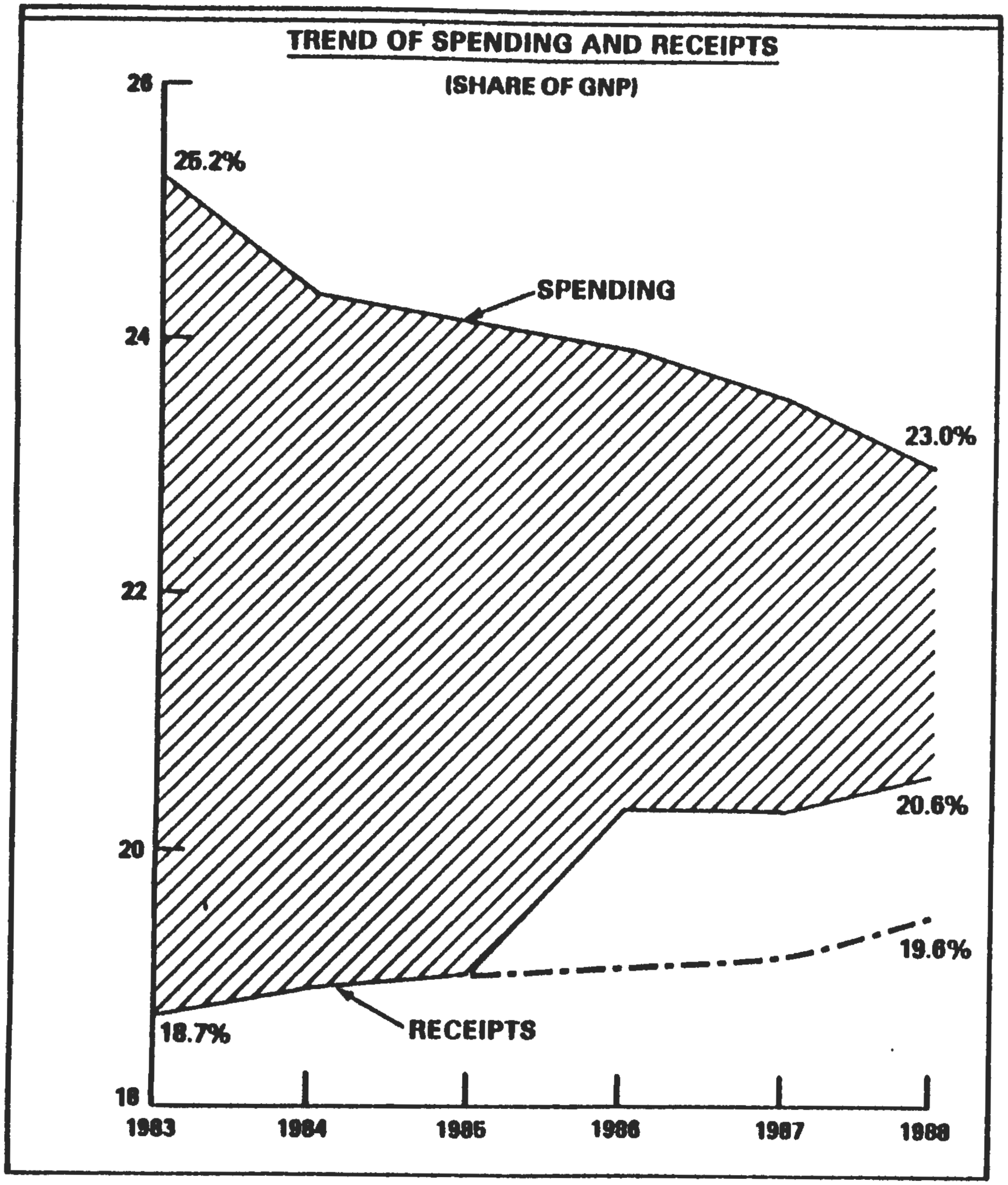
- $55 billion in pay, fuel and inflation and program economies and savings over 5 years.
- Fully protects strategic programs, readiness and sustainability initiatives and conventional forces modernization.

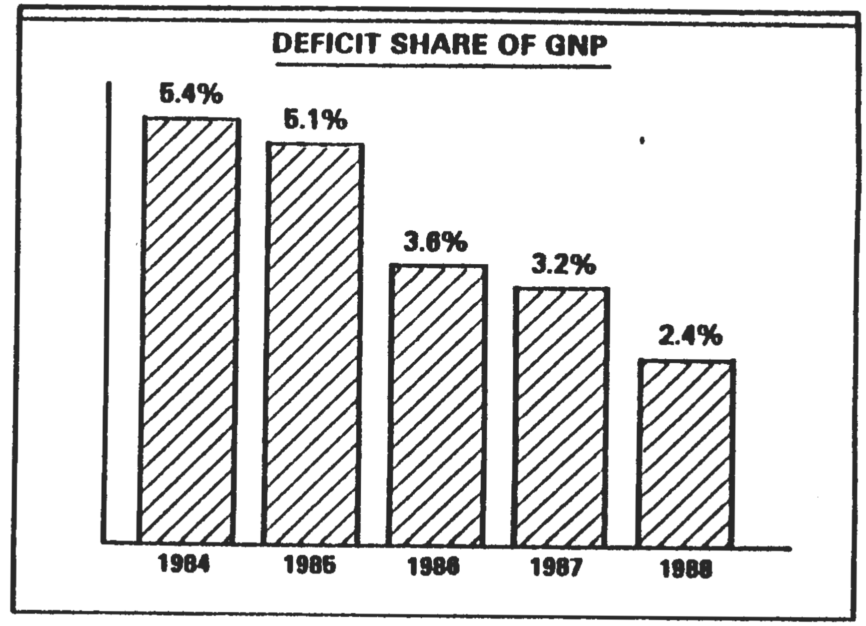
4) Deficit Insurance Policy

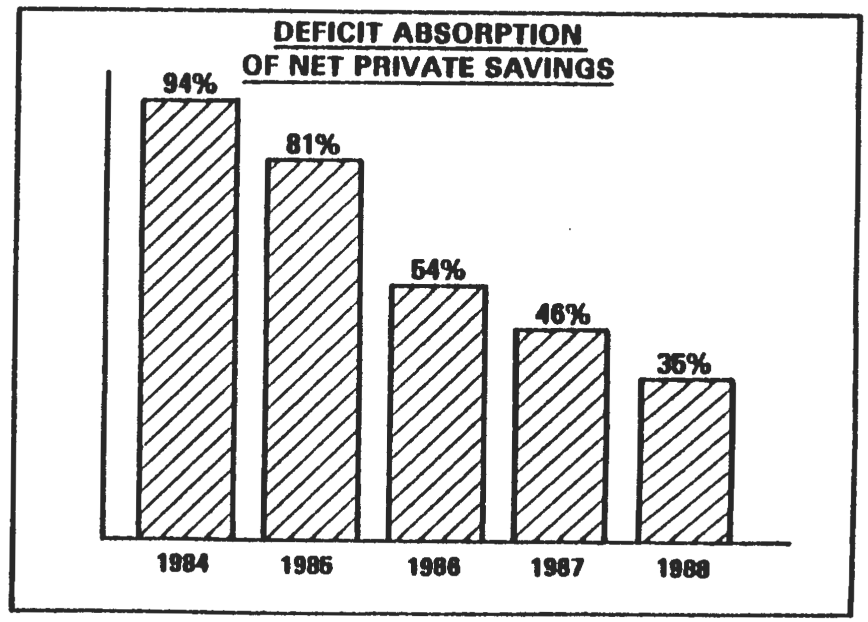
- Standby tax equal to 1% of corporate and individual taxable income and $5 per barrel oil excise tax.
- Triggered in FY 1986-88 only if budget freeze and spending reforms adopted, deficit above 2.5% of GNP, and economy in recovery.

FISCAL ECONOMIC IMPACT AT A GLANCE

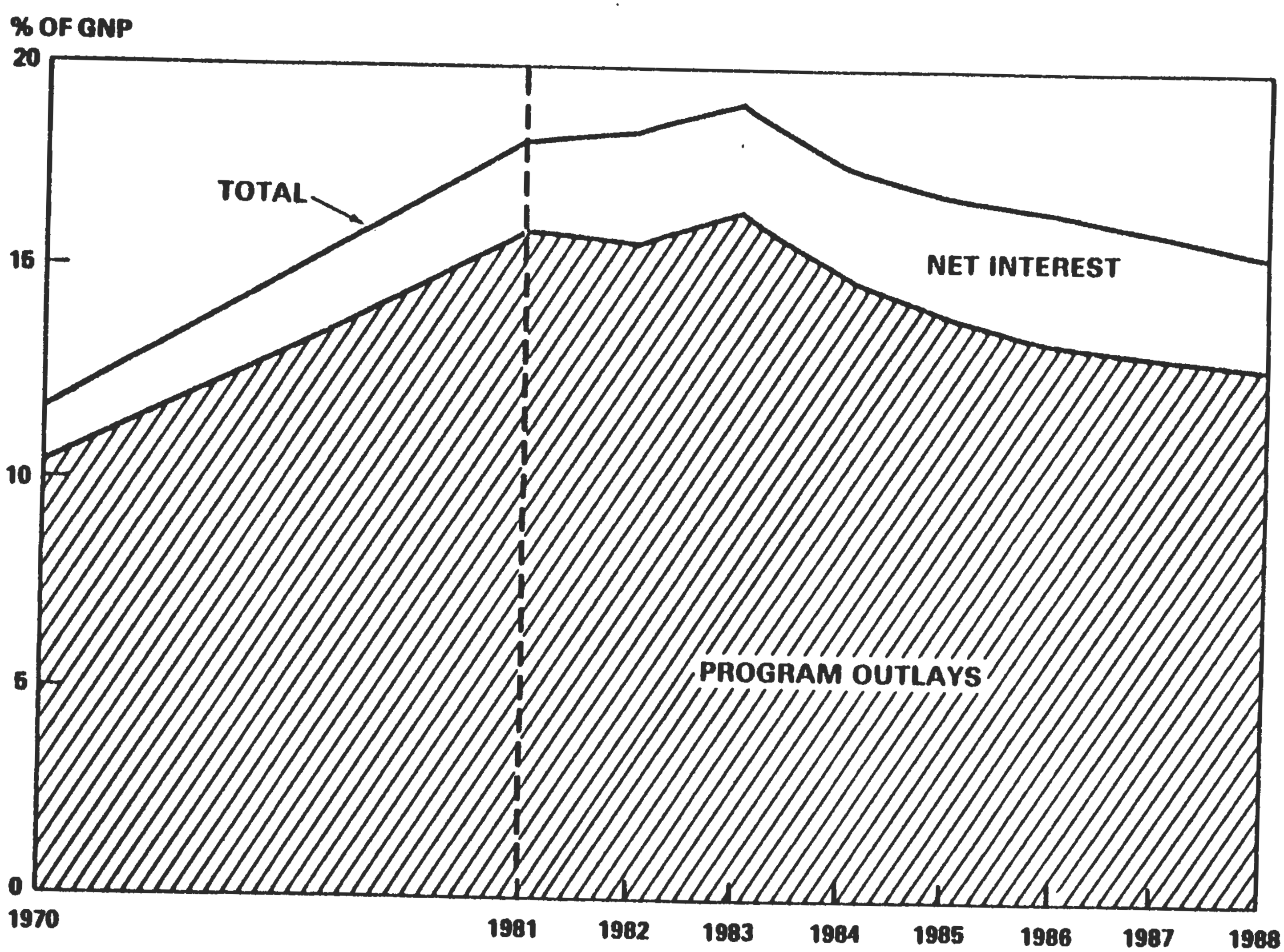
(SHARES OF GNP)



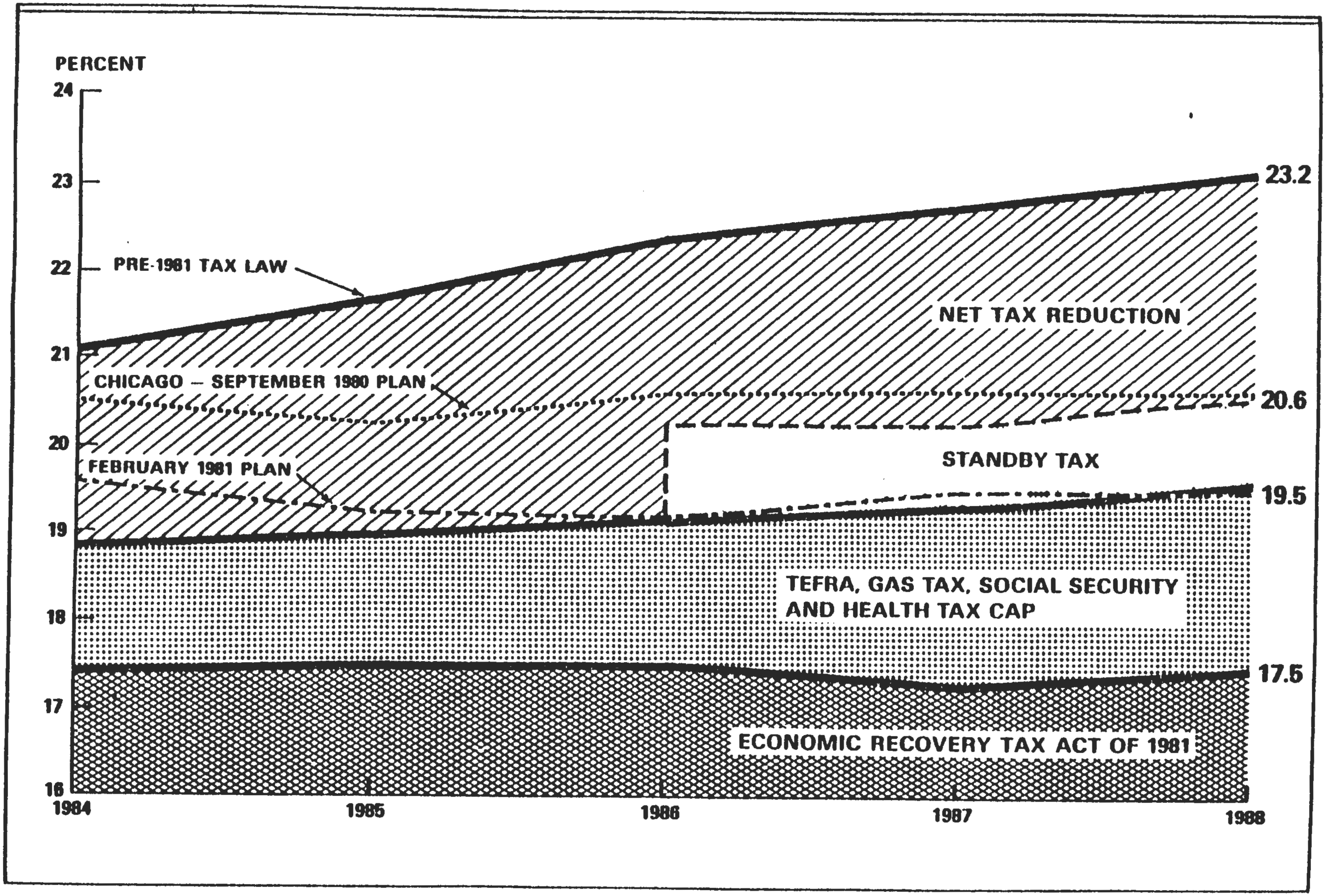




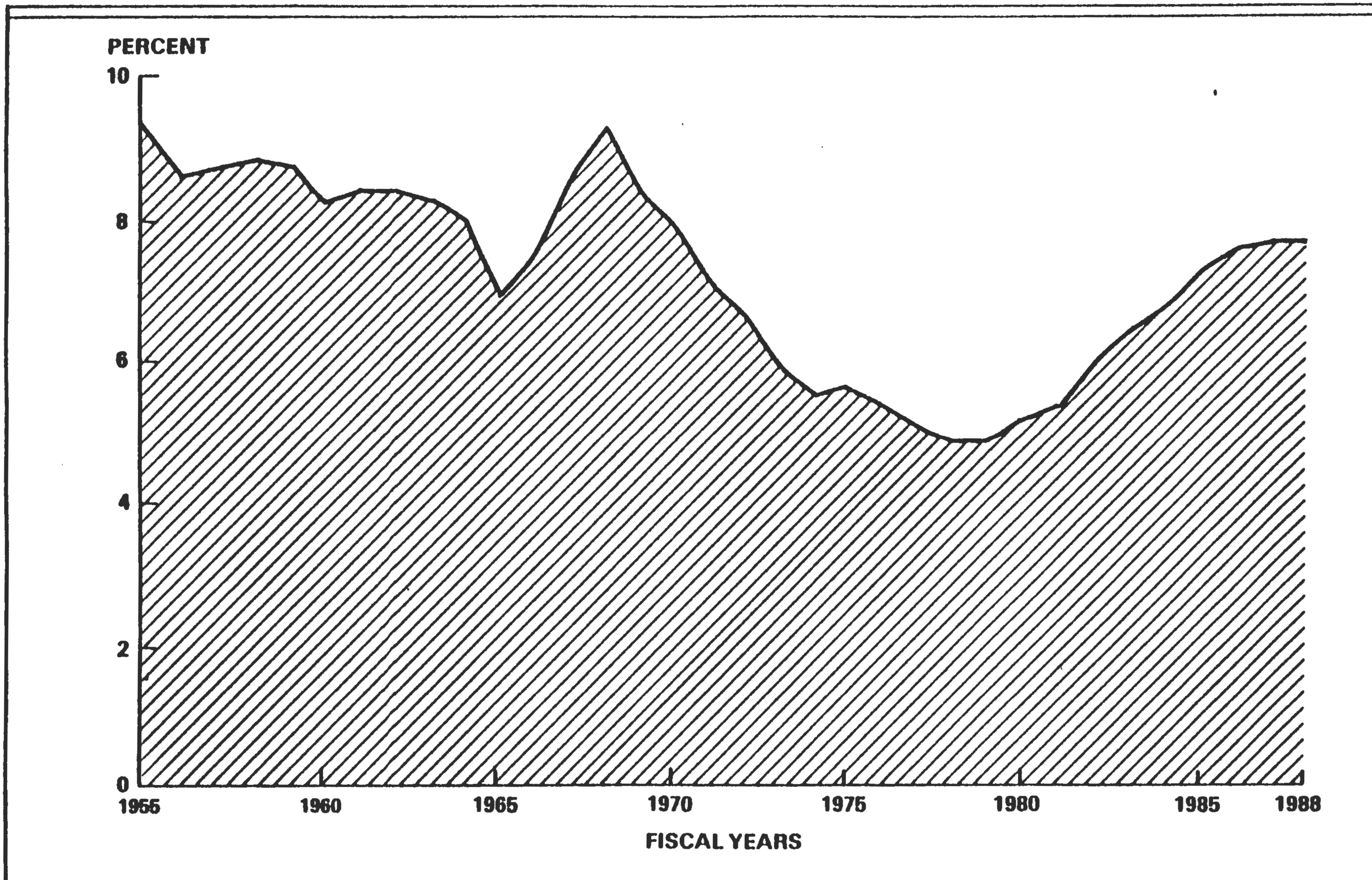
NON-DEFENSE SPENDING AS SHARE OF GNP



CHANGES IN TAX BURDEN AS A SHARE OF GNP

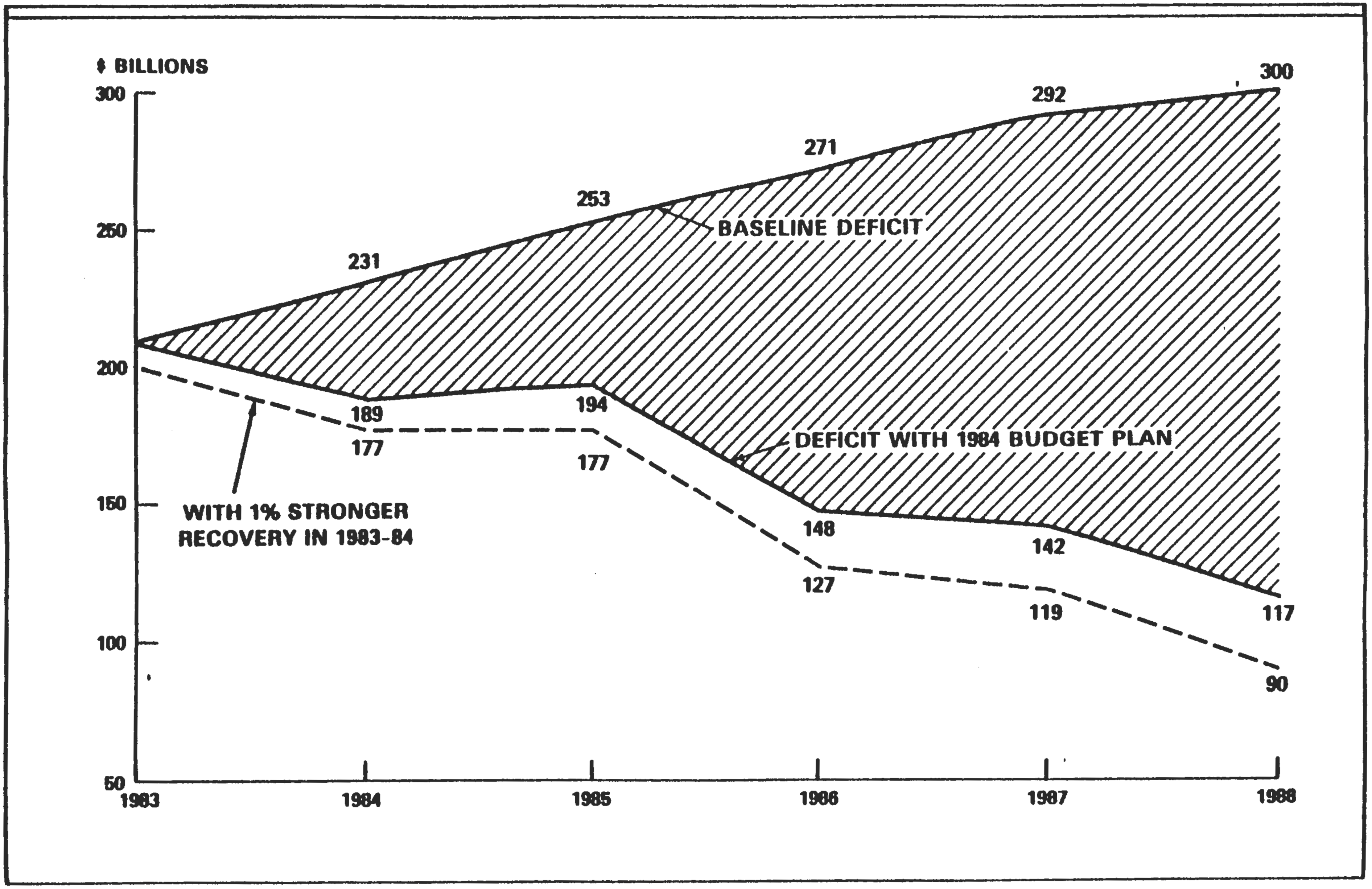


DEFENSE OUTLAYS
AS A SHARE OF GNP



PART II — SOURCE OF THE STRUCTURAL DEFICIT

DEFICIT OUTLOOK AT A GLANCE: BASELINE VS. 1984 BUDGET PLAN



SOURCES OF THE STRUCTURAL DEFICIT

- The baseline deficit totals $1,347 billion over 1984-1988 and averages more than 6.5% of GNP — posing a serious threat to sustained economic recovery.

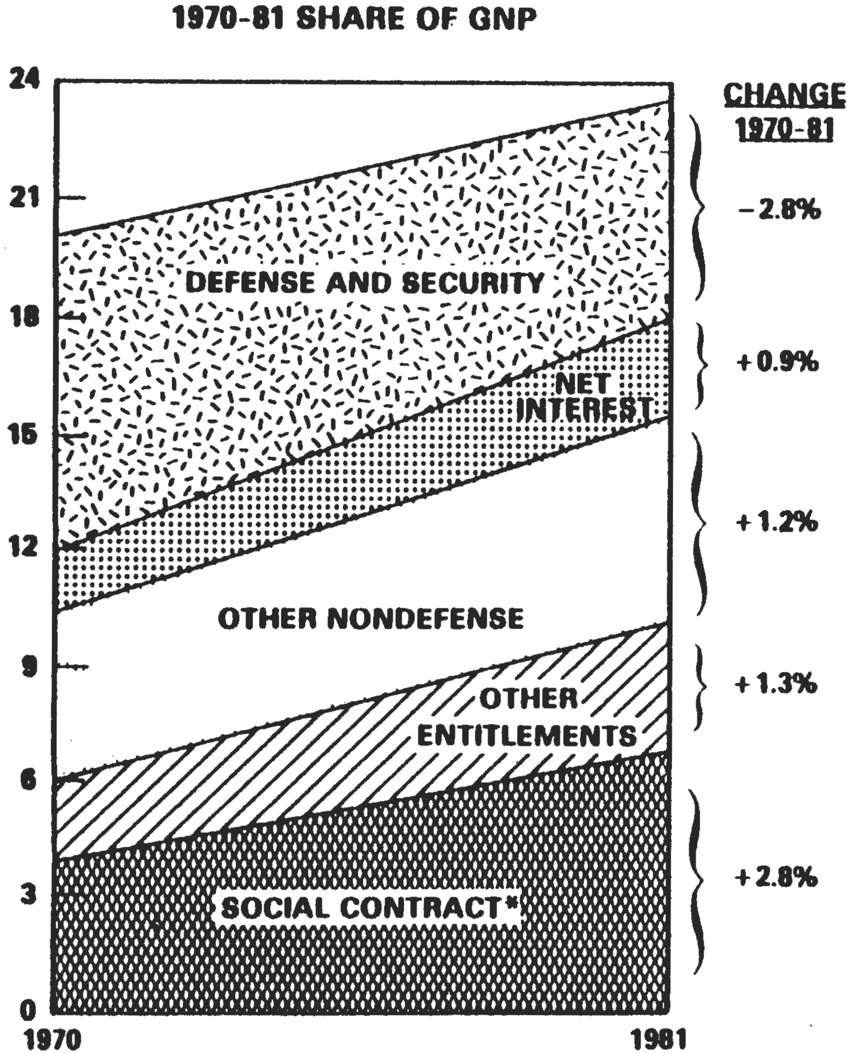
- Most of the out-year baseline deficit is "structural" representing the cumulative impact of 15 years of fiscal policy developments and economic trends. The three primary contributing forces are:

  - The doubling of constant dollar domestic spending from 1970-1981. This increased the cost of transfer payments and discretionary programs from 10¢ to 16¢ on every dollar of GNP — three-fifths of which was locked into automatic entitlements.

  - The prolonged economic adjustment of 1981-83 due to the unwinding of the 1970's inflationary disorder built into the national economy. This abrupt, severe disinflation process has dramatically lowered the long-term path of GNP and revenues and added enormous permanent debt service costs to the budget.

  - Failure during the first two budget cycles to restrain indexed benefit growth and significantly reform the big medical and retirement entitlement programs.

INHERITED FISCAL IMBALANCE

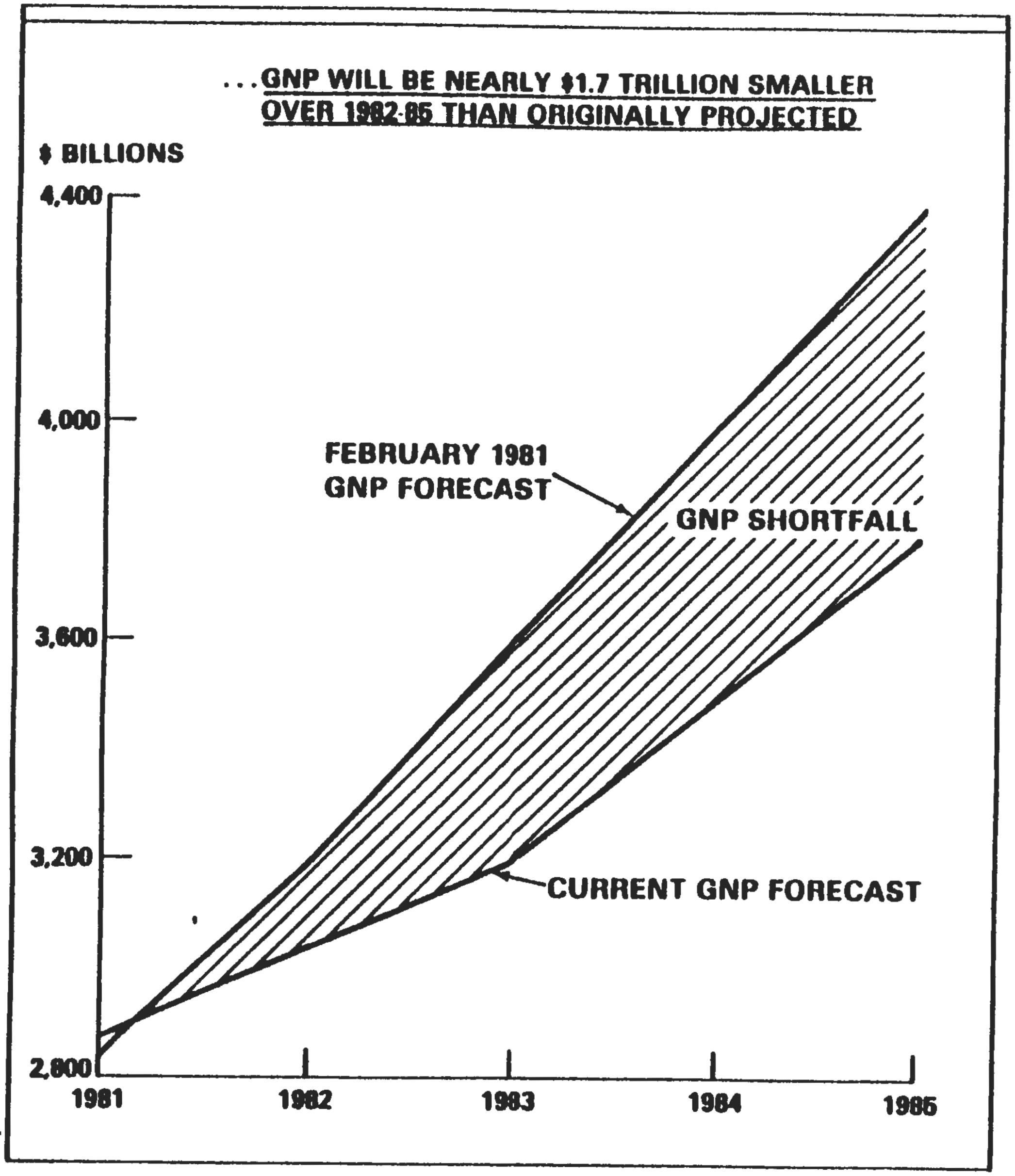


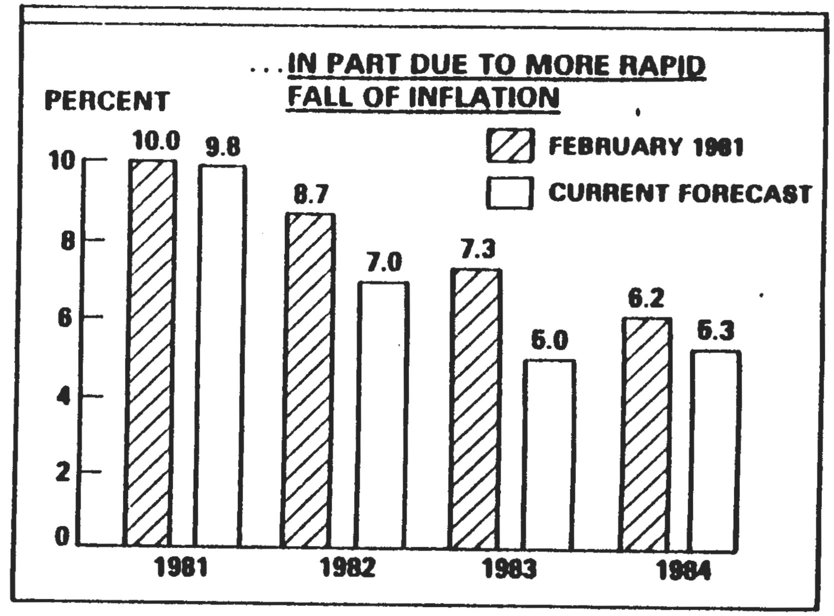
*SOCIAL SECURITY, MEDICARE, AND MEDICAID

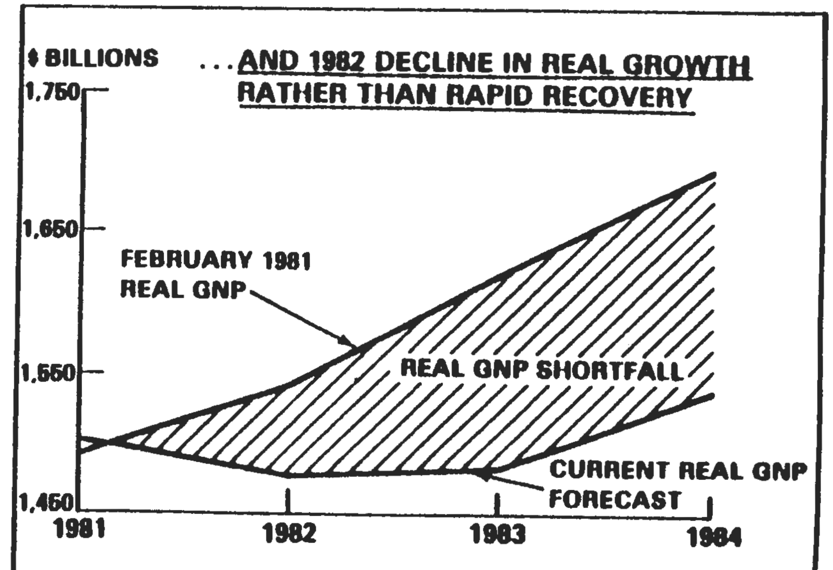
1970's Sources of the Structural Deficit

- Constant dollar cost of social contract programs quadrupled from 1963-1981 — rising from $50 to $220 billion (FY 1983$)
- Together with rapid growth in other entitlements, the overall entitlement claim on GNP rose by two-thirds — from 6% to 10% of GNP
- The overall non-defense claim expanded by 50% — from 12¢ to 18¢ on every dollar of GNP
- At the same time, a decade of neglect and underfunding caused severe deterioration of national defense capabilities — with budget resources at a low, unsustainable 5.5% of GNP
- The huge, structural imbalance in the inherited 1981 budget thus reflected:
  - Record overall spending at 23.6% of GNP that was driving up taxes and deficits
  - Defense spending that was far too low — imposing unfunded claims on future budgets
  - Automatic entitlement spending equaling 10¢ on every dollar of GNP — imposing high and rising claims on future budgets

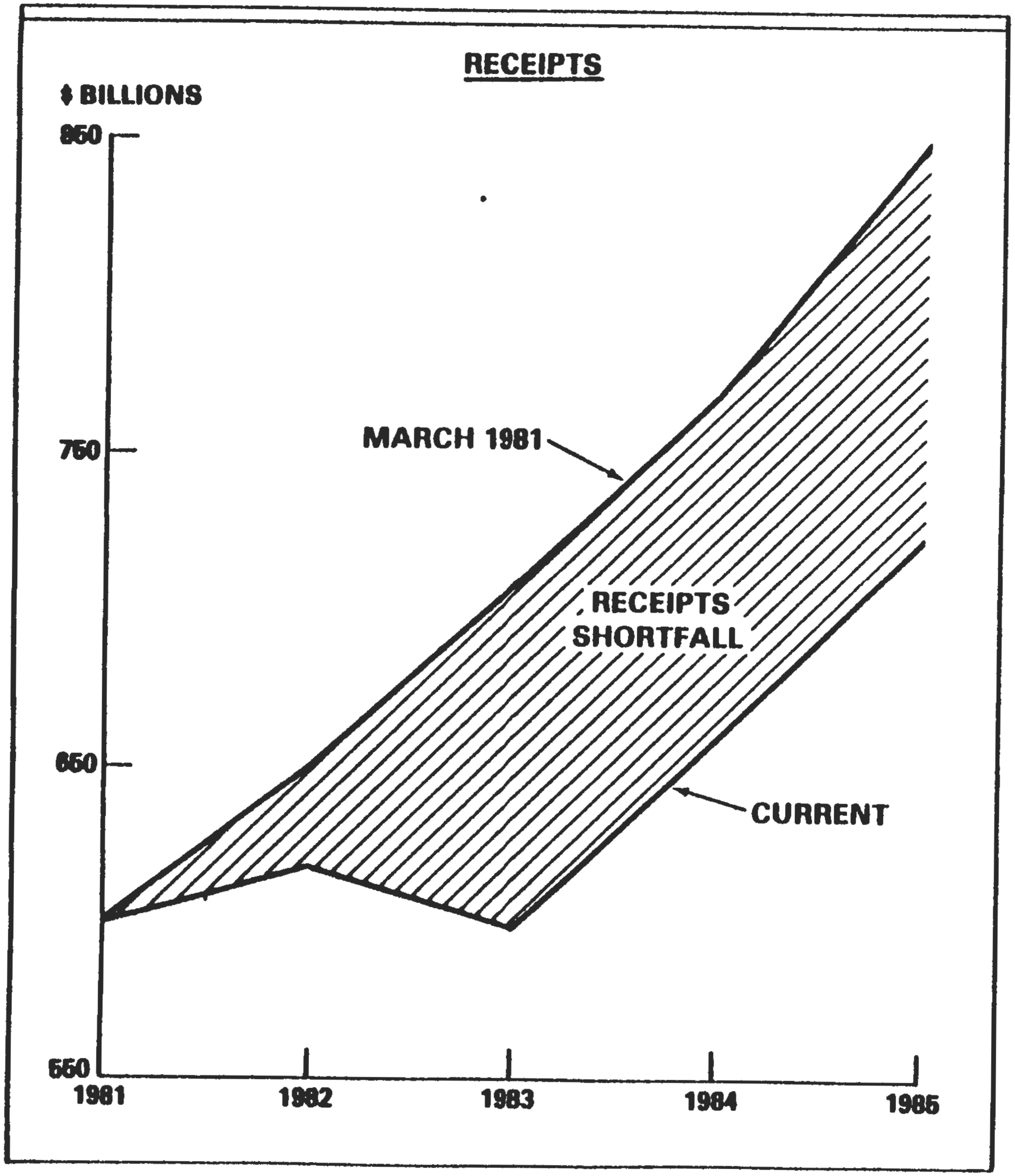
RAPID DISINFLATION AND DEEP RECESSION HAVE DRASTICALLY REDUCED GNP

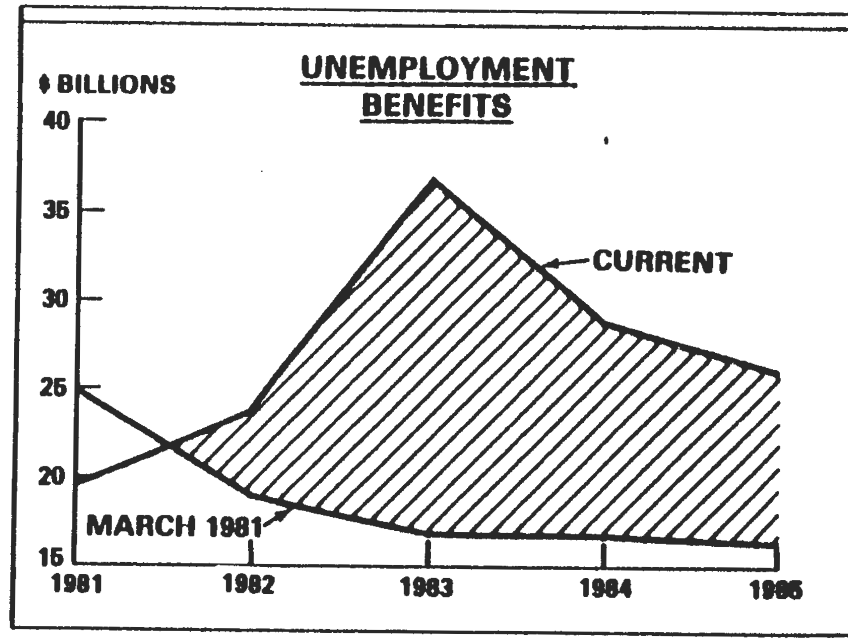


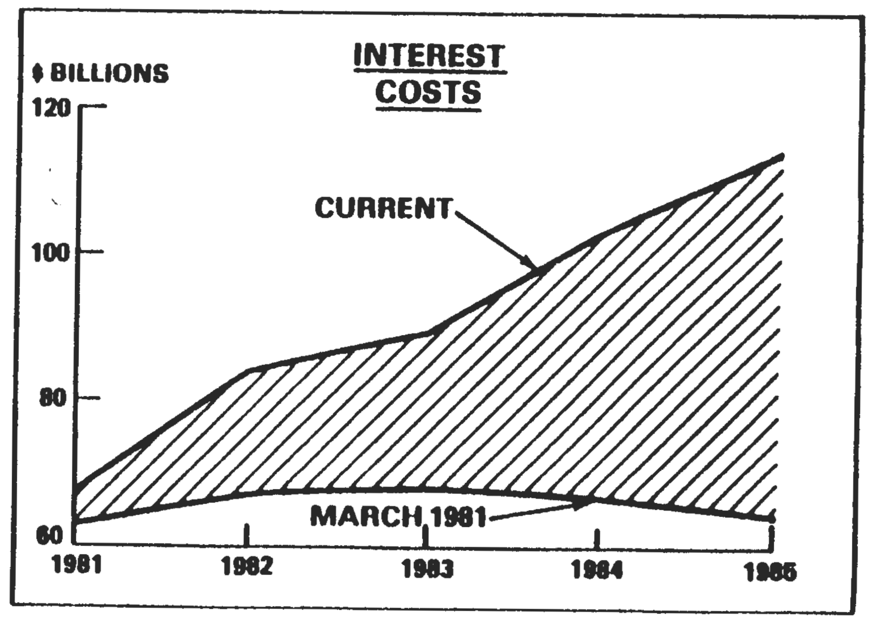




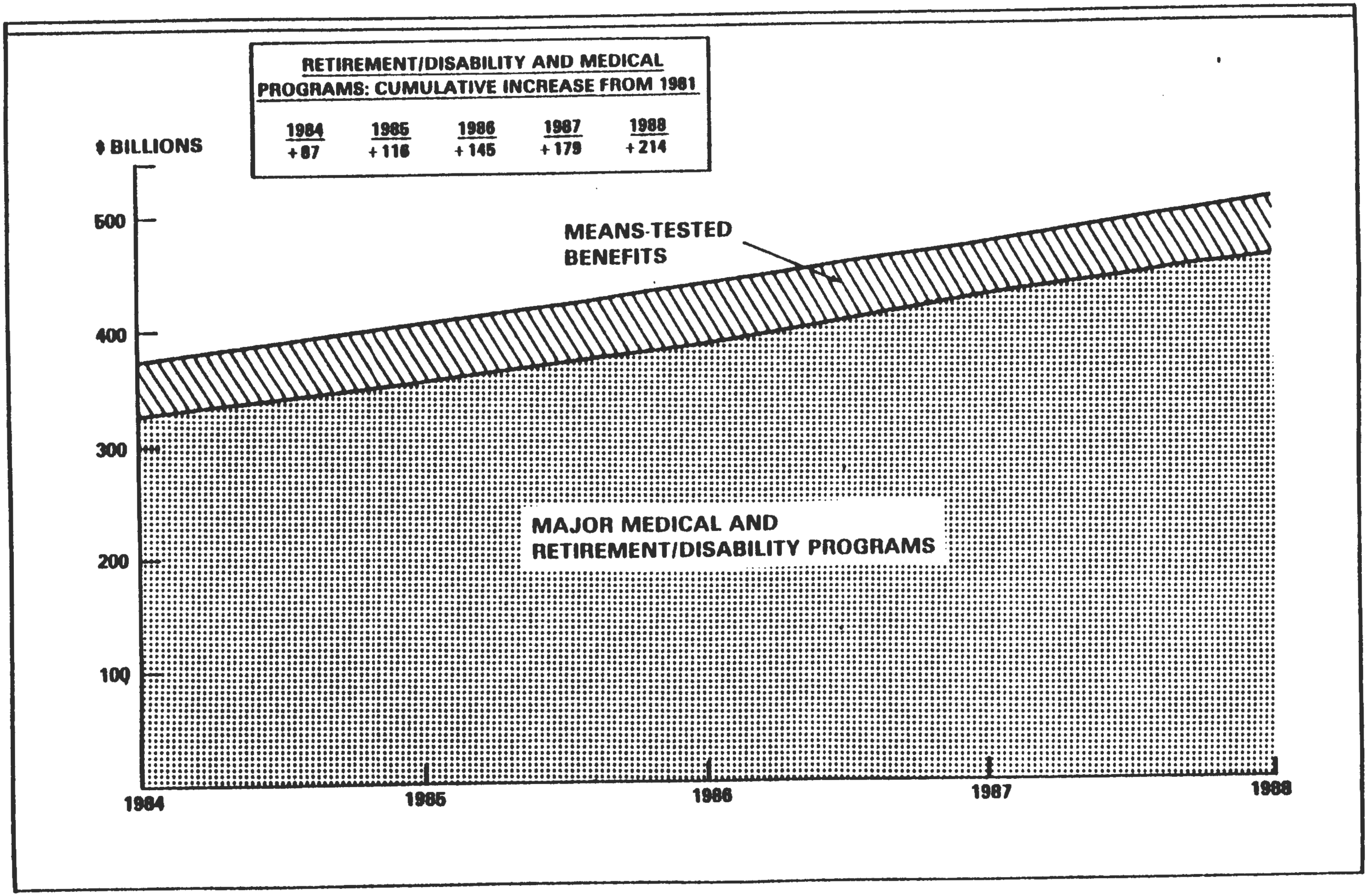
BUDGET IMPACT OF CHANGED ECONOMIC OUTLOOK







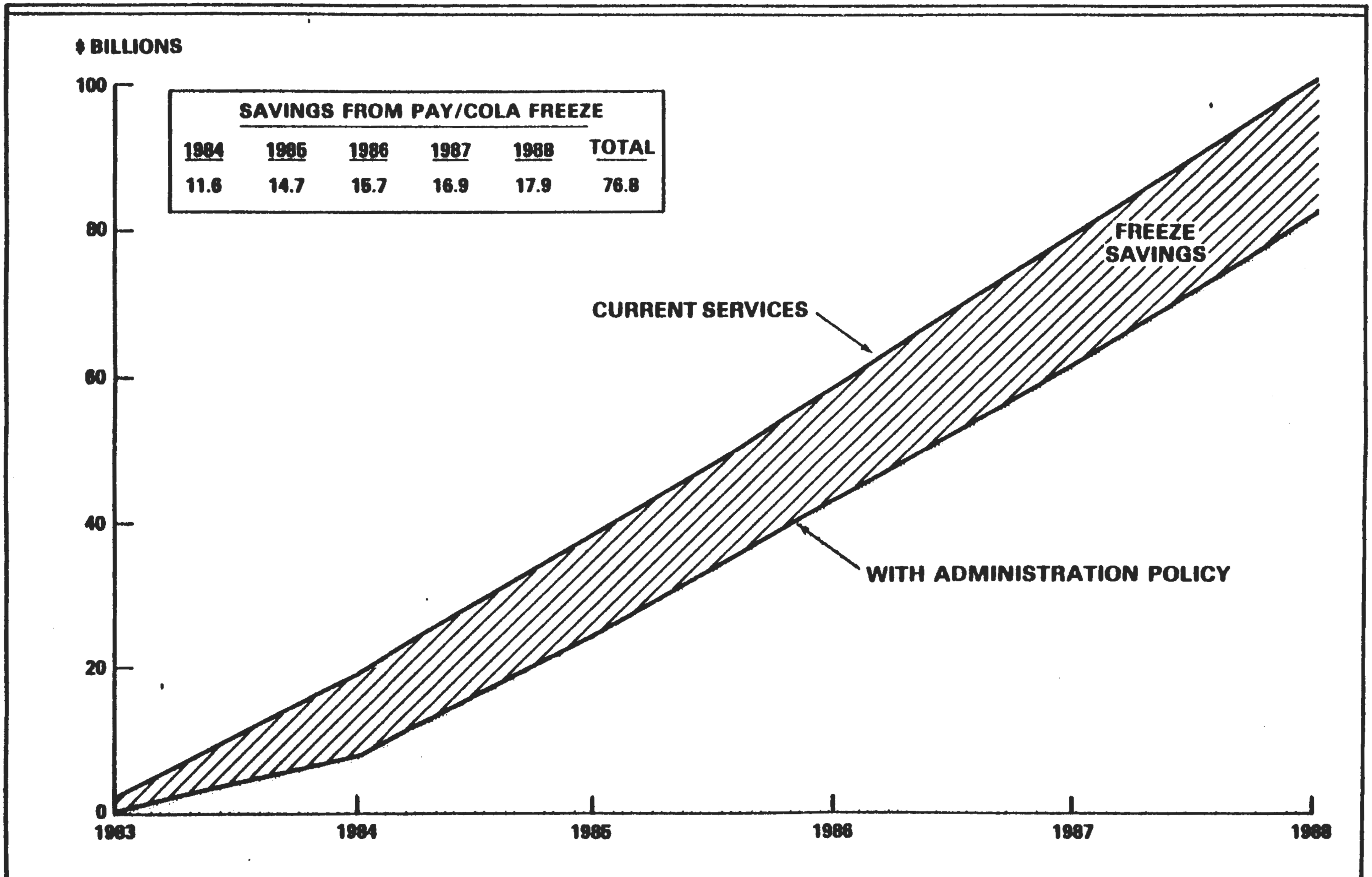
COMPOSITION OF CURRENT SERVICES BASELINE FOR TRANSFER PAYMENTS



PART III — MAJOR PROGRAM HIGHLIGHTS

BUDGET IMPACT OF FREEZE ON BASELINE COSTS OF INDEXED PROGRAMS AND PAY

SAVINGS FROM PAY/COLA FREEZE					
1984	1985	1986	1987	1988	TOTAL
11.6	14.7	15.7	16.9	17.9	76.8



AGGREGATE FREEZE ON NON-DEFENSE DISCRETIONARY PROGRAMS

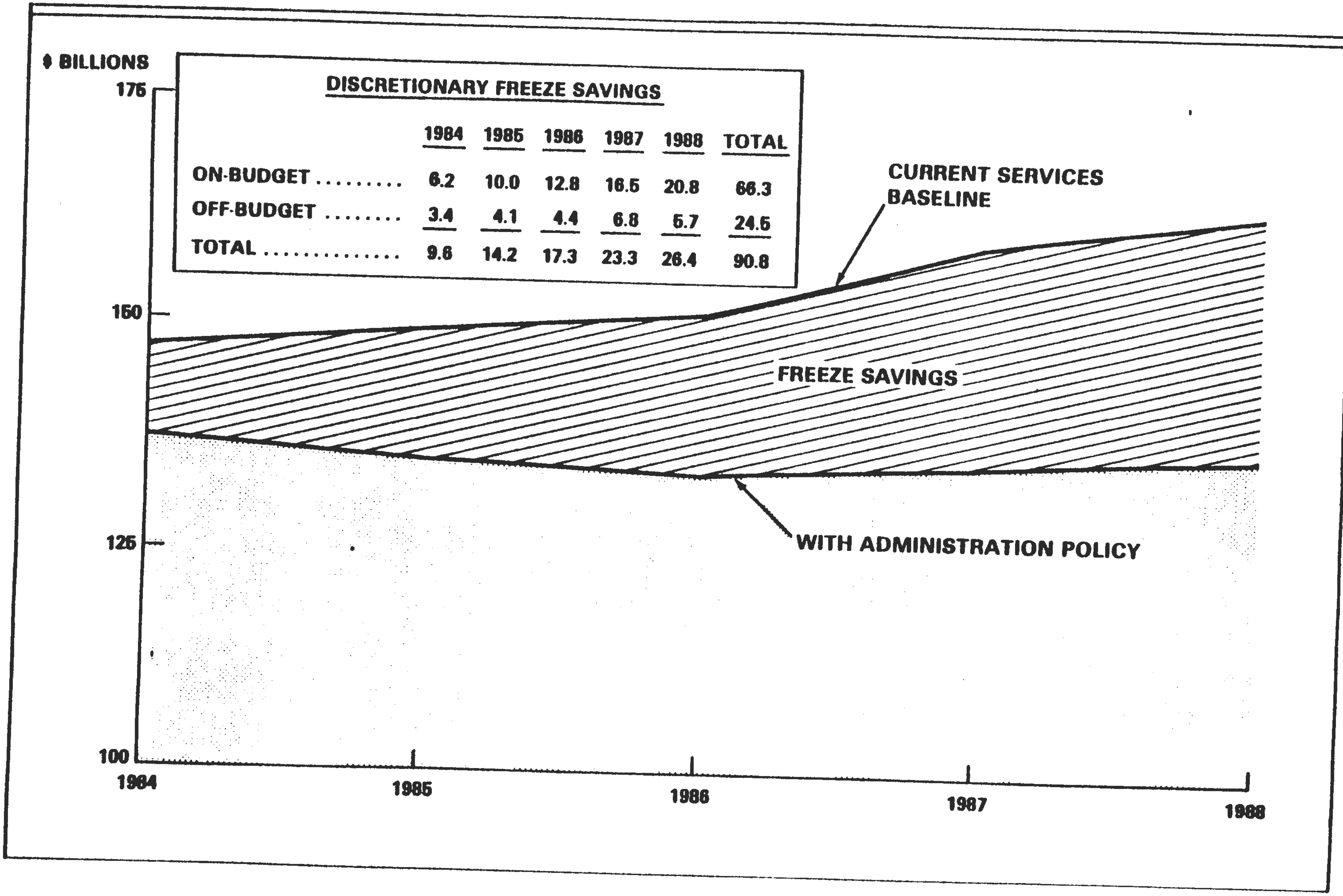
Level Request for Discretionary Programs

- 1984 request for annually funded discretionary programs is $112 billion compared to enacted 1983 appropriations of a similar level. Outlay savings of $4.8 billion compared to 1984 baseline.
- Various trust fund expenditure limits, obligation ceilings and off-budget spending and lending caps save nearly an additional $5 billion in FY 1984 outlays.

Application of Aggregate Freeze Concept

- Targeted high priority programs funded at levels above 1983 appropriation (e.g. law enforcement and anti-drug program, National Science Foundation, Head Start, displaced workers, veterans health care and transportation infrastructure).
- Most programs funded at actual 1983 appropriations (e.g. handicapped education, preventive health block grant, waste treatment grants and WIC).
- Some lower priority programs reduced to below 1983 appropriation to offset targeted increases (e.g. postal subsidies, energy R&D, EDA grants, mass transit, Amtrak and soil conservation).

BUDGET IMPACT OF DISCRETIONARY PROGRAM FREEZE



DISCRETIONARY FREEZE SAVINGS

	1984	1985	1986	1987	1988	TOTAL
ON-BUDGET	6.2	10.0	12.8	16.5	20.8	66.3
OFF-BUDGET	3.4	4.1	4.4	6.8	5.7	24.5
TOTAL	9.6	14.2	17.3	23.3	26.4	90.8

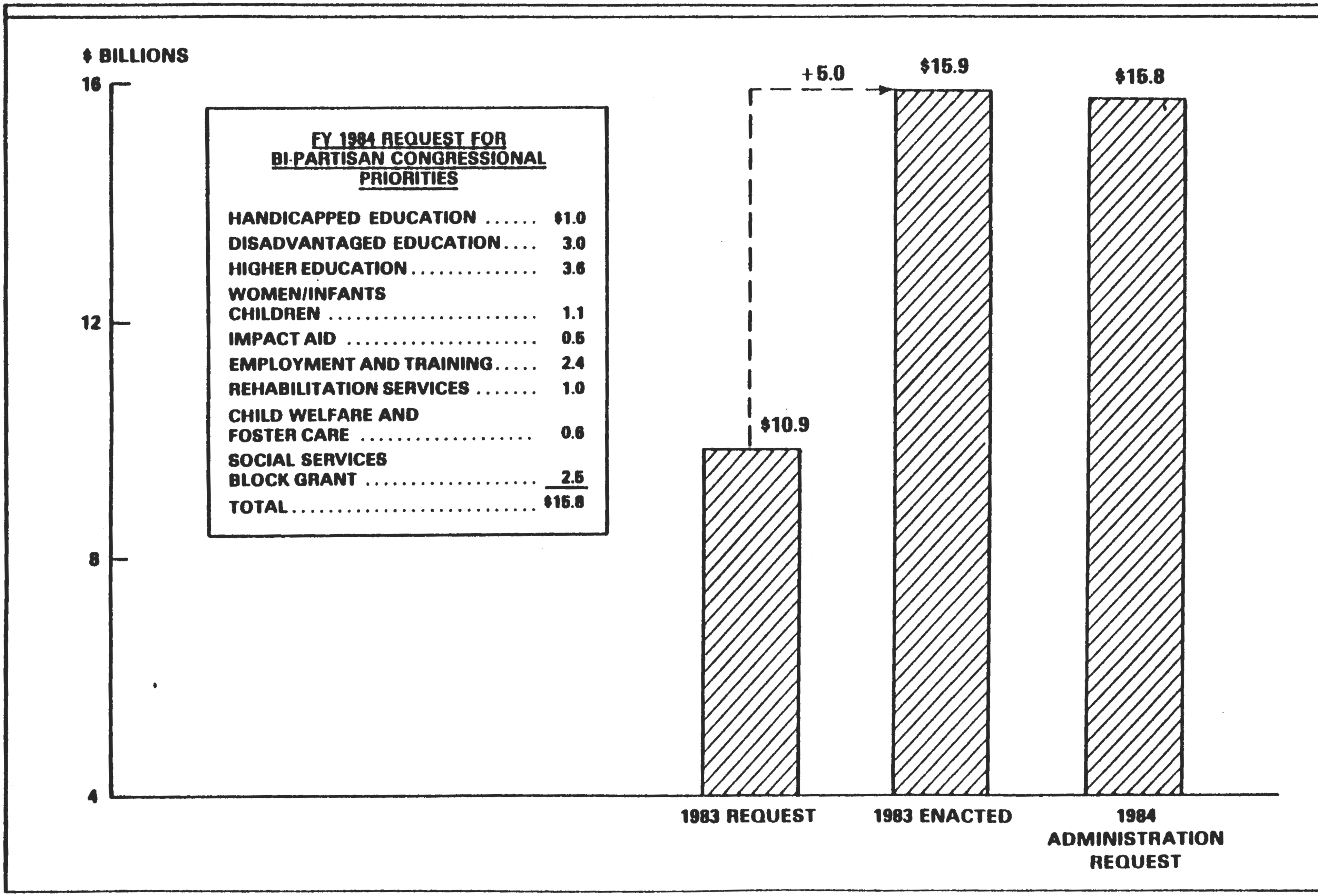
DOMESTIC PROGRAM INCREASES IN FY 1984 BUDGET

(BUDGET AUTHORITY, IN MILLIONS OF DOLLARS)

PROGRAM	1983	1984	INCREASE AMOUNT	INCREASE PERCENT
NATIONAL SCIENCE FOUNDATION	$1,099	$1,297	$ + 198	+ 18%
SCIENCE AND MATH BLOCK GRANTS	0	50	+ 50	—
COLLEGE WORK-STUDY	540	850	+ 310	+ 57
HEAD START	912	1,051	+ 139	+ 15
FOSTER CARE	395	440	+ 45	+ 11
DISPLACED WORKERS PROGRAM	50	240	+ 190	+ 380
TRAINING AND EMPLOYMENT SERVICES	3,704	4,281	+ 577	+ 16
VA MEDICAL CARE	8,292	8,900	+ 608	+ 11
LAW ENFORCEMENT	3,045	3,348	+ 303	+ 10
HIGHWAYS*	8,100	12,600	+ 4,500	+ 56
AIRPORTS AND AIRWAYS	4,180	5,031	+ 851	+ 20
TOTAL	$30,317	$38,088	$ + 7,771	+ 26%

*OBLIGATION LIMITATION PRIOR TO PASSAGE OF GAS TAX LEGISLATION

1984 BUDGET: RECOGNITION OF KEY CONGRESSIONAL PRIORITIES



FY 1984 REQUEST FOR BI-PARTISAN CONGRESSIONAL PRIORITIES

HANDICAPPED EDUCATION	$1.0
DISADVANTAGED EDUCATION	3.0
HIGHER EDUCATION	3.6
WOMEN/INFANTS CHILDREN	1.1
IMPACT AID	0.5
EMPLOYMENT AND TRAINING	2.4
REHABILITATION SERVICES	1.0
CHILD WELFARE AND FOSTER CARE	0.6
SOCIAL SERVICES BLOCK GRANT	2.5
TOTAL	$15.8

FARM PRICE SUPPORT FREEZE AND REFORM

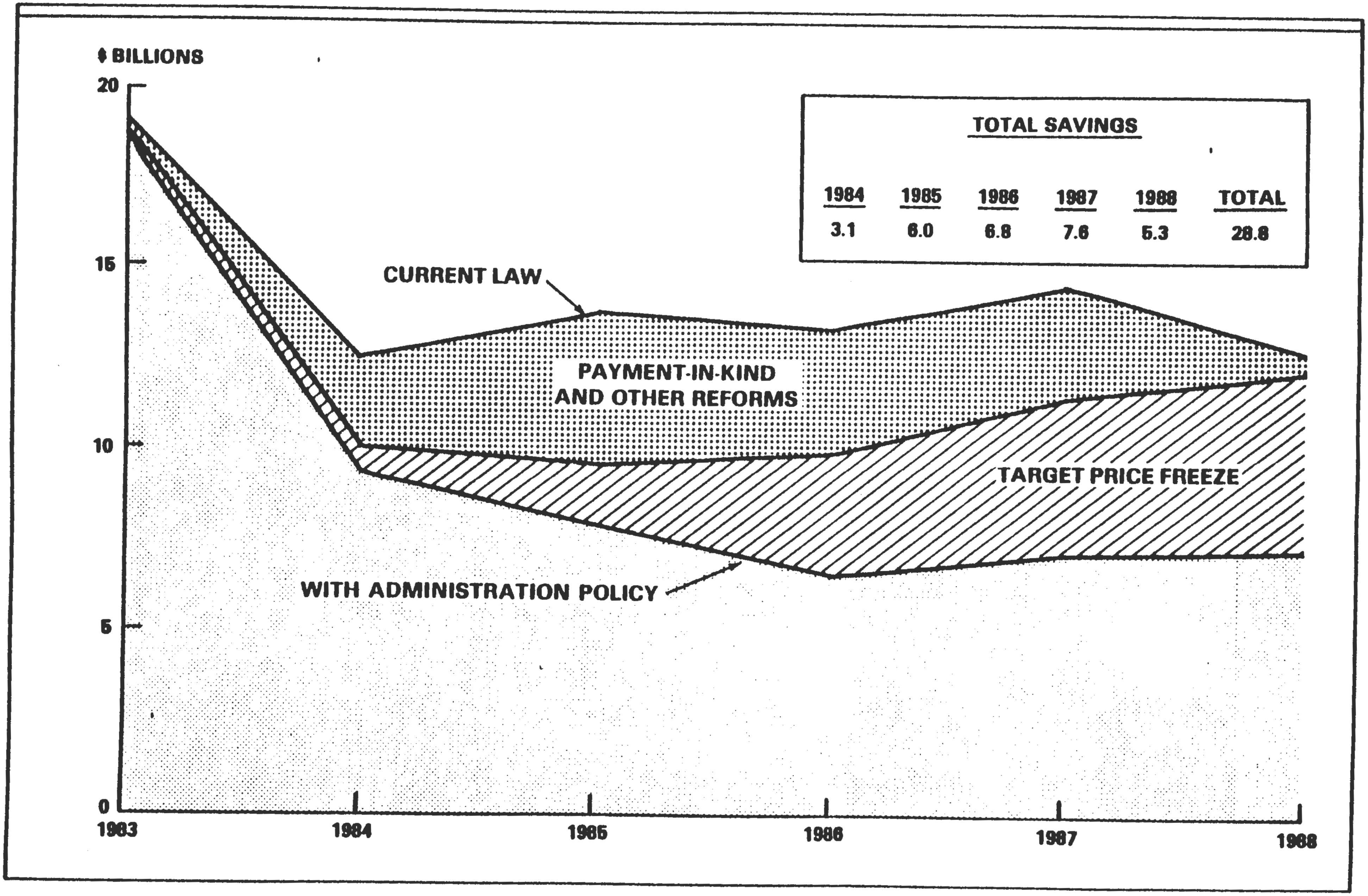
Runaway Costs if We Do Nothing

- Historic record of $19 billion in CCC outlays in 1983 and $86 billion over 1983-88 if current programs are not changed.
- Farm program cost averaged $4.2 billion (constant dollars) per year between 1932-1981. Average would triple — to $12 billion per year — over 1982-88 without Administration reforms.

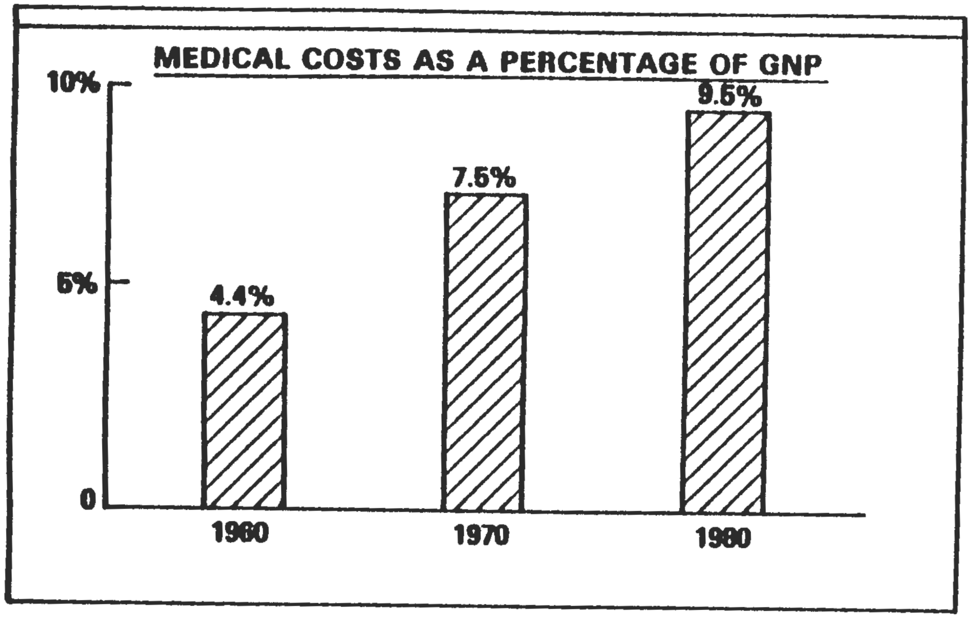
Freeze and Reform Plan

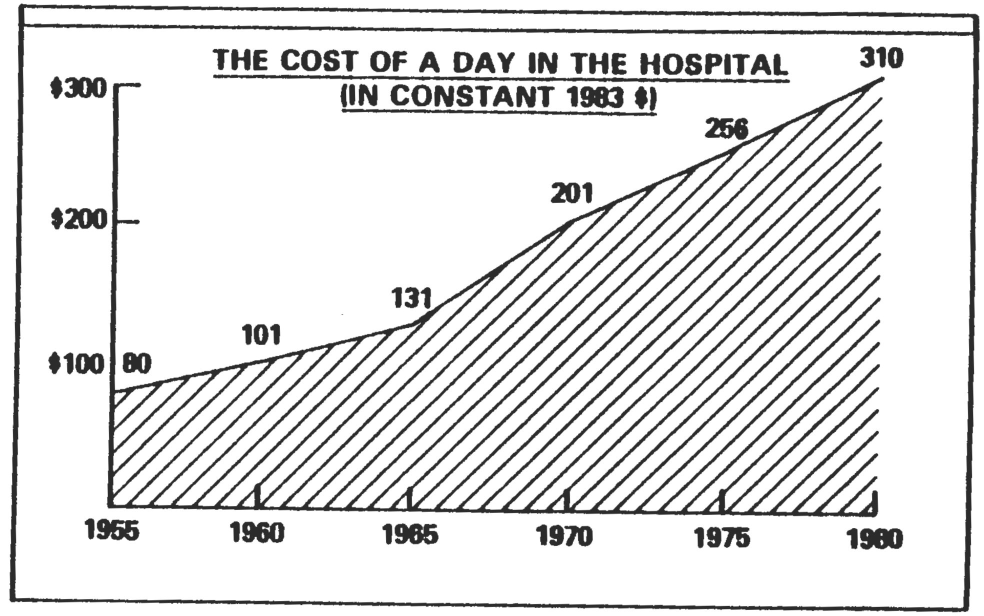
- A payment in kind program (PIK) to cut both farm production and surplus stocks at the same time. (Crop loans forgiven in return for acreage set-aside.)
- A freeze on wheat, corn and other "target" prices in keeping with the drop in inflation and production costs and to discourage over-production.
- An aggressive export policy using commercial and Government channels to increase U.S. farm trade.
- $1/hundred weight assessment to encourage lower dairy production and reduce massive government stocks.
- Saves $3.1 billion in FY 1984 and $29 billion over five years.

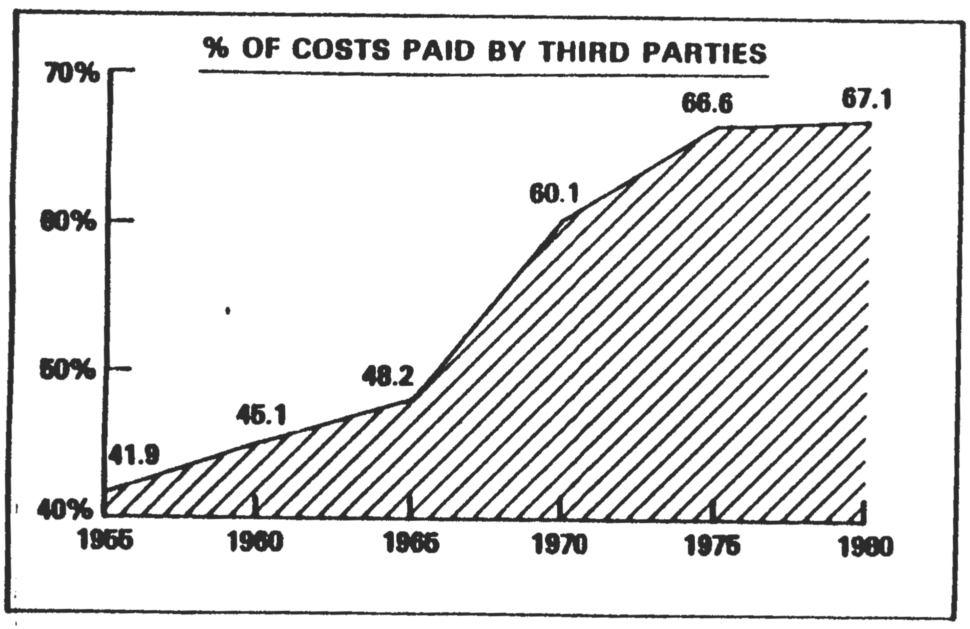
FARM PRICE SUPPORTS

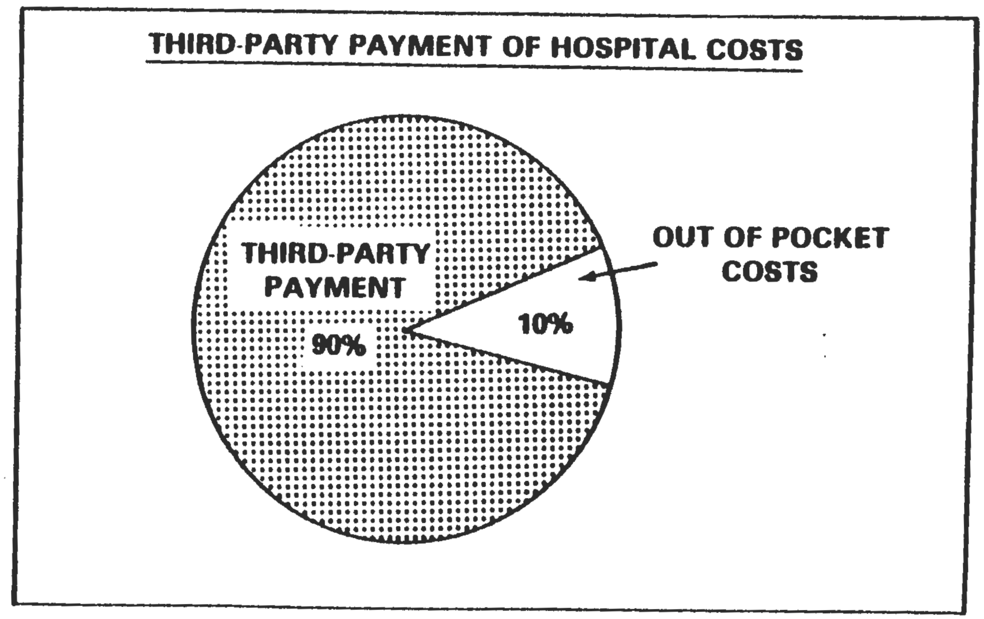


THE NEED TO CONTROL EXPLODING MEDICAL CARE COSTS









HEALTH CARE REFORM PACKAGE

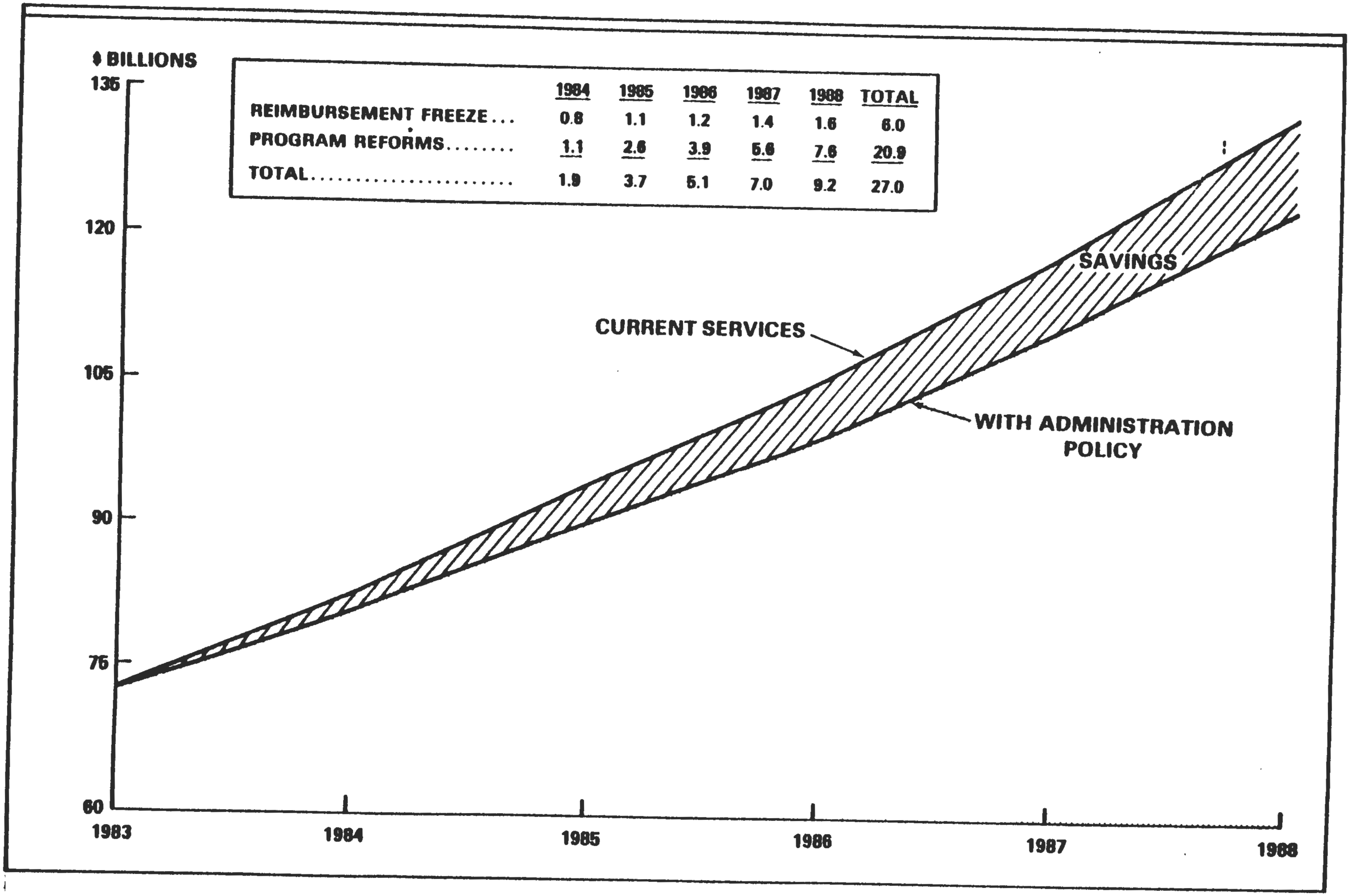
Uncontrolled Costs and Spending

- Inflationary health care system has driven up Medicare/Medicaid outlays from $22 billion in 1975 to $75 billion in 1983. 1984-88 baseline spending would exceed one-half trillion dollars without reforms.

Health Care Reform Package

- 1984 freeze on physician payments and hospital reimbursement ceiling saves $6 billion over 5 years.
- Permanent hospital reimbursement reform with fixed payment per case system (DRG). (Five-year savings of $20 billion assumed in current law baseline.)
- Hospital co-payments of 8% ($28/day) through 15th day and 5% ($17.50/day) through 60th day coupled with catastrophic protection thereafter (reduces patient cost of 6-month extended illness from $19,075 to $1,530).
- Phased increase in SMI physician insurance premium to 35% of program cost by 1988 compared to 25% at present and original law provision for 50%.
- Extension of state Medicaid cost control ceilings and mandatory co-payments to reduce over-utilization ($1.00/day for hospital and $1.00/visit for physician services).
- $175/month cap on tax free exclusion of employer health benefit plans to curtail excessive first dollar coverage and encourage consumer cost consciousness.

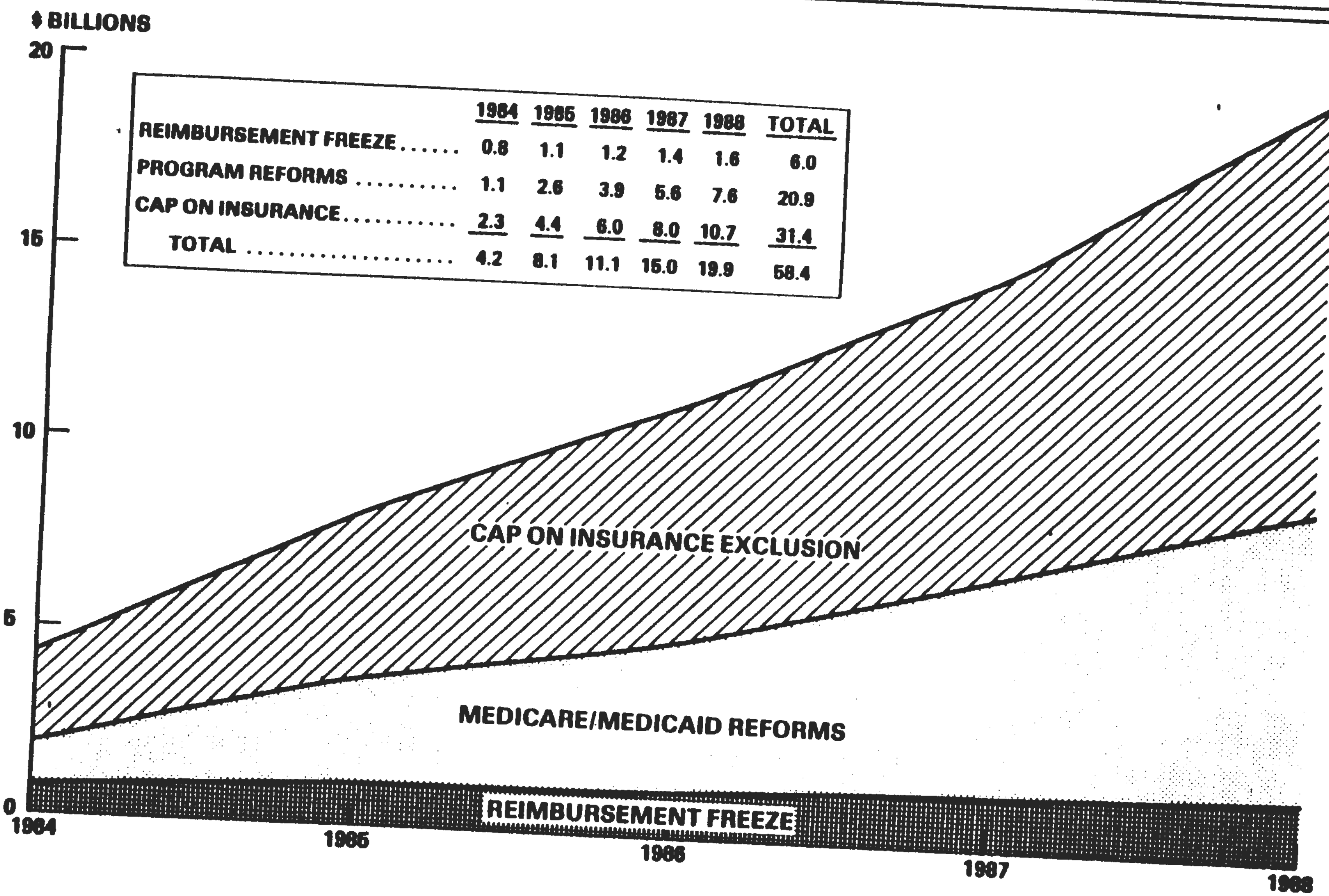
MEDICAL ENTITLEMENT REFORMS



	1984	1985	1986	1987	1988	TOTAL
REIMBURSEMENT FREEZE...	0.8	1.1	1.2	1.4	1.6	6.0
PROGRAM REFORMS........	1.1	2.6	3.9	5.6	7.6	20.9
TOTAL......................	1.9	3.7	5.1	7.0	9.2	27.0

HEALTH CARE REFORM PLAN
BUDGET SAVINGS

	1984	1985	1986	1987	1988	TOTAL
REIMBURSEMENT FREEZE	0.8	1.1	1.2	1.4	1.6	6.0
PROGRAM REFORMS	1.1	2.6	3.9	5.6	7.6	20.9
CAP ON INSURANCE	2.3	4.4	6.0	8.0	10.7	31.4
TOTAL	4.2	8.1	11.1	15.0	19.9	58.4



BIPARTISAN SOLUTION TO SOCIAL SECURITY SOLVENCY

Five Major Features Impact Unified Budget Deficit

- 6-month COLA freeze.
- 1984 and 1988 payroll tax rescheduling.
- Inclusion of 50% of benefits in income tax base for those above $20/25,000 — to recapture part of unearned benefit.
- Coverage extension to new Federal and non-profit employees; ban on state and local withdrawal.
- Self-employment tax increase to 100% of combined employee/employer rate — with deductibility for employer share.

Budget Savings Due to Bipartisan Solution

Provision	1984	1985	1986	1987	1988	Total
1) COLA freeze	4.2	4.6	4.9	5.4	5.7	24.8
2) Payroll tax rescheduling	5.5	+2.1	0.0	0.0	9.4	13.0
3) Benefit taxation	1.1	4.0	4.7	5.5	6.4	21.7
4) Coverage provisions	1.1	2.0	2.8	3.6	4.6	14.1
5) Self-employment tax	0.6	1.6	1.5	1.6	1.9	7.1
6) SSI and other	+0.2	+0.2	+0.2	+0.3	+0.3	+1.2
7) Total	12.2	10.0	13.6	15.8	27.7	79.4

CIVIL SERVICE RETIREMENT SYSTEM REFORM

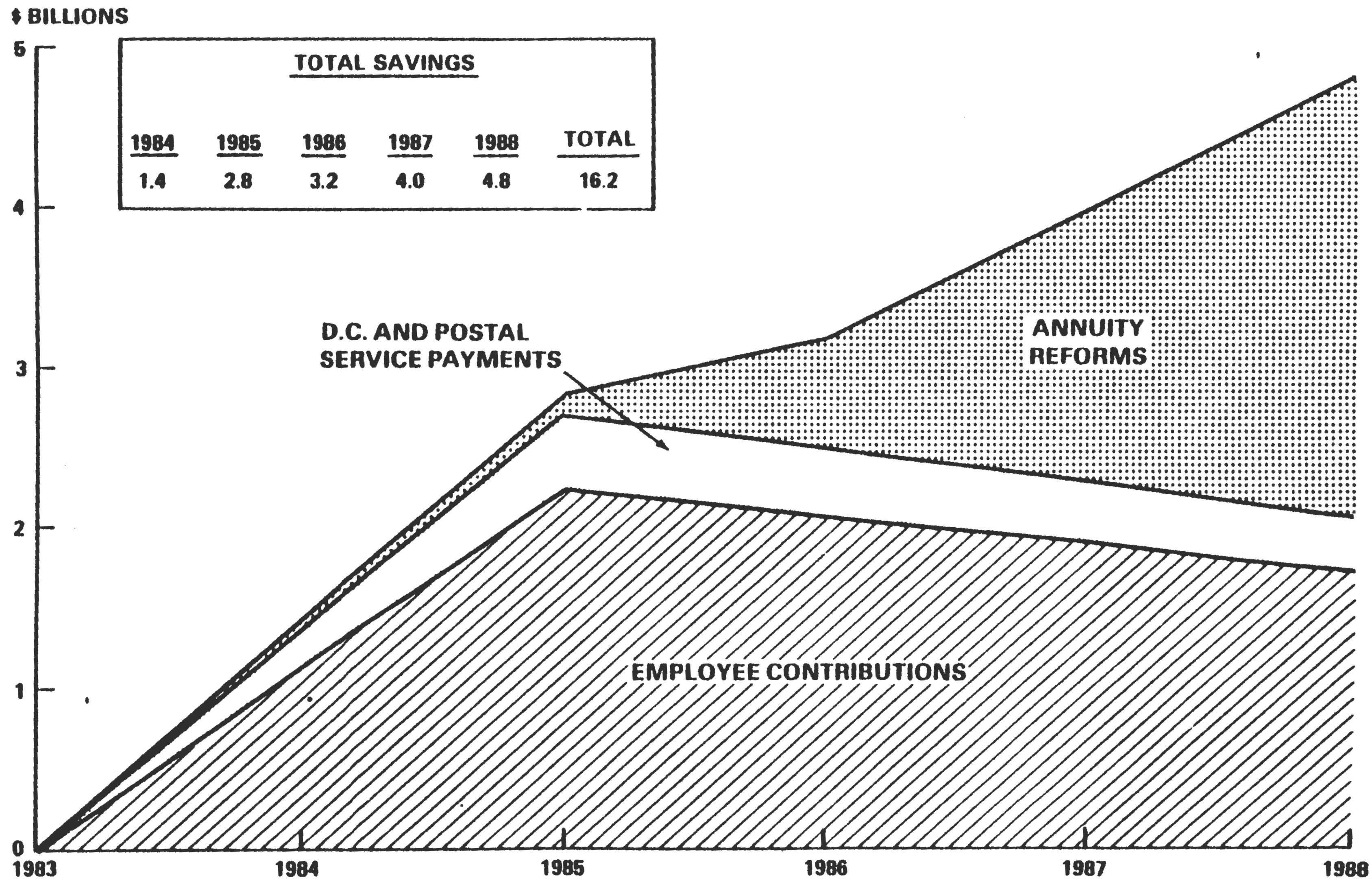
Current System Not Affordable or Viable

- $499 billion unfunded liability.
- System cost equals 37% of Federal payroll — most costly/generous system known.
- GS-14 who retired ten years ago at age 55 now receives $34,140/year annuity plus Federal health benefits.
- Retirement outlays up from $2.8 billion in 1970 to $21.1 billion in 1983 — with 1984-88 baseline costs of $121 billion absent reform.

Proposed Civil Service Retirement Reform Plan

- Reduces long-run system costs to 22% of payroll through:
  - Shift to High-Five;
  - 10-year phase-in of 5%/year annuity reduction for retirement between 55 and 65;
  - Modification of annuity replacement formula, if necessary.
- Employee contribution raised from 7% to 11% (half of reformed system cost) in two steps over 1984-85.
- Postal Service and D.C. required to fund fair share of costs for employees who participate in Civil Service Retirement system.
- Reform plan saves $1.4 billion in 1984 and $16.2 billion over 5 years.

BUDGET SAVINGS FROM STRUCTURAL REFORMS OF FEDERAL RETIREMENT PROGRAMS



TOTAL SAVINGS

1984	1985	1986	1987	1988	TOTAL
1.4	2.8	3.2	4.0	4.8	16.2

MEANS-TESTED ENTITLEMENT REFORM

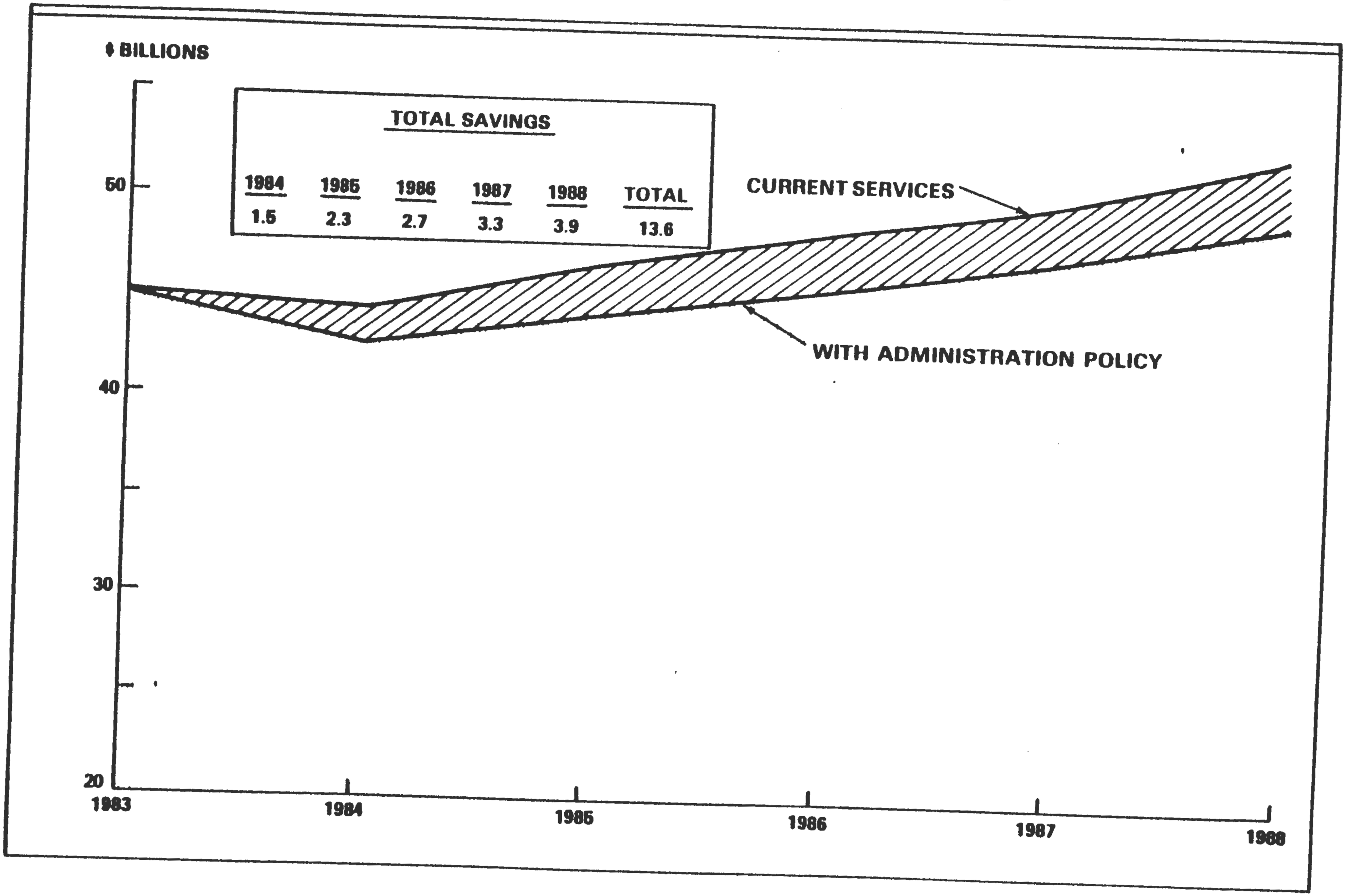
Baseline Costs and Proposed Savings

- Enacted Administration reforms have curtailed explosive welfare spending growth of 1970's — but baseline costs are still $243 billion over 1984-88 without further reforms.
- Proposed reforms save nearly $14 billion over 5 years — or 5.6% of baseline costs. Major focus is on error rate reduction, mandatory workfare and simplification of eligibility and benefit determination — so benefits to truly needy fully protected. Proposed spending level for these programs still highest in history.

Significant Program Changes

- Food Stamps — mandatory workfare, simplification of benefit calculation by standardizing current shelter and earnings deductions, and reduction of allowable state error rate to 3%.
- Child Nutrition — block grant at 85% of current level for summer feeding, child care and school breakfast program.
- AFDC — mandatory workfare, include all household members in assistance unit, prorate shelter and utility costs if shared household, end parents' benefit when child reaches 16 (conform to Social Security), restructure child support enforcement program incentives, and mandate collection of medical support from absent parents.
- Subsidized Housing Program — count Food Stamps as income, continue lower cost voucher approach and cap net additional subsidized units at average of 85,000 per year.

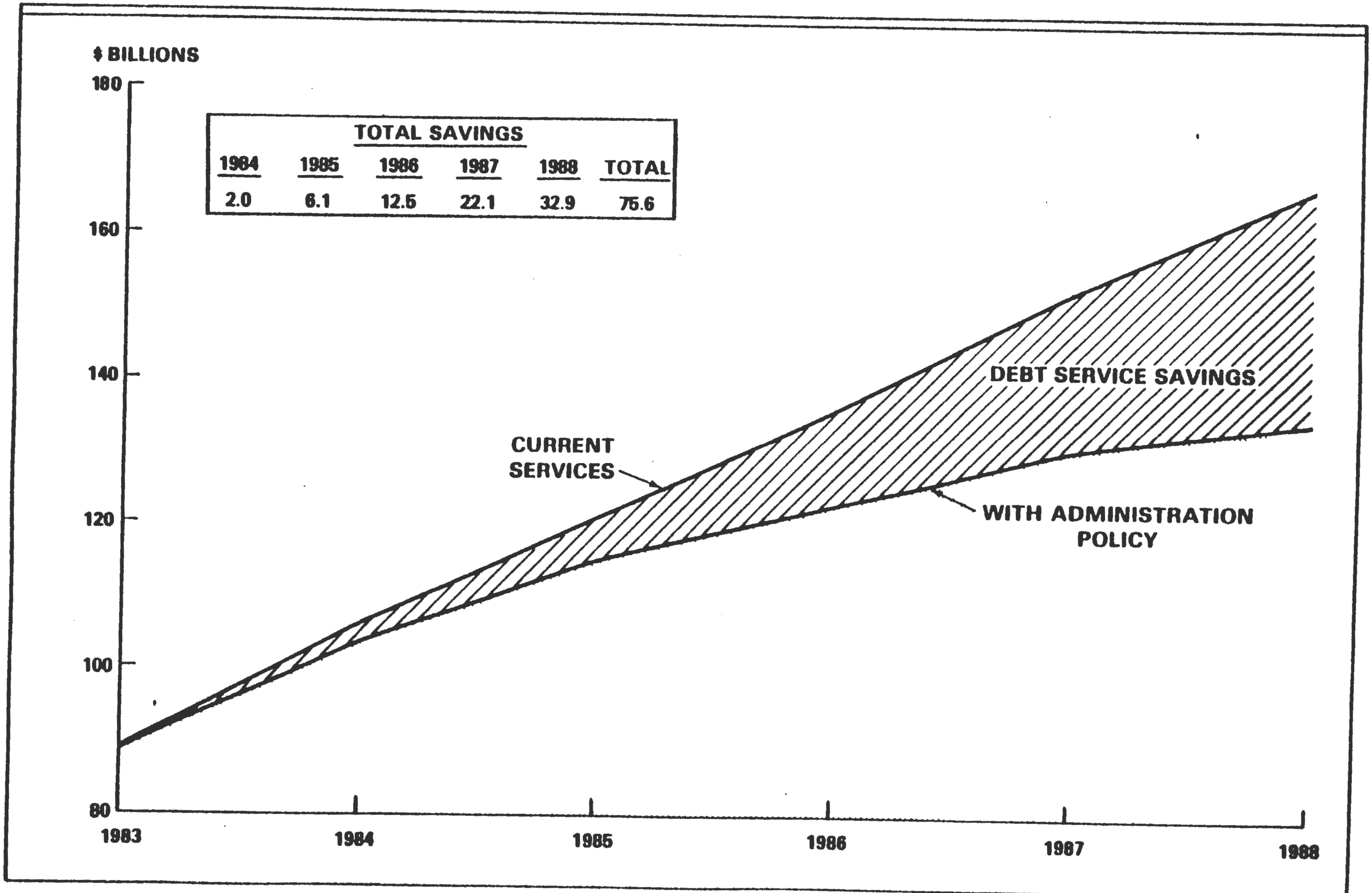
MEANS-TESTED ENTITLEMENTS



TOTAL SAVINGS

1984	1985	1986	1987	1988	TOTAL
1.5	2.3	2.7	3.3	3.9	13.6

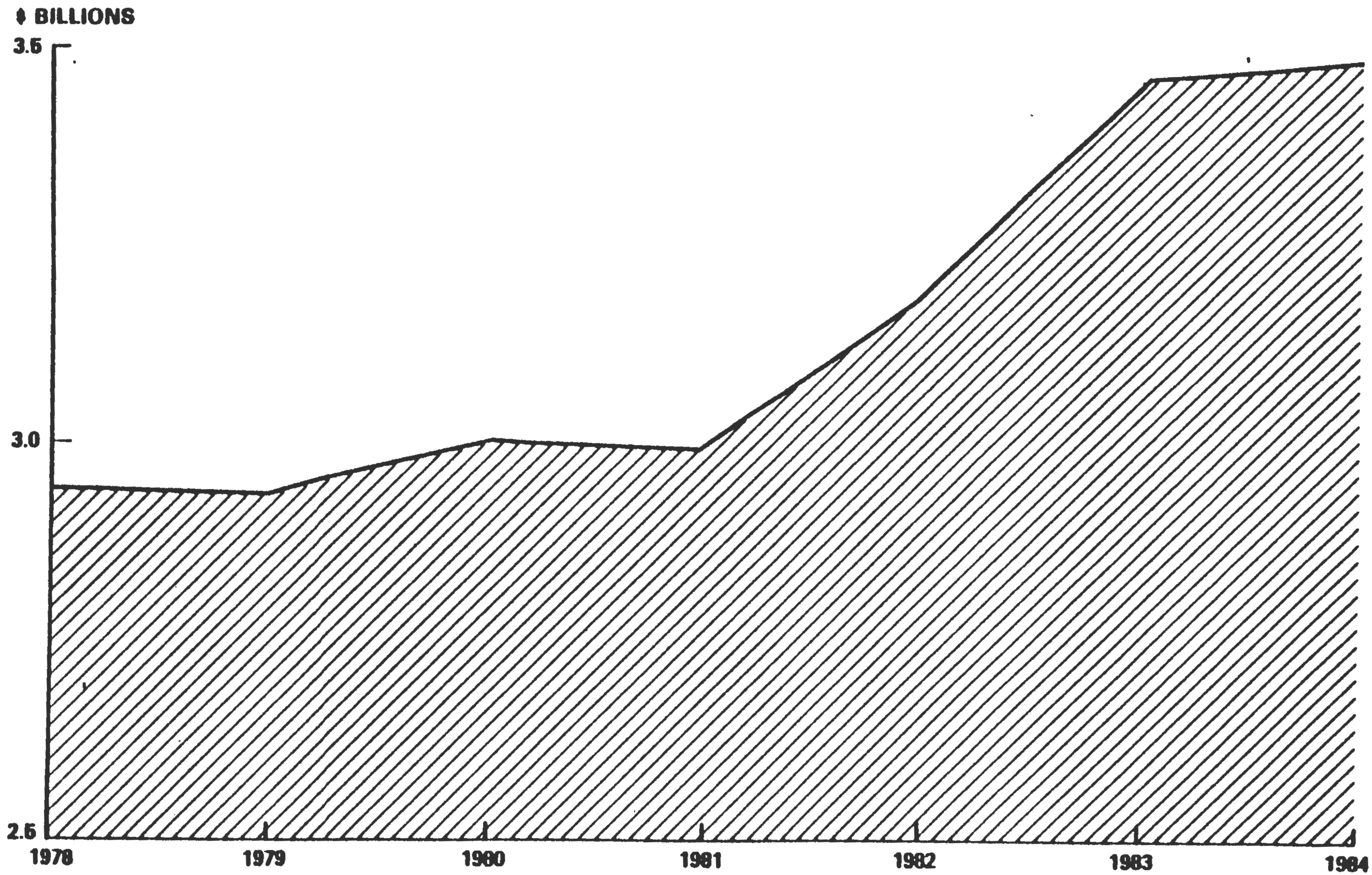
NET INTEREST OUTLAYS



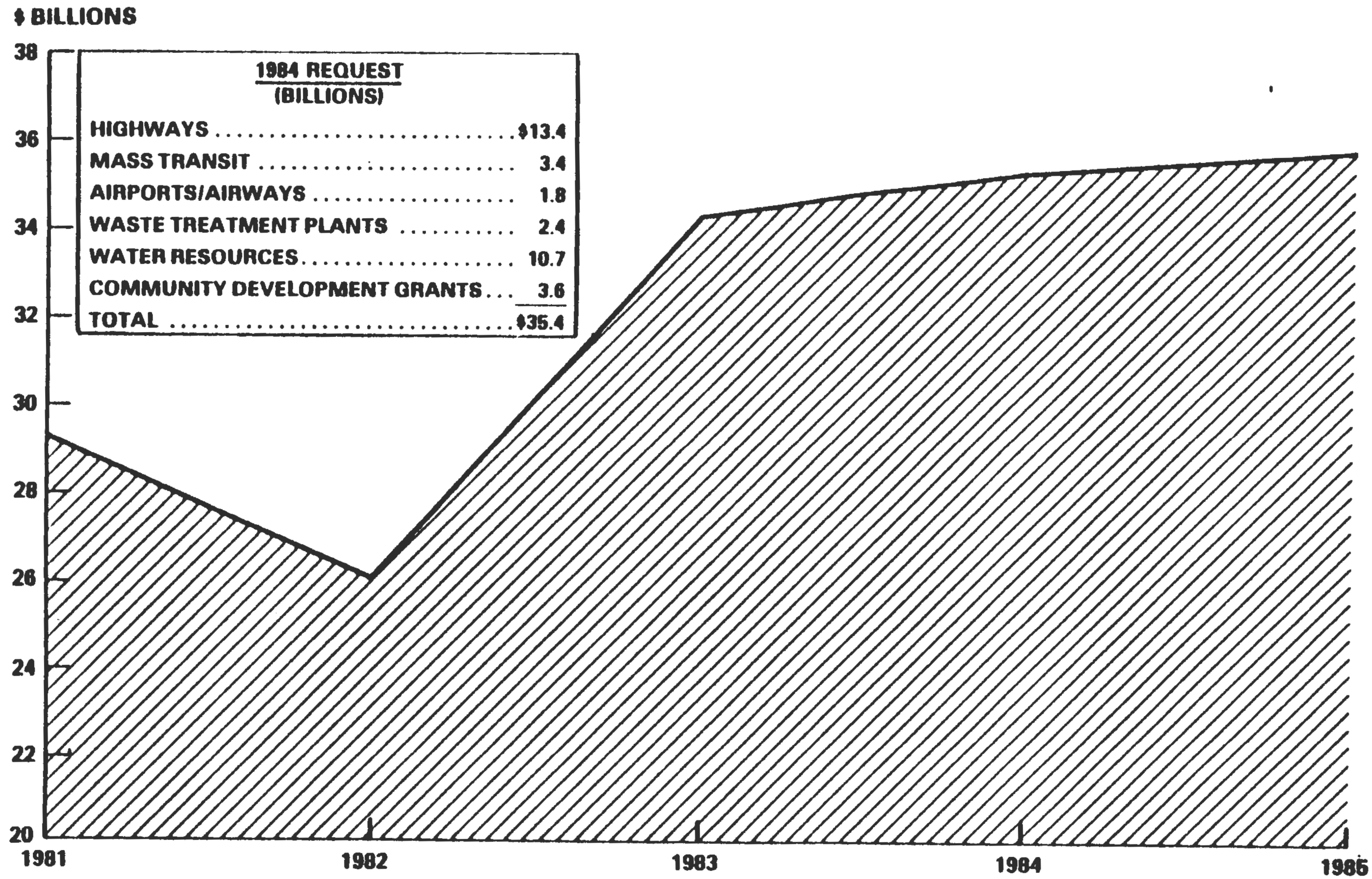
TOTAL SAVINGS					
1984	1985	1986	1987	1988	TOTAL
2.0	6.1	12.5	22.1	32.9	75.6

MORE ADEQUATE FUNDING FOR LAW ENFORCEMENT

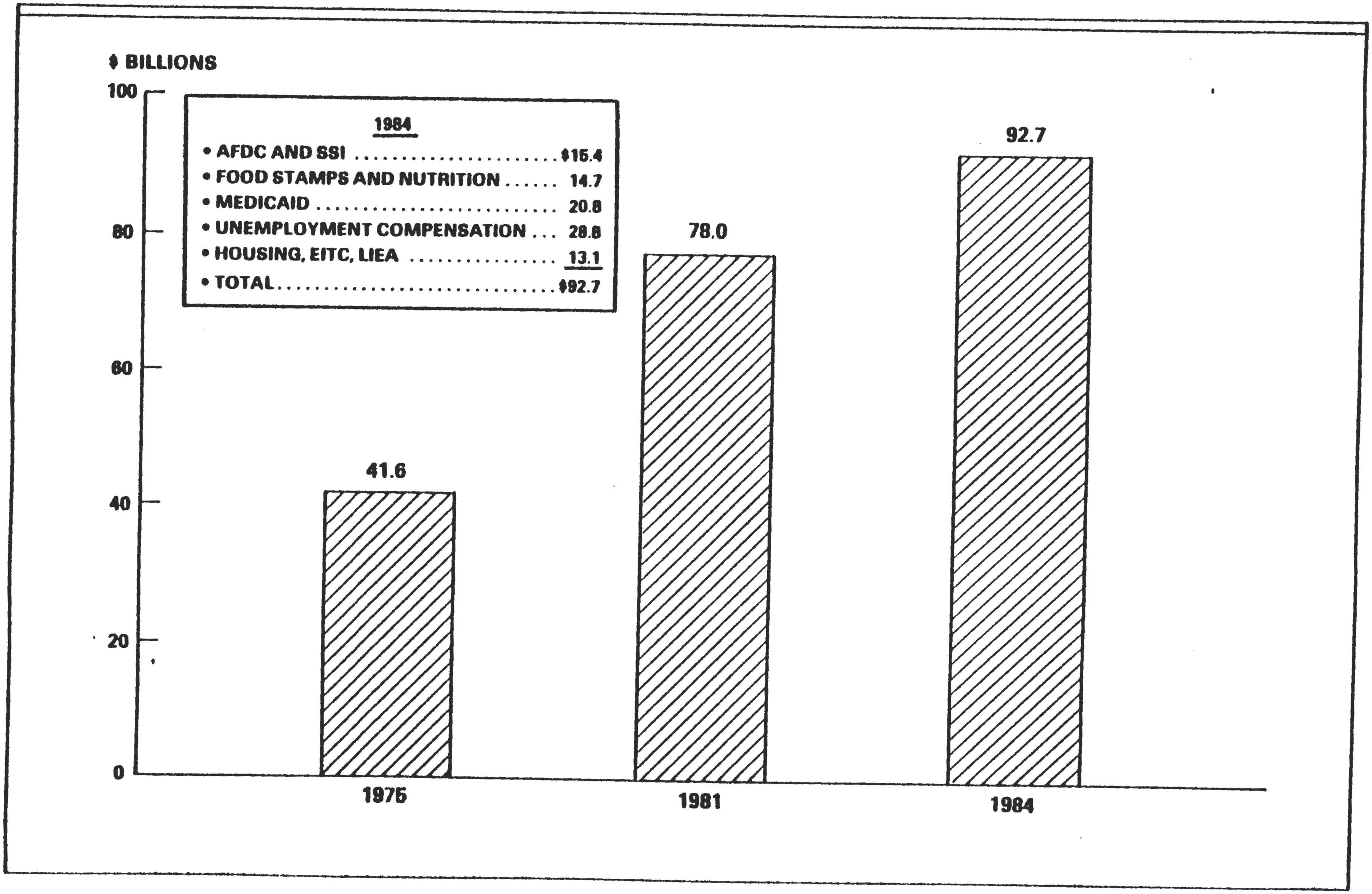
(CONSTANT FY 1983 DOLLARS)



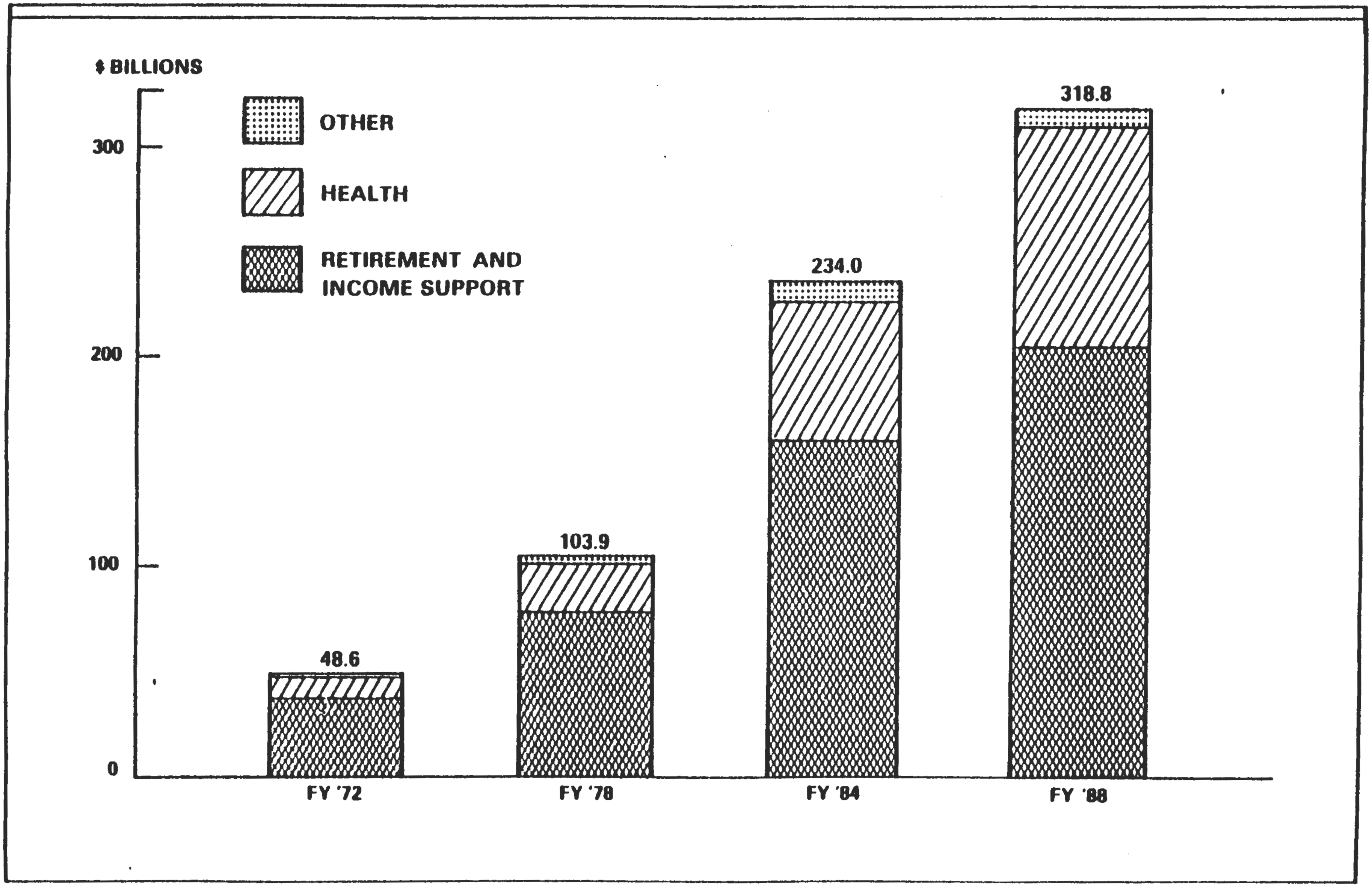
FUNDING FOR PUBLIC INFRASTRUCTURE



MAINTENANCE OF THE SOCIAL SAFETY NET — FEDERAL OUTLAYS FOR UNEMPLOYED AND LOW-INCOME



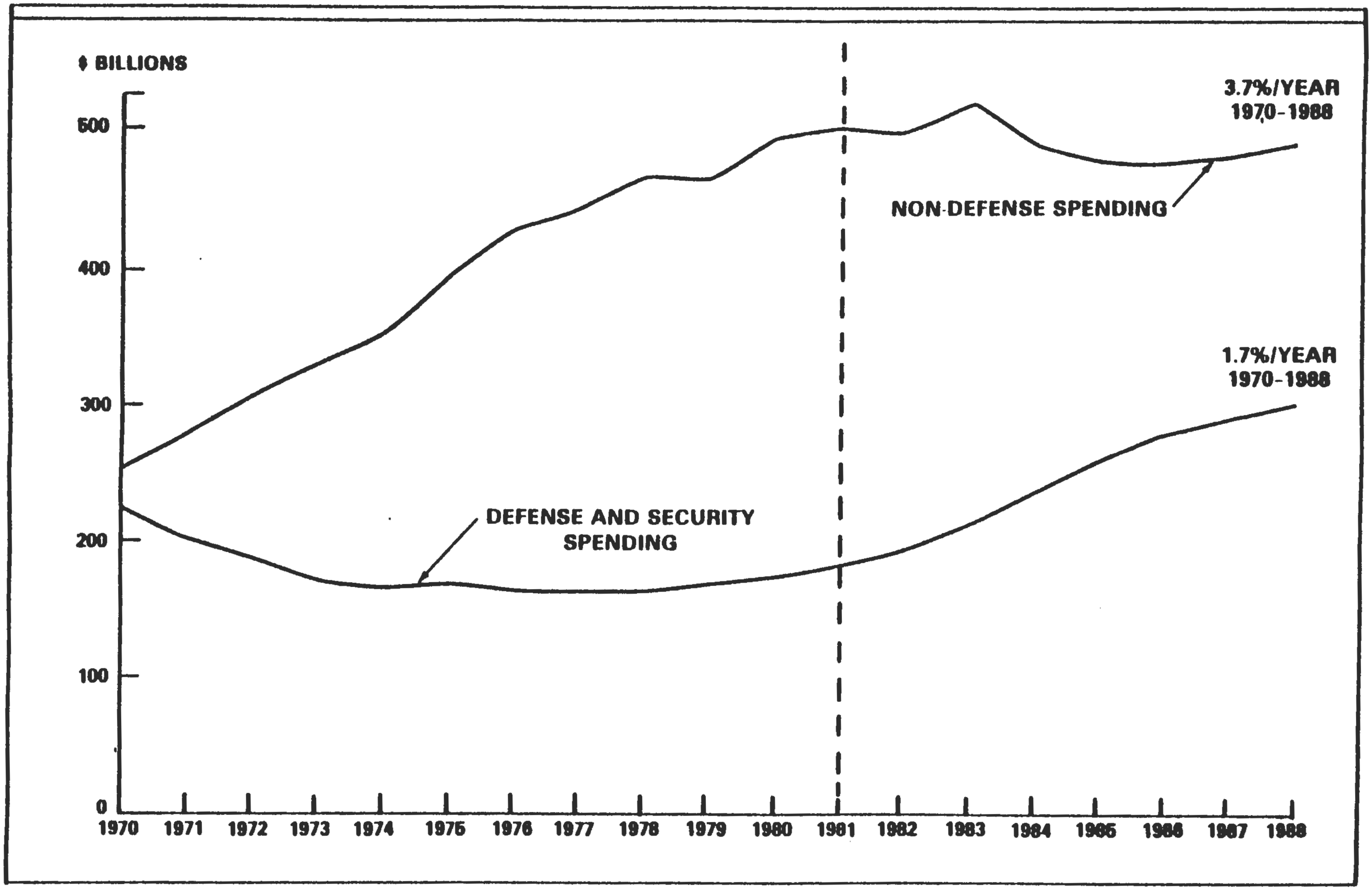
FEDERAL OUTLAYS BENEFITING THE ELDERLY



PART IV — DEFENSE BUDGET

BUDGET PRIORITIES SHIFT IN HISTORICAL PERSPECTIVE

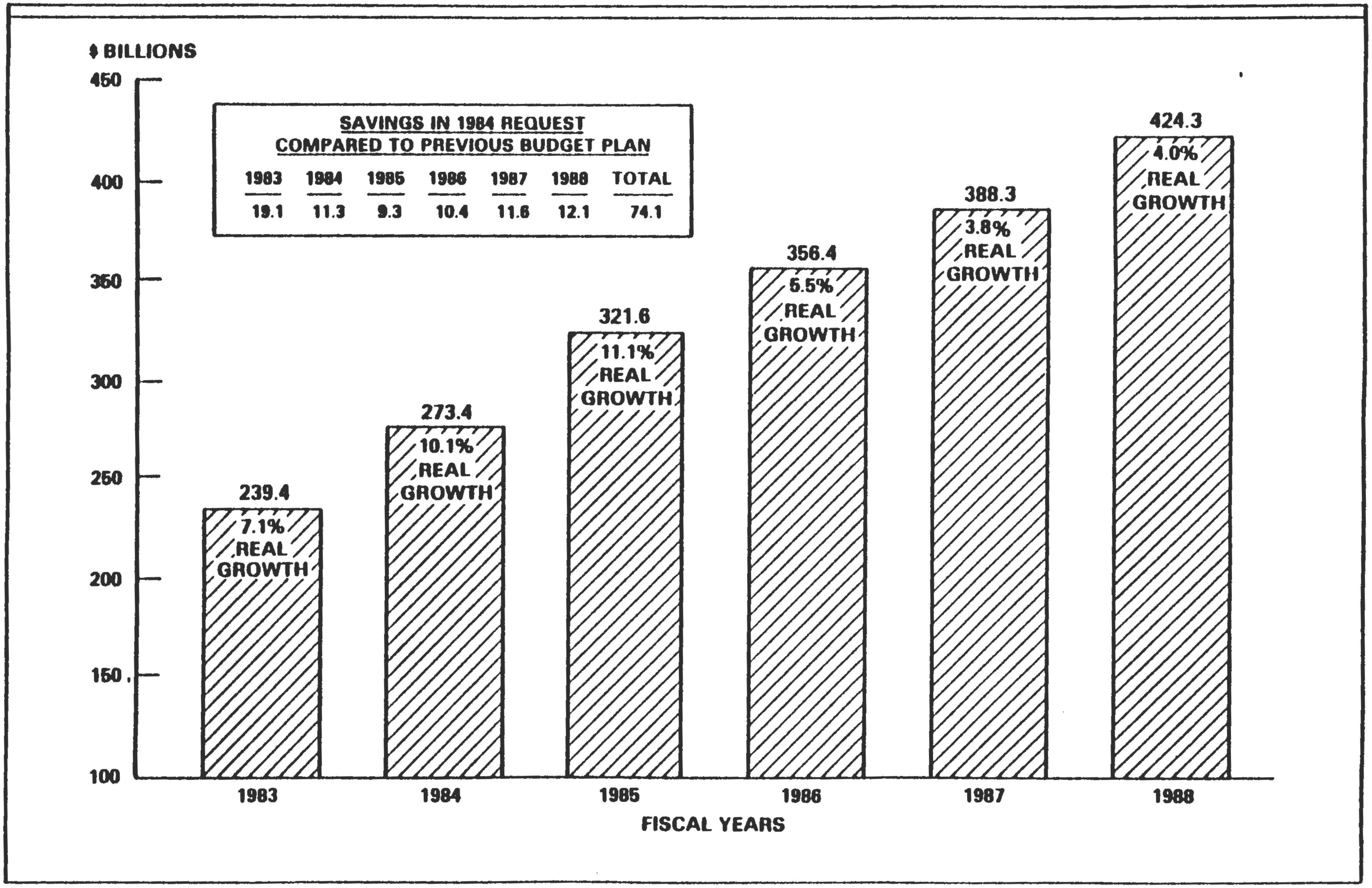
(CONSTANT FY 1983 DOLLARS)



MILITARY RETIRED PAY INCLUDED IN NON-DEFENSE SPENDING
NONDEFENSE SPENDING EXCLUDES NET INTEREST

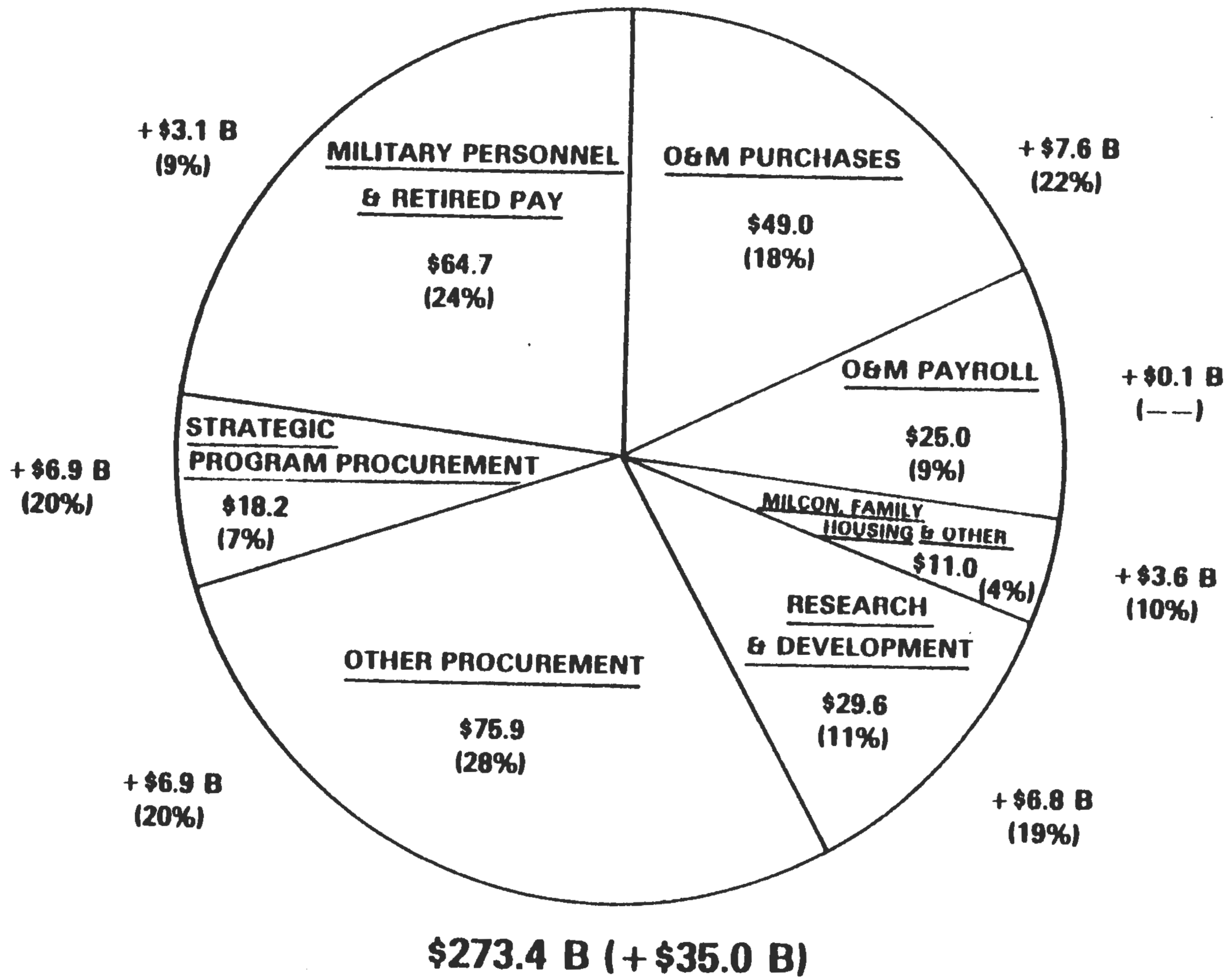
DEPARTMENT OF DEFENSE BUDGET
1983–1988

(BUDGET AUTHORITY)

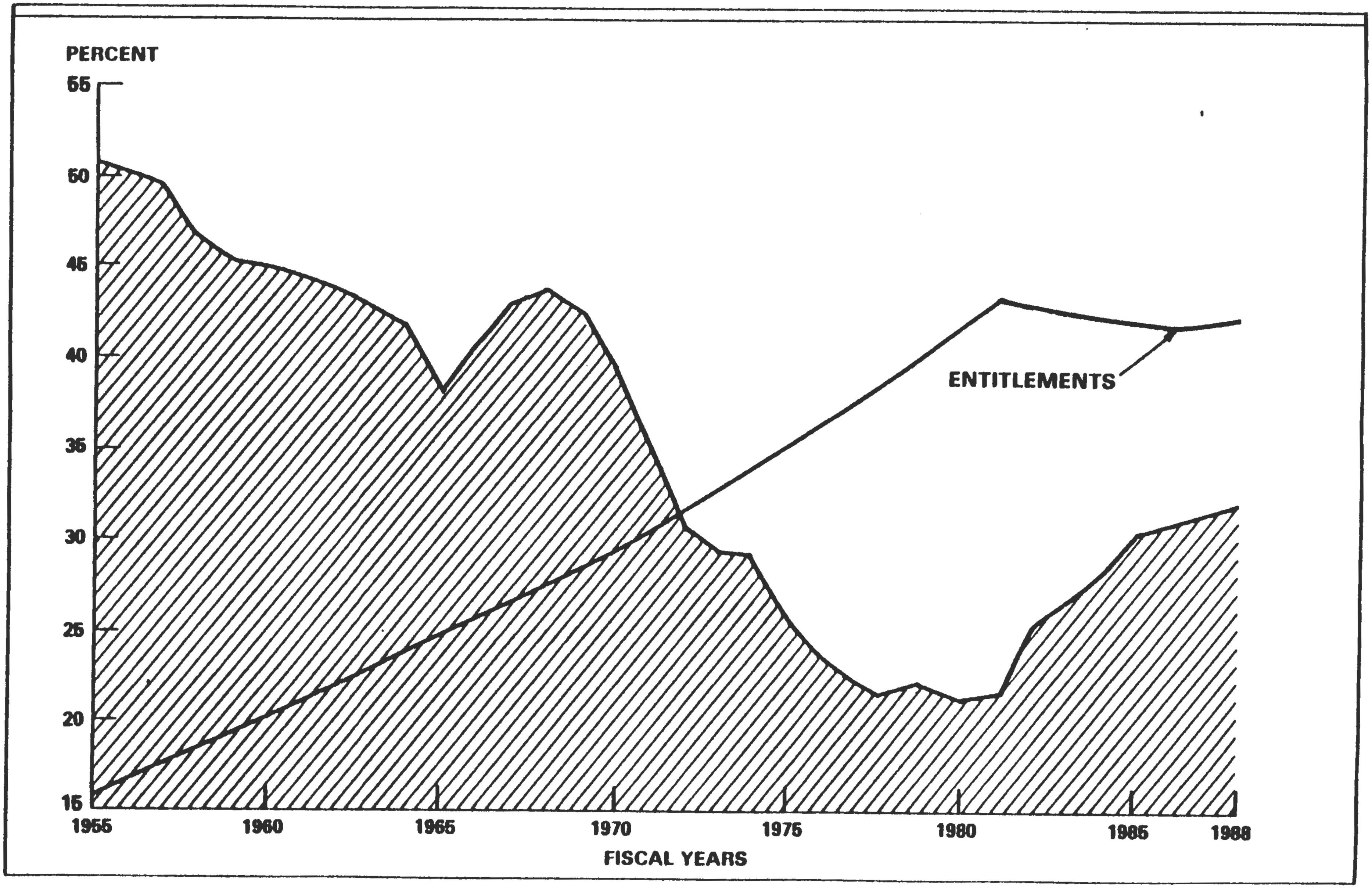


COMPOSITION OF 1984 DOD BUDGET

(BUDGET AUTHORITY; IN BILLIONS $)



DEFENSE SHARE OF BUDGET



PART V - ECONOMIC ASSUMPTIONS

ECONOMIC ASSUMPTIONS IN 1984 BUDGET

Real GNP

- Recovery begins this quarter and builds steadily until mid-year — averaging 4% real growth thereafter through 1988.
- Moderate recovery reflects steady rebuilding of inflation-damaged economy and avoids boom/bust pattern that could rekindle inflation later.
- 6-year real growth projection equals historic average for post-World War II recoveries, while inflation averages 43% lower than 1978-80.

Unemployment

- Unemployment peaks in 1983 first half and steadily declines thereafter — with 1.6 million more jobs by fall 1983 and 4.6 million more by fall 1984.
- In out-years, unemployment rate declines three-fourths of a percent per year — reaching 6.2% by end of 1988 — representing 15 million more jobs than at present.

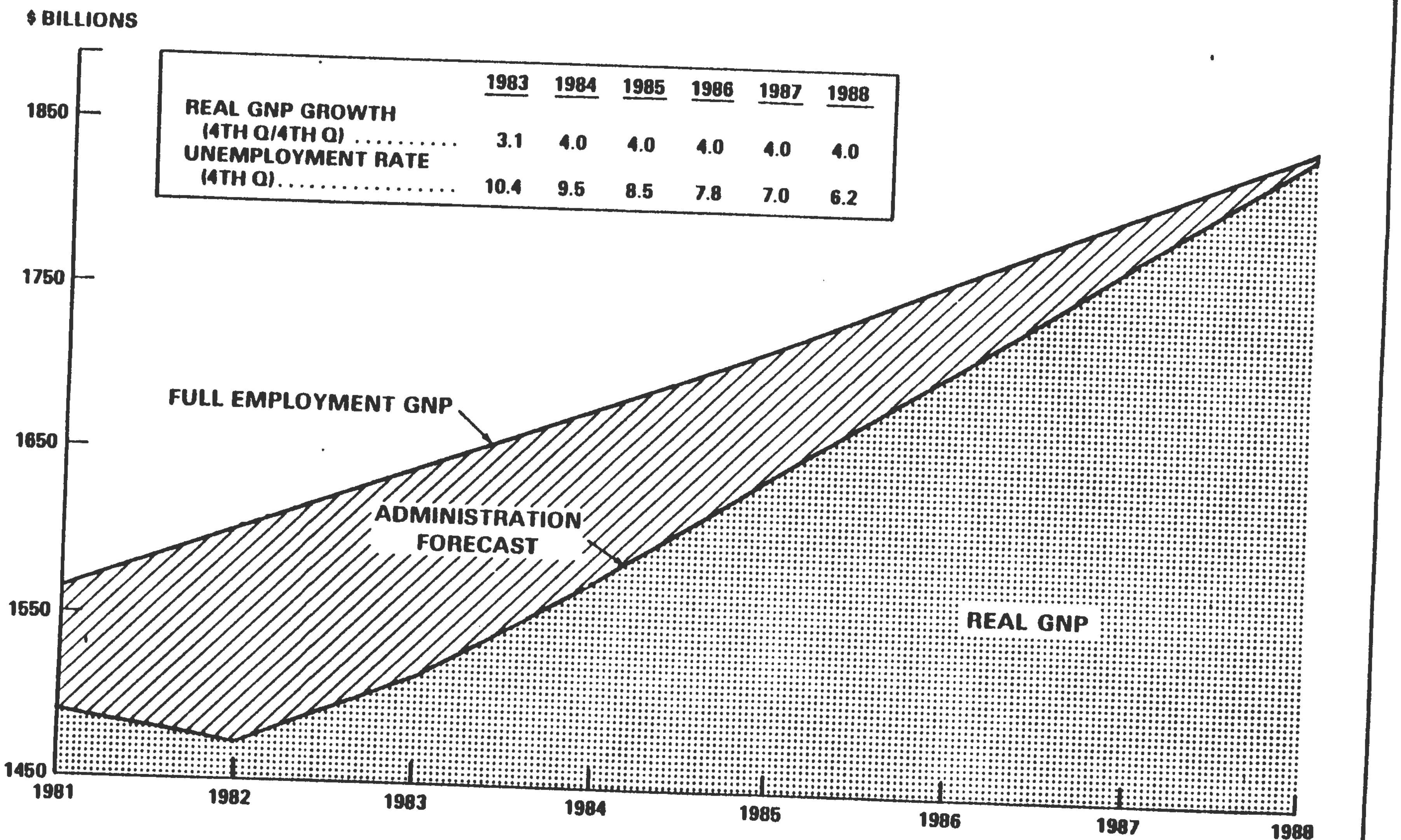
Inflation and Interest Rates

- Interest rates and inflation continue moderate decline over next several years with T-bill at 5.9% by 1988 and CPI at 4.4%.

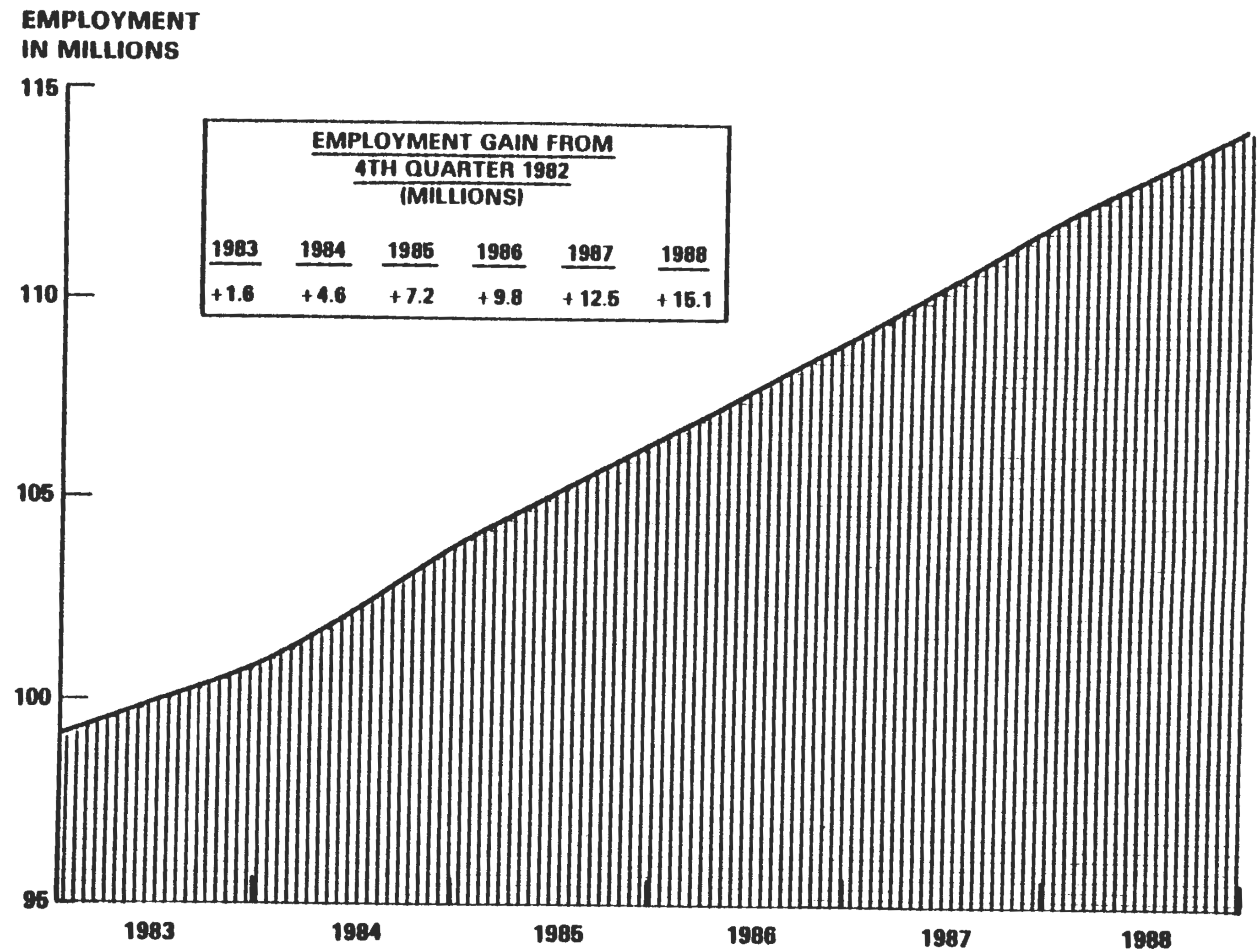
REAL GNP FORECAST VS FULL EMPLOYMENT GNP

(CONSTANT 1972 $)

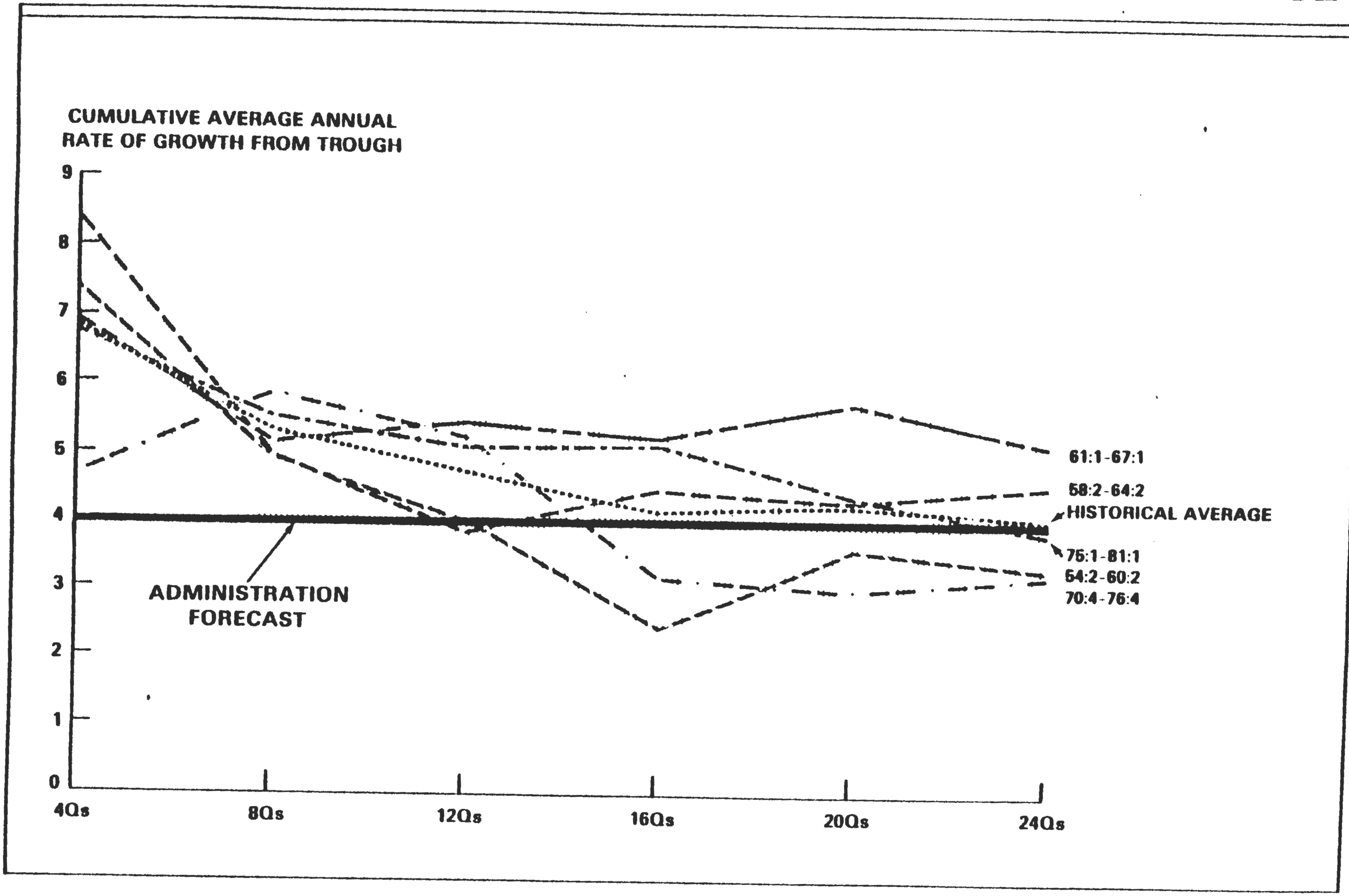
	1983	1984	1985	1986	1987	1988
REAL GNP GROWTH (4TH Q/4TH Q)	3.1	4.0	4.0	4.0	4.0	4.0
UNEMPLOYMENT RATE (4TH Q)................	10.4	9.5	8.5	7.8	7.0	6.2



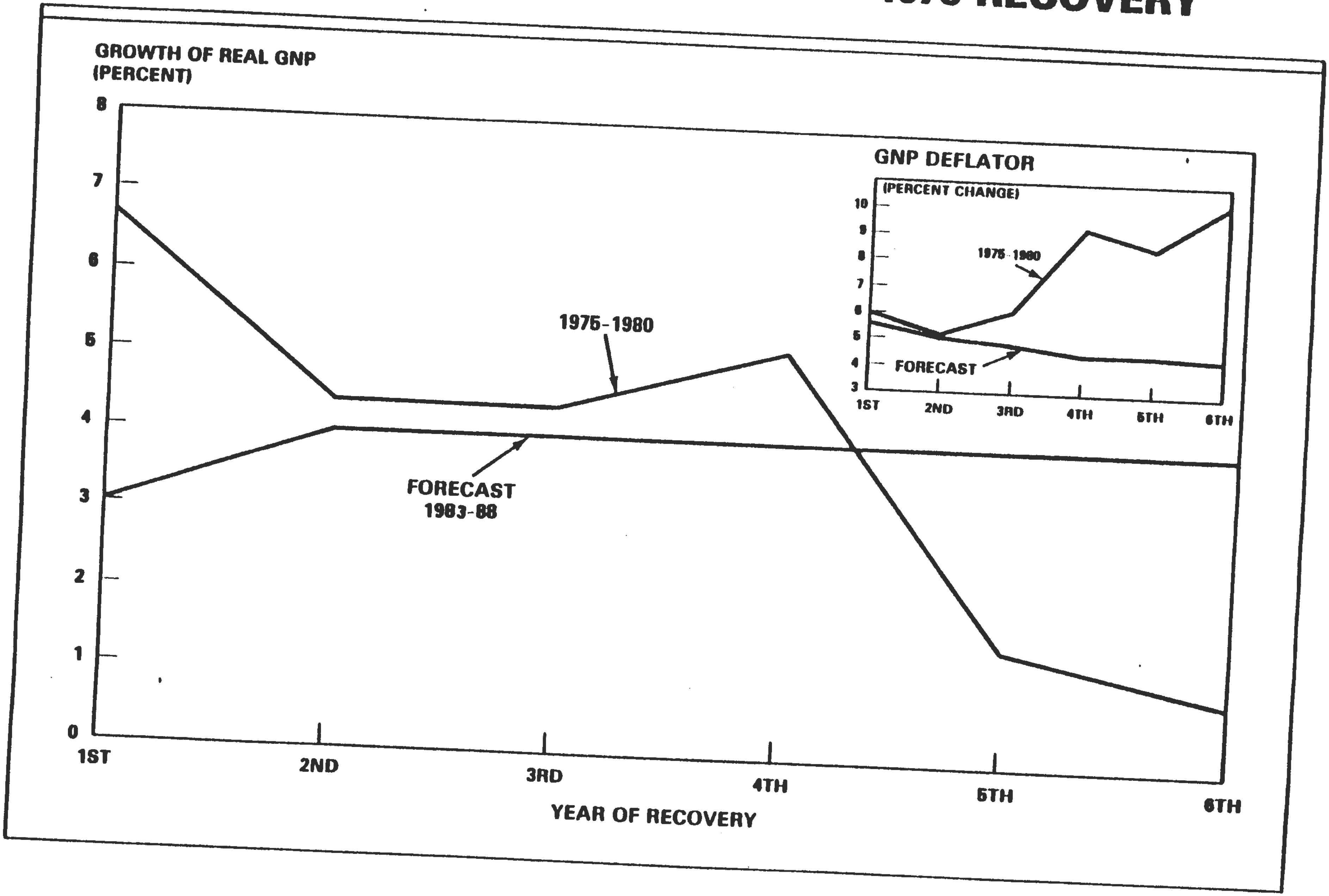
ECONOMIC RECOVERY: 15 MILLION NEW JOBS



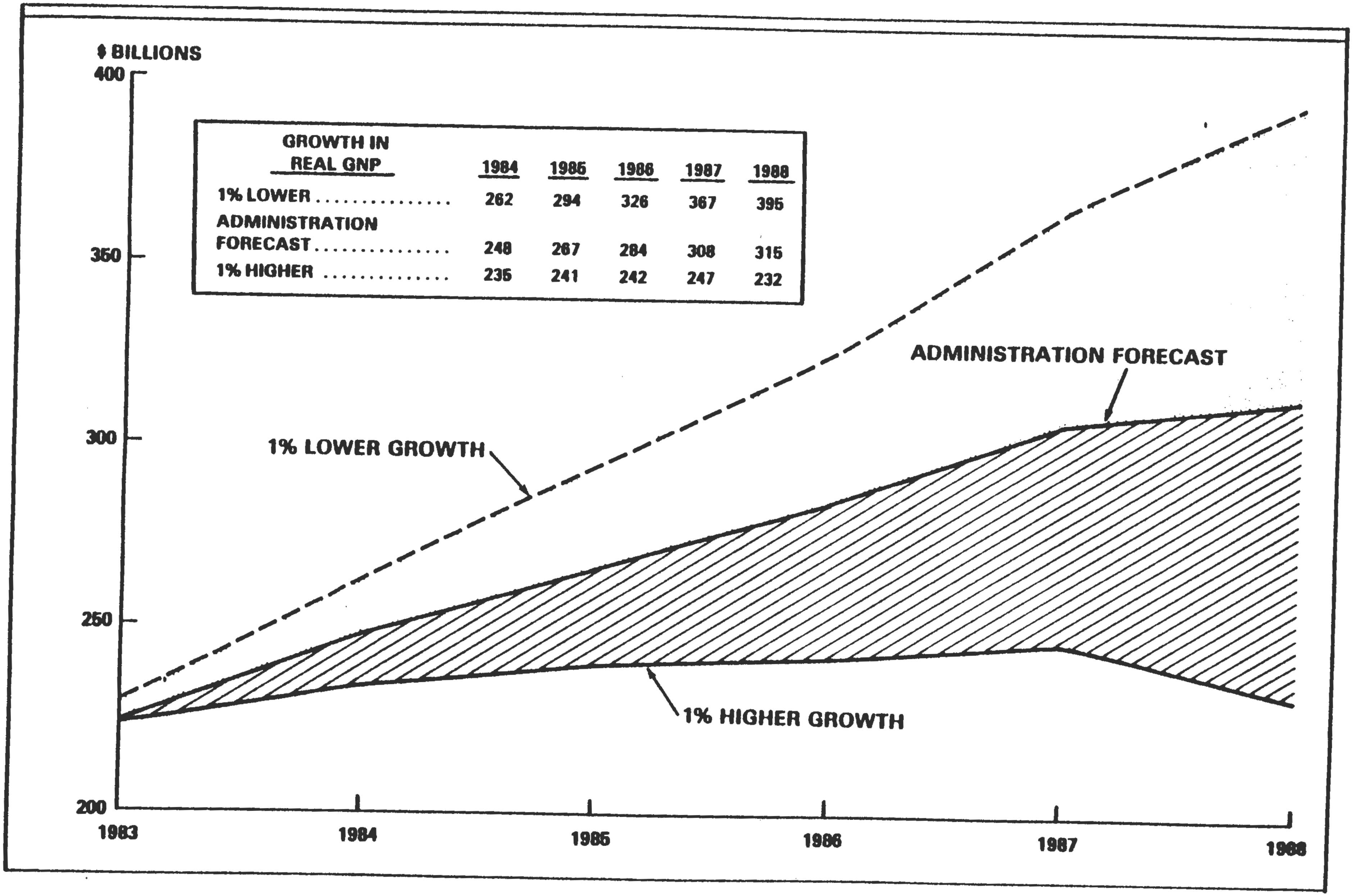
SIX-YEAR REAL GNP GROWTH FORECAST COMPARED TO HISTORICAL RECOVERY CYCLE EXPERIENCE



ADMINISTRATION FORECAST VS 1975 RECOVERY

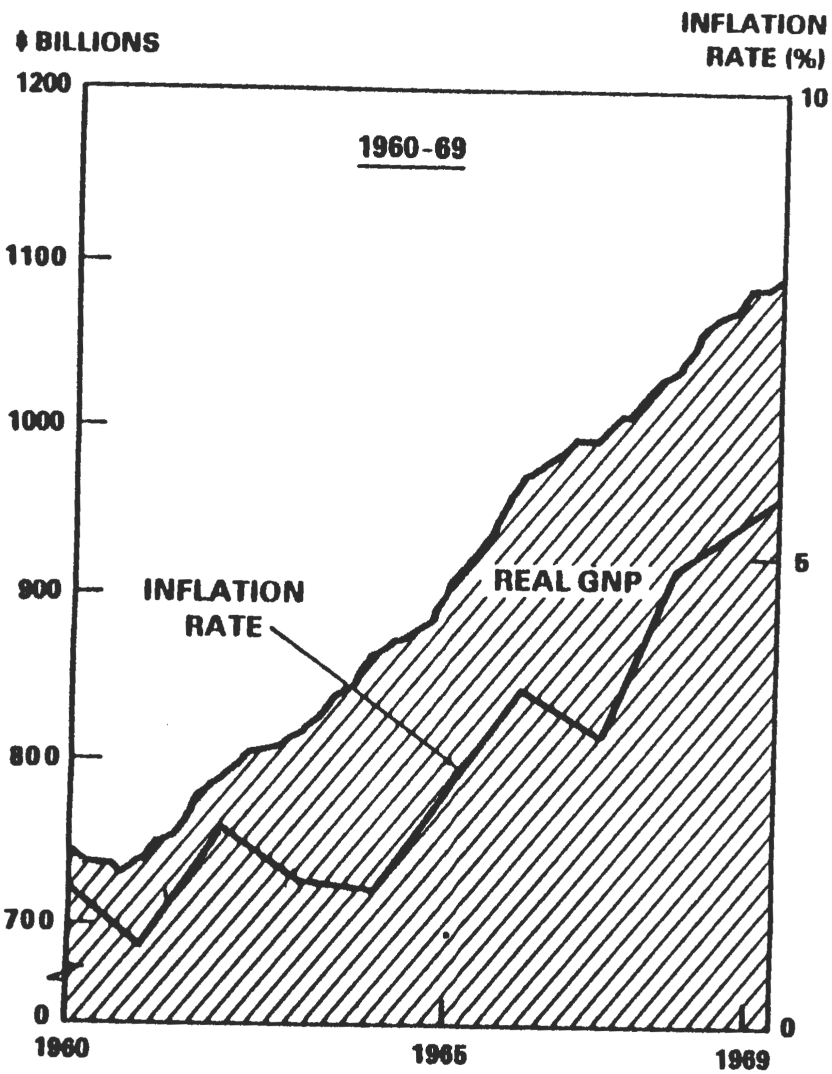


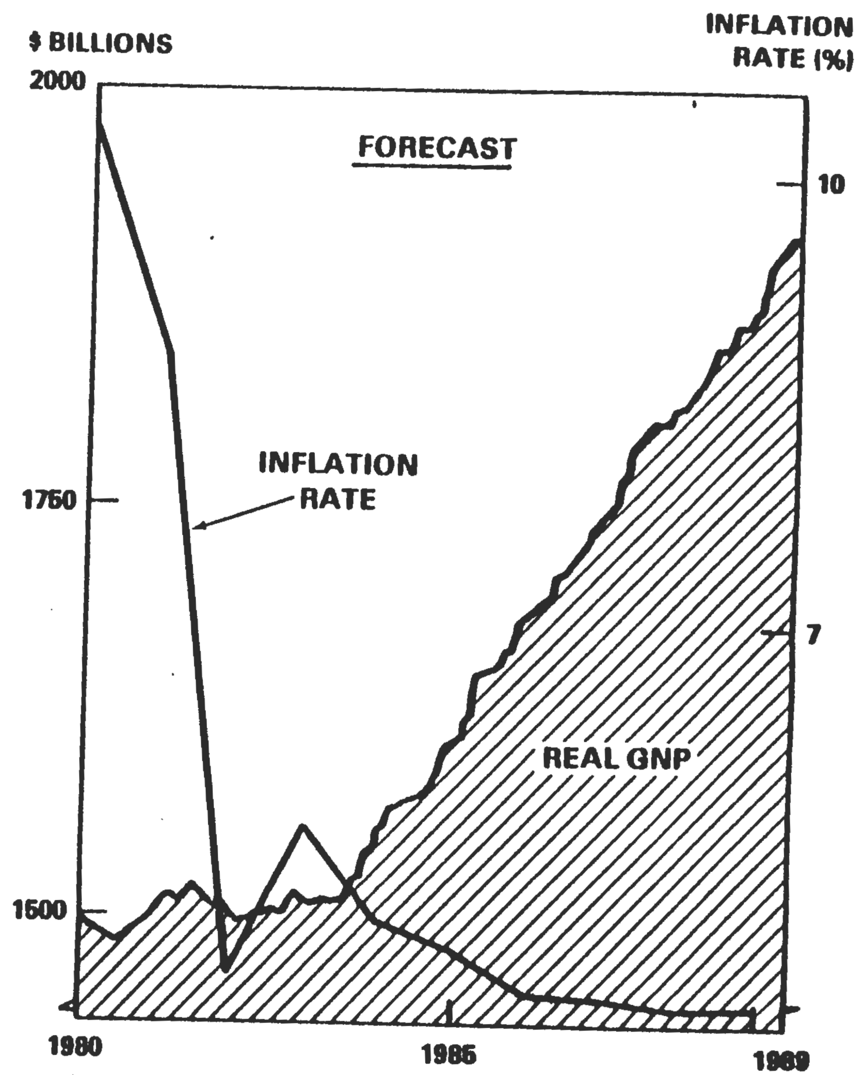
CURRENT SERVICES DEFICITS WITH ALTERNATIVE GROWTH PATHS



GROWTH IN REAL GNP	1984	1985	1986	1987	1988
1% LOWER	262	294	326	367	395
ADMINISTRATION FORECAST...............	248	267	284	308	315
1% HIGHER	235	241	242	247	232

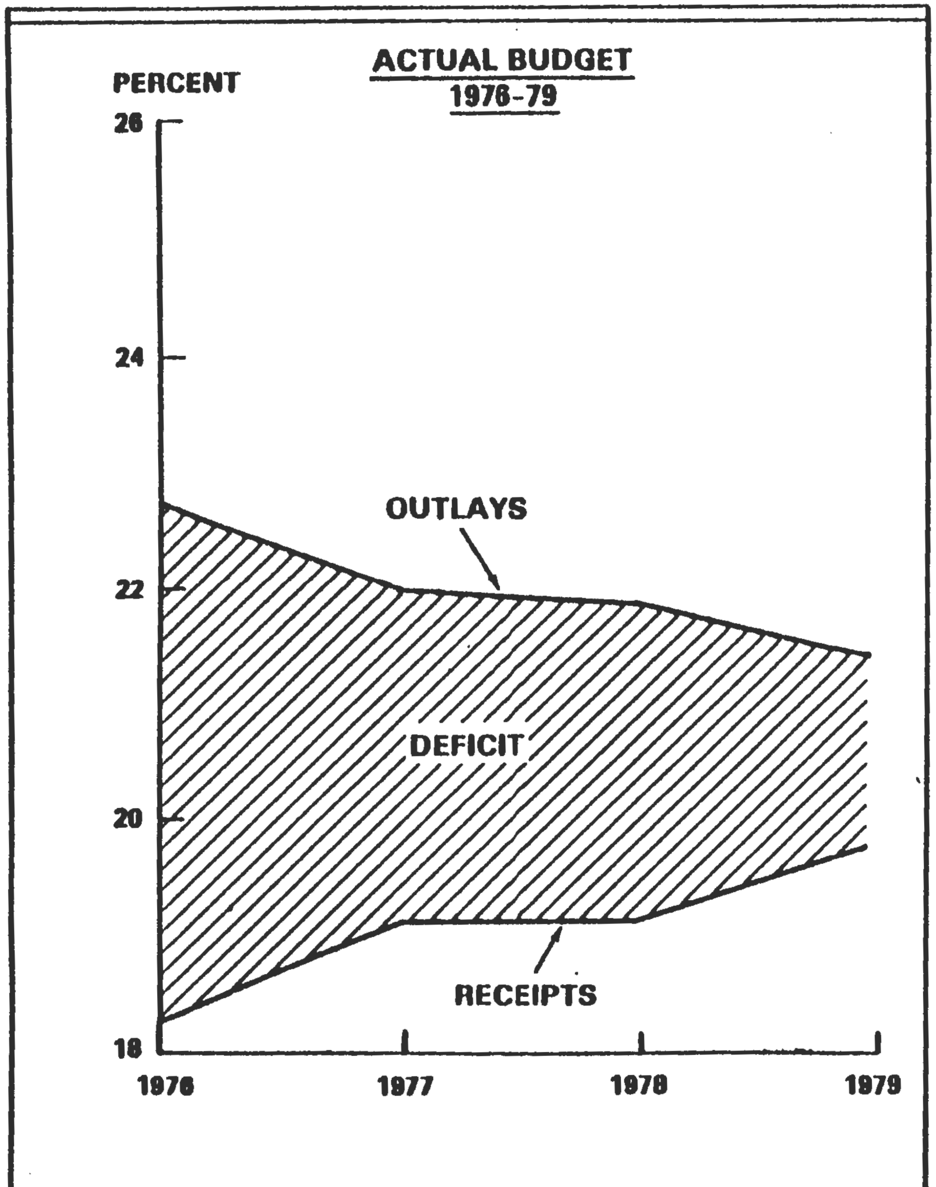
ADMINISTRATION FORECAST VS 1960'S

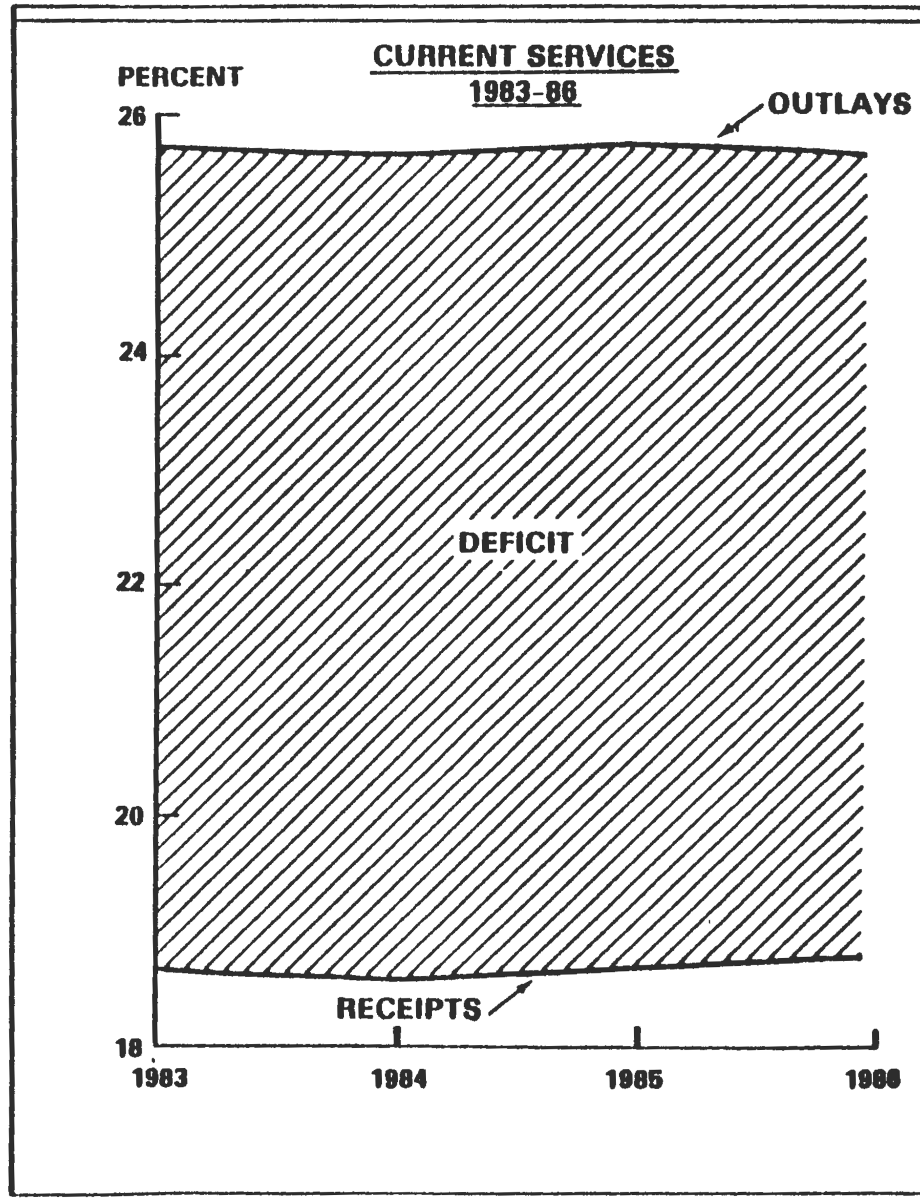




CHANGE IN BUDGET RESPONSE TO RECOVERY 1976-79 VS 1983-86

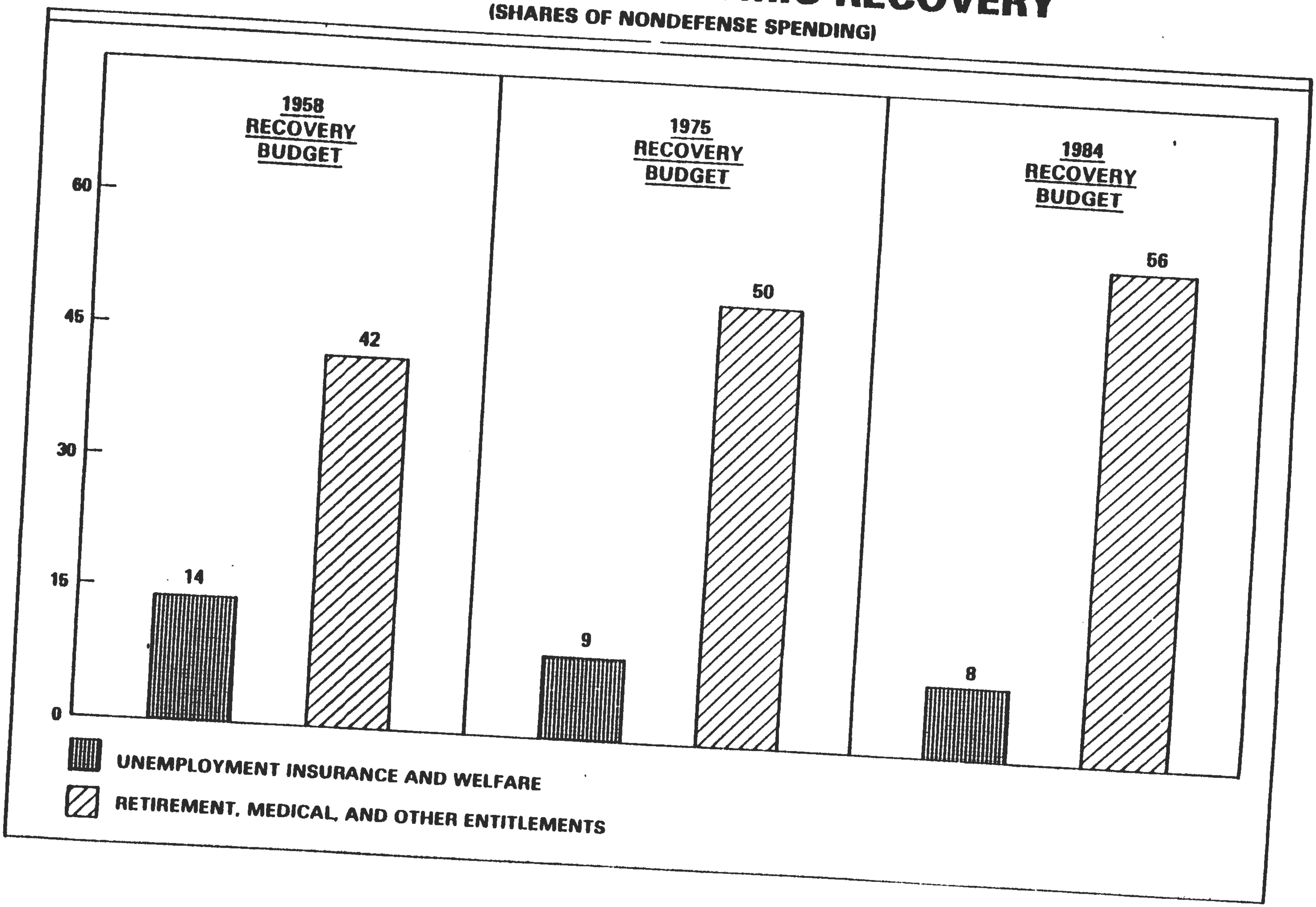
(SHARES OF GNP)



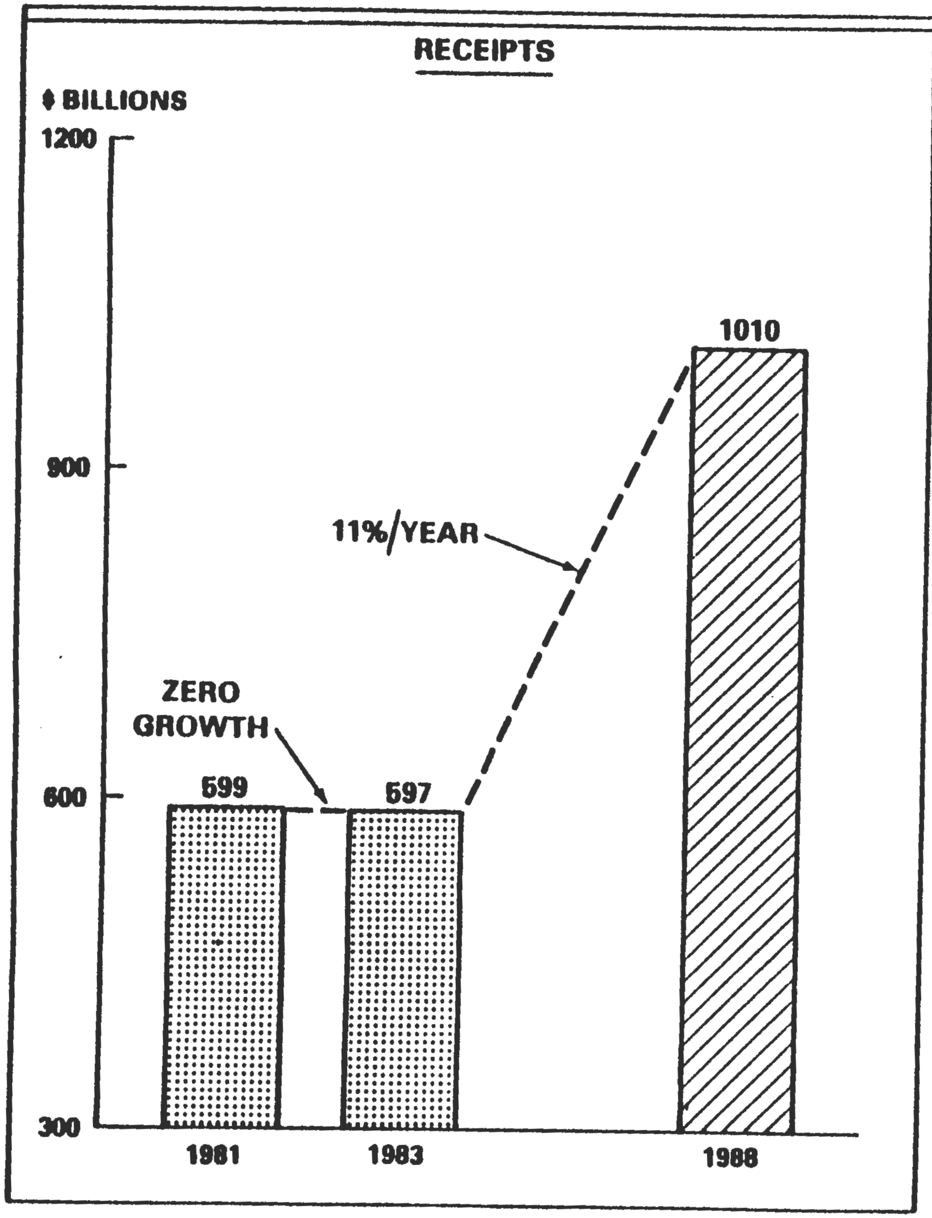


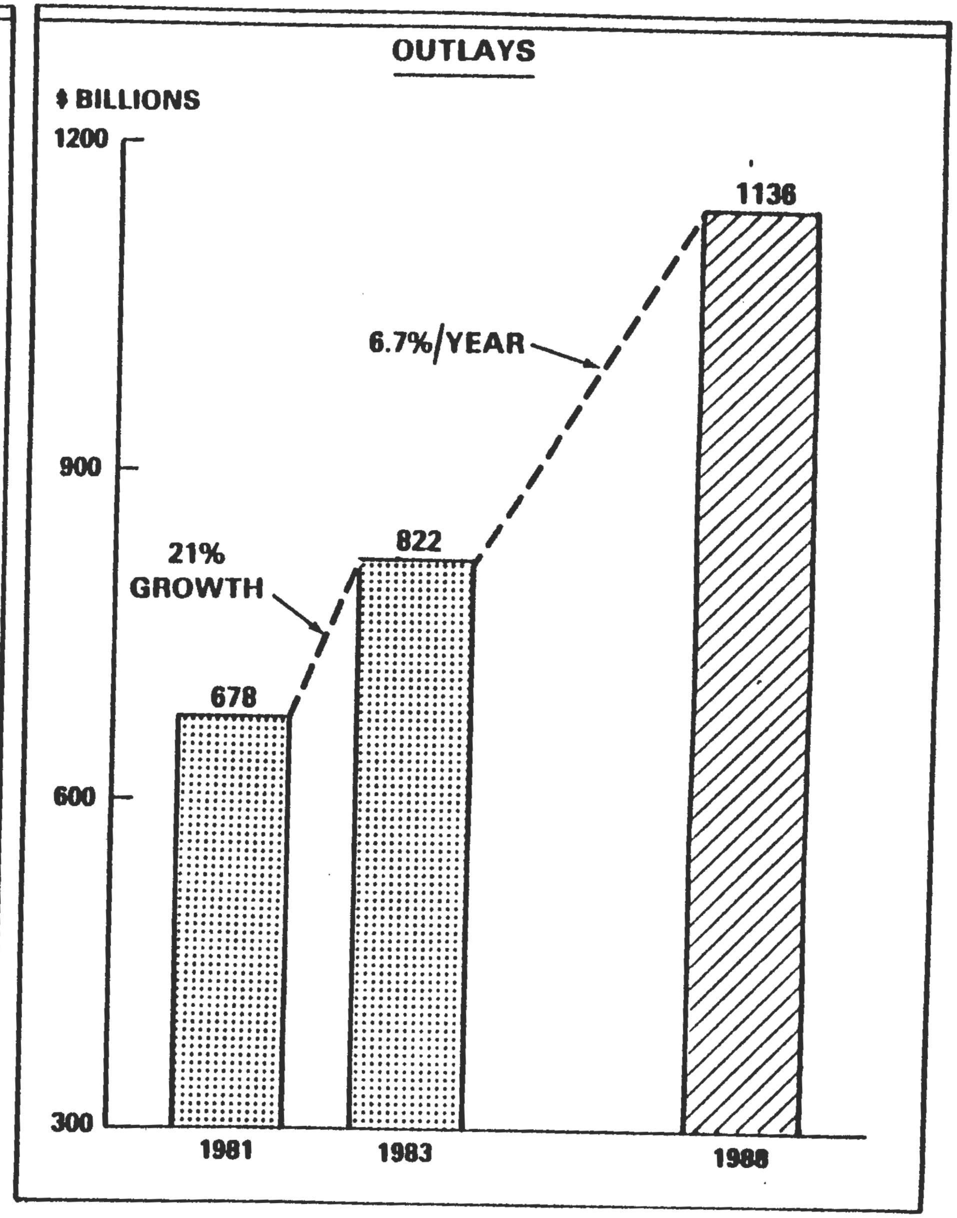
REDUCED SENSITIVITY OF BUDGET OUTLAYS TO ECONOMIC RECOVERY

(SHARES OF NONDEFENSE SPENDING)



IMPACT OF 1981–83 REVENUE STANDSTILL ON OUT-YEAR BUDGET TRENDS





FOUR-POINT BUDGET FREEZE AND REFORM PLAN AT A GLANCE

	1984	1985	1986	1987	1988	TOTAL
1984 FREEZE	19	28	33	39	45	164
DEFENSE SAVINGS	8	8	9	10	11	47
STRUCTURAL REFORMS	19	29	41	57	82	228
STANDBY REVENUE MEASURES	—	—	46	49	51	146
TOTAL SAVINGS*	43	59	123	150	184	558

*TABLE DOES NOT ADD BECAUSE SAVINGS FROM 1984 FREEZE INCLUDES DEFENSE SAVINGS