The First Concurrent Resolution and the Budget Outlook

On June 24 the Congress passed the First Concurrent Resolution (FCR) on the budget for fiscal year 1983—a resolution that projects a Federal budget deficit of $103.9 billion in 1983 and declining deficits in 1984 and 1985. The FCR for 1981 projected a balanced budget, but the actual deficit turned out to be $57.9 billion. The FCR for 1982 projected a deficit of $37.7 billion, but actual data for the first nine months of the year suggest that $110-120 billion is the likely range for the final outcome. Will the FCR for 1983 suffer a similar fate, with the actual deficit rising significantly above $103.9 billion?

It is tempting, given the two recent episodes, automatically to infer that the 1983 FCR deficit is understated, perhaps substantially. But, in fact, FCR deficits have not always been underestimated. In 1976-79, the Federal Government deficit was lower than had been anticipated in the FCR (Table 1). There is, in fact, no hard and fast rule relating actual budget deficits to FCRs. The result depends on many factors, including how the economy performs, technical estimating errors or biases, and the willingness of the Congress ultimately to enact the legislative initiatives and appropriations assumed in the resolution. In 1977 and 1978, errors in estimating outlays were an important factor causing the deficit to be overstated, with agencies arguing wrongly, as it turned out, that they could indeed spend appropriations rapidly and provide what was thought to be a needed stimulus to the economy. In 1979, overwithholding by taxpayers after the 1978 tax cut and rapid inflation that pushed taxpayers into higher tax brackets caused revenues to be greater than anticipated. In 1980-82, recessions, high interest rates, optimistic assumptions about policy, and biases in favor of lower spending estimates led to large underestimates of the deficit.

Past experience suggests that there is no short cut for determining whether the $103.9 billion deficit for 1983 and declining deficits thereafter represent reasonable estimates of future budget outcomes. Rather, an assessment of what future deficits are likely to be, given decisions made so far, must rely on a careful review of the policy and economic assumptions embedded in the FCR and on an analysis of the budget estimates that went into the final deficit figures. The purpose of this article is to summarize the results of such an analysis.

The FCR that was enacted had two primary goals: to hold the 1983 deficit to about $100 billion, lower than the 1982 deficit, and to put the budget on a multiyear path of declining deficits. The analysis that follows concludes that it is unlikely that either of these goals has been achieved. While projections of what the deficits will turn out to be are bound to be imprecise, the chances are high that the outcome will be for much larger deficits over the next few fiscal years than those incorporated in the FCR.

What the precise outcome will be depends on a number of factors, all of which are uncertain. They involve, first of all, the likelihood of assumed Congressional action: whether the Congress enacts the tax increases assumed in the resolution, makes the assumed cuts in defense and nondefense appropriations, and enacts the legislative savings ordered by the resolution's reconciliation instructions. In addition, the economic forecast has to be updated from that

Table 1

Federal Budget Deficits in the First Concurrent Resolution (FCR), Compared with Actuals

By fiscal year; in billions of dollars

Year	FCR	Actuals	Difference
1976	−68.8	−66.4	+2.4
1977	−50.8	−44.9	+5.9
1978	−64.65	−48.8	+15.85
1979	−50.9	−27.7	+23.2
1980	−23.0	−59.6	−36.6
1981	+0.2	−57.9	−58.1
1982	−37.7	−110 to −120*	−72 to −82*
1983	−103.9		

* Estimate.

used in drawing up the FCR but, even after updating, a wide spectrum of possible forecasts cannot be ruled out. Moreover, the deficits may be larger than in the FCR because of overly optimistic spending estimates for selected programs and because of overly generous assumptions about management and other savings, which (although attainable) may not be achieved.

Depending on how the various factors come together, a range of deficit projections can be constructed. On the optimistic side is the case in which all needed Congressional actions are taken, all management initiatives and other savings that the FCR does not try to enforce are ultimately realized, and a favorable reaction by the financial markets to the deficit-reducing measures lowers interest rates by 250 basis points below the forecast of the Congressional Budget Office (CBO). In that case, an estimate of the deficit for fiscal year 1983 would be a little higher than $140 billion. By comparison, if instead, only some of the management savings are achieved and the financial market reaction is not the favorable one assumed in the resolution, the 1983 deficit is likely to fall in the $160-170 billion range and grow to around $190 billion by 1985. Finally, even larger deficits would be in store if Congressional action were to fall short of the assumed tax increases, appropriations reductions, and entitlement cuts.

The baseline deficits

The starting point for the deficit reduction decisions in the FCR was a projection of budget deficits referred to as the "Revised Baseline", a modification of the CBO Baseline that was published in February 1982.[1] The CBO Baseline was a projection of what would happen to the budget with no changes in current laws or policies. For this type of projection, current tax laws are assumed unchanged. Spending for entitlements is projected on the basis of formulas contained in current laws, and appropriations for discretionary (nonentitlement) programs are assumed to increase with inflation. The Revised Baseline was the same as the CBO Baseline, with one major exception—defense.[2] The Revised Baseline used the President's budget proposal for defense, with only slight modification, rather than the CBO defense baseline.[3] The latter does not provide for increases in the defense force structure (numbers of ships, air wings, divisions) and new investment in weapons beyond changes already approved by the Congress. By contrast, the President's budget contains a number of new investment initiatives not yet formally approved by the Congress.

The economic assumptions for the Revised Baseline are based on the CBO January forecast for 1982 and 1983, and the CBO long-range economic assumptions for 1984 and 1985. The assumptions show real economic growth of 4.5 percent in 1983, on a year-over-year basis, after a decline of about 1 percent for 1982 (Table 2). The 1983 inflation rate of 7.3 percent is almost unchanged from the 1982 forecast of 7.4 percent. Interest rates are projected to increase slightly in 1983 and then to decline in 1984 and 1985. By 1985, the yearly average for the three-month Treasury bill rate is projected to be 9.4 percent.

The projected budget deficits for the Revised Baseline were $182 billion for 1983, $216 billion for 1984, and $232.5 billion in 1985. All the spending estimates were done by CBO, based on the economic assumptions in Table 2, CBO's own estimates of spending rates, and other technical factors that affect spending. For revenues, the estimates were done by the Treasury, based on the Revised Baseline economic assumptions.

[1] *Baseline Budget Projections for Fiscal Years 1983-1987* (Congressional Budget Office, February 5, 1982).

[2] A less significant conceptual difference between the Revised Baseline and the CBO Baseline was the assumption that Federal employees' pay raises would be comparable to projected private-sector increases. The CBO Baseline had assumed Federal employees would receive pay raises of 7 percent in each year, 1983-85, the same rate of increase received at the start of fiscal year 1982. The effect of the change was to increase the projected pay raises for fiscal years 1983 and 1984 to 8.0 percent and 7.6 percent, respectively, and to lower the projected fiscal year 1985 pay raise to 6.4 percent.

[3] The defense projections in the Revised Baseline are slightly higher than the projections in the President's budget since they exclude some relatively minor proposals for savings that were in the budget and because the outlay estimates are based on CBO outlay rates (rates at which appropriations are converted into actual disbursements) rather than on Administration rates.

Deficit reductions in the FCR

The targets for outlays and revenues voted in the FCR imply deficit reductions from the Revised Baseline of $78.1 billion in 1983, $132.1 billion in 1984, and $172.5 billion in 1985. The FCR assumes that reductions will be achieved through cuts in defense and nondefense appropriations, limits on Federal pay raises, cuts in entitlements, various management savings, and tax increases (Table 3). These reductions are assumed to lead to substantial savings in interest

Table 2

Economic Assumptions for the Revised Baseline

By calendar year

Selected economic variables	1982	1983	1984	1985
Nominal GNP (percentage change, year over year)	6.4	12.1	10.9	9.9
Real GNP (percentage change, year over year)	−0.9	4.5	4.1	3.7
GNP deflator (percentage change, year over year)	7.4	7.3	6.6	6.0
Unemployment rate (yearly average)	9.1	8.4	7.6	7.2
Ninety-one-day Treasury bill rate (yearly average)	12.4	13.2	11.3	9.4
Thirty-year Treasury bond rate (yearly average)	13.1	12.5	11.4	10.0

Table 3

Deficit Reduction in the First Concurrent Resolution for 1983

By fiscal year; in billions of dollars

Deficits and deficit reductions	1983	1984	1985
Baseline deficits	**−182.0**	**−216.0**	**−232.5**
Defense purchases	6.0	6.5	8.3
Nondefense discretionary appropriations	5.9	10.1	18.8
Federal pay raises	5.1	8.9	12.1
Defense	*(3.4)*	*(6.0)*	*(8.2)*
Nondefense	*(1.7)*	*(2.9)*	*(3.9)*
Cost-of-living adjustments retirement programs	0.5	1.8	3.1
Defense	*(0.2)*	*(0.7)*	*(1.2)*
Nondefense	*(0.3)*	*(1.1)*	*(1.9)*
Other entitlements	5.9	8.7	9.8
User fees (outlays)	1.1	1.4	1.7
Management savings	9.9	13.3	13.2
Other outlay cuts	1.2	1.3	1.1
Tax increases	20.9	36.0	41.4
Rejection of Congressional Budget Office technical estimates	7.1	7.3	6.6
Interest savings	14.5	36.8	56.4
Lower interest rates	*(8.0)*	*(19.1)*	*(27.8)*
Lower debt outstanding	*(6.5)*	*(17.7)*	*(28.6)*
Total deficit reductions	**78.1**	**132.1**	**172.5**
FCR deficits	**−103.9**	**−83.9**	**−60.0**

expenses that would, in turn, further cut the projected deficits.

The *national defense* function in the budget includes funds for the purchase of weapons and supplies, compensation of military and civilian personnel, and the benefit payments to retired military personnel. The Revised Baseline for defense is assumed to be cut by $9.6 billion in 1983, with the reduction growing to $17.7 billion by 1985. The assumed 1983 cut is comprised of $6.0 billion in *defense purchases,* $3.4 billion in *defense compensation,* and $0.2 billion in *defense retirement* benefits. Pay and retirement cuts are primarily the result of holding both the Federal pay raise and automatic cost-of-living adjustments (COLAs) for retirees for 1983 (and also 1984-85 for that matter) to 4 percent. Under the inflation assumptions for the Revised Baseline, average annual real growth of defense expenditures for 1982-85 would be cut from 8.6 percent to about 7.6 percent.

For *nondefense discretionary appropriations,* the FCR anticipates cuts from the projections in the Revised Baseline of $6 billion in 1983 and growing to $19 billion by 1985.[4] As mentioned earlier, these programs were projected by simply assuming that appropriations would increase at the same rate as inflation. The anticipated cuts are approximately equivalent to the effect of freezing these appropriations at 1982 levels.

The 4 percent limitations on *COLAs* assumed in the resolution covered primarily entitlements for Federal employee retirement. Other entitlements such as social security, railroad retirement, and supplemental security income were assumed to be exempt from COLA limitations. The resolution also assumed enactment of legislation to cut *entitlements*—other than COLA restrictions—that would save as much as $5.9 billion in 1983, with the reductions growing to almost $10 billion by 1985.

Management initiatives, generally not based on anticipated Congressional action, were assumed to save about $10 billion in 1983 and $13 billion in 1984 and in 1985. The largest assumed savings are from accelerated offshore oil leasing and the disposal of surplus Federal property (Table 4). Most of the management initiatives assumed in the resolution were also included in the President's budget for 1983 that was submitted in February.

Another deficit-reducing element in the resolution, as passed, was a reversal of the earlier decision to use CBO estimates of spending. Projected deficits were reduced by using more optimistic Administration estimates of defense outlay rates, offshore oil receipts, and civil service retirement costs.

Finally, an important part of the deficit reductions in the resolution are *lower interest costs.* For 1985, interest savings are $56.4 billion or about one third of the deficit reduction for that year. Approximately 50 percent of the interest savings stem from the fact that the lower deficits would mean less debt outstanding on which interest would be paid. The remainder is the result of the assumption that the budget resolution and the subsequent budget cuts would have a market effect that would lower interest rates from the levels in the Revised Baseline economic assumptions (Table 2) by an average of 60 basis points in July-September of this year and 120 basis points in October-December. Starting in January 1983, rates were assumed to be 250 basis points lower than originally projected, so that by 1985 the Treasury bill rate would average 6.9 percent.

Projections of the Federal deficit under the FCR—alternative estimates

Even if the Congress follows through with the legislation mandated by the FCR, the Federal deficit is more likely to be about $145 billion rather than $103.9 billion as stated in the resolution. This estimate incorporates the timely implementation of all the savings initiatives assumed by the resolution, as well as favorable interest rate developments. In 1984 and 1985, the deficit would remain at approximately $150 billion. The increases in the projected deficit above the targets passed in the FCR are primarily the result of updated economic assumptions and technical reestimates of some revenue and outlay projections used in the resolution. These upward adjustments have a secondary effect: anticipated savings in interest costs from lower levels of public debt become smaller than assumed.

An alternative estimate of the FCR deficit for 1983 is $160-170 billion. The further increase stems, first of all, from a discounting (although not a complete rejection) of savings from management initiatives and other actions which the resolution has made no attempt to enforce. Also, the savings in interest costs because of an assumed drop in interest rates below

[4] The term "nondefense appropriations" refers to spending for those nondefense programs for which the authority to spend is renewed annually, based on the recommendations of the appropriations committees.These, in turn, can be divided into mandatory and discretionary appropriations. The appropriations committees annually recommend appropriations for some entitlements, such as medicaid. However, these appropriations are viewed as mandatory since the amounts recommended must be sufficient to cover whatever costs are incurred under the entitlement formulas that are part of current law. Most entitlements, such as social security and medicare, have permanent spending authority. Changes in social security would have to be recommended by the Senate Finance Committee or the House Ways and Means Committee.

the levels forecast by CBO in the Baseline may be overly optimistic.

Economic assumptions update
The economic assumptions for the FCR, as passed, are those agreed to in mid-April by the Republican and Democratic negotiators for a bipartisan compromise. For inflation, they used a CBO forecast that was made in the December-January period. The real gross national product (GNP) assumptions were based on the same CBO forecast, except that the real growth in 1982 was adjusted downward to reflect the weak first quarter, for which actuals were available by April, and real growth in 1983 and 1984 was adjusted upward by an amount sufficient to make up for the unanticipated GNP loss in 1982. The unemployment rate was revised slightly to maintain consistency with the real GNP forecast.

Preliminary Commerce Department figures for the second quarter of 1982 suggest that the FCR economic assumptions are already off track, with real GNP and inflation both lower than anticipated. If real GNP growth and inflation during the remainder of 1982 and throughout 1983 were to turn out exactly as assumed in the resolution, the effect of the second-quarter GNP figures alone would raise the projected 1983 deficit by over $5 billion because of lower tax receipts (due to lower income levels) and higher unemployment insurance payments.

Taking into account only the preliminary GNP figures for the second quarter 1982 would understate the effect of an update of economic assumptions on the FCR deficit estimates. The outlook for the remainder of 1982 and for 1983 has changed considerably over the past several months. In early January, for example, when most of the basic elements of the FCR forecast were formulated, a consensus of private forecasts for real GNP was 0.3 percent growth for 1982 (on a year-over-year basis) and 4.1 percent growth for 1983. In early July, the consensus of forecasters was projecting a 0.8 percent decline for 1982 and a 3.3 percent increase for 1983. For inflation, the outlook has changed even more. In January, the consensus forecast on inflation rates for 1982 and 1983 was 7.7 percent and 7.2 percent, respectively, while the more recent figures are 6.4 percent and 6.1 percent.[5]

A plausible update, for illustrative purposes, of the FCR short-term economic forecast is shown in Table 5. It lowers 1983 real growth, compared with the FCR assumptions, and reduces the inflation rate for 1982 and 1983. For the longer run, 1984 and 1985, it is impossible to forecast with accuracy. A downward adjustment in the FCR assumed inflation rate, at least for 1984, would appear to be appropriate. The assumption of real growth of 3.7 and 3.8 percent for 1984 and 1985 are what would be required to make the five-year average annual growth rate (1981-85) equal the five-year moving average during the 1970s.[6]

An update of the FCR economic assumptions, similar to that shown in Table 5, would have several different effects on the budget. Lower levels of real GNP and prices would mean lower incomes on which taxes are computed. For 1983, the effect on revenues would be a $23 billion reduction from the FCR estimate and the difference would grow to about $60 billion by 1985. For outlays, the higher unemployment rates that would be consistent with an updated real GNP forecast would result in higher unemployment compensation benefit payments. On the other hand, lower inflation would reduce projected cost-of-living adjustments for social security and other benefit programs whose COLAs were not assumed to be capped at 4 percent per year by the resolution. (The resolution's assumed Federal pay raises would be unaffected since they were also capped at 4 percent.) The unemployment effects dominate in 1983, with the net effect of the update being to increase outlays by about $4 billion. By 1985, the lower inflation rates more than offset the higher unemployment rates, with the net effect being about a $1 billion drop in projected outlays. Table 6 shows the net effect of updated economic assumptions. The 1983 deficit estimate is increased by about $27 billion, with the adjustment growing to almost $60 billion by 1985.

Technical reestimates
Some of the FCR deficit reductions from the Revised Baseline were achieved by rejecting CBO outlay estimates. These changes do not reflect differences in economic assumptions, but rather are, in general, the result of adopting the more optimistic estimates of the Administration for selected programs. Although technical estimating differences represent disagreement among experts that are generally difficult to evaluate,

[5] *Blue Chip Economic Indicators*, Eggert Economic Enterprises, January 10, 1982 and July 10, 1982.

[6] This approach to formulating long-range economic growth assumptions for budget decision making is similar to the proposal made by Rudolph G. Penner, "Forecasting Budget Totals: Why Can't We Get It Right?" in Michael J. Boskin & Aaron Wildavsky, *The Federal Budget: Economics and Policies* (San Francisco: Institute for Contemporary Studies, 1982). Penner argues that the incentives for optimism in long-range economic assumptions are very strong, especially when these assumptions are the basis for budget projections, and that politicians feel unconstrained by the consensus forecast coming from economists since no one really knows what will happen in the long run. Consequently, he argues for an arbitrary rule for putting together long-run economic assumptions that will keep the assumptions within the bounds of historical long-term trends.

Table 4

Management Savings Assumed in the First Concurrent Resolution

By fiscal year; in billions of dollars

Savings items	1983	1984	1985
Accelerated offshore leasing	4.0	4.4	4.0
Waste, fraud, and abuse reductions	1.0	1.0	1.0
Improved debt collection	1.0	1.0	2.0
Accelerated property disposal	1.1	4.1	4.1
Improved asset sale management	1.3	1.0	0.4
Revised Federal mortgage insurance payments	0.7	0.7	0.7
Federal employment reductions	0.8	1.0	1.0
Total	9.9	13.2	13.2

Table 5

Plausible Update of First Concurrent Resolution Economic Assumptions

By calendar year

Year	Real GNP (percentage change, year over year)		GNP deflator (percentage change, year over year)		Unemployment rate (calendar year average)	
	FCR	Update	FCR	Update	FCR	Update
1982	−0.9	−0.9	7.4	6.6	9.1	9.3
1983	4.5	3.2	7.3	6.2	8.4	9.2
1984	4.1	3.7	6.6	5.7	7.6	8.5
1985	3.7	3.8	6.0	5.7	7.2	8.1

Table 6

Alternative Reestimates of the First Concurrent Resolution Deficits

By fiscal year; in billions of dollars

Deficits and deficit increases	1983	1984	1985
FCR deficits (as passed)	**−103.9**	**−83.9**	**−60.0**
Updated economic assumptions	−26.8	−50.1	−58.9
Technical reestimates	−12.7	−15.3	−15.2
Interest on the debt (debt outstanding)	−2.2	−7.7	−13.2
Subtotal, reestimates—alternative 1	−41.7	−73.1	−87.3
FCR deficits reestimated (alternative 1)	**−145.6**	**−157.0**	**−147.3**
Management initiatives and other savings not subject to enforcement	−9.2	−11.6	−11.0
Interest rate effect of the FCR	−7.1	−11.3	−21.9
Interest on the debt (debt outstanding)	−1.1	−3.8	−6.9
Subtotal, additional reestimates—alternative 2	−17.4	−26.7	− 39.8
FCR deficits reestimated (alternative 2)	**−163.0**	**−183.7**	**−187.1**

Table 7

Program Savings Not Subject to Enforcement under the First Concurrent Resolution

By fiscal year; in billions of dollars

Savings	1983*	1984*	1985*
Cost-of-living adjustment and other entitlements	0.8	2.2	2.8
Management initiatives	9.2	12.5	12.5
User fees	1.1	1.4	1.7
Other	1.2	1.3	1.1
Total	12.3	17.4	18.1

* Technically, a large part of the outlay reductions in 1984 and 1985 from appropriations cuts are also not subject to enforcement since deferred enrollment in the 1983 FCR affects only the 1983 appropriations bills. However, it is assumed that additional enforcement procedures will be invoked when the 1984 and 1985 appropriations bills are being considered.

they can have an important effect on the budget outlook. For example, to understand better why the 1982 deficit has risen from $45 billion—as estimated by the Administration in March 1981—to $110-120 billion, an analysis was done by the author comparing the March 1981 budget for fiscal year 1982 on an account-by-account basis with current estimates. The analysis attempted to divide the deficit increase into changes due to policy adjustments, changes due to the economy, and technical estimating errors. It was found that technical estimating errors contributed almost $30 billion to the rise in the deficit estimate.

Shortly after the passage of the FCR, CBO was asked to reexamine the technical estimates that supported the resolution. Their reestimates to outlays total about $6 billion in 1983 and in 1984 and $5 billion for 1985. The reestimates are in defense, offshore oil receipts, and civil service retirement. Analysis of actual data to date suggest that the CBO technical outlay reestimates may be understated somewhat, with further upward reestimates being appropriate in transportation, community and regional development, water and conservation programs, farm price supports, and offshore oil receipts. A downward reestimate to outlays because of what appears to be double counting of intragovernmental interest also appears to be appropriate. On balance, approximately $10 billion per year in net upward outlay reestimates are included in the technical reestimates to the deficit shown in Table 6. The remainder of the technical reestimates are to revenues.

For revenues, Treasury revenue estimates in the past have not shown a systematic bias.[7] In some years revenue estimates have been too low, and in other years they have been too high. When asked to submit technical reestimates to the resolution, CBO suggested $4 billion in downward revenue reestimates for 1983, with the magnitude of the downward reestimates growing to over $20 billion by 1985. Documentation of these technical reestimates has not been available, and consequently they are difficult to evaluate. For 1983, most of the reestimate is because of a difference in the estimated revenue loss from the business tax cuts enacted last year. Recent tax collections appear to support some downward adjustment of the corporate profits tax revenue estimates. Consequently, about $2 billion per year in technical reestimates to revenues have been included in the figures in Table 6.

The increases from updated economic assumptions and technical reestimates also have an indirect effect on the deficit. Treasury interest payments would be increased because the volume of debt outstanding would be larger than assumed in the FCR. As shown in Table 6 (alternative 1), a reestimate to the FCR that takes these three factors into account—updated economic assumptions, technical reestimates, and interest on the debt—would raise the estimate of the FCR deficit for 1983 to $145.6 billion. In 1984 and 1985 the deficit would be approximately $150 billion.

Deficit reductions and FCR enforcement

The FCR contains various levels of enforcement mechanisms that make many of the deficit reductions a true indication of Congressional commitment to action rather than vague targets or goals. On the other hand, some of the reductions do not fall under the enforcement procedures and, like the cuts achieved by rejecting CBO budget estimates, should be examined more closely.

[7] "A Review of the Accuracy of Treasury Revenue Forecasts, 1963-1978" (Congressional Budget Office, Staff Working Paper, February 1981).

The strongest enforcement mechanism in the FCR is the reconciliation instruction to House and Senate committees ordering them to report, within a short period of time, legislation leading to savings in programs with permanent spending authority (generally entitlements). The deadlines were July 20 for Senate committees and August 1 for House committees. The reconciliation instruction also orders the tax committees to report legislation increasing revenues. Since this procedure has worked twice before, there is no good reason to doubt that a reconciliation bill will be enacted this year.[8] While the reconciliation instruction to the tax committees covers all the FCR assumed tax increases, the spending instruction covers only a small fraction of the assumed spending cuts—$6.6 billion in 1983, $9.3 billion in 1984, and $10.9 billion in 1985. For example, it is interesting to note that, of the $6.4 billion in entitlement savings in 1983 assumed in the resolution, $0.8 billion is not part of the reconciliation instructions. By 1985, $2.8 billion of an assumed savings of $12.9 billion is not part of reconciliation.

Reconciliation instructions in the FCR were generally applied solely to programs with permanent spending authority. However, only about half of a given year's outlays are from such programs. The remainder of Federal spending is the result of authority that is renewed annually by the Congress through the appropriations process. The FCR enforcement mechanism for this part is the deferred enrollment procedure. Under this procedure, outlined in section 301(b)(1) of the Congressional Budget Act, appropriations bills that violate ceilings imposed as a result of the FCR can be delayed and not forwarded to the President for signature until after October 1. The other enforcement mechanism, which is not directly a part of the FCR but is implied by Administration support of the resolution, is Presidential veto of appropriations bills.

Excluding interest savings and the deficit reductions from "rejection of CBO technical estimates", the savings that are not subject to enforcement under the FCR total $12 billion in 1983, $17 billion in 1984, and $18 billion in 1985 (Table 7):

- The savings for some entitlements, user fees, and other items (primarily farm price supports) depend on Congressional action to cut permanently appropriated programs without the forcing mechanism of a reconciliation instruction. The history of Congressional committees voluntarily recommending net reductions in programs of this type in the absence of reconciliation requirements suggests that the ultimate savings from this source could be extremely small. The intentional omission of these savings from the reconciliation instruction implies that the conferees on the resolution also may have realized this fact.
- The management savings (Table 7) from improved debt collection, reductions of waste, fraud, and abuse, and accelerated property disposal are in addition to substantial savings from the same sources already assumed in various individual programs throughout the budget. In other words, there might be some double counting. Also, the FCR makes no provision for the additional staff and resources that would be needed to achieve the savings.[9]
- Part of the savings from management initiatives are from acceleration of the leasing of offshore oil rights. The resolution assumes that bids by oil companies will be almost three and one-half times larger in fiscal year 1983 than in 1982. While it is true that the new leasing schedule will open up more tracts for leasing, oil companies historically have been unwilling or unable to finance oil exploration by borrowing. Analysts generally believe that the determining factor in oil company investment in oil exploration is corporate cash flow and that the near-term prospects for a large jump in bonus bidding for leases are not good. Thus, despite the acceleration of the leasing schedule, it appears unlikely that bonus bids would increase to $10.9 billion in 1983, as assumed in the FCR, unless the oil market tightens dramatically. Under current market conditions, the 1983 figure represents an implausibly large increase from about $3 billion in bonus bids in 1982 and $7.8 billion in 1981—a year of good corporate cash flow and rising oil prices.

The upward adjustments to the resolution's deficits, shown under alternative 2 in Table 6, assume that about 25 percent of savings not subject to enforce-

[8] The date of enactment may be delayed somewhat. Already some House committees have missed the August 1 reporting deadline. It is very possible that some floor action and a House-Senate conference could be delayed until after the November elections. Such a delay would probably not affect the revenue increases since the tax changes are either retroactive or effective on January 1, 1983. But it probably would reduce the assumed outlay savings since the resolution generally assumed an effective date for the legislated changes of October 1, 1982.

[9] These savings were part of the President's 1983 budget. In a detailed analysis of the budget, CBO concluded that the savings estimates were either very optimistic or doubtful unless significant new resources are allocated to the management efforts. See "An Analysis of the President's Budgetary Proposals for Fiscal Year 1983" (Congressional Budget Office, February 1982).

ment for 1983 will be achieved, 35 percent for 1984, and 40 percent for 1985.

Interest rate effect of the FCR

The FCR deficits include large savings in debt-servicing costs because of a reduction of the forecast for interest rates due to the budget cuts and tax increases. Implicitly, the resolution is relying on market expectations effects to reduce interest rates below the levels forecast in the Baseline by CBO. While expectations of large deficits in the future are a factor in the current high level of real long-term interest rates, it is unclear whether the FCR deficit-reducing measures will have a significant effect on those expectations. Even if the Congress were to enact all the legislation contemplated in the resolution, the items in Table 6 point to deficit levels beyond what was passed in the FCR. To be sure, the interest rate forecast made by CBO for the Baseline may be incorrect. For the second quarter 1982 it was too low. On the other hand, a sustained reduction of the rate of inflation could ultimately lead to rates that are lower than the CBO forecast. At this point, under the current uncertain environment, it appears that any alternative interest rate forecast that might be proposed would be just as tenuous as the one used for the Baseline. This suggests that, for the purposes of prudent budget planning, it may be inadvisable to rely on a large reduction of interest rates below the Baseline forecast to play an important part in lowering the deficit by cutting projected debt-servicing costs.

Less optimistic assumptions about management initiatives and the market reaction to the FCR's deficit-reducing measures lead to a further upward reestimate of the deficits for 1983-85, as reflected in alternative 2 in Table 6. When the effect of changes in interest costs because of higher debt outstanding is taken into account, the reestimated deficit becomes $163 billion for 1983 and grows to $187 billion by 1985.

Conclusion

The First Concurrent Resolution on the budget for fiscal 1983 has made a substantial contribution to reducing projected budget deficits from what they otherwise would have been. It is clear that many of the deficit-reducing measures assumed in the resolution are serious ones and stand an excellent chance of being carried out. Unfortunately, a change in the economic outlook since the December-January period means that the Baseline deficits that were the starting point for the FCR decisions must be revised upward substantially. Also, some of the FCR savings were overstated, while others are the product of optimistic technical and programmatic assumptions. As a result, the deficits for 1983-85 are likely to be much larger than the targets that were passed in the FCR.

The resolution, as passed, projects that the unified budget deficit will be 3.1 percent of GNP in 1983, 2.2 percent in 1984, and 1.4 percent in 1985. The analysis presented in this article implies, however, that under the FCR policies the 1983 deficit would be between 4 and 5 percent of GNP and would decline only slightly to between 3.7 and 4.7 percent of GNP by 1985. Federal deficits in that range in the third year of an economic recovery would be without precedent in the postwar period. To be sure, the FCR will represent a significant improvement in the budget outlook from the Baseline, if the assumed tax increases, appropriations reductions, and entitlement cuts are ultimately enacted. The 1985 deficit-GNP ratio would be reduced from about 8 percent to the 3.7-4.7 percent range. But, it clearly will take many more changes in spending and taxes to bring the deficit down below 1½ percent of GNP as promised in the resolution.

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