CONFIDENTIAL (FR)
CLASS III - FOMC

February 8, 1985

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

THE DOMESTIC ECONOMY

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

NOTE: THESE DATA DO NOT REFLECT ANNUAL SEASONAL AND BENCHMARK REVISIONS.

	1984 Q2	1984 Q3	1984 Q4	1984 Nov.	1984 Dec.	1985 Jan.P	Growth from Q4 1983 to Q4 1984
	------- Percentage change at annual rates ------						
						(Rounded)	
1. M1	6.2	4.5	2.0	8.6	11.1	9	5.0
2. M2	6.9	6.2	9.4	15.1	15.3	13	7.5
3. M3	10.5	8.3	10.7	15.3	14.8	11	10.0
							Levels in billions of dollars Dec. 1984
Selected components							
4. Currency	7.2	7.6	4.4	2.3	3.8	10	158.0
5. Demand deposits	3.4	0.2	-0.6	9.4	12.7	2	248.3
6. Other checkable deposits	9.9	8.8	4.3	12.9	15.3	23	142.9
7. M2 minus M1[2]	7.1	6.7	11.7	17.1	16.6	13	1821.9
8. Overnight RPs and Eurodollars, NSA[3]	-7.5	-1.4	0.0	31.7	-16.5	109	57.5
9. General purpose and broker/dealer money market mutual fund shares NSA	15.5	10.6	29.1	50.1	43.6	34	168.1
10. Commercial banks	6.7	7.3	10.5	15.7	16.6	11	777.3
11. Savings deposits, SA, plus MMDAs, NSA[4]	4.9	-3.4	11.8	26.7	28.1	35	389.6
12. Small time deposits	8.6	18.4	9.2	5.0	5.3	-12	387.7
13. Thrift institutions	6.2	7.7	9.5	8.7	8.7	7	824.1
14. Savings deposits, SA, plus MMDAs, NSA[4]	2.5	-13.2	-3.8	3.8	7.7	22	314.7
15. Small time deposits	8.9	22.7	18.1	12.0	9.3	-1	509.4
16. M3 minus M2[5]	26.0	16.7	15.8	16.0	12.7	3	612.9
17. Large time deposits	31.6	26.1	14.1	9.9	16.0	9	409.7
18. At commercial banks, net[6]	24.3	21.4	8.6	-5.9	-0.5	-6	260.9
19. At thrift institutions	46.4	35.7	24.5	39.8	46.1	36	148.8
20. Institution-only money market mutual fund shares, NSA	8.1	9.7	97.4	140.2	90.6	44	62.7
21. Term RPs, NSA	41.8	15.3	28.8	32.5	-28.2	-14	66.6
22. Term Eurodollars, NSA	6.2	-26.0	-28.7	16.7	19.5	-28	81.4
	-- Average monthly change in billions of dollars --						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	7.1	2.5	3.3	6.4	-4.2	-5	435.4
24. Large time deposits, gross	7.9	0.0	2.4	0.6	1.4	1	319.9
25. Nondeposit funds	-0.8	2.5	0.9	5.8	-5.6	-6	115.5
26. Net due to related foreign institutions, NSA	1.0	-0.4	1.1	0.4	1.1	-5	-32.0
27. Other[7]	-1.8	2.9	-0.2	5.3	-6.6	-1	147.5
28. U.S. government deposits at commercial banks[8]	-1.3	1.2	-0.4	8.7	-1.6	0	15.4

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.
4. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs declined during December 1984 and January 1985 at rates of 10.6 and 20 percent respectively. At thrift institutions, savings deposits excluding MMDAs decreased in December 1984 at a rate of 4.2 percent and increased in January 1985 at a rate of 5 percent.
5. The non-M2 component of M3 is seasonally adjusted as a whole.
6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
7. Consists of borrowings from other than commercial banks in the form of federal funds purchased securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
p--preliminary.

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

NOTE: THESE DATA REFLECT BENCHMARK, SEASONAL, AND DEFINITIONAL REVISIONS.

	1984[2] Q2	Q3	Q4	Nov.	Dec.	1985 Jan.p	Levels in bil. of dollars Dec.
	Commercial Bank Credit						
1. Total loans and securities at banks[3]	9.2	9.5	9.6	12.8	9.2	7	1714.1
2. Securities	-9.8	6.6	0.6	7.5	-1.5	5	400.5
3. U.S. government securities	-11.2	6.8	3.4	11.2	3.7	-4	260.2
4. Other securities	-7.3	6.3	-4.5	0.9	-11.0	24	140.3
5. Total loans[3]	15.7	10.5	12.4	14.4	12.6	7	1313.5
6. Business loans[3]	18.5	7.5	8.2	13.0	0.8	0	468.3
7. Security loans	-13.6	4.2	36.1	-4.0	47.7	19	31.4
8. Real estate loans	13.8	11.4	11.2	11.8	11.6	8	374.9
9. Consumer loans	21.5	14.3	16.1	16.3	20.9	18	251.1
	Short- and Intermediate-Term Business Credit						
10. Business loans net of bankers acceptances	18.4	7.9	8.3	12.0	2.6	0	465.0
11. Commercial paper issued by nonfinancial firms[4]	64.8	47.5	51.7	54.2	26.7	-51	73.2
12. Sum of lines 10 & 11	23.3	12.4	13.7	17.5	5.1	-4	538.2
13. Line 12 plus loans at foreign branches[5]	23.4	12.3	14.1	18.8	6.9	-6	559.4
14. Total bankers acceptances outstanding[6]	47.3	-16.0	-31.9	-43.5	-27.4	n.a.	72.7
15. Line 13 plus total bankers acceptances outstanding	26.5	8.4	8.3	11.1	3.8	n.a.	632.5
16. Finance company loans to business[6]	8.4	12.9	n.a.	15.8	n.a.	n.a.	n.a.
17. Total short- and intermediate-term business credit (sum of lines 15 and 16)	23.8	9.0	n.a.	12.0	n.a.	n.a.	n.a.

n.a.—not available. p—preliminary.
1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Growth rates beginning 1984 have been estimated after adjusting for major changes in reporting panels and definitions that caused breaks in series at the beginning of January. Data should be regarded as highly preliminary.
3. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
4. Average of Wednesdays.
5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
6. Based on average of current and preceding ends of month.
7. Growth rates for total loans and investments, total loans, business loans, and real estate loans have been adjusted to eliminate effects of loan reclassifications and of loan transfers from Continental Illinois National Bank to the FDIC.
8. Reporting panel change in October 1984 reduced reported acceptances by $400 million. Growth rates have been adjusted to eliminate this break in series.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982/1983	1984			1985	Change from:	
	Cyclical low	Highs	FOMC Nov. 7	FOMC Dec. 18	Feb. 7	1984 highs	FOMC Dec. 18
Short-term rates							
Federal funds[2]	8.42	11.63	9.80	8.34	8.32	-3.31	-.02
Treasury bills							
3-month	7.08	10.67	8.55	7.81	8.17	-2.50	.36
6-month	7.62	10.77	8.86	7.98	8.29	-2.48	.31
1-year	7.73	11.13	9.11	8.30	8.49	-2.64	.19
Commercial paper							
1-month	8.00	11.42	8.99	8.06	8.32	-3.10	.26
3-month	7.97	11.35	9.05	8.13	8.36	-2.99	.23
Large negotiable CDs[3]							
1-month	8.08	11.52	9.13	8.18	8.38	-3.14	.20
3-month	8.13	11.79	9.23	8.29	8.49	-3.30	.20
6-month	8.20	12.30	9.39	8.47	8.76	-3.54	.29
Eurodollar deposits[4]							
1-month	8.68	11.89	9.60	8.53	8.54	-3.35	.01
3-month	8.71	12.20	9.75	8.79	8.76	-3.44	-.03
Bank prime rate	10.50	13.00	12.00	11.25	10.50	-2.50	-.75
Treasury bill futures							
Mar. 1985 contract	9.05	12.57	9.16	8.17	8.29	-4.28	.12
Dec. 1985 contract	10.86	13.20	10.23	9.43	9.64	-3.56	.21
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	9.33	13.49	11.05	10.24	10.44	-3.05	.20
10-year	10.12	13.99	11.72	11.29	11.41	-2.58	.12
30-year	10.27	13.94	11.63	11.35	11.29	-2.65	-.06
Municipal revenue (Bond Buyer index)	9.21	11.44	10.62	10.44[5]	9.96	-1.48	-.48
Corporate--A utility Recently offered	11.64	15.30	13.08e	12.80e	12.58e	-2.72	-.22
Home mortgage rates							
S&L fixed-rate	12.55	14.68	13.74[6]	13.18[6]	12.93[6]	-1.75	-.25
FNMA ARM, 1-yr.	10.49	13.70	11.55[6]	10.80[6]	10.50[6]	-3.20	-.30

	1982	1983	1984		1985	Percent change from:	
	Lows	Highs	FOMC Nov. 7	FOMC Dec. 18	Feb. 7	FOMC Nov. 7	FOMC Dec. 18
Stock prices							
Dow-Jones Industrial	776.92	1287.20	1233.22	1211.57	1290.08	4.6	6.5
NYSE Composite	58.80	99.63	97.46	96.78	105.18	7.9	8.7
AMEX Composite	118.65	249.03	212.29	204.00	231.21	8.9	13.3
NASDAQ (OTC)	159.14	328.91	249.75	243.44	287.20	15.0	18.0

1. One-day quotes except as noted.
2. Averages for two-week reserve maintenance period closest to date shown. Last observation is for maintenance period ended January 30, 1985.
3. Secondary market.
4. Averages for statement week closest to date shown.
5. One-day quotes for preceding Thursday.
6. One-day quotes for preceding Friday.
e--estimated.

SUPPLEMENTAL NOTES

Errata

In Part I of the Greenbook the last three lines of the greensheet I-8 should have the following entries for the fourth quarter of 1984:

	1984 Q4
New auto sales (millions A.R.)	10.29
Domestic models	7.50
Foreign models	2.79

on page I-12 the last three lines should have the following entries for the year 1984:

	1984
New auto sales (millions A.R.)	10.39
Domestic models	7.95
Foreign models	2.44

In Part II of the Greenbook the third line of the retail sales table at the top of page II-5 should have the following entry for December 1984:

	1984 Dec.
Total, less automotive, gasoline and nonconsumer stores	.6

APPENDIX

THE FEDERAL BUDGET

I. Introduction

The administration's federal budget proposals for fiscal years 1986 to 1990 were presented to Congress on February 4, 1985. The projected current services budget deficits shown in table 1 are of unprecedented size late in an economic recovery; moreover, the level of debt held by the public would more than double during the projection period. In response, the administration has included a package of outlay cuts that reduces the structural deficit (as a perecent of potential GNP) below its current services level by 50 percent at the end of the period. In the following section, current services estimates of outlays, receipts, and the deficit are presented. In the next section, administration proposals to reduce the current services deficit and change the composition of outlays are discussed. This appendix concludes with a brief discussion of the Congressional Budget Office annual report released on February 6.

II. Current Services Budget

In order to provide a base against which budgetary alternatives may be assessed, it is useful to have a benchmark that represents what might happen to the budget if no changes in current laws or policies were made. The "current services" budget provides such a baseline. In the case of discretionary (nonentitlement) programs, as well as formally indexed programs, current services cost estimates are usually raised through time so as to provide maintenance of the program levels in real terms; current services projections also grow in response to growth in numbers of people eligible for entitlement programs and to provide for growing interest costs on the public debt. In the case of national defense, however, a different standard has been applied: current services outlays include sizable increases in defense spending that are thought necessary to achieve "adequate" levels. The current services defense totals are at the "Rose Garden" compromise levels set last spring and contained in the Mid-Session Review of the 1985 budget; they provide for real outlay growth of 10.6 percent in 1986, declining to somewhat more than 5 percent per year in 1989 and 1990.

The administration's current services budget for fiscal years 1985 to 1990 is presented in table 1, and the underlying economic assumptions are found in table 3. Between FY1985 and FY1990, current services revenues rise slightly as a share of GNP since the projected real income growth moves individuals into higher tax brackets, and is associated with an increase in the share of income going to corporate profits. Budget outlays as a share of GNP fall by about one percentage point, partly reflecting the sizable assumed reduction in interest rates on Treasury securities. Consequently, the current services deficit (including

---

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

off-budget outlays) gradually declines as a share of GNP. In dollar terms, however, the deficit remains above its FY1985 value of $224 billion throughout the period.[1] Moreover, although the structural current services deficit (evaluated at a 6 percent benchmark unemployment rate) eventually falls, it remains above 4 percent of potential GNP through 1990. In the absence of offsetting policy action, the structural deficit would be the largest in post-war history.

III. Budget Proposals

The administration's proposed budgets, which include the effects of outlay cuts, are shown in table 2. Outlays (including off-budget) in nominal terms are projected to grow at an average annual rate of 4.4 percent between FY1985 and FY1990; this is below the 6.7 percent growth rate of current services outlays and the 11.2 percent rate over the decade prior to 1985. In real terms, outlays show virtually no growth between FY1985 and FY1990; this contrasts with the 4 percent average annual rate experienced over the past decade.

The administration's proposed outlay cuts are summarized in table 4. All reductions are measured relative to the current services baseline including adequate defense. All major programs except social security (OASI) are affected. National defense reductions remain roughly constant throughout the period and are due in part to a pay freeze for military personnel in 1986. The 1986 COLA in retirement benefits of former military and civilian employees is to be eliminated. Medicare and Medicaid are being cut. Means-tested entitlements will also be affected: for example, child nutrition subsidies for children of families with high income will be discontinued, and subsidies paid to lenders of guaranteed student loans will be reduced. Also, other relatively uncontrollable programs such as farm price supports and general revenue sharing will be reduced or terminated.

The largest group of budget cuts involves a wide range of discretionary programs. For example, outlays on federal highways will be reduced. Most grants to state and local governments will be reduced or eliminated. There are also proposals for the elimination of the Job Corp and a two-year freeze on funding for additional housing units by HUD. Many federal loan programs will be modified: for example, terminations are proposed for Small Business Administration direct loans and most loan programs of

1. This estimate of the FY1985 budget deficit is over $42 billion greater than the corresponding magnitude in the Mid-Session Review of the 1985 Budget, published last August. Over $20 billion of this difference is due to the summer pause in economic activity that lowered projected GNP. Another $13 billion is due to HUD project notes and about $6 billion reflects the absence of tax increases that were proposed in the Mid-Session budget. The remaining small difference is due to technical reestimates and incorporation of legislation enacted at the end of the 1984 congressional session.

Farmers Home Administration; fees on loans made by the Veterans Administration and the Federal Housing Administration will be raised. Various user fees are also being proposed.

Enactment of all of the above programmatic reductions will generate interest cost savings; such savings are small initially ($3 billion in FY1986) but rise substantially over time ($30 billion in FY1990). Complete enactment of the programmatic reductions (plus the implied debt service savings) will lead to a continual decline in the structural deficit from a level of 4.5 percent of potential GNP in FY1985 to 1.7 percent of potential GNP in FY1990.

In addition to generating a restrictive fiscal policy, the composition of the total budget is changed under the projected outlay cuts. Between FY1985 and FY1988, defense spending rises from one-quarter to one-third of the budget. Net interest rises by only one percentage point from 13 percent of the budget in FY1985 as the effect of a rise in debt is largely offset by the effect of a fall in interest rates. Social Security (OASI) and Medicare each fall slightly as a share of the budget between FY1985 and FY1988; together they fall from about 25 to 24 percent of the budget. The remainder of the budget falls from 35 percent of the total in FY1985 to around 26 percent in FY1988.

Budget receipts under the administration proposals are virtually identical to current services receipt estimates. They are projected to grow at an average annual rate of 8.5 percent between FY1985 and FY1990, exceeded by the 10 percent growth rate during the past decade. In addition, individual and corporate income taxes each rise as a share of total receipts; together they rise from 53.7 to 56.5 percent of total receipts. Social insurance receipts rise slightly, while excise taxes--due, in large part, to windfall profits taxes--fall from about 5 to 3 percent of total receipts.

IV. Congressional Budget Office Report

The Congressional Budget Office released its annual report, The Economic and Budget Outlook: Fiscal Years 1986-1990, on February 6. The CBO forecasts weaker real GNP growth in 1985 and 1986 (3.4 and 3.1 percent, respectively, on a fourth quarter to fourth quarter basis) than does the administration; from 1987 to 1990, the real growth rates assumed by CBO and the administration gradually approach each other. The CBO has a slightly lower inflation forecast in 1985 (4.2 percent) but higher one in 1986 (4.6 percent) and higher assumed inflation rates thereafter. As a consequence, the CBO's nominal GNP growth is lower earlier in the projection period and higher after 1988; however, the level of nominal GNP is lower throughout. The CBO budget baseline therefore has smaller receipt estimates than contained in the administration's current services budget. The estimates also differ on the outlay side. The CBO estimates of national defense outlays are based on congressional policy, which implies lower defense spending throughout. However, CBO estimates of net interest are larger since it assumes a substantially higher interest rate path.

On balance, CBO baseline budget outlays are smaller than those of the administration until 1988 at which time the relationship is reversed. Reflecting this pattern, the CBO baseline deficit is smaller than that of the administration until 1988 and then becomes larger. On a high-employment basis, the CBO baseline budget deficit (evaluated at a 6 percent unemployment rate) gradually rises between FY1985 and FY1990 from 4.3 percent to 5.0 percent of potential GNP.

TABLE 1

ADMINISTRATION CURRENT SERVICES BUDGET
(fiscal years)

	1985	1986	1987	1988	1989	1990
	Billions of dollars					
Revenues	736.9	794.3	863.7	952.3	1030.0	1108.4
Outlays	948.0	1015.3	1103.4	1194.0	1256.8	1328.4
Unified deficit	211.1	221.1	239.6	241.8	226.8	220.0
Off-budget	12.5	9.2	5.9	6.0	6.0	4.4
Total deficit	223.6	230.3	245.6	247.8	232.8	224.4
Memo: Structural deficit[1]	179	193	218	229	223	225
	Percent of GNP					
Revenues	19.1	18.9	18.9	19.4	19.4	19.5
Outlays	24.5	24.2	24.2	24.3	23.7	23.4
Unified deficit	5.5	5.3	5.3	4.9	4.3	3.9
Off-budget	.3	.2	.1	.1	.1	.1
Total deficit	5.8	5.5	5.4	5.0	4.4	4.0
Memo: Structural deficit as percent of potential GNP[1]	4.5	4.5	4.7	4.6	4.2	4.0

1. Staff estimates throughout. The structural deficit does not include off-budget outlays. Okun's Law is used to convert OMB's projected GNP series into a potential GNP series, assuming a 6 percent benchmark unemployment rate. The resulting GNP gap is multiplied by an effective marginal tax rate to calculate the unified tax gross-up and the staff's NIPA estimates are used for the outlay gross-down.

Source: Budget of the United States Government, Fiscal Year 1986.

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

TABLE 2

ADMINISTRATION UNIFIED BUDGET PROPOSAL
(fiscal years)

	1985	1986	1987	1988	1989	1990
	Billions of dollars					
Revenues	736.9	793.7	861.7	950.4	1029.9	1107.7
Outlays	946.6	972.2	1029.9	1099.1	1142.7	1196.8
Unified deficit	209.7	178.5	168.2	148.7	112.8	89.1
Off-budget	12.5	1.5	-3.2	-4.3	-5.3	-6.8
Total deficit	222.2	180.0	164.9	144.4	107.5	82.4
Memo: Structural deficit[1]	178	150	146	136	109	94
	Percent of GNP					
Revenues	19.1	18.9	18.9	19.3	19.4	19.5
Outlays	24.5	23.2	22.6	22.3	21.5	21.1
Unified deficit	5.4	4.3	3.7	3.0	2.1	1.6
Off-budget	.3	.0	-.1	-.1	-.1	-.1
Total deficit	5.7	4.3	3.6	2.9	2.0	1.5
Memo: Structural deficit as percent of potential GNP[1]	4.5	3.5	3.1	2.7	2.0	1.7

1. Staff estimates throughout. The structural deficit does not include off-budget outlays. Okun's Law is used to convert OMB's projected GNP series into a potential GNP series, assuming a 6 percent benchmark unemployment rate. The resulting GNP gap is multiplied by an effective marginal tax rate to calculate the unified tax gross-up and the staff's NIPA estimates are used for the outlay gross-down.

Source: Budget of the United States Government, Fiscal Year 1986.

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

TABLE 3

PROJECTIONS OF ECONOMIC ACTIVITY[1]
(calendar years)

	1985	1986	1987	1988	1989	1990
Gross National Product						
Current dollars (percent change)						
Year-over-year	7.8	8.5	8.3	8.1	7.6	7.1
Q4 to Q4	8.5	8.5	8.3	8.0	7.4	6.9
Constant dollars (percent change)						
Year-over-year	3.9	4.0	4.0	4.0	3.9	3.6
Q4 to Q4	4.0	4.0	4.0	4.0	3.8	3.6
Prices						
GNP deflator (percent change)						
Year-over-year	3.8	4.4	4.2	3.9	3.6	3.3
Q4 to Q4	4.3	4.3	4.1	3.8	3.5	3.2
CPI (percent change)[2]						
Year-over-year	4.1	4.3	4.2	3.9	3.6	3.3
Q4 to Q4	4.2	4.3	4.1	3.8	3.5	3.2
Unemployment rate (percent, annual average)	7.0	6.9	6.6	6.3	6.1	5.8
Interest rate, 91-day Treasury Bill (percent, annual average)	8.1	7.9	7.2	5.9	5.1	5.0

1. The Administration numbers for 1985 and 1986 represent forecasts for that period while those for 1987 to 1990 are not forecasts but projections of trends consistent with economic policy objectives.
2. CPI for urban wage earners and clerical workers.

Source: _Budget of the United States Government, Fiscal Year 1986_.

TABLE 4

ADMINISTRATION'S FY1986 PROPOSALS FOR DEFICIT REDUCTION
(Unified budget, billions of dollars)

	Fiscal years				
	1986	1987	1988	1989	1990
Current services outlays[1]	1025	1109	1200	1263	1333
Outlay changes:					
National defense[2]	-9	-9	-10	-12	-13
Entitlements and other relatively uncontrollables[3]	-14	-24	-30	-38	-43
Discretionary programs[4]	-21	-36	-45	-50	-55
Other[5]	-4	-3	-3	-3	-2
Debt service[6]	-3	-10	-17	-23	-30
Total	-51	-83	-105	-126	-143
Budget outlays[1]	974	1027	1095	1137	1190
Budget receipts	794	862	950	1030	1108
Deficit	180	165	144	108	82

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

1. Includes off-budget outlays.
2. Current services outlays for national defense are the "Rose Garden" proposals for adequate defense contained in the Mid-Session Review of the 1985 Budget. Annual real growth in current services outlays is estimated at 10.6 percent in 1986, declining to somewhat more than 5% per year in 1989 and 1990. Part of the proposed outlay reduction is due to a pay freeze for military personnel in 1986.
3. There are no proposed changes to the Social Security program. Elimination of the 1986 COLA adjustment in retirement benefits of former military and civilian employees of the Federal government is being proposed. Extension of the existing freeze on payments to physicians is being proposed for Medicare. Economies in Medicaid are also being proposed. Means-tested entitlements will also be affected: child nutrition subsidies for children of families with high income will be discontinued; all employable AFDC and food stamp recipients will be required to engage in work-related activities; subsidies paid to lenders of guaranteed student loans will be reduced. Also, other relatively uncontrollable programs will be affected: farm price supports will be reduced by bringing loan rates and target prices into alignment with market prices and phasing out production controls; the general revenue sharing program is proposed for termination in 1986.
4. This category includes a wide range of programs. Outlays on Federal highways will be reduced. Student financial assistance will be capped. The Job Corp program will be eliminated. Most grants to state and local governments will be reduced or eliminated. A two-year freeze on funding for additional housing units subsidized by HUD will be proposed. A 5 percent reduction in Federal civilian employee pay is proposed for 1986. Various Federal loan programs will be modified: for example, terminations are proposed for SBA direct loans and most loan programs of Farmers Home Administration; fees on loans made by the Veterans Administration and the Federal Housing Administration will be raised.

TABLE 4 CONT.

5. This category includes proposed increases in navigation, customs, boat and yacht, meat inspection, and recreation user fees as well as the one-time revenue gain from the proposed sale of Conrail in 1986.

6. This category represents the interest cost savings resulting from lowering the deficits from current services levels.