AN ANALYSIS OF THE PRESIDENT'S BUDGETARY PROPOSALS FOR FISCAL YEAR 1980

The Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

Stock Number 052-070-04824-7

NOTES

Unless otherwise indicated, all years referred to are fiscal years. For 1976 and before, fiscal years ran from July 1 through June 30 and were referred to by the years in which they ended. The Congressional Budget Act of 1974 changed the fiscal year to begin on October 1 and end on September 30. The interim between the old and new fiscal years, July 1 through September 30, 1976, is called the transition quarter; fiscal year 1977 began on October 1, 1976.

Details in the text, tables, and figures of this report may not add to totals because of rounding.

PREFACE

Analysis of the President's Budgetary Proposals for Fiscal Year 1980 was prepared at the request of the House Committee on Appropriations to assist Members and staff in preparing for overview hearings on the Administration's fiscal year 1980 budget proposals. The report analyzes the economic outlook for the next two years and the fiscal policy impact of the President's budgetary proposals. It also examines the major features of the Administration's revenue and spending proposals for 1980 and compares them with past trends and current policy as set forth in the Second Concurrent Resolution on the Budget for Fiscal Year 1979. Finally, the report discusses the budgetary outlook for 1981 and 1984.

The report was prepared by staffs of the CBO Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions, under the supervision of James Blum, William Beeman, and Charles Davenport. Thelma L. Jones supervised the production of the report; Patricia H. Johnston edited the manuscript; and it was typed for publication by Betty Jarrells, Nancy Wenzel, Gwen Coleman, Barbara Bakari, Debbie Vogt, Dorleen Dove, and Kath Quattrone.

Alice M. Rivlin
Director

January 1979

TABLE OF CONTENTS

		Page
PREFACE		iii
SUMMARY		xv
CHAPTER I.	THE ADMINISTRATION'S FISCAL POLICY AND THE ECONOMY	1
	The Economic Outlook	2
	Fiscal Policy Proposed by the Administration	4
	Comparison of Administration and CBO Forecasts	6
	Economic Effects of the Administration's Fiscal Proposals	10
	Economic Assumptions and Budget Estimates	11
	Longer-Run Considerations-1981 through 1984	12
	Conclusions	13
CHAPTER II.	REVENUE ESTIMATES AND PROPOSALS	15
	Past and Future Revenues	15
	Real Wage Insurance	17
	Cash Management Initiatives	21
	Inflation Indexing, Social Security Taxes, and Future Tax Cuts	23
	Other Administration Tax Proposals	25
CHAPTER III.	SPENDING ESTIMATES AND PROPOSALS	29
	Accuracy of Spending Estimates	30
	Spending Trends	33
	Changes from Current Policy	37
	Federal Credit Activities	42

		Page
CHAPTER IV.	THE BUDGET BY FUNCTION	45
	National Defense	46
	International Affairs	58
	General Science, Space and Technology	65
	Energy	67
	Natural Resources and Environment	72
	Agriculture	76
	Commerce and Housing Credit	80
	Transportation	83
	Community and Regional Development	87
	Education, Training, Employment, and Social Services	92
	Health	97
	Income Security	102
	Veterans Benefits and Services	113
	Administration of Justice	116
	General Government	118
	General Purpose Fiscal Assistance	120
	Interest	122
	Allowances	124
	Undistributed Offsetting Receipts	126
CHAPTER V.	THE BUDGET OUTLOOK FOR 1981-1984	129
	Long Range Economic Goals	129
	The Budget Outlook Under Current Policy	130
	Multiyear Effects of Changes from Current Policy	133
	Long-Run Goals for the Economy and the Budget Deficit	135

TABLES

		Page
TABLE 1.	SUMMARY OF CBO'S ECONOMIC PROJECTIONS UNDER CURRENT POLICY	3
TABLE 2.	THE FEDERAL BUDGET OUTLOOK UNDER CBO CURRENT POLICY AND ADMINISTRATION PROPOSALS	4
TABLE 3.	PROPOSED CHANGES FROM CURRENT POLICY IN THE ADMINISTRATION'S BUDGET, ON A NATIONAL INCOME ACCOUNTS BASIS	7
TABLE 4.	A COMPARISON OF FORECASTS BY THE ADMINISTRATION AND BY THE CBO WITH ADMINISTRATION FISCAL PROPOSALS	9
TABLE 5.	CBO ESTIMATES OF THE ECONOMIC EFFECTS OF THE ADMINISTRATION'S PROPOSED REDUCTIONS IN FEDERAL EXPENDITURES RELATIVE TO CURRENT POLICY	10
TABLE 6.	ADMINISTRATION'S LONG-RANGE ECONOMIC ASSUMPTIONS AND CBO'S FIVE-YEAR PROJECTIONS ASSUMPTIONS, 1981-1984	13
TABLE 7.	DISTRIBUTION OF BUDGET RECEIPTS BY SOURCE, SELECTED FISCAL YEARS 1960-1984	16
TABLE 8.	COMPARISON OF ADMINISTRATION AND CBO CURRENT POLICY REVENUE ESTIMATES, FISCAL YEARS 1979, 1980, AND 1984	18
TABLE 9.	INCREASED BUDGET RECEIPTS FROM CASH MANAGEMENT INITIATIVES, FISCAL YEARS 1980-1982	22

Page

TABLE 10. EFFECTS OF INFLATION AND SOCIAL SECURITY TAX INCREASES ON TOTAL TAX RECEIPTS FROM INDIVIDUALS, FISCAL YEARS 1979-1984 . . 24

TABLE 11. CHANGES IN TOTAL TAX LIABILITIES FOR TAXPAYERS AT DIFFERENT INCOME LEVELS RESULTING FROM INFLATION AND SOCIAL SECURITY TAX INCREASES, CALENDAR YEARS 1979-1984, FOR FOUR-PERSON, ONE-EARNER FAMILIES 26

TABLE 12. TOTAL FEDERAL SPENDING 30

TABLE 13. ESTIMATED EFFECTS ON OUTLAYS OF CBO'S ECONOMIC FORECAST 31

TABLE 14. CBO ESTIMATES OF FISCAL YEAR 1979 SPENDING UNDER POLICIES IN THE SECOND BUDGET RESOLUTION 33

TABLE 15. GROWTH IN BUDGET OUTLAYS 34

TABLE 16. COMPOSITION OF BUDGET OUTLAYS . . . 36

TABLE 17. PROJECTED INCREASES IN FEDERAL OUTLAYS IN FISCAL YEAR 1980 UNDER CURRENT POLICIES 38

TABLE 18. MAJOR DIFFERENCES BETWEEN CBO CURRENT POLICY ESTIMATES FOR FISCAL YEAR 1980 OUTLAYS AND OMB CURRENT SERVICES ESTIMATES 40

TABLE 19. 1980 CURRENT POLICY OUTLAYS AND ADMINISTRATION'S PROPOSED CHANGES 43

TABLE 20. LONG TERM ECONOMIC ASSUMPTIONS . . 130

TABLE 21. CURRENT POLICY PROJECTIONS OF REVENUES 131

		Page
TABLE 22.	CURRENT PROJECTIONS OF OUTLAYS . .	132
TABLE 23.	ESTIMATED MULTIYEAR EFFECTS OF MAJOR ADMINISTRATION SPENDING PROPOSALS	134
TABLE 24.	ALTERNATIVE SPENDING STRATEGIES AND GOALS FOR THE ECONOMY	137

SUMMARY

The President's budget for fiscal year 1980 recommends outlays of $531.6 billion, receipts of $502.6 billion, and a budget deficit of $29.0 billion. The Administration proposes to reduce spending growth significantly in 1980 in order to complement the anti-inflationary effects of the wage-price program and tight monetary policy. The Administration's major revenue proposal--real wage insurance--is designed to help achieve compliance with the wage guidelines. It should be noted that the projected budget deficit for 1980 depends to a great extent on the economic outlook for the next two years. The following table summarizes the budget totals for the President's 1980 request.

SUMMARY TABLE 1. THE FEDERAL BUDGET OUTLOOK: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

		1979 Estimates		
	1978 (Actual)	Second Concurrent Resolution	President's Estimate	President's 1980 Request
Receipts	402.0	448.7	456.0	502.6
Outlays	450.8	487.5	493.4	531.6
Deficit (-)	-48.8	-38.8	-37.4	-29.0
Budget Authority	501.5	555.65	559.7	615.5

THE ECONOMIC OUTLOOK

There are two cross-currents in the economy today that make forecasting especially uncertain. First, economic growth was quite robust at the end of the year. The fourth quarter gains in retail sales, production, employment and new orders were substantial, and the momentum of this increased activity should carry over into early 1979.

Second, the high rate of inflation has planted the seeds of a slowdown in the economy:

- In response to the increase in prices and the associated depreciation of the dollar, the Federal Reserve has tightened monetary policy. Short-term interest rates are up sharply from mid-1978, and the growth of the money supply has slowed dramatically since last fall. The resulting credit restraint is expected to affect housing and business investment adversely later this year.

- Rapid inflation has also apparently led to buy-in-advance behavior by consumers. This response is reflected in the record high ratios of consumer debt to income and may be borrowing sales from later in the year.

- Finally, in part because periods of high inflation are typically followed by recession, consumer and business confidence dropped sharply toward the end of last year. Surveys of business spending plans show relatively weak growth in outlays for plant and equipment in 1979.

There is widespread agreement among forecasters that the outcome of these cross-currents will be a slowdown in the pace of economic activity this year. Differences of opinion concern the timing and severity of the slowdown.

The Administration's budget for fiscal year 1980 projects growth of real gross national project (GNP) at 2.2 percent during the four quarters of calendar year 1979, down from the 4.3 percent real growth during the past four quarters. The Administration expects that the lower growth in 1979 will result in a small rise in unemployment to about 6.2 percent by year end at which level it will remain during 1980. As a consequence of the Administration's anti-inflationary program, including a restrained budgetary policy, inflation is projected to decline from 9 percent during 1978 to near 6 percent by the end of 1980.

The Administration's economic assumptions are more optimistic than the CBO economic forecast. As may be seen in the following table, the Administration's projection of real growth is at the optimistic end of the CBO range for 1979, but at the pessimistic end for 1980. The Administration's projections of both inflation and unemployment, however, are at or near the optimistic end of the CBO range for both years.

SUMMARY TABLE 2. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS: BY CALENDAR YEARS

Economic Variable	1978:4 to 1979:4	1979:4 to 1980:4
Real GNP (percent change)		
Administration	2.2	3.2
CBO	0 to 2.0	3 to 8.5
GNP Deflator (percent change)		
Administration	7.4	6.4
CBO	7.0 to 9.0	6.5 to 8.5
Unemployment Rate End of Period (percent)		
Administration	6.2	6.2
CBO	6.2 to 7.2	6.2 to 7.2

The CBO economic forecast assumes continuation of current fiscal policy and no easing of monetary policy during the first half of calendar year 1979, as long as inflation rates remain high. Under these assumptions, real output is forecast to slow significantly, with a small downturn beginning in the second half of the year. A mild recovery is expected in 1980, with real growth averaging 3 to 5 percent. The inflation rate is expected to remain quite high, however, and the unemployment rate is projected to increase to between 6.2 to 7.2 percent by late 1979 and remain in that range throughout 1980. With this economic outlook, CBO estimates that if current policies are maintained, the federal deficit for 1980 would be about $49 billion.

THE 1980 BUDGET OUTLOOK

The differences in economic assumptions do not produce widely divergent revenue estimates for fiscal year 1980 because the impact of faster real growth in the Administration's forecast is largely offset by its projected lower inflation. The economic assumptions do have a significant effect on spending estimates, however, because both the lower unemployment and lower inflation in the Administration's forecast result in lower spending estimates.

38-664 O - 79 - 2

CBO has reestimated the Administration's budget proposals using its own economic assumptions and estimating methodology. On this basis, CBO estimates that receipts would total about $499 billion, outlays would total $540 billion, and the budget deficit would be close to $41 billion. The major CBO reestimates of the Administration's budget are shown in the Summary Table 3. On the receipt side, CBO estimates that the real wage insurance proposal could cost as much as $1 billion more than the Administration's estimate of $2.5 billion, primarily because of higher inflation rates. CBO also estimates current law revenues at $2 billion less than the Administration, largely because of differences in economic assumptions.

For outlays, CBO estimates that the somewhat higher unemployment and inflation than foreseen by the Administration could add over $4.5 billion for programs such as unemployment insurance, social security, food stamps, medicare, and medicaid. Other estimating differences could add about another $4 billion to the Administration's outlay estimate.

SUMMARY TABLE 3. CBO ESTIMATES OF THE ADMINISTRATION'S BUDGET FOR FISCAL YEAR 1980: IN BILLIONS OF DOLLARS

Receipts	
Administration's estimate	502.6
Changes under CBO economic assumptions	
Real wage insurance	-0.9
Other differences	-2.3
CBO estimate of Administration's budget receipts	499.4
Outlays	
Administration's estimate	531.6
Changes under CBO economic assumptions	
Unemployment insurance	2.3
Social security	0.9
Medicare and medicaid	0.6
Food stamps and other	0.8
Changes due to other estimating differences	3.8
CBO estimate of Administration's budget outlays	540.0

Under the economic conditions forecast by CBO, the Congress would have to adopt deeper spending cuts than proposed by the President in order to achieve a budget deficit of under $30 billion and to hold the growth in outlays to below 8 percent in 1980.

PROPOSED POLICY CHANGES

The major policy change for receipts is the Administration's real wage insurance proposal designed to help achieve compliance with the 7 percent wage guidelines. The cost of the real wage insurance depends upon both the rate of inflation and compliance with the President's wage standard. The Administration estimates that the proposal will cost $2.5 billion ($2.3 billion in lower receipts and $0.2 billion in increased outlays), assuming a 7.5 percent increase in the CPI from October-November 1978 to October-November 1979. The Administration's proposal is a novel approach that might contribute to holding down inflation. It should be recognized, however, that if the program is not successful in restraining inflation, it might cost more that the Administration estimates. CBO estimates that if inflation were 8 percent rather than 7.5 percent, the real wage insurance proposal could cost $3.5 billion.

A useful benchmark for analyzing the Administration's proposed policy changes for spending is a projection of 1980 outlays under a continuation of current spending policies as set forth in the second budget resolution for 1979. CBO estimates that current policy outlays in 1980 would total $551 billion, or about $12 billion above the President's budget estimate adjusted for CBO economic assumptions and estimating methodology. The Administration's lower spending level reflects recommended policy changes.

Although the Administration recommends a few proposed increases above current policy spending levels (such as lifting the authorization ceiling for food stamps), the most significant feature of the 1980 budget is an absence of new spending initiatives and a general effort to hold existing programs at or below current policy levels. Since the CBO estimate of current policy outlays for national defense included a 3 percent real growth resulting from past appropriations for weapons procurement, the President's proposed 3 percent real growth in defense outlays does not represent a significant change from current policy. The budget proposes significant reductions from current policy spending levels in a number of areas, as shown in the following table.

SUMMARY TABLE 4. CURRENT POLICY OUTLAYS AND ADMINISTRATION'S PROPOSED CHANGES FOR FISCAL YEAR 1980: IN BILLIONS OF DOLLARS

Major Function	CBO Current Policy	CBO Estimate of President's Request	Difference
National Defense	125.3	125.4	0.1
Human Resources			
Education, training, employment, and social services	34.7	30.7	-4.0
Health	57.7	55.0	-2.7
Income security	184.2	185.3	1.1
Veterans benefits and services	21.6	20.6	-1.0
Subtotal	298.2	291.6	-6.6
Net Interest	46.0	45.2	-0.8
All Other			
International affairs	7.7	8.1	0.4
General science, space and technology	5.4	5.5	0.1
Energy	7.8	7.6	-0.2
Natural resources and environment	12.8	11.9	-0.6
Agriculture	5.1	4.5	-0.6
Commerce and housing credit	4.1	3.4	-0.7
Transportation	19.0	18.7	-0.3
Community and regional development	9.1	7.3	-1.8
Administrations of justice	4.5	4.5	a/
General government	4.3	4.3	a/
General purpose fiscal assistance	9.0	8.8	-0.2
Allowances	1.4	1.4	-0.1
Undistributed offsetting receipts (except interest)	-8.3	-8.3	a/
Subtotal	82.0	77.8	-4.2
Total	551.5	540.0	-11.5

a/ Less than $50 million.

Some of the major cuts from current policy proposed in the Administration's 1980 budget are:

- Reducing the number of public service jobs to 467,000 by the end of 1980 compared to 725,000 assumed under current policy ($3.1 billion);

- Lower spending for medicare and medicaid, primarily as the result of savings from proposed legislation for hospital cost containment and other cost-saving legislative proposals and administrative actions ($2.3 billion);

- Holding the October 1, 1979 pay raise for federal employees to 5.5 percent compared to 7.6 percent assumed under current policy ($1.4 billion savings); and

- Cutting certain social security benefits, including eliminating the $255 lump-sum death benefit, phasing out college aid for survivors, eliminating the minimum benefit for new recipients, and other legislative cost-saving proposals for social security benefits ($0.6 billion in 1980, rising to over $4 billion by 1984).

LONGER-RUN BUDGET OUTLOOK

The fiscal year 1980 budget reflects for the first time the results of the Administration's multiyear budget planning system. The spending estimates for the first two years beyond the 1980 budget year (1981 and 1982) now receive explicit policy review and represent tentative planning bases for executive agencies.

The Administration's longer-term budgetary goals are to reduce federal outlays as a percent of GNP and to achieve a balanced budget as soon as economic conditions permit. The 1980 budget projects that outlays as a percent of GNP would decline to 20.3 percent by 1982. The budget projections do not include any proposals for future tax reductions, so that receipts increase quite rapidly relative to outlays, resulting in projected large budget surpluses after 1981.

The Aministration recognizes, however, that these projected large budget surpluses do not imply that budget surpluses will in fact occur. Rather, they represent at best the amount of resources that would be available to accommodate future discretionary policy decisions regarding tax reductions, new or expanded programs, and debt reduction. Further tax

reductions or spending increases would be needed to offset the increasingly restrictive effects of the budget projections, but no quantitative estimates are provided.

The longer-run economic assumptions used for the Administration's multiyear budget projections are in accord with the 4 percent unemployment and 3 percent inflation goals established in the Full Employment and Balanced Growth Act of 1978 (Humphrey-Hawkins Act). The Administration's budget makes clear, however, that these assumptions are not an explicit economic forecast.

CBO analysis of longer-run economic and budgetary goals suggests that the simultaneous achievement of the Administration's budgetary objectives and the Humphrey-Hawkins Act economic goals may not be possible. To achieve the 4 percent unemployment goal using aggregate fiscal policies alone, CBO estimates that substantial additional tax cuts and/or spending increases would be needed, and that the budget could be expected to stay in deficit over the next five years. In addition, the inflation rate would remain at high levels. Alternatively, by running a slack economy for a prolonged period, the inflation rate might be brought down to 4 percent by 1984, but at great cost in terms of lost production and jobs. Under this second strategy, budget balance would be feasible in the early 1980s.

As the Humphrey-Hawkins Act emphasizes, the simultaneous achievement of two desirable economic goals may require other policies besides aggregate monetary and fiscal policies, But the effects of these other policies on the economy are uncertain. The 1980 budget outlines current and proposed efforts to achieve the Humphrey-Hawkins Act goals, but does not clearly set forth how these efforts would alter some of the basic factors and relationships that to date have determined unemployment and inflation.

CHAPTER I. THE ADMINISTRATION'S FISCAL POLICY AND THE ECONOMY

The economic outlook has important implications for the federal budget, and, in turn, decisions about the budget have important effects on the economy. The economic forecast prepared by the Congressional Budget Office (CBO), assuming continuation of current fiscal policies, indicates that real economic growth will slow significantly to 0.0 to 2.0 percent between the fourth quarter of calendar year 1978 and the fourth quarter of 1979. A mild recovery is expected in 1980, with real growth averaging 3 to 5 percent. The inflation rate is expected to remain quite high, however, and the unemployment rate is expected to increase to between 6.2 and 7.2 percent by late 1979 and remain in about that range in 1980. With this economic outlook, CBO estimates that, if current policies are maintained, the federal deficit for 1980 would be about $49 billion.

The Administration's economic outlook is more optimistic. According to its forecast, which incorporates the Administration's fiscal proposals, real gross national product (GNP) is projected to increase by 2.2 percent from the last quarter of calendar year 1978 to the last quarter of 1979, and by another 3.2 percent by late 1980. The inflation rate declines from 8.4 percent in 1978 to 7.4 percent in 1979, and to 6.4 percent in 1980 (percent changes in the GNP deflator), while the unemployment rate increases slightly. The Administration's estimate of the 1980 budget deficit is $29.0 billion. A modified forecast by CBO, which assumes the Administration's fiscal policy, indicates a more pronounced slowdown in economic growth, a larger increase in the unemployment rate, less progress in slowing inflation, and a higher deficit than forecast by the Administration.

The economic downturn forecast by CBO during the second half of 1979 is the outcome of continued high rates of inflation and tight credit conditions. (CBO assumes that monetary policy will not ease during the first half of 1979 as long as inflation rates remain high.) The Administration forecast, on the other hand, shows a greater moderation of inflation in 1979 and somewhat higher real growth. The slowdown in the CBO forecast is expected to be most pronounced in areas affected by credit conditions--residential construction and business investment. Some weakening of consumer spending is also anticipated.

The Administration's major fiscal proposals involve significant reductions in federal expenditures of about $11.5 billion in fiscal year 1980, compared with CBO's estimates of current policy levels. While their effects on the budget are significant, the spending cuts are not large relative to the overall economy. CBO estimates that these expenditure reductions would lower the inflation rate by approximately 0.2 percent points in calendar year 1981 and increase the unemployment rate by 0.2 percent points by the last quarter of 1980. In addition, CBO estimates that the proposal for real wage insurance would lower tax receipts by $3.2 billion in 1980 and increase expenditures by about $0.3 billion. Because of the complicated nature of that proposal and the lack of relevant experience, it is especially difficult to gauge its economic impact.

The Administration's longer-range economic assumptions, for 1981 through 1984, are in accord with the goals required by the Humphrey-Hawkins Act. There is considerable uncertainty about the feasibility of achieving these goals, at least with conventional aggregate economic policies. Further, the attainment of the unemployment goal with fiscal policy tools--if it can be attained--would likely involve extremely large tax reductions or expenditure increases to offset the drag exerted by the federal budget on the economy, caused by the interaction of the tax system, inflation, and economic growth.

THE ECONOMIC OUTLOOK

CBO's forecast for the economy is summarized in Table 1. 1/ Two important policy assumptions were made in preparing that forecast:

- The fiscal policy assumption is a continuation of current policy, resulting in estimated federal outlays of $494 billion in fiscal year 1979 and $551 billion in fiscal year 1980. Thus, the CBO forecast does not include either the spending cuts proposed by the Administration or its real wage insurance program.

- Monetary policy is assumed to remain restrictive, with short-term interest rates rising somewhat further and peaking in the second quarter of calendar year 1979.

1/ For a more detailed analysis of the economic outlook, see Congressional Budget Office, The Fiscal Policy Response to Inflation, particularly Chapter III (January 1979).

TABLE 1. SUMMARY OF CBO'S ECONOMIC PROJECTIONS UNDER CURRENT POLICY: BY CALENDAR YEAR

Economic Variable	1976:4 to 1977:4 (actual)	1977:4 to 1978:4 (actual)	1978:4 to 1979:4	1979:4 to 1980:4
GNP (current dollars percent change)	11.9	12.9	7.0 to 11.1	9.7 to 13.9
GNP (1972 dollars percent change)	5.5	4.3	0.0 to 2.0	3.0 to 5.0
Consumer Price Index (percent change)	6.6	9.0	7.0 to 9.0	6.5 to 8.5
Unemployment Rate, End of Period (percent)	6.6	5.8	6.2 to 7.2	6.2 to 7.2

SOURCES: The Budget of the United States Government, Fiscal Year 1980, and the Congressional Budget Office.

As shown in the table, CBO forecasts real output to slow significantly to a 0 to 2 percent rate during 1979. The strong momentum in output, employment, and sales at the end of 1978 is expected to carry over into the first half of 1979. But CBO does expect a small downturn beginning in the second half of the year, caused by rapid inflation and the maintenance of tight credit conditions by the Federal Reserve. A mild recovery is expected in 1980, with real growth averaging 3 to 5 percent. As a result of the weaker economic activity, the unemployment rate is projected to rise to a 6.2 to 7.2 percent range by the end of 1979 and to continue in the same range throughout 1980. Meanwhile, inflation is expected to remain stubbornly high. The increase in the Consumer Price Index is forecast to range between 7 and 9 percent in 1979.

The prospective recovery in economic activity during 1980 is expected to be relatively mild because the downturn is not deep and inflation remains high. Consequently, the Federal Reserve is assumed to continue its policy of credit restraint in 1980. Furthermore, federal fiscal

policy, even without the Administration's proposed spending cuts, exerts a restraining influence on the growth of total demand next year, as the interaction of inflation and the progressive tax structure causes effective personal income tax rates to rise. Despite relatively slack labor and product markets, inflation is not expected to moderate significantly in 1980.

FISCAL POLICY PROPOSED BY THE ADMINISTRATION

The Administration proposes to reduce spending growth significantly in fiscal year 1980 in order to complement the anti-inflationary effects of the wage-price program and tight monetary policy. The Administration's budget recommends outlays of $531.6 billion, receipts of $502.6 billion and a budget deficit of $29.0 billion (see Table 2). This represents a reduction in outlays of about $20 billion from CBO's current policy estimate if the $8.5 billion caused by differences in economic assumptions and estimations is added to the $11.5 billion caused by proposed policy changes. 2/ The Budget proposes no significant net change in receipts.

TABLE 2. THE FEDERAL BUDGET OUTLOOK UNDER CBO CURRENT POLICY AND ADMINISTRATION PROPOSALS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1978 (actual)	CBO Current Policy Estimates		Administration Budget Proposal	
		1979	1980	1979	1980
Receipts	402.0	453.3	502	456.0	502.6
Outlays	450.8	493.8	551	493.4	531.6
Deficits	48.8	40.5	49	37.4	29.0

SOURCES: The Budget of the U.S. Government, Fiscal Year 1980, and the Congressional Budget Office.

2/ For an analysis of major differences between CBO's current policy estimates and the Administration's "current services" estimates, see Chapter III of this report.

The major thrust of the proposed changes is to shift fiscal policy in a restraining direction. A more restrictive federal budget, emphasizing reductions in outlays, is proposed as part of a concerted program aimed at slowing inflation. The other elements of the anti-inflation program include the lagged effects of the recent tightening of monetary policy, the wage-price standards, the real wage insurance proposal, and several specific proposals to slow inflation directly, including hospital cost containment, deregulation of surface transportation, and lower federal pay increases.

Expenditure Proposals

Compared with CBO's estimates of current policy expenditure levels, the changes proposed by the Administration would result in a net reduction of $11.5 billion. 3/ Some of the most important expenditure reductions include:

- Comprehensive Employment and Training Act (CETA) programs--including phasing down the countercyclical jobs program to 200,000 at the end of 1980, and cutting back selected youth programs;

- Federal pay raises--holding pay increases of federal workers to 5.5 percent; and

- Medicare and medicaid--including a ceiling on federal reimbursement for increases in hospital costs.

Spending increases are proposed in several areas of the budget: defense, energy and scientific research. But the increases sum to less than the proposed decreases.

Tax Proposals

Real Wage Insurance. The real wage insurance proposal was designed to encourage workers to conform to the Administration's 7 percent standard for pay increases. Eligible workers would be offered a tax credit equal to one percent of wages for each percent point by which the inflation rate exceeds 7 percent. Only the first $20,000 of wages would be covered,

---

3/ For information on these spending functions, see Chapters III and IV.

and no credit would be paid for inflation in excess of 10 percent. CBO estimates that this proposal would reduce receipts by $3.2 billion and increase spending by $0.3 billion. 4/

Other tax proposals. The Administration has already taken steps to increase receipts by $2.2 billion in fiscal year 1980 by accelerating the collection of social security taxes withheld by state and local governments. Additionally and primarily affecting receipts after 1980, the Administration proposes to accelerate payment of income taxes and social security taxes to reduce the lags between the time when tax liabilities accrue and the time when they are paid. The other tax proposals, which have only minor effects on 1980 receipts, include increasing the employers' payroll tax for railroad retirement and taxing oil refining to cover oil spills.

COMPARISON OF ADMINISTRATION AND CBO FORECASTS

The departures from current policies recommended in the Administration's budget are summarized on a national income accounts basis in Table 3. National income and product estimates are used because they are more appropriate for measuring economic effects than the unified budget concepts used elsewhere in this report. With the proposed cuts in expenditures, grants to state and local governments would be reduced by $4.5 billion, purchases of goods and services by the federal government by $2.7 billion, and transfers to individuals by $1.5 billion. More than offsetting the proposed cuts in transfers would be payments in early 1980 to those workers affected by the real wage insurance proposal. 5/ Tax receipts would be increased by $0.3 billion.

CBO added estimates of the effects of the changes in fiscal policy proposed in the Administration budget to its economic outlook under current policy. Because estimates of the effects of real wage insurance are highly uncertain, expenditures for this program were not included. In addition, the projections do not include regulatory and administrative reforms that have been recommended in order to lower inflation. With these exceptions, this

---

4/ The cost of this proposal is quite uncertain. For a discussion, see Chapter II.

5/ On a unified basis, most of these payments are treated as a reduction in tax receipts.

TABLE 3. PROPOSED CHANGES FROM CURRENT POLICY IN THE ADMINISTRATION'S BUDGET, ON A NATIONAL INCOME ACCOUNTS BASIS a/: IN BILLIONS OF DOLLARS

	Fiscal Year 1980
Spending Changes	
Purchases of goods and services	-2.7
Transfer payments to individuals	-1.5
Grants to state and local governments	-4.5
Net interest paid	-0.8
Total Spending Changes	-9.5
Real Wage Insurance (Transfer Payments to Individuals) b/	3.5
Net Spending Change and Real Wage Insurance	-6.0
Tax Changes c/	
Railroad retirement tax increase for employers	0.2
Oil spill fee	0.1
Total Tax Changes	0.3

SOURCES: The Budget of the United States Government, Fiscal Year 1980, and the Congressional Budget Office.

a/ The estimates in this table are in the national income and product accounting framework, which is generally more useful in measuring economic impacts than the unified budget concepts used elsewhere in this report.

b/ Estimates of the cost of the real wage insurance proposal depend on many uncertain parameters. This estimate, detailed in Chapter II of this report, is predicated on more projected inflation than the Administration's $2.5 billion estimate.

c/ The proposed acceleration in the deposit of social security tax receipts held by state and local governments is not reflected. Because on an NIA basis, tax liabilities are recorded on an accrual rather than cash basis, the acceleration of collections has no effect.

modified forcast is based on assumptions for fiscal policy similar to the Administration's forecast. The two forecasts are summarized in Table 4.

The CBO forecast based on the Administration's fiscal assumptions suggests that the Administration's forecast of 2.2 percent growth in real GNP (GNP in constant prices) from the last quarter of 1978 to the last quarter of 1979 may be too high. Of course, it is extremely difficult to forecast the timing and extent of the economic slowdown expected in both forecasts and much depends, too, on the course of monetary policy. By contrast, the Administration's forecast shows less rapid growth in 1980, so that the implied growth in real GNP over the entire forecast period is well within the range projected by the CBO.

The inflation rate in the Administration's forecast remains high by historical standards, but notable progress in reducing that rate is indicated. The CBO forecast incorporating the Administration's fiscal policy assumptions (excluding real wage insurance) shows substantially less progress, reflecting the strong momentum of inflation and its high level in 1978. But, the Administration's estimates of inflation do lie within the lower bound of the CBO forecast range, and cannot be regarded as unreasonable given the difficulty of forecasting the inflation rate.

The Administration's forecast of unemployment lies slightly below the CBO range. It has also proved very difficult recently to forecast unemployment very accurately. Productivity increases have been very low the last few years so that a given rate of real economic growth has produced more jobs than previously. It is not clear, however, whether or not such poor productivity performance is temporary or more long-lasting. On the other hand, the growth in the labor force has been much more rapid than would have been expected with past economic relationships, and it is also uncertain whether this more rapid growth will continue.

The Administration and CBO forecasts imply different assumptions about productivity increases and/or labor force growth. By the end of 1980, the forecasts of real GNP are fairly close, but the midpoint of the CBO forecast of unemployment is about one-half percent point higher. The Administration may be assuming lower productivity growth than the CBO, or lower growth in the labor force. If the performance of productivity continues to be poor through 1980, the continuation of large wage gains could exert strong pressure to raise prices. This development would seriously jeopardize the improvements in inflation that the Administration forecast anticipates.

TABLE 4. A COMPARISON OF FORECASTS BY THE ADMINISTRATION AND BY CBO WITH ADMINISTRATION FISCAL PROPOSALS, CALENDAR YEARS 1979 AND 1980 a/

	Administration Forecast	CBO Forecast with Administration Fiscal Policy Proposals a/
Economic Growth (annual percent change in constant-dollar GNP)		
1978:4 to 1979:4	2.2	-0.1 to 1.9
1979:4 to 1980:4	3.2	2.7 to 4.7
1978:4 to 1980:4	2.7	1.3 to 3.3
Inflation (annual percent change in the GNP implicit price deflator)		
1978:4 to 1979:4	7.4	7.0 to 9.0
1979:4 to 1980:4	6.4	6.4 to 8.4
1978:4 to 1980:4	6.9	6.7 to 8.7
Unemployment Rate, End of Period (percent)		
1979:4	6.2	6.2 to 7.2
1980:4	6.2	6.4 to 7.4

SOURCES: The Budget of the United States Government, Fiscal Year 1980, p. 35 and the Congressional Budget Office.

a/ The CBO forecast does not include effects of proposed real wage insurance.

ECONOMIC EFFECTS OF THE ADMINISTRATION'S FISCAL PROPOSALS

CBO estimates of the economic effects of the Administration's fiscal proposals for the 1980 budget, relative to current policy, are summarized in Table 5.

TABLE 5. CBO ESTIMATES OF THE ECONOMIC EFFECTS OF THE ADMINISTRATION'S PROPOSED REDUCTIONS IN FEDERAL EXPENDITURES RELATIVE TO CURRENT POLICY: BY CALENDAR YEARS a/

	1980:4	1981:4
GNP (billions of current dollars)	-15	-20
GNP (billions of 1972 dollars)	-5	-4
Unemployment Rate (percent)	0.2	0.2
Employment (thousands)	-350	-350
Inflation Rate (percent change in GNP implicit price deflator, fourth quarter to fourth quarter)	-0.1	-0.2

a/ Does not include the real wage insurance proposal.

Overall, the Administration's cuts in spending relative to current policy are not expected to have major effects on the economy because they are not large in relation to the economy. The cuts in outlays slow real growth by about 0.3 percent points from late 1979 to late 1980 and add 0.2 percent points to the unemployment rate by late 1980. The reductions are estimated to lower the inflation rate by 0.2 percent points in 1981. The cuts lower inflation because they reduce demand pressures generally. Some of them, such as the proposed cap on hospital cost reimbursement, may have a direct effect on inflation that is not incorporated in CBO's estimates.

The reductions in the CETA employment programs have a larger effect on employment and unemployment than expenditure reductions in general. In addition, they have a disproportionate effect on disadvantaged and minority workers. The largest cuts in the proposed employment budget are concentrated in the countercyclical jobs program. Although the eligibility criteria for the countercyclical program are somewhat less focused on the disadvantaged than some of the structural programs designed to affect longer-lasting problems, enrollment data suggest that a high proportion of those in the countercyclical program are economically disadvantaged.

ECONOMIC ASSUMPTIONS AND BUDGET ESTIMATES

As indicated earlier, the estimates of receipts and outlays in the Administration's budget are based upon economic assumptions that are more optimistic than the CBO economic forecast. The differences in economic assumptions do not produce widely divergent revenue estimates for fiscal year 1980 because the impact of faster real growth in the Administration's forecast is largely offset by its projected lower inflation. The economic assumptions do have a significant impact on spending estimates, however, because both the lower unemployment and lower inflation in the Administration's forecast result in lower spending estimates.

CBO has reestimated the Administration's budget proposals, using its own economic assumptions and estimating methodology. On this basis, receipts are estimated to be about $499 billion, outlays $540 billion, and the budget deficit close to $41 billion. 6/ On the receipt side, CBO estimates that the real wage insurance proposal could cost as much as $1 billion more than the Administration's $2.5 billion estimate, primarily because of higher inflation rates. CBO also estimates current law revenues at $2 billion less than the Administration, largely because of differences in economic assumptions.

On the outlay side, CBO estimates that somewhat higher unemployment and inflation than foreseen by the Administration could add over $4.5 billion for programs such as unemployment insurance, social security, food stamps, medicare, and medicaid. Other estimating differences could add about another $4 billion to the Administration's outlay estimate.

6/ The Administration budget proposal is more restrictive than current policy and, thereby, would reduce economic activity. The budget estimate above excludes the "feedback" effect of the reduced activity which would increase the deficit by perhaps $3 billion above the figure shown above.

38-664 O - 79 - 3

Thus, given the economic conditions forecast by CBO, deeper spending cuts would be required than those proposed by the President if a budget deficit of less than $30 billion is to be achieved.

LONGER-RUN CONSIDERATIONS--1981 THROUGH 1984

The Administration's longer-run economic assumptions, for calendar years 1981 through 1984, are presented in Table 6, together with CBO's five-year projections assumptions. The Administration's longer-run assumptions are required to be in accord with the Humphrey-Hawkins Act. These projections are only assumed, however, and a discussion of their feasibility is found in the Administration's 1979 Economic Report. The Administration's budget states that some further budget stimulus may be necessary to achieve the Humphrey-Hawkins goals, since the budget becomes increasingly restrictive in later years, but it offers no quantitative estimates.

In The Fiscal Policy Response to Inflation, CBO discusses the feasibility of economic and budgetary goals. 7/ In general, the analysis suggests that by aggregate policies alone the achievement of a 4 percent unemployment rate by 1983 would cause inflation to accelerate substantially. In achieving the unemployment goal of the Humphrey-Hawkins Act, however, CBO estimates that substantial additional stimulus would be needed (in the form of tax cuts and/or spending increases) and that the budget would realistically be expected to stay in deficit over the entire period.

Alternatively, by running a very slack economy for a sustained period, the inflation rate might be brought down to 4 percent by 1984, but at great cost in terms of lost production and slack labor markets. Under this policy, budget balance would be feasible in the early 1980s. As the Humphrey-Hawkins Act emphasizes, the simultaneous achievement of what is regarded as satisfactory economic goals may require other policies besides aggregate monetary and fiscal policies. But, the magnitude of the contribution of these other policies toward the attainment of aggregate economic goals is uncertain. The Administration budget does not present a detailed plan for mapping out such a strategy.

7/ The Fiscal Policy Response to Inflation (January 1979), Chapter V.

TABLE 6. ADMINISTRATION'S LONG-RANGE ECONOMIC ASSUMPTIONS AND CBO'S FIVE-YEAR PROJECTIONS ASSUMPTIONS, CALENDAR YEARS 1981-1984

Economic Variable	Administration	CBO
Economic Growth (percent change in constant dollar GNP)		
1981	4.2	4.3
1982	4.7	4.5
1983	4.4	4.6
1984	3.4	4.5
Inflation (percent change in GNP deflator)		
1981	5.7	7.0
1982	4.5	6.7
1983	3.4	6.5
1984	2.8	6.1
Unemployment Rate (percent, annual average)		
1981	5.7	6.6
1982	4.9	6.2
1983	4.2	5.9
1984	4.0	5.5

SOURCES: The Budget of the United States Government, Fiscal Year 1980, p. 36, and the Congressional Budget Office.

CONCLUSIONS

The Administration's forecast indicates faster economic growth, accompanied by less inflation and lower unemployment than the CBO forecast which incorporates the Administration's fiscal policy. The differences are notable, but they need to be interpreted in the context of a great deal of uncertainty. The Administration's estimates in general are either within, or not far outside of, the CBO ranges.

The Administration's fiscal proposals, which add to budget restraint, would help to slow inflation but the effects would not be sudden or pronounced, and they would add to already expected increases in unemployment and to the disparity of unemployment among groups.

The longer-term assumptions in the Administration's Budget need to be interpreted with caution since they are not forecasts of probable events and may not be feasible. In addition, longer-run continuation of economic growth seems likely to be dependent on some substantial budget stimulus--either in the form of tax reductions or expenditure increases from current policy levels.

CHAPTER II. REVENUE ESTIMATES AND PROPOSALS

The President's budget for fiscal year 1980 proposes only two departures from current policy that are likely to have a substantial impact on revenues over the 1980-1982 period--the anti-inflationary real wage insurance plan and a series of "cash management initiatives" designed to speed up revenue collections. The Administration estimates that the real wage insurance plan will cost $2.5 billion in fiscal year 1980; CBO estimates that the cost could be closer to $3.5 billion. The Administration estimates that its cash management initiatives could increase collections by $2.2 billion in 1980 and $5.3 billion in 1982.

The Administration's projections of current policy revenues for the five-year period from 1980 to 1984 differ significantly from those of CBO, especially for the later years. The differences are caused principally by different economic assumptions.

The effects of inflation on individual income taxes and scheduled increases in social security taxes will significantly increase individual tax burdens over the next few years. The tax cuts provided in the Revenue Act of 1978 serve generally to offset the effects of inflation and social security tax increases for calendar year 1979. In the years after 1979, however, the additional tax burden caused by inflation and social security tax increases will grow substantially. This is likely to cause increasing pressure for cuts in both income and social security taxes. The Administration has said it may propose such cuts, but that its final decision will depend on future economic conditions and on legislative action to reduce the costs of future social security benefits.

PAST AND FUTURE REVENUES

The distribution of budget receipts by source for selected past years and for 1980 and 1984 under CBO current policy assumptions is shown in Table 7. Total receipts as a percent of gross national product (GNP) are estimated to increase from 19.7 percent in 1980 to 21.9 percent in 1984, reflecting mainly the effects of inflation on individual income taxes and scheduled increases in social security taxes.

TABLE 7. DISTRIBUTION OF BUDGET RECEIPTS BY SOURCE, SELECTED FISCAL YEARS 1960-1984

	Percent of Gross National Product					
	Actual				CBO Current Policy Estimates	
	1960	1965	1970	1975	1980	1984
Individual Income Taxes	8.0	7.1	9.2	8.0	8.9	10.7
Corporation Income Taxes	4.3	3.7	3.3	2.7	2.9	2.9
Social Insurance Taxes and Contributions	2.9	3.2	4.6	5.6	6.3	6.9
Other	3.1	3.0	2.6	2.1	1.6	1.4
Total	18.3	17.0	19.7	18.4	19.7	21.9

	Percent of Total Receipts					
	Actual				CBO Current Policy Estimates	
	1960	1965	1970	1975	1980	1984
Individual Income Taxes	44.0	41.8	46.7	43.6	45.1	49.0
Corporation Income Taxes	23.2	21.8	16.9	14.4	14.5	13.2
Social Insurance Taxes and Contributions	15.9	19.1	23.4	30.8	32.1	31.6
Other	16.9	17.3	13.0	11.2	8.3	6.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

The Administration's estimates of current policy revenues for 1979-1984 are substantially different from those of CBO, largely because of the different economic assumptions used by the Administration for its projections. The Administration assumes, for example, that the 1984 inflation rate will be 2.7 percent and that the unemployment rate will be 4.0 percent. CBO assumes a 1984 inflation rate of 6.0 percent and an unemployment rate of 5.5 percent. The Administration states explicitly in the budget, however, that:

> ...the longer-range assumptions for the period 1981 to 1984 are not forecasts of probable economic conditions. Instead, they are projections that assume progress in moving toward the goals of the [Humphrey-Hawkins Act]. 1/ (Emphasis in original.)

The effects of the different economic assumptions used by the Administration and CBO on projected 1979, 1980 and 1984 revenues are shown in Table 8. Fiscal year 1980 current policy revenues under CBO economic assumptions are $502.3 billion, compared to $504.5 billion under Administration assumptions. For 1984, CBO projects total revenues of $848, compared to the Administration's projection of $778 billion.

REAL WAGE INSURANCE

As part of its anti-inflation policy, the Administration has proposed a real wage insurance program. Under the proposed plan, groups of employees whose average hourly pay goes up this year by only 7 percent or less will be eligible for refundable tax credits if the inflation rate exceeds 7 percent. The credit would be equal to one percent of wages for each percentage point by which inflation exceeds 7 percent. Only the first $20,000 of wages would be covered, however, and no credit would be granted if inflation exceeds 10 percent. The maximum credit would, thus, be $600 (3 percent of $20,000).

Cost and Potential Effect on Inflation

The Administration estimates that the real wage insurance plan will cost $2.3 billion in reduced revenues in 1980, plus another $0.2 billion in outlays for refunds to those whose credits exceed their tax liability. The Administration estimates that the plan will reduce the inflation rate by one-half a percentage point below what it would otherwise have been.

1/ Budget of the United States Government for Fiscal Year 1980, p. 37.

TABLE 8. COMPARISON OF ADMINISTRATION AND CBO CURRENT POLICY REVENUE ESTIMATES, FISCAL YEARS 1979, 1980, AND 1984: IN BILLIONS OF DOLLARS

	Administration			Congressional Budget Office		
	1979	1980	1984	1979	1980	1984
Individual Income Taxes	203.6	229.6	391.8	202.7	226.3	415.5
Corporation Income Taxes	70.3	71.0	97.4	67.7	73.0	111.9
Social Insurance Taxes and Contributions	141.8	161.3	236.6	142.7	161.1	268.2
Excise Taxes	18.4	18.4	20.3	18.8	18.8	20.3
Other	21.9	24.3	31.7	21.4	23.1	32.6
Total	456.0	504.5	777.8	453.3	502.3	848.5

CBO estimates that the cost of the plan could be closer to $3.5 billion ($3.2 billion in lost revenues and $0.3 billion in increased outlays). This higher estimate reflects the combined effects of a higher rate of inflation and CBO's assumption that fewer workers than the Administration predicts will accept lower wages in response to the plan.

Estimates of the potential cost of the plan depend mainly on three interrelated factors:

- The numbers of workers taking part in the plan;
- The impact of the plan itself on the rate of inflation; and
- The effects of factors other than wages on the rate of inflation.

The Administration estimates that 47 million workers--about 54 percent of all employees--will receive a credit under the plan. About 26 million of these workers are assumed to be in line for wage increases of less than 7 percent, so they will get the credit without having to accept any reduction in their expected wage increases. The other 21 million are assumed to be in line for wage increases of more than 7 percent, but are expected to hold their wage demands below that level in exchange for the wage insurance tax credit. 2/

The Administration's estimate that 21 million workers will accept lower wage increases in exchange for the credit may be somewhat optimistic. The Administration's assumption that the wage restraint exercised by these 21 million workers will reduce the rate of increase in employee compensation this year by 0.7 percent implies a reduction in compensation for these workers of around $6 billion after taxes. Since these 21 million workers will receive only a little over $1.1 billion in real wage insurance after taxes under the Administration's estimate, the Administration is assuming that they will forego $6 billion in higher wages in exchange for $1.1 billion in real wage insurance. Their total wage insurance payments could of course be higher if inflation is higher than the Administration expects, and these workers would benefit along with everyone else if the wage insurance plan is effective in reducing inflation. But the exchange may nonetheless not appear attractive for as many workers as the Administration assumes.

If fewer workers than the 21 million assumed by the Administration are induced to accept wage increases below 7 percent, these higher wages will increase the rate of inflation, and the higher rate of inflation will trigger higher rebates for each worker who remains eligible for the plan, thus increasing its budgetary costs. Since rebates must always be paid to the 26 million workers expected to be in line for wage increases below 7 percent, while decreases in participation come only from the 21 million assumed to be in line for increases of more than 7 percent, decreases in participation tend to push up the overall cost of the plan over a fairly wide range of assumed participation rates. For example, if only 7 million workers are induced to accept wage increases below 7 percent rather than the 21 million assumed by the Administration, the impact on inflation will be less than the 0.5 percentage point reduction estimated by the Administration.

2/ A total of 61 million workers are estimated to be in line for wage increases of more than 7 percent, but the Administration assumes that 26 million of them are effectively locked into higher increases by existing contracts or statutory increases in the minimum wage, and that 14 million of them will choose to take higher wages rather than the wage insurance credit.

The cost of the plan could also be pushed up by increases in the rate of inflation caused by factors unrelated to the rate of wage increases, such as increases in the prices of food and energy. Approximately one-fifth of the 9 percent inflation rate for 1978, for example, was due to increases in prices for food, energy, and other items not affected much by the rate of wage increases.

Using CBO's lower estimate of compliance, each percentage point of inflation above 7 percent would increase the cost by $3.5 billion. If inflation were 10 percent or more, the total cost could thus be as much as $10.5 billion. A higher-than-expected cost for the plan could also increase the size of the deficit, making it more difficult to follow a course of fiscal restraint.

Possible Alternatives

Three general types of alternatives to the Administration's real wage insurance plan have been discussed. One would substitute some form of inflation indexing of the individual income tax. The impact of inflation indexing is touched on briefly later in this chapter, and will be discussed in detail in a forthcoming CBO background paper. 3/ A second general alternative would calculate the tax credit on the basis of each individual's pay increase, rather than on the basis of the average pay increase of the employee group of which the individual is a member. A third alternative would provide a general tax cut to all taxpayers if the rate of inflation remained below some specified level.

Those who favor the second alternative--providing the credit on an individual rather than a group basis--argue that this would be more equitable, since all those who received a pay increase of less than 7 percent would then receive a credit, while none of those who received more than 7 percent would get one. The Administration has argued, however, that going from a group to an individual basis for real wage insurance would eliminate most of the anti-inflation benefits from the plan. In addition, the Administration argues, it could cause workers to avoid overtime pay and promotions, complicate company pay systems, and make the plan much more difficult to administer.

3/ Congressional Budget Office, Indexing the Individual Income Tax for Inflation , Background Paper, forthcoming.

It is difficult, on the basis of data currently available, to estimate the cost and impact on inflation of wage insurance plans based on individuals rather than groups. More people would probably receive rebates under an individual system, since the group system probably excludes more people who are in line for pay increases of less than 7 percent than it adds from among those who are in line for increases of more than 7 percent. Detailed analysis of the pay levels of those included and excluded is needed, however, before reliable estimates of the cost of an individual-based plan can be made.

The third alternative, providing a general tax cut if inflation does not exceed some threshold level, in effect would treat all taxpayers as one group. Since either all taxpayers or none would qualify for the tax rebate, the program would either cost a very large amount or nothing. If, for example, a $100 credit were provided to all taxpayers, the program would cost about $7 billion for each percentage point of inflation above the threshold. Such a program would be easy to administer, but it would probably not do much to induce wage restraint or to bring down the rate of inflation. Individual workers would be likely to figure that wage restraint on their part would do little or nothing by itself to affect whether or not the credit was granted, and would simply gamble on getting the credit as a result of restraint by others.

CASH MANAGEMENT INITIATIVES

The Administration has proposed a series of cash management initiatives designed to speed up tax collections so that the Treasury receives actual tax payments more promptly after tax liabilities are incurred. Under the current system, taxpayers are allowed to postpone making payments for varying lengths of time.

As shown in Table 9, these cash management initiatives are expected to increase receipts by $2.2 billion in 1980, and by $5.3 billion in 1982. About $1.7 billion of the estimated $5.3 billion speed-up in collections for 1982 could be accomplished by administrative action, while the remaining $3.6 billion would require new legislation.

The acceleration of state and local government deposits of withheld social security taxes could be accomplished administratively, but Congressional hearings on it will be held before it is scheduled to go into effect. The requirement that private employers deposit withheld income and payroll taxes more promptly can be accomplished administratively under existing

TABLE 9. INCREASED BUDGET RECEIPTS FROM CASH MANAGEMENT INITIATIVES, FISCAL YEARS 1980-1982

Tax Source	1980	1981	1982
Individual Income Taxes			
Employer deposits of withheld taxes	--	1.5	0.9
Individual payments of estimated taxes a/	--	0.1	0.4
Corporation Income Taxes			
Corporate income tax payments a/	--	1.8	3.2
Social Insurance Taxes and Contributions			
Acceleration of state and local deposits of social security taxes	2.2	0.3	0.2
Employer deposits of withheld taxes	--	0.9	0.6
Other			
Customs duties	--	0.2	b/
Tobacco excise taxes	--	0.2	b/
(Total requiring legislative action)		(1.9)	(3.6)
Total	2.2	5.0	5.3

Source: Department of the Treasury.

a/ Legislative action required.

b/ $50 million or less.

law; similar speed-ups were ordered administratively in 1968 and 1972. The proposed changes in estimated tax payments for individuals and corporations, on the other hand, would require legislation. These estimated tax changes would generally ease the requirements for smaller taxpayers, while tightening them for individuals and corporations with large tax liabilities.

INFLATION INDEXING, SOCIAL SECURITY TAXES, AND FUTURE TAX CUTS

The President's budget proposes no tax cuts, other than his real wage insurance plan, for 1980.

For 1981 and 1982, the budget states:

> The desirability of tax reductions . . . will depend on the future state of the economy, especially progress in reducing inflation, and on the need to reduce tax burdens. The Administration will consider future tax changes, including social security tax reductions in conjunction with the savings resulting from benefit reforms and other cost saving proposals.4/

For calendar year 1979, the tax cuts approved in the Revenue Act of 1978 generally offset the effects of inflation-induced increases in individual income taxes and legislated increases in social security taxes. After 1979, however, as inflation continues to push people into higher tax brackets, and as scheduled increases in social security taxes continue to take effect, the overall tax burden on individuals will grow substantially. As shown in Table 10, the aggregate tax increases resulting from inflation and higher social security taxes amount to $8.3 billion in fiscal year 1980, and $60.4 billion in 1984.

This same pattern can be seen in the tax increases that will be experienced by individual taxpayers at different income levels. Table 11 shows the effects of inflation and social security tax increases for calendar years 1979-1984 on families of four with 1979 earnings of $10,000, $20,000, $30,000, and $40,000. By calendar year 1981, the total tax increase for the $10,000 family is estimated to be $269, while the increase for the $30,000 family is estimated to be $817.

4/ Budget for Fiscal Year 1980, p. 60.

TABLE 10. EFFECTS OF INFLATION AND SOCIAL SECURITY TAX INCREASES ON TOTAL TAX RECEIPTS FROM INDIVIDUALS, FISCAL YEARS 1979-1984: IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983	1984
Inflation-Induced Increases in Individual Income Taxes a/	--	8.1	16.5	25.7	36.1	47.4
Increases in Social Security Taxes b/	--	0.2	7.1	9.8	11.4	13.0
Total	--	8.3	23.6	35.5	47.5	60.4

a/ Calculated as the difference between actual tax liabilities resulting from the law in effect January 1, 1979, and the liabilities that would result if inflation did not increase effective tax rates as a percent of adjusted gross income.

b/ Employee share only. Includes increases resulting from rates in excess of the 1979 rate of 6.13 percent, and from increases in the wage base above those that would result from increasing the 1979 wage base of $22,900 in line with estimated increases in average wages.

OTHER ADMINISTRATION TAX PROPOSALS

The Administration has proposed a number of other tax changes that are not likely to have major effects on revenues over the next few years. These include proposals dealing with taxation of capital gains at death, taxation of fringe benefits, the classification of workers as employees or independent contractors, increases in railroad retirement taxes, extension and modification of airport and airway trust fund taxes, an oil spill clean-up fund, and increased employer social security taxes on tips.

One Administration proposal--limits on the use of tax-exempt bonds for housing--raises some issues related to housing programs within the jurisdiction of the Appropriations Committees. Under the Administration's proposal, tax-exempt bond financing of single-family mortgages could only be used to assist low-and moderate-income families or to achieve "other narrowly targeted public policy objectives."5/

While in the past tax-exempt housing bonds have been used primarily to assist low- and moderate-income, multi-family rental housing, there has been a substantial shift in the last few years toward the use of these bonds to assist middle-income, single-family homeownership. State housing agencies have been moving in this direction, and last year Chicago and a large number of other cities began issuing tax-exempt bonds to provide low-interest home mortgage loans to buyers with incomes up to $40,000 or more. CBO is currently preparing an analysis of the use of tax-exempt housing bonds by cities at the request of the Chairman of the House Committee on Banking, Finance and Urban Affairs.

The federal subsidy provided by the tax exemption for state and local housing bonds is an important, but often overlooked, component of the total federal subsidy for low- and moderate-income rental housing. A large share of HUD Section 8 rental housing projects receives this form of subsidy, as do all low-income public housing projects. The sharp increase in recent years in the use of tax-exempt bonds for single-family homeownership could result in a total indirect tax subsidy for homeownership under this mechanism rivaling in size the direct subsidies for homeownership currently provided by the federal government. In fiscal year 1980, for example, tax-exempt bonds

---

5/ Budget for Fiscal Year 1980, p.71.

TABLE 11. CHANGES IN TOTAL TAX LIABILITIES FOR TAXPAYERS AT DIFFERENT INCOME LEVELS RESULTING FROM INFLATION AND SOCIAL SECURITY TAX INCREASES, CALENDAR YEARS 1979-1984, FOR FOUR-PERSON, ONE-EARNER FAMILIES

	1979	1980	1981	1982	1983	1984
Equivalent Incomes a/	10,000	10,840	11,686	12,515	13,354	14,248
Tax Increase because of Inflation b/	0	103	208	332	459	587
Increase in Social Security Tax c/	0	0	61	72	77	82
Net Effect	0	103	269	404	536	669
Equivalent Incomes a/	20,000	21,680	23,371	25,030	26,707	28,497
Tax Increase because of Inflation b/	0	105	248	393	543	746
Increase in Social Security Tax c/	0	0	122	143	153	163
Net Effect	0	105	370	536	696	909

a/ 1979 incomes are increased in line with the increases in the CPI projected by the Congressional Budget Office. (Continued)

TABLE 11. (CONTINUED)

	1979	1980	1981	1982	1983	1984
Equivalent Incomes a/	30,000	32,520	35,057	37,546	40,061	42,745
Tax Increase because of Inflation b/	0	214	502	802	1,139	1,556
Increase in Social Security Tax c/	0	58	315	298	301	263
Net Effect	0	272	817	1,100	1,440	1,819
Equivalent Incomes a/	40,000	43,360	46,742	50,061	53,415	56,994
Tax Increase because of Inflation b/	0	427	868	1,468	2,086	2,710
Increase in Social Security Tax c/	0	58	315	298	301	263
Net Effect	0	485	1,183	1,766	2,387	2,973

b/ Calculated as the difference between actual tax liabilities resulting from the law in effect January 1, 1979, and the liabilities that would result if rate brackets, personal exemptions, the zero bracket amount, and the earned income credit were increased in line with increases in the CPI projected by the Congressional Budget Office.

c/ Employee share only. Includes increases resulting from rates in excess of the 1979 rate of 6.13 percent, and increases in the wage base above those that would result from increasing the 1979 wage base of $22,900 in line with estimated increases in average wages.

30-664 O - 79 - 4

for single-family homeownership are likely to result in a revenue loss of $560 million, while the 1980 outlays under the HUD Section 235 homeownership program are estimated to be $111 million and those under the Farmers Home Administration homeownership assistance programs are estimated at $640 million.

CHAPTER III. SPENDING ESTIMATES AND PROPOSALS

The President's budget for fiscal year 1980 proposes a significant deceleration in the growth of federal spending in order to restrict the size of the budget deficit and to reduce the share of the gross national product (GNP) spent by the federal government. The most significant features of the 1980 budget are an absence of major new spending initiatives and a general effort to hold existing programs at or below current policy levels as set forth in the second budget resolution for fiscal year 1979 that was adopted by the Congress last September. The Administration's budget estimates total outlays for 1980 at $531.6 billion, only 7.7 percent above the estimated 1979 level. This contrasts with the 9.5 percent growth in federal outlays expected in 1979 and the 11.9 percent growth in 1978.

Another benchmark for comparison is the level of 1980 outlays under a continuation of current spending policies as set forth in the second budget resolution for 1979, with adjustments for inflation, economic growth and population changes. CBO estimates that current policy outlays in 1980 would total $551.5 billion, or nearly $20 billion above the Administration's budget estimate. The Administration's lower spending level reflects both differences in economic assumptions and policy changes. Afer adjusting the Administration's outlay estimates for the somewhat less optimistic economic outlook forecast by CBO (see Chapter I), CBO estimates that federal outlays in 1980 under the President's proposed spending policies would total $540 billion, a reduction of $11.5 billion from current policy levels (see Table 12). This would represent a growth of 9.2 percent for 1980, about the same rate of growth expected for 1979.

The President's budget proposes a 10 percent growth in budget authority for 1980, about the same growth as estimated by CBO under current policies. However, almost two-thirds of the increase in budget authority for 1980 would be for trust funds (primarily social security and medicare) and interest on the public debt which is available without current action by the Congress. For budget authority made available through appropriations actions, the President's budget requests a total of $386.7 billion, a growth of 5.5 percent from the level requested for fiscal year 1979. This would be a sharp reduction from the 12.2 percent growth in budget authority in 1979 resulting from appropriations actions.

TABLE 12. TOTAL FEDERAL SPENDING: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979 Estimates			1980 Estimates		
	2nd. Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	555.65	559.7	560.5	615.0	615.5	617.8
Outlays	487.5	493.4	494.4	551.5	531.6	540.0

a/ Preliminary, subject to change.

The President's latest budget estimates for 1979 exceed the ceilings set by the second budget resolution for both budget authority and outlays. An adjustment to the resolution ceilings may be needed to accommodate the President's proposals for additional spending action for fiscal year 1979.

This chapter evaluates the Administration's spending estimates and provides a summary discussion of its proposed spending policies for fiscal year 1980. Chapter IV provides further details of the President's spending proposals and estimates, within each major functional category representing national needs. Chapter V discusses the outlook for the federal budgets for fiscal years 1981 to 1984.

ACCURACY OF SPENDING ESTIMATES

The Administration's estimates of total outlays for both fiscal year 1979 and 1980 appear to be reasonable, given the Administration's economic forecast. As shown in the Summary section, however, the Administration's

projections of both inflation and unemployment are at or near the optimistic end of the CBO range for both calendar years 1979 and 1980. These economic assumptions have a significant impact on spending estimates, because both the lower unemployment and lower inflation in the Administration's forecast result in lower spending estimates.

CBO has reestimated the Administration's spending estimates using the CBO economic forecast and estimating methodology. CBO estimates that somewhat higher unemployment and inflation than foreseen by the Administration could add over $4.5 billion in 1980 for programs such as unemployment insurance, social security, food stamps, medicare and medicaid (see Table 13). Other estimating differences could add about another $4 billion to the Administration's 1980 outlay estimate. In total, CBO estimates that the Administration's 1980 budget could result in outlays of $540 billion, $8.4 billion above the Administration's estimate.

For 1979, the estimating differences are much smaller. The effect of using CBO economic assumptions and estimating methodology would raise the Administration's spending estimate by only $1 billion, from $493.4 billion to $494.4 billion. This is very close to the CBO current policy estimate of $493.8 billion for 1979.

TABLE 13. ESTIMATED EFFECTS ON OUTLAYS OF CBO'S ECONOMIC FORECAST: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979	1980
President's Budget Outlay Estimate	493.4	531.6
Adjustment for CBO Economic Forecast:		
Unemployment insurance	0.3	2.3
Social security	0.5	0.9
Medicaire and medicaid	--	0.6
Food stamps and other	0.1	0.8
Subtotal	494.3	536.2
Adjustment for Other Estimating Differences	0.1	3.8
CBO Reestimate of President's Budget Outlays	494.4	540.0

In order to hold the growth in outlays to below 8 percent under the economic conditions forecast by CBO, the Congress would have to make deeper spending cuts than proposed by the President.

Outlay Shortfalls

Federal budget outlays for fiscal year 1978 fell short of the level specified by the second Congressional budget resolution by $8.4 billion, and were $12.3 billion below the Administration's January 1978 estimate contained in the President's 1979 budget. This marked the third year in a row that actual outlays fell short of the levels planned by the Congress and the Administration. In each case, the outlay shortfalls were caused by estimating problems rather than by deliberate policy actions.

For fiscal year 1979, however, the second budget resolution outlay ceiling appears to be too low, largely because of a change in the economic outlook (see below). Also, CBO believes that the upward bias in outlay estimates was effectively removed from both the 1979 second resolution and from the Administration's latest estimates. As a result, the outlay shortfall problem is not expected to continue in fiscal year 1979 and beyond. 1/

1979 Second Budget Resolution

It is likely that the 1979 second budget resolution ceilings for both budget authority and outlays will be exceeded by as much as $4 to $9 billion, largely because of a revised economic outlook for calendar year 1979. The largest single factor causing an increase in federal spending from the levels specified in the second resolution are higher than expected interest rates which will add about $4 billion to net interest payments. Higher inflation and unemployment rates than those assumed for the second resolution are estimated to add another $2 billion in outlays, as shown below in Table 14. Under the second resolution spending policies, adjusted for CBO economic assumptions, it is estimated that 1979 outlays will total $494 billion, roughly the same as the Administration's latest estimate.

1/ For further details, see Congressional Budget Office, Analysis of the Fiscal Year 1978 Federal Budget Outlay Shortfall, Staff Working Paper (forthcoming).

TABLE 14. CBO ESTIMATES OF FISCAL YEAR 1979 SPENDING UNDER POLICIES IN THE SECOND BUDGET RESOLUTION: IN BILLIONS OF DOLLARS

	Budget Authority	Outlays
Second Budget Resolution Ceilings for 1979	555.65	487.5
Adjustment for CBO Economic Forecast:		
Net interest	4.2	4.2
Unemployment compensation	1.1	1.2
Federal civilian and military retirement benefits	0.1	0.4
Social security (OASDI)	0.1	0.3
Medicare and medicaid	0.4	0.2
Assistance payments	0.1	0.1
Second Budget Resolution with CBO Economic Forecast	561.7	493.8

Note: Preliminary, subject to change.

SPENDING TRENDS

A brief synopsis of past spending trends is useful to provide prospective for analyzing the Administration's budget proposals for 1980.

Between 1968 and 1978, federal outlays increased from $179 billion to $451 billion, for an average annual increase of 9.7 percent. As stated above, the President's budget proposes to reduce the federal spending growth rate to 7.7 percent in 1980. Under CBO economic assumptions, however, the 1980 outlay growth rate could be above 9 percent.

Real Growth

A large portion of the past growth in federal spending has been in response to inflation. Therefore, it is useful to eliminate the effects of inflation in analyzing budget trends. Measured in constant dollars, the recent growth in federal spending has been significantly less than growth calculated in current dollars. As shown in Table 15, total budget outlays in real terms increased by 23 percent between 1968 and 1978. When measured in current dollars, total budget outlays increased by 152 percent during this period.

The annual real growth in federal spending has averaged 2.1 percent during the past 10 years. The President's budget for 1980 would reduce the real growth in federal spending to below one percent.

TABLE 15. GROWTH IN BUDGET OUTLAYS: BY FISCAL YEAR

					1980 Request	
	1968	1973	1978	1979 Est.	Admin. Est.	CBO Est.
Total Budget Outlays (in billions of dollars)						
In current dollars	179	247	451	494	532	540
In constant (1972) dollars	230	233	283	284	286	290
Ratio of Federal Spending to GNP (percent)						
In current dollars	21.5	20.0	22.1	21.5	21.2	21.4
In constant (1972) dollars	22.3	19.4	20.7	19.9	19.7	20.0

Spending as a Percent of GNP

Another way to examine federal spending trends is to compare budget outlays to the gross national produce (GNP), the most widely used measure of the size of the economy. During the past five years, federal spending has increased at a faster rate than the total economy. Consequently, total budget outlays as a percent of GNP rose from 20.0 percent in fiscal year 1973 to 22.1 percent in fiscal year 1978.

Most of this increase in this ratio occurred in fiscal year 1975, largely as a result of the 1974-1975 recession. The effect of the recession was to raise federal spending (for programs such as unemployment compensation, food stamps, public service jobs and welfare payments) and to lower GNP from the level it would have reached under a higher employment economy. Federal spending has continued at fairly high levels relative to GNP since fiscal year 1975, as part of the government's efforts to stimulate the economy.

The President's budget for 1980 proposes to reduce the level of federal spending to 21.2 percent of GNP. Under the CBO economic assumptions and estimates of outlays resulting from the Administration's budget proposals, federal spending in 1980 would be reduced to 21.4 percent, somewhat higher than estimated by the Administration.

Spending Mix

The major trend in the mix of federal spending during the past 10 years has been the rapid increase in the share of the budget allocated to human resource programs, from 32 percent of total outlays in 1968 to 52 percent in 1978. These programs include social security and other income security programs; medicare, medicaid and other health programs; education, training, employment, and social services; and veterans' benefits and services. At the same time, the share of the budget allocated to national defense has fallen markedly, from 44 percent of total outlays in 1968 to 23 percent in 1978 and 1979, as shown in Table 16.

The Administration's budget for 1980 would not change appreciably the relative shares of the budget allocated to national defense and to human

TABLE 16. COMPOSITION OF BUDGET OUTLAYS: BY FISCAL YEAR

	1968	1973	1978	1979 Est.	1980 Request Admin. Est.	1980 Request CBO Est.
	In Billions of Dollars					
National Defense	79	74	105	114	126	125
Human Resources	58	117	235	262	283	292
Net Interest	11	17	35	42	46	45
All Other	31	39	75	77	77	78
Total	179	247	451	494	532	540
	Percent Distribution					
National Defense	44	30	23	23	24	23
Human Resources	32	47	52	53	53	54
Net Interest	6	7	8	8	9	8
All Other	18	16	17	16	14	14
Total	100	100	100	100	100	100
	As a Percent of GNP					
National Defense	9.5	6.0	5.2	4.9	5.0	5.0
Human Resources	7.0	9.4	11.5	11.4	11.3	11.6
Net Interest	1.3	1.4	1.7	1.8	1.8	1.8
All Other	3.7	3.2	3.7	3.3	3.1	3.1
Total	21.5	20.0	22.1	21.5	21.2	21.4

resource programs. Using the Administration's estimates, outlays for national defense in 1980 would grow by 3 percent in real terms, but human resources programs would grow by less than one percent. Under CBO economic assumptions and estimating methodology, however, both national defense and human resource programs would have real growth in outlays of about 3 percent in 1980. Under both the Administration and CBO estimates, other federal outlays would decline in real terms in 1980.

CHANGES FROM CURRENT POLICY

In analyzing the President's spending proposals for fiscal year 1980, it is also useful to compare the budget to estimates of federal spending if current policies were simply continued.

CBO Current Policy Estimates

The CBO estimates of current policy outlays for fiscal year 1980 are based on Congressional actions to date (through the end of the 95th Congress), allowances in the Second Concurrent Resolution on the Fiscal Year 1979 Budget for additional spending actions not yet acted upon by the Congress, and the CBO economic forecast for calendar years 1979 and 1980.

The CBO estimates of 1980 current policy outlays assume that 1979 spending policies, as embodied in the second budget resolution and other actions by the 95th Congress, will continue unchanged, with full adjustment for anticipated inflation. Real growth in spending is limited to those programs--such as social security, medicare, and federal employee retirement programs--in which the number of beneficiaries are expected to increase, or in defense and other programs in response to past appropriations actions. This is estimated to add $38 billion to federal spending in 1980. Automatic inflation adjustments are estimated to add another $13 billion in 1980, and the cost of making further adjustments for inflation--for programs in which this is not mandated by current law--is estimated to be $6 billion. Table 17 shows the sources of increases for 1980 current policy outlays above the CBO estimate of 1979 outlays. 2/

2/ For further details on the CBO current policy estimates, see the CBO report, Five Year Budget Projections and Alternative Budgetary Strategies for Fiscal Years 1980-1984 (January 1979).

TABLE 17. PROJECTED INCREASES IN FEDERAL OUTLAYS IN FISCAL YEAR 1980 UNDER CURRENT POLICIES: IN BILLIONS OF DOLLARS

CBO Current Policy Estimate of 1979 Outlays	493.8
Real Growth	
Social security	11.6
Medicare and medicaid	3.4
Defense purchases	5.6
Retired military and civil service retirement	2.0
Net interest	3.3
Other	12.0
Subtotal	531.6
Automatic Inflation Adjustments	
Social security	2.3
Medicare and medicaid	4.0
Retired military and civil service retirement	1.0
Pay increases for federal employees	4.5
Other	1.8
Subtotal	545.2
Discretionary Inflation Adjustments	
Defense programs	2.1
Veterans compensation and readjustment benefits	0.8
Other federal programs	3.5
CBO Current Policy Estimate of 1980 Outlays	551.5

The Office of Management and Budget (OMB) calculates similar estimates for outlays under current policies. The OMB "current services" estimates for 1980 differ by $15 billion from the CBO "current policy" estimates. The major differences are shown in Table 18 and fall into the following four categories:

- The OMB estimates are based on the Administration's economic forecast for calendar years 1979 and 1980 which is somewhat more optimistic than CBO's economic forecast (less unemployment and inflation). This accounts for about two-fifths of the difference between the CBO and OMB 1980 estimates (see Table 18). The CBO current policy estimates for 1980 have higher outlays because differences in economic assumptions for unemployment compensation ($2.3 billion); social security ($0.9 billion); Comprehensive Employment and Training Act (CETA) public service jobs ($1.4 billion); medicare and medicaid ($0.6 billion), and food stamps, Aid to Families with Dependent Children (AFDC) and other programs ($0.8 billion).

- The OMB estimates do not adjust all programs for expected inflation--increasing only those programs where spending is indexed for inflation by law (such as social security) and defense programs. The CBO estimates adjust all programs for inflation, even for those in which this is discretionary. This different treatment amounts to $4 billion for 1980.

- Although the OMB estimates are also based on Congressional actions through the 95th Congress, they do not include allowances provided in the 1979 second budget resolution for additional spending actions not yet acted upon by the Congress, except for an extension of anti-recession financial assistance. The CBO current policy estimates include the estimated 1980 outlay effects of the second resolution allowances for additional spending actions in 1979. These allowances include additional funds for energy, natural resources and environment, transportation, education, and health programs as well as for supplementary fiscal assistance or an extension of anitrecession financial assistance to state and local governments. The House Budget Committee also included an allowance of $0.7 billion in budget authority in 1979 for public works which would have an estimated $0.3 billion effect on 1980 outlays. This conceptual difference between the OMB and CBO estimates amounts to about $3 billion for 1980.

- The OMB estimates also differ in some respects from CBO estimates on the definition of current policies or services for individual programs. For example, the OMB current services estimate of federal pay raises for 1980 include a catch-up for the 5.5 percent pay cap imposed on the 1979 pay raises, whereas the CBO current policy

estimates do not. The OMB estimates also include the effects of administrative actions to prevent waste, fraud and abuse in various benefit programs, such as medicare and medicaid. These effects have not yet been included in the CBO estimates, except for programs in which these can be found in actual spending patterns. There are further estimating differences on what outlays would result under current law in 1980 for such programs as disaster loans. These different treatments account for $2 billion of the difference between the CBO and OMB estimates.

TABLE 18. MAJOR DIFFERENCES BETWEEN CBO CURRENT POLICY ESTIMATES FOR FISCAL YEAR 1980 OUTLAYS AND OMB CURRENT SERVICES ESTIMATES: IN BILLIONS OF DOLLARS

CBO Current Policy Estimate	551.5
OMB Current Services Estimate	536.1
Difference	15.4
Major Differences	
Economic assumptions	6.0
Discretionary inflation adjustment	4.3
Estimated impact of allowances in 2nd. Con. Res. for additional spending actions in 1979	3.1
Other estimating differences	2.0
Total Difference	15.4

President's 1980 Spending Proposals

Although there are a few proposed increases above current policy levels (such as lifting the authoriziation ceiling for food stamps), the 1980 budget generally proposes to hold federal spending at or below current policy levels. The CBO estimate of current policy outlays for national defense includes 3 percent real growth, resulting from past appropriations for weapons procurement. Therefore, the President's proposed 3 percent

real growth in outlays for national defense does not represent a significant change from curent policy. As shown in Table 19, some of the major cuts from current policy proposed in the Administration's 1980 budget are:

- Lower spending for the Comprehensive Employment and Training Act (CETA) employment and training programs ($3.1 billion), primarily a result of reducing the number of public service jobs from 625,000 to 467,000 by the end of 1980. Under CBO economic assumptions, with unemployment rising to 6.7 percent by the fourth quarter of calendar year 1979 and remaining at this level during 1980, the CBO current policy estimate for fiscal year 1980 assumes that the number of public service jobs would increase to 725,000 by the end of the year.

- Reduced spending for medicare and medicaid ($2.3 billion), primarily as the result of savings from proposed legislation for hospital cost containment and other cost-saving legislative proposals and administrative actions. The Administration's proposed new child health assessment program and extension of medicaid coverage to low-income pregnant women were assumed for the second budget resolution for 1979, so an allowance for these proposals is included in the CBO current policy estimates for 1980.

- Holding the October 1, 1979 pay raise for federal employees to 5.5 percent rather than the 7.6 percent increase assumed for the CBO 1980 current policy estimates (for a savings of $1.4 billion) or the 10.25 percent increase assumed by OMB for its current services estimate which includes a catch up from the 5.5 percent pay cap last year (for a savings of $3.0 billion).

- Reducing expenditures for national forests, conservation of agricultural lands, operation and development of recreational resources, and other natural resources and environment programs ($0.9 billion).

- Limiting the authority to make emergency farm disaster loans to the Farmers Home Administration (FHA) and instituting a requirement that firms seeking disaster loan assistance from the Small Business Administration (SBA) must first be denied loan assistance by private lenders ($0.8 billion).

- Cutting the level of short-term export credit provided by the Commodity Credit Corporation ($0.8 billion).

- Cutting certain social security benefits, including eliminating the $255 lump-sum death benefit, phasing out college aid for survivors, terminating the parent's benefit once the youngest child reaches age 16 (rather than age 18), eliminating the minimum benefit for new recipients, and other legislative cost-savings proposals for social security benefits ($0.6 billion).

Chapter IV provides further details on these and other changes from current spending policy.

FEDERAL CREDIT ACTIVITIES

The President's 1980 budget proposes a new control system for federal credit activities, fulfilling a pledge contained in the 1979 budget. The budget also contains new and expanded information about federal credit programs, including a separate schedule in the appendix reporting the status of loan guarantee authority for each budget account or fund having such authority.

Federal lending and loan guarantees are becoming an increasingly important means of providing government services. The total volume of new loans and loan guarantees by the federal government, including those by off-budget entities, is expected to be $107.4 billion in fiscal year 1980, an increase of 30 percent above the actual level of new loans in fiscal year 1978. Outstanding loans and loan guarantees are estimated to total $391.4 billion by the end of fiscal year 1980.

While plans for direct and guaranteed loans under individual federal credit programs are reviewed each year during the budget process, there is no systematic mechanism in the Congress or the executive branch for reviewing the volume of total federal credit activity. Consequently, there is no systematic way to consider the resource allocation effects of loans and loan guarantees, nor the reasonableness of the total volume. It has become clear that, if the government wishes to allocate efficiently its credit resources and to coordinate that allocation with its fiscal policy and direct expenditures, it must exercise control over federal credit activities in a manner similar to that for direct spending activities.

TABLE 19. 1980 CURRENT POLICY OUTLAYS AND ADMINISTRATION'S PROPOSED CHANGES: IN BILLIONS OF DOLLARS

	CBO Current Policy	CBO Estimate of President's Request	Difference
National Defense			
Military and civilian pay raises	3.1	2.2	-0.9
DoD operations and investment	119.5	120.4	0.9
Other national defense	2.7	2.8	0.1
Subtotal	125.3	125.4	0.1
Human Resources			
CETA employment and training programs	12.7	9.6	-3.1
Education programs	14.5	13.9	-0.6
Other function 500	7.6	7.3	-0.3
Medicare and medicaid	48.4	46.1	-2.3
Other health programs	9.3	8.9	-0.3
Social security	117.3	116.7	-0.6
Food stamps	6.1	7.5	1.4
Real wage insurance	0.0	0.3	0.3
Other income security	60.8	60.8	a/
Veterans' readjustment benefits	2.6	2.3	-0.3
Veterans' hospital and medical care	6.4	5.8	-0.5
Other veterans' benefits and services	12.6	12.5	-0.1
Subtotal	298.2	291.6	-6.6
Net Interest	46.0	45.2	-0.8
All Other			
Natural resources and environment	12.8	11.9	-0.9
Farm price supports	3.4	2.6	-0.8
Commerce and housing credit	4.1	3.4	-0.7
SBA disaster loans	0.8	a/	-0.8
Antirecession fiscal assistance	0.5	0.0	-0.5
Civilian agency pay raises	1.4	0.9	-0.5
All other, net	59.0	59.0	a/
Subtotal	82.0	77.8	-4.2
Total	551.5	540.0	-11.5

a/ Less than $50 million.

38-664 O - 79- 5

The President's proposed credit control system is based on annual limitations on gross lending for both direct lending and loan guarantee programs. These credit program limitations are proposed in the President's budget for each individual credit program and for the total for all credit programs. The proposal envisions that the Congress would set aggregate targets and ceilings on credit program limitations in the Congressional budget resolutions. Binding limitations on individual programs would be set in the regular annual appropriations acts. In essence, then, the President's proposal would establish a separate credit section in the budget, in which limitations on credit programs would be enacted separately from but concurrently with regular appropriations and spending decisions. 3/

The President's credit control proposal directly addresses the issue of controls on gross new lending activity. It does not, however, address various proposals to change the budgetary treatments of particular credit activities. Two budgetary practices that have generated controversy are counting the sales of certificates of beneficial ownership as loan repayments instead of as borrowing by the issuing agency, and not reflecting in the unified budget totals the conversion of agency guarantees of lending into direct federal lending through Federal Financing Bank purchases of guaranteed loans. Combined they cause unified budget totals in the President's budget to be understated by $10.2 billion. This $10.2 billion is, instead, counted in the outlays of the off-budget Federal Financing Bank. Explanations of these two practices and discussions of alternative budgetary treatments can be found in two papers to be published by CBO shortly. 4/

3/ The President's proposal for a credit control system will be spelled out in a legislative proposal to be transmitted to the Congress later this year. The reasons for a credit control system and an explanation of various control alternatives, including a separate credit section in the budget, are discussed in greater detail in Loan Guarantees: Current Concerns and Alternatives for Control (CBO: August 1978).

4/ See "Loan Asset Sales: Current Budgetary Treatment and Alternatives" and "The Federal Financing Bank: A Primer" in Loan Guarantees: Current Concerns and Alternatives for Control (A Compilation of Staff Working Papers) (forthcoming).

CHAPTER IV. THE BUDGET BY FUNCTION

This chapter analyzes the President's spending proposals for fiscal year 1979 in each major functional category. The functional classification is used as the basis for discussing national budget priorities in the deliberations by the Congress on the annual budget resolution. The functional classifications presented in the President's 1980 budget have not changed significantly from those used for the 1979 budget.

The Congressional Budget Office (CBO) estimates of the President's budget proposals for both fiscal years 1979 and 1980 are preliminary adjustments of budget authority and outlay estimates using CBO economic assumptions (see Chapter I) and alternative programmatic assumptions where relevant.

The CBO estimates of 1980 current policy spending are described in Chapter III and in the recent CBO report, Five-Year Budget Projections and Alternative Budgetary Strategies for Fiscal Years 1980-1984.

It should be noted that in the 1979 columns containing the President's latest request and the CBO estimate of the President's request in the following tables, the cost of the October 1, 1978 pay raise is shown in the allowances function rather than distributed by function and progam as is done in the President's printed 1979 budget proposals. The cost of the anticipated federal employee pay raise for October 1, 1979 is shown in the allowances function in all 1980 estimates.

NATIONAL DEFENSE (050)

This function includes programs in Department of Defense--Military that provide for the pay and allowances for military personnel, the maintenance of forces, construction of military facilities, research and development, and the procurement of support and major combat equipment. It also provides funding for atomic energy defense activities and various defense related activities such as the Intelligence Community Staff, Renegotiation Board, and Selective Service System.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	127.0	127.9	127.9	137.4	138.2	138.2
Outlays	112.4	114.5	113.7	125.3	125.8	125.4

a/ Preliminary, subject to change.

The President has assured NATO that the United States will honor its commitment to increase defense spending by 3 percent in real terms, but there is some uncertainty about what the commitment means. The President's budget takes the NATO commitment to mean 3 percent growth in total defense outlays after allowance for inflation. The arithmetic is a bit confusing because the calculation of the real increase depends on the assumed inflation rate in 1980 and the fiscal year 1979 defense funding base.

Using the Administration's 1979 base and their 1980 inflation assumptions the President's budget shows 1980 real growth in outlays of 3.3 percent. Using CBO's more pessimistic inflation rate, the real outlay growth from the Administration's base would be only 1.7 percent in 1980. The President's budget requests 1.9 percent real growth for 1980 defense budget authority. Under CBO's forecast of inflation there would be no real growth implied in the Administration's 1980 budget authority request.

Budget authority is the primary indicator of new initiatives and policies in defense programs since about 90 percent of it is discretionary. On the other hand outlays are not as significant an indicator of future defense programs as is budget authority since only about 60 percent of each year's outlays are discretionary. The non-discretionary outlays are mainly the result of prior year decisions with respect to arms purchases that are being executed in the budget year. These non-discretionary outlays are the reason for the real growth in outlays shown in the President's budget.

Summary of Major Programs--Function 050: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Estimate	CBO Current Policy	President's Budget Request
Research & Development	BA	12.8	13.1	13.5
	O	11.7	12.0	13.0
Military Construction	BA	2.5	2.5	2.2
	O	1.9	1.9	2.0
Procurement	BA	31.5	34.3	35.4
	O	22.5	26.4	25.7
Operations & Maintenance	BA	37.5	39.9	40.2
	O	35.4	38.5	38.7
Military Personnel	BA	27.4	28.7	28.9
	O	26.9	28.2	28.4
Retired Pay	BA	10.3	11.4	11.5
	O	10.3	11.4	11.4
Other	BA	5.9	7.5	6.5
	O	5.8	6.9	6.6
Total (Function 050)	BA	127.9	137.4	138.2
	O	114.5	125.3	125.8

The next two sections analyze the President's budget in terms of defense investment and operating programs.

INVESTMENT

The development and procurement of new weapons and associated facilities is the primary area where there is real growth in the 1980 defense budget. Using the Administration's 1979 base and their economic assumptions, real growth in defense budget authority is 3.6 percent in 1980. Under CBO economic assumptions real growth in budget authority would be only 2.2 percent. These rates include the 1979 supplemental budget authority in the President's budget. If that is excluded, the 1980 growth rate would be between 6 and 8 percent depending on inflation assumptions. This growth is primarily in defense procurement programs.

The inflation assumptions from 1981 to 1984 also are important in evaluating the investment accounts since the funds appropriated in fiscal year 1980 will spend over the next five years and beyond. To the extent the President's budget underestimates inflation in these outyears the Congress could be requested to provide for "cost growth" in the outyears. If the CBO inflation estimates for the next five years are realized rather than those in the President's budget, the "cost growth" for 1980 investment appropriations in the outyears would be about $2.1 billion.

1979 Supplemental Request

The President's 1980 budget submission is unique in that the President proposes to implement some of the basic investment decisions made in the development of the 1980 budget before the budget year begins. This is accomplished by incorporating in the 1980 budget submission, a large 1979 supplemental for the investment appropriations.

The Research and Development portion of the supplemental includes $523 million. More than half of this request is for the MX missile system ($265 million). The President now proposes to begin full scale development of the MX missile. The balance of the request includes funds for the Pershing II missile, B-52 modification, ALCM and the Trident II missile. In the case of each of these weapons systems, their inclusion in the supplemental represents a recent decision to speed development.

The procurement portion of the supplemental largely would be initial implementation of a Presidential decision to sharply increase funding of the nonstrategic portion of the Navy. Approximately two thirds of the $1.2 billion procurement supplemental is for Navy shipbuilding. The request includes funds for a guided missile destroyer ($540 million), a guided missile frigate ($190 million) and shipbuilding claims ($100 million). Most of the

balance of the procurement supplemental is for NATO AWACS and urgent aircraft modifications and spare parts. The supplemental for military construction consists mostly of funds to offset the impact of dollar devaluation.

Research and Development (R&D)

The fiscal year 1980 R&D budget reflects the following:

- Overall R&D funds in fiscal year 1980 reflect no real growth over the fiscal year 1979 level using the President's economic assumptions. However, using CBO economic assumptions, the R&D request reflects a 1.4 percent real decline in fiscal year 1980.

- As a result of a basic Administration policy decision, funds for the technology base portion of the research and development budget in fiscal year 1980 increase by 7.3 percent in real terms over fiscal year 1979 using the President's economic assumptions.

- The balance of the R&D budget is reduced lower R&D support for many new weapons systems that are now moving into full scale production. These systems include the F-16 and F/A-18 aircraft, the XM-1 tank, the air launched cruise missile (ALCM) and the Patriot, Tomahawk and Trident I missiles.

The major program initiative contained in the fiscal 1980 budget submission is the decision to begin full scale development of the expensive Air Force MX Inter-continental ballistic missile. This decision results in an increase of $265 million in fiscal year 1979 and a funding level of $675 million in 1980 for the MX system. Although last year the administration deferrred funding for full scale development pending resolution of the basing question, part of the MX funding request is for continued study of alternate basing options for the MX missile. MX funding is projected to reach $1.2 billion in 1981 and total investment cost could be more than $20 billion.

The fiscal year 1980 budget also includes increased funding for development of: the Trident II submarine launched ballistic missile; a new cruise missile carrier aircraft to supplement or fill the current role of the B-52; the Pershing II missile; a new strategic missile firing submarine; and a new attack submarine.

Military Construction

The military construction budget authority request declines in both current and real dollars. This decline reflects a decision to defer the upgrade, replacement and modernization of existing facilities.

The real decline is 23.6 percent using the Administration's 1979 base and 1980 inflation rates. The decline would be 25 percent using CBO 1980 inflation rate.

Procurement

In the fiscal year 1980 defense budget, if the real growth in budget authority were to be identified with one principal portion of the budget, it would be in procurement. Overall, procurement in fiscal year 1980 shows a real increase of 6.7 percent over the fiscal year 1979 level (including the supplemental request) using the President's economic assumptions. Using CBO economic assumptions the real growth is 5.1 percent.

In the Army, the major increases are for missiles and tracked combat vehicles. Funds for missiles in fiscal year 1980 increase $485 million or 63.5 percent as a result of initial production of the Patriot Air Defense Missile and the General Support Rocket System (GSRS) and large increases in the production of the TOW antitank missile and the Roland air defense missile, as shown in the following chart:

	Number of Missiles Ordered	
	1979	1980
Patriot	0	155
GSRS	0	1,764
TOW	9,600	12,865
Roland	75	410

Funds requested for Army weapons and tracked combat vehicles increase by 25 percent or $378 million. This increase is largely due to the introduction of a new family of armored combat vehicles, with substantially higher unit costs than the vehicles they replace as shown below:

	New Combat Vehicles Ordered	
	1979	1980
XM-1 Tank	110	352
Infantry Fighting Vehicle	0	119
Cavalry Fighting Vehicle	0	89

The fiscal year 1980 budget contains the funds for further increases in general purpose ships as well as funds for a strategic submarine deferred from 1979. The President's total new request for shipbuilding is $6.9 billion. ($6.1 billion in the basic budget and $.8 billion is the supplemental) compared to the $3.8 billion approved for the original fiscal year 1979 budget.

This large increase can be attributed to 3 types of ships that were not approved by Congress in fiscal year 1979, but are now requested by the President, a CVV attack aircraft carrier ($1,617 million), a Trident submarine ($1,107 million) and an AEGIS destroyer ($820 million). The shipbuilding program is the largest single area of real growth in the entire defense budget.

In the Marine Corps, procurement declines $72 million or 20 percent from the fiscal year 1979 funding level, as a result of sharp reductions in orders for radar equipment (-$27 million) and night vision devices (-$25 million) and no further orders for tanks in fiscal year 1980 (-$20 million).

In the Air Force, the largest increases over fiscal year 1979 are for missile procurement ($775 million or 51 percent) and aircraft procurement ($787 million or 11 percent).

Major items contributing to the missile procurement increase of $775 million are:

- Expanded production of the ALCM ($274 million)
- Space shuttle ($74 million)
- Other space programs ($92 million)
- Special programs ($247 million)
- Strategic ballistic missiles ($42 million)

In fiscal year 1980, funds requested for procurement of new aircraft decline slightly (-$99 million), while funds for modification of aircraft increase sharply ($587 million). More than half of this modification increase is for modification of the B-52 ($338 million) to become a cruise missile carrier. Other large increases are for the modification of the E-4 ($109 million) the C-5 ($70 million), the C-141 ($29 million) and the C-135 ($13 million).

The most useful way to summarize the thrust of the procurement budget is to group the major Administration funding decisions by mission. The decisions are:

Mission	Major Funding Decision	Increases in Millions of Dollars
Naval Forces	CVV aircraft carrier	1,620
	AEGIS destroyer	820
	Guided missile destroyer*	540
	Total	2,980
Strategic Forces	Trident submarine	1,110
	Expanded ALCM production	270
	B-52 bomber modifications	340
	Total	1,720
NATO Land Forces	Expanded production of army missiles	490
	New family of combat vehicles	380
	Total	870

* Requested in fiscal 1979 supplemental. All other items in fiscal year 1980 budget.

OPERATIONS

The fiscal year 1979 program supplemental includes about $444 million for defense operations. Increased subsistence, quarters, and travel costs account for $120 million of this request while miscellaneous force and nonforce programs account for the remaining $323 million.

Real growth of budget authority for defense operations in the President's request is about one percent or less under Administration or CBO economic assumptions.

Many of the modernization programs of recent years are beginning to be reflected in the force levels both in quantity and quality. Preliminary CBO analysis shows that with the force programs approved through the end of the 95th Congress, the funding requirements in military personnel and operation and maintenance will rise about $1.5 billion by 1984 unless there are offsetting efficiencies. The increase in procurement funding requirements for training ammunition and spare parts could be significant also as a net 400 unit equipment aircraft and 67 ships (including 27 guided missile frigates and 22 attack submarines) are added to the force while two infantry divisions are mechanized. The force profile that was used in the analysis was derived from unclassified sources such as Congressional testimony and, although it may deviate from actual plans, it is clear that real growth in budget authority for defense operations could be required during each of the next five years.

Operations and Maintenance

The fiscal year 1980 request for operation and maintenance contains approximately $300 million (less than 1 percent) real growth in budget authority. Among the increases over the 1979 budget is $285 million for the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). Prior to 1979 CHAMPUS payments were made when services were rendered; starting in 1979 they were made when billing was received. The big increase in the 1980 budget is the result of the transition between payment systems.

The budget, also, includes $110 million for transportation and purchase of prepositioned materiel and $116 million for the overhaul of one more ballistic missile submarine than in 1979. Other increases include about $50 to $60 million each for unit training, logistics support, deployment of the Trident I sea-launched ballistic missile, JCS exercises, and weapon systems maintenance.

Offsetting decreases are in the general areas of real property maintenance, depot maintenance, and civilian personnel. The net decrease in civilian manpower is 9,000 employees and is made up of a 13,000 decrease made possible by expected efficiencies and use of contracted support and an increase resulting from the transfer into DoD of approximately 4,000 Panama Canal employees.

Military Personnel

From fiscal year 1979-1980 the President's budget projects an increase of $207 million in military personnel appropriations, which is about the amount CBO estimates is necessary to cover inflation. Active duty end strength is projected to remain at 2,050,000 for fiscal year 1980, the same as in 1979. The budget provides, however, $58.7 million for an additional 5,200 manyears in fiscal year 1980.

The budget estimates savings of $33 million for elimination of administration duty pay and dual compensation of reservists, two proposals which were rejected by the Congress last year.

The budget also projects a reduction of about $20 million for reduced reserve average strength with a 38,000 manyear reduction in the Naval Reserve being partially offset with increases of a 12,000 manyears in the Army Reserves, and 3,000 manyears in the Army National Guard, 11,000 manyears in the Army Reserves, and 3,000 manyears in the Air Force Reserves. There is also an increase of $70 million in full time active duty support for the Reserves. The reduction in the naval reserve was rejected by the Congress last year.

The budget provides increases of $40 million for overseas station allowances and $50 million for enlistment/reenlistment bonus program for active and reserve forces. The budget also includes $18 million to reimburse the airlift industrial fund for the transportation of naval reservists as one alternative to procuring additional reserve navy airlift.

Retired Pay and Compensation Issues

The retired pay account funds the retirement benefits paid during the fiscal year to all military personnel who will have retired before the end of that year; it does not anticipate the retirement costs of current military personnel in the future. Military retirement benefits are not funded on an accrual basis. While it does not appear in this request, the President will propose legislation to:

- o provide by law for an independent assessment of annual accrued retirement and unfunded liability;
- o establish a trust fund from which to pay military retirees;

- fund accrued military retirement benefits in the military personnel appropriations;

- provide for appropriation of funds to liquidate the present unfunded liability; and

- display accrued costs in the national defense function and the payments to retirees in the income security function.

The Administration will also propose a major restructuring of the military retirement system. The proposed changes could increase benefits for those who leave the military with fewer than 20 years of service, while decreasing benefits for retirees with 20 or more years of service. These changes could eventually result in substantial cost savings, but they are likely to increase outlays during the next few years.

Once again, the President includes a proposal to reform the wage board pay system by revising the step structure in each pay grade, by repealing the Monroney amendment, which requires the use of out-of-area wage data in federal wage surveys under certain conditions, by changing the night shift differential to a fixed amount per hour rather than the percentage now used, and by broadening the wage surveys to include state and local governments. Passage of this legislation would result in a full year savings of about $81 million in 1980.

The President reduces federal pay to over 5 percent below comparability with the private sector by capping the pay raise for military and civilian employees at 5.5 percent for the second consecutive year. The 5 percent reduction amounts to about $2.1 billion for defense employees alone. The pay cap could cause recruitment and retention problems for enlisted personnel at a time when the Department of Defense is finding it necessary to offer enlistment and reenlistment bonuses to achieve its military manpower program.

The imposition of a stringent pay cap for the second straight year probably means a significant change in the comparability system for adjusting the wages of federal general schedule employees and military personnel since the 1981 pay raise would be 13 percent amounting to over $5.6 billion in defense alone.

ESTIMATING DIFFERENCES

The next table shows the differences between the Administration's estimate and CBO's estimate of budget authority and outlays based upon the President's program for fiscal years 1979 (including the full supplemental request) and 1980. There are no significant differences in the estimates of budget authority since for the purpose of this analysis CBO has assumed the 5.5 percent 1980 pay cap included in the 1980 budget. The cap results in a savings over CBO's current policy estimate (7.6 percent) of about 900 million.

CBO does not expect a shortfall in defense outlays in either 1979 or 1980. For fiscal year 1979 the CBO estimate for outlays is about $750 million less than the Administration's of which $400 million is attributable to differences in estimating the spendout of the program supplemental. CBO assumed that the supplemental would be enacted in full and begin spending during the last quarter of fiscal year 1979. Although certain elements like the retired pay request would spend at nearly 100 percent other major pieces (R&D and Procurement) are assumed to spend at about 25 percent of the normal first year amount. As a result, the 1980 spendout of the supplemental is about $100 million higher in the CBO estimate than in the Administration's.

The remaining differences in both fiscal years 1979 and 1980 are a function of estimates of spendout rates for new budget authority and the speed with which unexpended balances will liquidate. The estimates shown in Table 4 are aggregated from lower levels of detail where no general patterns for the differences need exist except for the revolving and management funds where CBO estimates are both zero and the difference, then, is equal to the Administration's estimate.

Differences Between Administration and CBO Outlay Estimates: In Billions of Dollars

	1979		1980	
	Budget Authority	Outlays	Budget Authority	Outlays
President's Latest Request	127.9	114.5	138.2	125.8
Operation & Maintenance	--	0.6	--	0.2
Procurement	--	-0.5	--	0.3
Research and Development	--	-0.4	--	-0.5
Revolving Funds	--	-0.3	--	-0.1
Atomic Energy Defense	--	-0.1	--	-0.3
Other	--	-0.1	--	-0.1
CBO estimate of President's Request a/	127.9	113.7	138.2	125.4

a/ Preliminary, subject to change.

INTERNATIONAL AFFAIRS (FUNCTION 150)

The international affairs function includes foreign economic and financial assistance, military assistance, activities associated with the conduct of foreign affairs, foreign information and exchange activities, and international financial programs.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	12.6	13.6	12.9	13.5	13.7	13.6
Outlays	7.1	7.3	7.3	7.7	8.2	8.1

a/ Preliminary, subject to change.

The President's 1980 budget includes real growth in bilateral and multilateral assistance, migration assistance, and contributions to international organizations and programs. Major programs of the Export-Import Bank are expected to grow in real terms. The request for grant military assistance program is cut in half to $110 million. A new Foundation for International Technical Cooperation is proposed with an initial appropriation of $25 million. Other programs are continued at roughly their current level.

The President is proposing program supplementals of $275 million to fiscal year 1979. They include $60 million for a contribution to the International Tin Council, $63 million for migration and refugee assistance, $58 million to United Nations and affiliated agencies, $40 million for UN peacekeeping operations in Lebanon, and other smaller programs.

Highlights of major programs are discussed in the following sections:

Summary of Major Programs--Function 150: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Estimate	CBO Current Policy	President's Budget Request
Security Assistance	BA	1.9	2.0	2.0
	O	2.1	1.9	2.0
Multilateral Assistance	BA	2.5	3.0	3.6
	O	0.9	0.9	1.0
Agency for International Development	BA	1.5	1.7	1.8
	O	1.2	1.2	1.3
PL 480 Food Aid	BA	0.8	0.6	0.7
	O	1.1	1.0	1.0
Military Assistance	BA	0.7	0.7	0.6
	O	0.6	0.5	0.5
Foreign Military Sales Trust Fund	BA	2.4	1.9	2.2
	O	-0.1	-0.2	0.0
Export-Import Bank	BA	0.0	1.7	0.8
	O	0.1	0.4	0.6
International Monetary Fund Supplementary Facility	BA	1.8	0.0	0.0
	O	0.0	0.0	0.0
Exchange Stabilization Fund	BA	0.0	0.0	0.0
	O	0.0	0.0	-0.2
Other	BA	2.0	1.9	2.0
	O	1.4	2.0	2.0
Total Function 150	BA	13.6	13.5	13.7
	O	7.3	7.7	8.2

38-664 O - 79 - 6

SECURITY ASSISTANCE

The Economic Support Fund provides budget support and development assistance to countries of political importance to the United States. Of the $1.9 billion appropriated in fiscal year 1979, $1.8 billion went to Israel, Egypt, Jordan and Syria. The 1980 request of $2.0 billion maintains the 1979 nominal level for Israel and Egypt while reducing the level requested for Jordan and Syria by $70 million. The reduction is offset by an increase in request for Turkey, Portugal and Southern Africa of $153 million.

CONTRIBUTIONS TO MULTILATERAL DEVELOPMENT BANKS

The $3.6 billion budget request for fiscal year 1980 reflects a 44 percent increase over the level appropriated for fiscal year 1979. $1.6 billion of the request is for scheduled contributions under current replenishments (international agreements for increasing the financial resources of the banks); $1 billion represents contributions for new replenishments for which authorizing legislation will be sought. The $1 billion increase in budget authority from the $2.5 billion appropriated in fiscal year 1979 is due to the request for full appropriation of the "arrearages" (the amount by which appropriation levels have fallen short of authorization schedules) amassed over the past three years. The request, together with the levels appropriated for fiscal year 1979, is described in the following table:

Funding for Multinational Development Banks:
By Fiscal Years, in Millions of Dollars

	FY 1979	Fiscal Year 1980			
		Authorization			
		Scheduled	Required	Requested a/	Total
IBRD	163.1	522.9	--	503.0	1025.9
IDA	1258.0	800.0	--	292.0	1092.0
IFC	40.0	33.4	--	--	33.4
IDB	588.7	--	687.3	--	687.3
FSO	175.0	--	175.0	150.3	325.3
ADB	194.5	203.6	--	44.6	248.2
ADF	70.4	60	111.3	--	171.3
AFDF	25.0	--	41.7	--	41.7
Total of which:	2514.6	1619.9	1015.3	989.9	3625.1
Paid in	1631.5	966.0	379.5	497.1	1842.6
Callable	883.2	653.9	635.8	492.8	1782.5

a/ These estimates were also requested for fiscal years 1978 and 1979 but were not appropriated.

The request for fiscal year 1980 includes approximately $1.8 billion in callable capital and the remaining $1.8 billion in paid-in capital and contributions for development loans with very low interest rates (soft loans). Callable capital, which serves as a guarantee of the institutions' borrowing in private markets, has never been drawn and is estimated not to outlay. Contributions to the "soft loan" affiliates of the banks, once made, are committed for particular development projects. These institutions will draw funds from Treasury as needed for particular development projects and therefore outlays will occur over a period of years. Outlays in fiscal year 1980 from the $3.6 billion request are estimated to equal $397 million with $626 million estimated to outlay from prior year appropriations.

CBO's current policy estimate differs from the CBO estimate of the budget request primarily due to the treatment of arrearages. Given the history of appropriating total authorization levels over time, current policy assumes the arrearages will be made up over a two year period. Current policy includes new replenishment levels adjusted for inflation where an existing replenishment is completed. No new replenishment level is assumed where a replenishment is still underway.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Bilateral development assistance programs administered by the Agency for International Development support the efforts of less developed countries to meet the fundamental needs of their people. The request for fiscal year 1980 of $1,762 million is an increase of $218 million, or 15.8 percent. The largest increase of 19.2 percent is in the functional development assistance and Sahel development programs. This represents real growth of over 11 percent for these programs. Operating expenses in fiscal year 1980 grow by 5.5 percent over the level appropriated in 1979 for no real growth.

PUBLIC LAW 480 (FOOD AID)

The Agriculture and Related Agencies Appropriation Act for fiscal year 1979 placed a program ceiling of $1,413 million dollars on the P.L. 480 program in fiscal year 1979. The President is requesting the ceiling be raised by $59 million to permit the shipment of 300 thousand metric tons of commodities, under agreements signed in fiscal year 1978,in addition to full programming of 6.4 million metric tons in fiscal year 1979. The President's 1980 request of $1,399 million assumes a programming of 6.6 million metric tons with slightly lower commodity costs projected in fiscal year 1980. Reflows of $383 million and $406 million in fiscal years 1979 and 1980 respectively are offset against both budget authority and outlays.

MILITARY ASSISTANCE

The Foreign Assistance Act of 1979 placed a limit of $210 million on spending authority on the grant military assistance program (MAP) in fiscal year 1979. The President is requesting that ceiling be raised to $243 million. The 1980 request cuts the MAP account in half to $110 million. Foreign military credit sales and international military education and training are kept to the same nominal level as 1979.

FOREIGN MILITARY SALES (FMS) TRUST FUND

Estimates of trust fund obligations, receipts, and outlays are surrounded by considerable uncertainty under the best of circumstances. The recent events in Iran have made these estimates especially tentative. Neither the President's nor CBO's estimates make any allowances for changes in the Iranian FMS program.

Implicit in the President's estimates are $14.0 billion of new acceptances in 1980. The level implicit in the CBO current policy projection is $14.4 in 1980. The budget estimate of net outlays reflects the intent of the managers of the trust fund to draw down the balance of cash in the trust fund over the next few years to a level more consistent with quarterly cash requirements for disbursements. The CBO estimates do not reflect this.

THE EXPORT-IMPORT BANK

No budget authority is estimated to be required to support the Export-Import Bank activity in fiscal year 1979 as unobligated balances, accumulated during fiscal years 1977 and 1978, are drawn upon and depleted. In fiscal year 1980, $829 million of budget authority is requested. This will support a 12 percent nominal growth in the level of credit authorizations; the guarantee and insurance program is estimated to grow by 44 percent. The amount of budget authority contained in the President's request reflects a new accounting procedure whereby 25 percent of guarantees and insurance is no longer included as a component of required budget authority. Under the prior accounting methodology, CBO estimates that budget authority would total $1.8 billion for fiscal year 1980.

Outlays, which are defined as disbursements of direct credit less repayments and net income, increase from $0.1 billion in fiscal year 1979 to $0.6 billion in fiscal year 1980 reflecting the shift from slower to faster disbursing credits. In fiscal year 1980, slower-disbursing credits authorized in previous years are beginning to spend at the same time that faster-disbursing credits authorized currently are spending.

The CBO current policy estimate of budget authority continues past accounting practices. The assumptions underlying the CBO current policy estimate for fiscal year 1980 differ slightly from those in the budget estimate; current policy assumes a lower level of credit authorizations. The current policy level for 1980 is derived by applying the GNP deflator to the

1979 level of authorizations. The President's loan authorization request is consistent with the President's export policy announced in September 1978 which promised to increase the level of loans authorized in fiscal year 1980 by $500 million.

THE EXCHANGE STABILIZATION FUND

The Exchange Stabilization Fund (ESF) was created by the Gold Reserve Act of 1934 which authorized the Secretary of Treasury to deal in gold, foreign exchange, credit instruments and securities to stabilize the exchange value of the dollar. Net earnings, defined as gains and losses on foreign exchange transactions plus interest earned on special drawing rights (SDRs) and securities held less administrative expenses, have accrued to the Fund.

For budgetary purposes the ESF was classified as a deposit fund until fiscal year 1978 when it was reclassified as an off-budget federal entity. The Exchange Stabilization Fund Amendments of 1978 (Public Law 95-612) provided that the ESF is no longer available for administrative expenses and authorized the appropriation of $24 million for this purpose. The Act will take effect pursuant to appropriation Acts; a supplemental is requested in fiscal year 1979. Although the administrative expenses will be classified in function 800, the Administration is now recording interest collections of the ESF on Treasury securities as outlays in the international affairs function. The remaining component of ESF activity, gains and losses in foreign exchange transactions, are once again counted as a deposit fund; no outlays are recorded even as a memorandum item in the President's budget.

Because Public Law 95-612 has not yet taken effect, no estimate of this account was included in the Second Concurrent Resolution and none appears in CBO current policy estimate.

GENERAL SCIENCE, SPACE AND TECHNOLOGY (FUNCTION 250)

This function includes the general science and basic research programs of the National Science Foundation (NSF) and the Department of Energy (DOE), and the space programs of the National Aeronautics and Space Administration (NASA).

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	5.2	5.4	5.4	5.6	5.7	5.7
Outlays	5.0	5.2	5.2	5.4	5.5	5.5

a/ Preliminary, subject to change.

The President's budget authority request for fiscal year 1980 represents an increase of almost $300 million (about 5.5 percent) over his 1979 estimate. Almost half of that additional funding is for the NSF and DOE research programs, which would result in a 10 percent increase over their 1979 funding levels and an 8 percent increase in outlays. The proposed 1980 budget authority for both agencies exceeds the projected current policy levels by almost 2 percent, indicating an increase in real resources available for these programs.

The remainder of the proposed funding increase is concentrated in NASA's space science, applications, and technology activities, which are targeted for a 15 percent increase in budget authority (up $185 million) and a 13 percent increase in outlays (up $151 million). This area encompasses unmanned space exploration and the development of space technology and its practical applications. Projects targeted for large increases include

development of a space telescope and work on the Jupiter orbiter and probe mission. If the President's request is enacted, 1980 budget authority and outlays will represent an increase of more than 30 percent in two years, reflecting an increasing emphasis on this portion of the space program.

The President is also requesting a supplemental appropriation of $185 million for fiscal year 1979 for additional engineering and design work on the NASA space shuttle, which is currently scheduled for its first flight in November 1979. The Administration believes that this supplemental, which would require additional authorizing legislation, is necessary to avoid a delay of six to twelve months in the first flight date. If the proposed supplemental is enacted, the fiscal year 1979 budget authority for space flight will total $2.4 billion, $80 million more than the 1980 request, which provides for no new flight starts and no funding for a fifth space shuttle.

ENERGY (FUNCTION 270)

This function includes the major energy programs of the federal government. These programs focus on energy research and development, conservation, regulation, emergency preparedness, and production. The Department of Energy (DOE) is responsible for most of these programs. Several other agencies, including the Tennessee Valley Authority (TVA),the United States Geological Survey, and the Environmental Protection Agency, also perform activities that fall within this function.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	8.7	7.5	7.6	6.0	19.5	19.7
Outlays	8.1	8.6	7.8	7.8	7.9	7.6

a/ Preliminary, subject to change.

The President is requesting a substantial increase in budget authority for function 270, with a proposed increase from $7.5 billion in fiscal year 1979 to $19.5 billion in 1980. Outlays, on the other hand, are projected to drop from $8.6 billion to $7.9 billion. However, this comparison of 1979 and 1980 levels is greatly affected by substantial changes in two major accounts, and by a projected increase in offsetting receipts. First, the fiscal year 1980 budget authority includes an additional $15 billion for the TVA fund. This new budget authority is requested in the form of an increase in the agency's limitation on borrowing. This is not expected to have an impact on fiscal year 1980 spending. Second, the 1980 request includes only $8 million in budget authority for the Strategic Petroleum Reserve, because the unexpended balances available for this program are sufficient to cover the planned 1980 program level. (The fiscal year 1979 appropriation was approximately $3 billion.) The President is projecting outlays for this program to drop by about $400 million in 1980, because less additional oil storage capacity is projected to be available. Third, the 1980 request

projects significantly higher receipts in fiscal year 1980 than in fiscal year 1979 (an increase of approximately $300 million from the sale of power, the Naval Petroleum Reserve, and a proposed spent nuclear fuel revolving fund). For the remaining activities in the energy function, excluding the requested borrowing authority for the spent nuclear fuel revolving fund, the 1980 budget request of $5.5 billion represents a decrease of about 3 percent from the 1979 level. The President estimates that outlays for these other activities will be $7.2 billion in fiscal year 1980, about the same as his 1979 estimate.

The President's request for fiscal year 1980 includes a slight reduction in budget authority for energy research and technology (down $42 million), a 17 percent decrease in new funding for energy conservation (down $116 million), and a 17 percent increase in budget authority requested for regulation and information (up $47 million). Outlays for research and technology are estimated to increase slightly, while substantial outlay increases are projected for conservation (up $155 million), regulation and information activities (up $75 million), reflecting the spendout from the large funding increases in previous years and the impact of the National Energy Act passed in the 95th Congress. These increases in outlays, however, are offset by a projected reduction of outlays in the power marketing program of approximately 15 percent ($240 million) in fiscal year 1980.

The request also indicates several changes in research emphasis. Budget authority for solar energy research is 13 percent above the amount allocated in fiscal year 1979. In contrast, funds requested for nuclear fission are 14 percent below the fiscal year 1979 level. No funds are requested for the Clinch River Breeder Reactor, but the budget authority request for breeder reactor research, $590 million, accounts for approximately 57 percent of nuclear fission research request. This is, however a reduction of 20 percent ($152 million) below the 1979 level. The funding request for magnetic fusion is 2 percent above the fiscal year 1979 request, while fossil energy research funding remains roughly unchanged.

As noted above, only $8 million in budget authority is requested for the Strategic Petroleum Reserve, although the President is projecting outlays of approximately $2 billion. The Department expects to have 248 million barrels of oil in storage by the end of calendar year 1980. (CBO is currently projecting 230 million barrels by that time. Neither estimate reflects any potential impact of oil supply shortages that might result from a prolonged drop in Iranian oil production. While none of the oil to be acquired for the reserve is from Iran, a shortage might result in a diversion of reserve oil to other demands.) The President's estimate also assumes that the Congress will approve a $745 million reprogramming request early in the

Summary of Major Programs--Function 270: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Request	CBO Current Policy	President's Budget Request
Strategic Petroleum Reserve	BA	3.0	0.0	*
	O	2.4	1.6	2.0
Offsetting Receipts--Energy Supply	BA	-1.0	-1.0	-1.2
	O	-1.0	-1.0	-1.2
Requested TVA Borrowing Authority	BA	0.0	0.2	15.0
	O	0.0	0.0	0.0
Proposed Spent Fuel Storage Program	BA	0.0	0.0	0.3
	O	0.0	0.0	-0.1
Subtotal--SPR, Receipts, and Initiatives	BA	2.0	-0.8	14.1
	O	1.4	0.6	0.7
Other Energy Activities:				
Energy Supply	BA	4.0	5.0	3.9
	O	5.9	5.5	5.7
Energy Conservation	BA	0.7	0.9	0.6
	O	0.5	0.8	0.7
Energy Information, Policy, Regulation, and Other Receipts	BA	0.9	0.9	0.9
	O	0.9	0.9	0.9
Subtotal--Other Energy Activities	BA	5.5	6.8	5.4
	O	7.2	7.2	7.2
Total--Function 270	BA	7.5	6.0	19.5
	O	8.6	7.8	7.9

* less than $50 million

session, allowing a shift of funds from oil acquisition to the development of storage capacity. Appropriations through fiscal year 1980, assuming this reprogramming, will provide funding to reach a storage capacity of 608 million barrels of oil. Although no request has been made for appropriations to reach the 750 million barrel level, DOE has indicated that funds may be available through the government contingency fund should program progress warrant additional funds.

The fiscal year 1980 budget request also assumes two major legislative proposals. The President has proposed for later transmission legislation to increase the limitation on the amount of TVA power bonds issued under the TVA Act as amended. The legislation would create new budget authority in the amount of $15 billion by raising TVA's authority to borrow from $15 billion to $30 billion. The cost of repayment of TVA borrowing is charged to TVA's customers through rates paid for electricity. TVA will use the new borrowing authority to finance acquisition of additional power generating capacity. In the past, TVA has operated on a full funding basis. On this basis, TVA can be expected to make new construction starts up to the point where projects can be completed under existing borrowing authority, or for the next three to five years. Outlays, however, can be expected to continue from this new budget authority for more than five years.

The Department of Energy will propose the creation of the Spent Fuel Storage Program. The program calls for DOE to dispose of spent nuclear fuel from commercial reactors for a fee. A revolving fund would be created to finance the program. The initial borrowing authority request is for $300 million. The Department expects to receive approximately $100 million in receipts in fiscal year 1980.

In addition to these proposals, supplemental appropriations totaling $156 million in budget authority and $90 million in outlays (excluding pay supplementals and funds allocated to other budget functions) are requested for fiscal year 1979. These supplementals are primarily to cover various costs of implementing the National Energy Act.

The CBO preliminary estimate of the President's fiscal year 1980 request reflects estimating differences in four program areas. First, CBO projects lower receipts to the Naval Petroleum Reserve in fiscal year 1980. This accounts for the higher budget authority estimate, and also increases the outlay estimate. The CBO estimate of TVA outlays is also about $170 million higher than that assumed in the President's request.

These increases, however, are offset by lower estimates in two other program areas. The CBO outlay projection for the Strategic Petroleum

Reserve is $385 million lower than that included in the request. This is because of different assumptions regarding the rate of oil acquisition and the spendout of construction funds. Second, CBO outlay projections for the energy research and development programs and the energy conservation programs are lower ($328 million), because of slower spendout rates projected on the basis of historical experience. Similar differences in estimates for receipts, petroleum reserve spending, and conservation activities are reflected in the CBO estimate of fiscal year 1979 outlays.

NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

This function is composed of programs for the development and management of water resources, conservative and land management, development of recreational resources, pollution control and abatement, and other natural resource programs.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	13.3	12.8	12.9	14.3	12.9	13.0
Outlays	11.5	11.1	11.0	12.8	11.5	11.9

a/ Preliminary, subject to change.

For fiscal year 1980, the President is proposing to maintain budget authority for this function virtually unchanged from the 1979 level, with an outlay increase of $376 million, about 3 percent above his current estimate for 1979. This represents a reduction of $1.4 billion, or about 10 percent, below the current policy levels projected by CBO for both budget authority and outlays. However, the 1980 budget authority request is not fully comparable with the 1979 funding level, because the former includes approximately $0.5 billion for full funding of new water projects, a concept that was substantially rejected by the 95th Congress. When the 1980 budget is adjusted for this factor, the budget authority requested for function 300 is a net reduction of almost $500 million below the 1979 level, and about 14 percent below the current policy projection.

The President is proposing increases in funding for water resources and other natural resources programs for fiscal year 1980, which are offset by a sharp cut in conservation and land management funds, and by modest cuts in funds for recreational resources and pollution control and abatement programs. When adjusted for the proposed full funding provisions, the

budget request for water resources represents an increase of 3 percent (about $100 million), while other natural resources programs are targeted for about a 7 percent increase ($94 million) over the 1979 level. These are more than offset by the $267 million reduction in conservation and land management programs, representing a 12 percent decrease from the current 1979 estimate. In addition, the President is seeking a reduction of almost 6 percent ($106 million) in recreational resources programs, and about 4 percent ($200 million) in pollution control and abatement activities.

The major reductions primarily affect programs of the Department of Agriculture (USDA), the Department of the Interior (DOI), and the Environment Protection Agency (EPA). The President has proposed a reduction of $114 million for the conservation activities of USDA's Soil Conservation Service (SCS) and Agricultural Stabilization and Conservation Service, which would result in a 26 percent decrease in the aggregate obligation level, sharply reducing cost-sharing assistance to farmers and SCS conservation planning assistance to states and localities. The President is also requesting a $233 million reduction in funding for the Forest Service, a 14 percent cut in budget authority. This decrease is primarily attributable to a reduction in funds for forest road construction in the national forests and to the proposed elimination of the Youth Conservation Corps.

Reductions proposed for the Department of the Interior include a $128 million decrease in requested appropriations for the Land and Water Conservation Fund (a decline of 17 percent), a $50 million cut in construction and acquisition of facilities for sports fishing and wildlife resources, a $44 million drop in funds for the Bureau of Land Management, and a $33 million reduction in construction of facilities contained within the National Park system.

The single largest funding decrease proposed for this function is a $400 million decrease in EPA's construction grant program. This will not significantly affect the program, since states and territories will still have available approximately $4.5 billion from appropriations prior to fiscal year 1980 to be utilized for new construction projects. Therefore, in fiscal year 1980, approximately $8.3 billion would be available for new construction projects, an amount far exceeding the likely obligation level for this program.

These reductions are only partially offset by increases in other programs and by proposed new initiatives. The largest increase is $605 million for water resources projects of the Corps of Engineers and Bureau of Reclamation. However, as discussed above, most of this increase is attributable to the proposed full funding of a number of new projects and does not represent a significant increase in program level. Such full funding

Summary of Major Programs--Function 300: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Request	CBO Current Policy	President's Budget Request
Corps of Engineers	BA	2.7	2.9	3.1
	O	2.6	2.8	2.7
Other Water Resources	BA	0.8	1.1	1.0
	O	0.9	1.0	0.9
Forest Service	BA	1.7	1.9	1.5
	O	1.5	1.8	1.4
Other Conservation and Land Management Programs a/	BA	1.2	1.2	1.1
	O	1.2	1.2	1.1
Recreational Resources	BA	1.9	2.0	1.8
	O	1.4	1.8	1.4
Pollution Control and Abatement	BA	5.3	5.9	5.1
	O	4.1	5.0	4.7
Other Natural Resources	BA	1.3	1.4	1.4
	O	1.3	1.3	1.3
Offsetting Receipts b/	BA	-2.0	-2.1	-2.1
	O	-2.0	-2.1	-2.1
Total-Function 300	BA	12.8	14.3	12.9
	O	11.1	12.8	11.5

a/ Excluding offsetting receipts

b/ Includes general function 300 and subfunction 302 receipts

requests submitted to the Congress by the President for fiscal year 1979 were rejected for the most part.

The President's water policy, announced in June 1978, is likely to be a significant issue during the 96th Congress. The 1980 budget also includes continued funding for the Water Resources Council at levels similar to the $50 million requested as a supplemental for fiscal year 1979. In addition, this budget includes funds to resume working on the replacement of Lock and Dam 26 on the Mississippi River. It does not include a request for any additional funds for the Auburn Dam or the Garrison Diversion Project, because of unresolved legal questions.

The President is also requesting a $37.5 million supplemental appropriation in fiscal year 1979 and $150 million for 1980 for urban park and recreation grants, authorized by the 95th Congress. These grants will subsidize 70 percent of the cost of rehabilitation of city parks and recreational facilities. In addition, he is seeking an increase of $94 million (or 8.5 percent) in various existing EPA programs other than construction grants and is proposing the initiation of a $75 million program, to be administered by the SCS, to provide technical and financial assistance for the control of non-point sources of water pollution.

The President is also requesting a $78 million increase in funding for DOI's Office of Surface Mining, Reclamation and Enforcement in anticipation of the first year in which most states will have their independent programs approved and in operation. In addition, the budget calls for an increase of $54 million (or 8 percent) for operations, research, and facilities of the National Oceanic and Atmospheric Administration (NOAA). Finally, the President intends to propose legislation establishing a system of liability and compensation for damages resulting from oil spills. He will seek establishment of an oil pollution liability compensation fund, administered by the Coast Guard, to provide for cleanup of oil spills, and proposes initial funding of $25 million in fiscal year 1980.

The major estimating difference in this function involves EPA construction grants. CBO's preliminary estimate for fiscal year 1980 outlays is $3.8 billion, compared to the President's estimate of $3.6 billion. CBO also projects somewhat higher 1980 outlays for the Land and Water Conservation Fund, with total outlays for the function estimated to be $11.9 billion, $0.4 higher than the Administration's estimate.

38-664 O - 79 - 7

AGRICULTURE (FUNCTION 350)

This function includes programs that provide farm income security, as well as agricultural research. With the exception of two minor Farm Credit Administration Funds, all programs fall under the jurisdiction of the Department of Agriculture.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	9.2	8.3	8.3	5.1	4.9	4.9
Outlays	7.5	6.2	6.4	5.1	4.3	4.5

a/ Preliminary, subject to change.

The major program in this function is agricultural price supports and related activities, administered through the Commodity Credit Corporation (CCC). Price support outlays are expected to constitute about 80 percent of total function 350 outlays in fiscal year 1979, decreasing to about 60 percent of fiscal year 1980 outlays. Other accounts of major importance are the Agricultural Credit Insurance Fund, the Federal Crop Insurance Fund, and the Agricultural Stabilization and Conservation Service.

Summary of Major Programs--Function 350: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Request	CBO Current Policy	President's Budget Request
CCC-Price Supports	BA	6.5	3.2	3.1
	O	5.0	3.4	2.6
Agricultural Credit Insurance Fund	BA	0.1	0.2	0.3
	O	-0.4	0.2	0.2
Other Agriculture Programs and Receipts	BA	1.7	1.7	1.5
	O	1.6	1.5	1.5
Total-Function 350	BA	8.3	5.1	4.9
	O	6.2	5.1	4.3

The President's budget request for fiscal year 1980 is substantially below the projected 1979 level for both budget authority and outlays, almost entirely because of an expected decline in funding required for CCC price support programs. In fiscal year 1979, the CCC received an appropriation of $1.0 billion to restore realized losses from its operations, and $5.5 billion in new borrowing authority. In fiscal year 1980, the President's budget requests $3.1 billion to restore realized losses, but no new borrowing authority. CBO estimates that fiscal year 1980 outlays for CCC programs will decline by $2.3 billion from the current estimate for 1979, due largely to higher prices for 1979 crops than for 1978 crops. The lower estimate of 1980 outlays also reflects the fact that the 1980 level the Administration has set for the CCC short-term export credit program is $0.8 billion below the fiscal year 1979 level. (This reduction accounts for most of the difference between the President's 1980 request and the CBO estimate of current policy outlays for CCC, which was based on an assumed continuation of the short-term export credit program at the fiscal year 1979 level of $1.6 billion.) Activity in this export credit program is discretionary, up to an annual limit established in the appropriations bill.

Budget authority for the Agricultural Credit Insurance Fund of the Farmers Home Administration is appropriated to restore realized losses in previous years. In fiscal year 1980, the President is requesting budget authority of $273 million--$129 million more than his current estimates for 1979. Outlays for this account are extremely volatile, and in any one year may bear little relationship to the level of program activity. They are affected not only by administrative and loan subsidy costs, but also by financial transactions with the Federal Financing Bank (FFB), which are fully at the discretion of the Administration. Outlays projected for the Agricultural Credit Insurance Fund for fiscal year 1979 assume net receipts from sale of loans to the FFB. In fiscal year 1980, however, outlays are projected to be $0.2 billion, or $0.6 billion more than for 1979.

The President is proposing an absolute net reduction in funding for other agriculture programs, with both budget authority and outlays cut by over $100 million from 1979 levels. This is a reduction of 9 percent in budget authority and 7 percent in outlays. Reduced appropriations are being requested for the Agricultural Stabilization and Conservation Service (down $37 million), and for extension and animal and plant health programs (down $27 million). Aside from non-recurring items of about $76 million requested for fiscal year 1979, the requests for appropriations for agricultural research programs is about the same in fiscal year 1980 as in 1979.

The President's budget includes two major legislative proposals affecting function 350. The first is an International Emergency Food Reserve, to be purchased during fiscal year 1979. Outlays during fiscal year 1979 are estimated by the Administration to be $0.3 billion for wheat purchases, transportation and storage, and interest paid to the Treasury. For fiscal year 1980, the Administration estimates that outlays for storage and interest would be less than $0.1 billion. However, deficiency payments and loans on the 1979 wheat crop would be decreased by an estimated $0.1 billion, because the purchase of wheat for the reserve would increase wheat prices.

The other major proposal is for a nation-wide all risk crop insurance program, to be administered through the CCC. Start-up costs for this program are estimated to be $0.1 billion in fiscal year 1980. The Federal Crop Insurance Corporation would be phased out, so that an offsetting savings of less than $0.1 billion would be realized.

The Congress is likely to consider additional legislation in the agricultural area. Items with potentially significant budget impacts include sugar price support, the level of dairy price supports, and parity supports for wheat, food grains, and cotton.

The loan and purchase program for sugar ends with the 1978 crop. Legislation may extend the current program, initiate a direct payment program similar to that for other crops, or rely on import fees and/or quotas to support domestic prices.

Milk prices are supported at 80 percent of parity through fiscal year 1979. In the absence of legislation to extend this level of support for future years, the Secretary of Agriculture may reduce the support level to 75 percent of parity beginning in fiscal year 1980. However, the President's budget assumes that support will be extended at 80 percent of parity through fiscal year 1980.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

Most of the programs in this function are designed to ensure an adequate supply of funds to meet the nation's housing and credit needs. These programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA), the federal government's thrift deposit insurance programs and many of the direct loan and loan guarantee programs of the Small Business Administration. The function also includes funding for the Postal Service, for parts of the Department of Commerce and for a number of independent agencies.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	5.5	6.9	6.7	6.0	8.3	8.3
Outlays	2.8	2.9	3.1	4.1	3.4	3.4

a/ Preliminary, subject to change.

For fiscal year 1980, the President has requested new budget authority of $8.3 billion, a 20 percent increase over his 1979 estimate of $6.9 billion. Most of this growth is attributable to the proposed $1.7 billion initial funding of the National Credit Union Administration's Central Liquidity Facility. Also included is an increase in funding of $434 million for the Census Bureau, to cover costs of the 1980 decennial census. The increases are partially offset by lower requests for USDA's Rural Housing Insurance Fund (RHIF), HUD's Government National Mortgage Association (GNMA) and the U.S. Postal Service.

The large differences in budget authority between the current estimates for fiscal year 1979 and the Second Concurrent Resolution on the Budget for Fiscal Year 1979 result primarily from a $985 million supplemental request in 1979 for the RHIF's homeownership assistance program and

the recalculation of the budget authority needed to support the RHIF's rural rental assistance program. This recalculation accounts for about $400 million of the increase in the President's estimate of 1979 RHIF budget authority and was made to reflect the long-term costs of the rental assistance program. A similar impact is also apparent in the RHIF fiscal year 1980 budget request.

The President's budget estimates outlays of $3.4 billion for fiscal year 1980, an increase over current estimates for 1979 of $0.5 billion, or about 17 percent. The estimates for 1980, however, represent a decrease of 17 percent from the CBO current policy estimate. For the most part, this decrease is not because of lower program levels but represents Administration projections of larger asset sales by the RHIF and GNMA and smaller losses in HUD's Federal Housing Administration Fund.

As mentioned above, the President has requested fiscal year 1980 funding for the credit union Central Liquidity Facility (CLF). The legislation that established the CLF, the Financial Institution Regulatory and Interest Rate Control Act of 1978 (Public Law 95-630), grants the CLF a $500 million emergency line of credit from the U.S. Treasury, and in addition, allows the CLF to issue debt to others than the Treasury in amounts up to 12 times its paid-in capital. The President's proposed funding level of $1.7 billion represents a request for an appropriation of the entire emergency line of credit plus borrowing authority based on paid-in capital of $100 million.

The President's budget request of $1.7 billion for fiscal year 1980 for the payment to the U.S. Postal Service is $105 million lower than the fiscal year 1979 budget. Included in the request is a proposed supplemental of $18 million to cover the fiscal year 1979 costs of reduced rates for political mail as recently authorized by the Congress. The $105 million reduction primarily reflects a decline in the public service subsidy, which is based on a percentage of the amount appropriated to the former Post Office Department for fiscal year 1971. Beginning in fiscal year 1980, this public service subsidy declines 10 percent annually. Legislation offered in both the House and the Senate during the 95th Congress would have continued the subsidy at the same or higher levels as fiscal year 1979, as well as expanded the categories of mail eligible for reduced rates which the Congress subsidizes through the revenue foregone appropriation. Postal Service budget authority and outlays may well exceed the President's estimates by over $100 million if similar legislation passes this session.

Total program levels for fiscal year 1980 for the loan programs of the Small Business Administration show no change over fiscal year 1979: $372 million in commitments for direct loans and $3.5 billion in loan guarantees.

Certain program ceiling shifts have occurred, however, with an increase in specialized loans for energy applications and for the handicapped, at the expense of the 7(a) business loan program. Historically, the Congress has approved increases over the President's recommended level; as a result, the loan program levels have shown an annual growth averaging between 20 and 30 percent in recent years.

The budget authority and outlays for the periodic censuses and programs of the Bureau of the Census have more than tripled from fiscal year 1979 to fiscal year 1980. The increase of $434 million in budget authority and $354 million in outlays is required to carry out the decennial census. A relatively small contingency has been allowed, but problems with response rates, staffing quality, processing or extensive followup could raise total outlays from estimated levels.

The President has also requested a $54 million supplemental in fiscal year 1979 and $89 million in fiscal year 1980 for funding the newly created National Consumer Cooperative Bank, which has the authority to make loans and capital advances to business cooperatives. The President's long-range estimates project increased funding of $128 million for the bank in fiscal year 1981, with decreasing amounts thereafter.

TRANSPORTATION (FUNCTION 400)

Function 400 includes the programs of the Department of Transportation (DOT), as well as the Maritime Administration of the Department of Commerce, and activities of a number of independent agencies related to transportation.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	19.5	19.9	19.9	20.9	19.1	19.1
Outlays	17.3	17.4	17.3	19.0	17.6	18.7

a/ Preliminary, subject to change.

The President's transportation budget message contains two goals that the Administration plans to pursue. The first is regulatory reform of the rail, truck and intercity bus operations. The second is to have the costs of federal government transportation programs shared equitably by those who benefit from them. These two initiatives have slight budget impact in fiscal year 1980, but have significant potential long-run budget implications, possibly affecting federal funding of operating assistance in the rail and mass transit programs, uses of the airport and airways trust fund monies, waterway user charge fees, and the levels of highway and aviation user taxes imposed on various classes of users.

The President's 1980 budget request reflects a real decline from the funding requested for fiscal year 1979. Overall budget authority for transportation activities is projected to decline almost 4 percent relative to the 1979 level.

Summary of Major Programs--Function 400: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Request	CBO Current Policy	President's Budget Request
Federal-Aid Highways	BA	8.0	8.6	8.6
	O	6.6	7.3	6.9
Mass Transit	BA	2.4	3.1	2.5
	O	2.4	2.9	2.5
Purchase of Conrail Securities	BA	1.4	0.6	0.0
	O	0.8	0.6	0.4
Other Highway and Railroad Programs	BA	2.3	2.4	2.1
	O	2.2	2.3	2.0
Federal Aviation Administration	BA	3.1	3.2	3.1
	O	2.9	3.1	3.0
Coast Guard	BA	1.5	1.6	1.6
	O	1.4	1.6	1.5
Maritime Administration	BA	0.5	0.7	0.5
	O	0.5	0.6	0.5
Other Transportation	BA	0.7	0.7	0.7
	O	0.6	0.7	0.8
Total--Function 400	BA	19.9	20.9	19.1
	O	17.4	19.0	17.6

Almost all of the decline in budget authority occurs in ground transportation (subfunction 401). The President is requesting almost $900 million less budget authority for this subfunction for fiscal year 1980 than currently estimated for 1979, despite a $600 million increase in budget authority for the federal-aid highways program. This reduction is due to the President's proposal for funding the purchase of Conrail securities. The President has requested a supplemental appropriation of $974 million in fiscal year 1979 for this purpose. This exhausts the existing authorization

and no new authorization is requested. As a result, total requested funding for Conrail in fiscal year 1979 is $1.4 billion, with no funds requested in 1980.

Aside from the increase in the federal-aid highway program and the proposed decline in Conrail funding in 1980, the President's total request for all other transportation programs is virtually the same in fiscal year 1980 as in 1979 ($10.5 billion in budget authority). This is the result of proposed cuts in a number of programs, and of relatively small increases in most others.

The President has requested no new funding for several highway programs authorized in the Surface Transportation Assistance Act of 1978. This includes the off-systems roads program, the Alaska highway, the highway beautification program, highways to public recreation areas, and the railroad-highway crossing demonstration projects. Total budget authority for these programs is $106 million in fiscal year 1979. The budget does not request funds for several new programs authorized in the Surface Transportation Assistance Act, each of which is funded from general revenues and would require subsequent action by the Appropriations Committees.

The President has also requested budget authority below the 1979 level for a number of other programs. The request for the construction differential subsidy for ship construction (CDS) is $56 million below that requested in 1979 and $190 million below the CBO current policy projection for this account. In addition, the operating subsidy portion of grants to Amtrak is proposed to drop by $48 million, reflecting the requested $90 million supplemental for 1979 and a proposed reduction in the Amtrak route structure.

Authorization for the preference share portion of the rail rehabilitation and improvement financing fund expires in 1979. The President requests no budget authority for this program in fiscal year 1980, but he will propose legislation this year to reauthorize and restructure assistance programs for freight railroads. This is reflected in the $250 million requested for a legislative initiative under the rail service assistance program.

The President's budget for fiscal year 1980 also reflects a decline in the airport and airways trust fund contribution to Federal Aviation Administration (FAA) operations, the grants-in-aid for airports program, and the FAA facilities and equipment program. Proposed budget authority for these programs in fiscal year 1980 is $1.16 billion, down $118 million from 1979. These are one-year reductions, however, for the administration has stated

its intention to submit legislation to extend the airport and airways trust fund and to fund an expanded air program. The new legislation is expected to ask for funding of $14.6 billion from the trust fund over five years starting in 1981, compared to the CBO current policy level of approximately $9 billion. A major part of this proposal ($8 billion of the $14.6 billion) represents funding for FAA operating expenses, most of which are now funded from general revenues.

The President's budget provides for virtually identical funding for the programs of the Urban Mass Transportation Administration (UMTA) as in fiscal year 1979, with obligation levels in both years estimated to be $3.5 billion. This represents a decline in real resources for these activities, when the impact of inflation is considered. The requested funding level is also below the amounts authorized in the Surface Transportation Assistance Act of 1978.

The largest absolute increase proposed in this function, aside from the federal-aid highways program, is for programs of the Coast Guard. The $90 million increase in budget authority approximates the CBO current policy projection for that agency.

Preliminary CBO estimates indicate transportation outlays in fiscal year 1980 about $1.1 billion higher than the President's estimate. The largest differences in outlay estimates are in the federal-aid highways program ($0.4 billion), and in the purchase of Conrail securities ($0.3 billion). CBO estimates total federal-aid highways obligations of $7.7 billion in fiscal year 1979 and $8.2 billion in fiscal year 1980. The President's budget assumes obligations of $7.6 billion and $8.4 billion respectively for the two years. The outlay estimating differences are because of different estimates of the time lag between obligations and outlays.

The Administration expects to spend $440 million for Conrail securities in fiscal year 1980. This outlay figure is based on expected improvements in Conrail performance and on the pricing and abandonment flexibility provided by a less regulated environment. If realized, it will mean an improvement in Conrail's financial performance of roughly $300 million in a single year. Such a drastic turnaround is improbable, given Conrail's record to date. CBO estimates that the government will purchase approximately $700 million in Conrail securities in 1980, an amount that would exhaust the full $3.3 billion Conrail authorization.

The remaining, smaller estimating differences fall primarily in several FAA accounts, UMTA, and the Northeast Corridor Improvement program.

COMMUNITY AND REGIONAL DEVELOPMENT (FUNCTION 450)

This function includes programs for community and regional development and disaster relief administered by the Departments of Housing and Urban Development (HUD), Commerce, Interior, and Agriculture, and the Small Business Administration (SBA). The President's fiscal year 1980 budget anticipates the establishment in 1979 of the Federal Emergency Management Agency (FEMA) to consolidate several disaster assistance programs.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	8.9	8.2	8.2	9.5	11.3	11.3
Outlays	9.6	9.1	9.1	9.1	7.3	7.3

a/ Preliminary, subject to change.

The keystone of the President's fiscal year 1980 proposal for community and regional development is the proposed National Development Bank. The bank, together with numerous resource reallocations and several smaller initiatives, reflects an attempt by the President to increase the cooperative participation of state and local governments and the private sector in the revitalization of economically depressed urban and rural areas.

In total, the President's 1980 budget proposes budget authority of $11.3 billion, an increase of $3.1 billion, or 39 percent over the estimated fiscal year 1979 level. This increase is a direct consequence of the proposed National Development Bank, for which the President is requesting $3.5 billion in budget authority for 1980. Additional requested funding increases include $150 million in fiscal year 1980 for a new inland energy impact program, as well as $20 million for the livable cities and neighborhood self-help development programs, which were included in the President's urban

initiative and were authorized in 1978. For the remaining programs in the function, the President is asking for 7 percent less than his latest request for 1979, and 20 percent less than the CBO current policy projection for 1980.

These budget authority reductions are spread unevenly throughout the function. The President is requesting $4.8 billion in budget authority for community development programs, including an additional $150 million for the community development block grant program. This is the same total requested for fiscal year 1979, and it is $250 million below the CBO estimate of budget authority necessary to maintain current program activity in 1980.

A total of $2.4 billion in budget authority is requested for currently authorized area and regional development programs. This represents a decrease from the $2.8 billion requested in 1979, and is $500 million below the CBO current policy projection for 1980 for the same programs.

Requests for resources in disaster relief and insurance decrease from $550 million in 1979 to $390 million in 1980. The President's budget proposes several program changes designed to restrict the demand for Small Business Administration disaster loans to the program's historical constituency of homeowners and nonfarm businesses. It is also based on very optimistic assumptions about the level of need for disaster relief during the budget year. The $390 million requested for 1980 is 30 percent below the level requested for 1979 and substantially below the CBO current policy level of $1.5 billion.

The funding reductions for existing activities affect a number of individual programs. The President has proposed $130 million in budget authority for the "312" rehabilitation loan program in fiscal year 1980. This compares with $230 million in current year authority, which the Congress increased from an initial Presidential request of $95 million. The President is requesting no 1980 budget authority for the urban homesteading program, compared with a $20 million authorization for 1979, and he is asking for cuts in authority for both the 701 comprehensive planning program and HUD research efforts.

In addition, the President is proposing a $300 million decrease in funding for loans insured or guaranteed by the Farmers Home Administration for capital investment in rural areas, and has proposed to eliminate rural development planning grant and rural fire protection grant programs. (This proposal was also made last year, and was rejected by the Congress.) Funds requested for Indian area and regional development programs declined by $85 million in 1980, with most of the cuts coming in nonhighway

Summary of Major Programs--Function 450: In Billions of Dollars

		FY 1979	FY 1980	
		President's Latest Request	CBO Current Policy	President's Budget Request
Existing Programs:				
Community Development Block Grants	BA	3.8	4.0	3.9
	O	2.9	3.4	3.3
Other Community Development	BA	1.0	1.0	0.9
	O	0.8	1.2	1.0
Rural Development Insurance Fund	BA	0.5	0.4	0.1
	O	0.1	0.2	*
Other Farmers Home Administration	BA	0.5	0.6	0.5
	O	0.5	0.5	0.5
Local Public Works	BA	*	0.0	0.0
	O	2.1	0.4	0.3
Other Economic Development Administration	BA	0.5	0.7	0.6
	O	0.3	0.5	0.4
Bureau of Indian Affairs	BA	1.0	1.0	0.9
	O	0.8	1.0	0.7
Other Regional Development	BA	0.3	0.3	0.3
	O	0.2	0.4	0.2
SBA Disaster Loans	BA	0.2	1.0	0.1
	O	0.8	0.8	*
Other Disaster Assistance	BA	0.3	0.5	0.3
	O	0.5	0.6	0.5
Subtotal--Existing Programs[a/]	BA	8.2	9.5	7.6
	O	9.1	9.1	7.0
Legislative Initiatives:				
National Development Bank	BA	*	0.0	3.5
	O	*	0.0	0.2
Inland Energy Impact Assistance	BA	0.0	0.0	0.2
	O	0.0	0.0	0.1
Total--Function 450[a/]	BA	8.2	9.5	11.3
	O	9.1	9.1	7.3

* Less than $50 million.

a/ Budget authority and outlays include estimates of offsetting receipts assigned to function 450.

construction. The requested $885 million is $80 million below CBO's estimate of funds needed to sustain current policy. Program funds for the Appalachian Regional Commission also show a decline between 1979 and 1980. The $358 million requested for 1980 is $10 million below the 1979 level in the President's budget and $40 million below the CBO current policy projection for fiscal year 1980.

The 1980 budget also requests funding for various disaster assistance programs at levels substantially below their actual funding requirements in recent years. Funds requested for the President's disaster relief fund are $193 million below CBO's current policy estimate for 1980. The request for the Small Business Administration's disaster loan fund assumes a loan demand of $250 million in 1980, whereas demand averaged over $500 million, in 1980 dollars, from 1974 to 1978, excluding drought loan demand in 1978. If disasters occur with "normal" frequency and intensity in 1980, additional appropriations will be required.

The proposed reductions in currently authorized programs in this function are offset, in part, by some funding increases. The President is seeking $3.9 billion for the community development block grant program (CDBG) and $400 million for the urban development action grant program (UDAG) in 1980. The CDBG funding includes $100 million to be used for settlement of commitments made by communities under the old categorical grant programs. The CDBG proposal is $150 million higher than the appropriation requested for fiscal year 1979, while the UDAG program is continued at its 1978 and 1979 levels. The combined budget authority of $4.3 billion for the two programs is $114 million lower than the amount projected for 1980 by CBO under current policy assumptions.

The President is also requesting a $75 million increase in funding for EDA's business development loan guarantee program, which would allow EDA to maintain in 1980 the program level established in 1979. EDA was allowed a one-time transfer of $75 million from its revolving fund to the loan program in 1979. In addition to the requested increase, the President is considering including the loan program in the National Development Bank.

The President's budget for 1980 anticipates an outlay level of $7.0 billion, excluding estimated outlays of $278 million for new programs. This estimate is $2 billion below 1979 estimates, and nearly $4 billion below 1978 actual outlays for the same programs. This drop is in large part caused by the phaseout of the local public works program funded in 1977, and the President's decision not to seek enactment of the labor-intensive public

works proposal outlined in the 1979 urban initiative. The CBO current policy estimate for 1980 of $9.1 billion in outlays differs from the President's request mainly in the area of disaster assistance and the activities of the Rural Development Insurance Fund.

The proposed National Development Bank is the central element in the attempt by the President in 1980 to encourage the relocation or revitalization of labor-intensive industry in areas of lagging growth and substantial unemployment. The President's long-range estimates project budget authority of about $2.6 billion per year between 1981 and 1984, with outlays increasing from the estimated $195 million in 1980 to $1.3 billion in fiscal year 1984.

The inland energy impact program proposes to address the problems of runaway demand for local government services in areas of rapid economic growth caused by energy development, mainly in the nation's surface coal mining areas. Presumably, the gap between this demand and state and locally-generated resources will decrease substantially as tax revenues from this development increase.

The President's proposal for disaster relief and insurance repeats an attempt made in the 1979 budget to limit eligibility for disaster loans made through the SBA to the fund's traditional constituency, homeowners and nonagricultural businesses. It further proposes to require business applicants to pass a "no credit elsewhere" test before being approved for an SBA loan. The elimination of SBA lending for agricultural disasters is likely to lead to a greater demand for the disaster loan programs of the Farmers Home Administration (FmHA). However, because FmHA can offset the budget impact of such loans through asset sales to the Federal Financing Bank, the potential shift in loan activity may have the effect of moving some loan costs off-budget. Congress was unwilling to exclude farmers from the program during the 95th Congress, and there was substantial support to continue the program in its 1978 form.

38-654 O - 79 - 8

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (FUNCTION 500)

This function provides federal funds for education, training and employment, and other social services. The Department of Health, Education, and Welfare administers 60 percent of the funds, of which 40 percent support education programs and 20 percent support social service programs. The remaining funds cover the training and employment accounts of the Department of Labor.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	32.9	33.0	33.0	36.8	30.9	30.9
Outlays	30.3	30.6	30.7	34.7	30.2	30.7

a/ Preliminary, subject to change.

For the function as a whole, the President's budget authority request declines by $2.1 billion from fiscal year 1979; the outlays decline by $400 million. The decline in the 1980 request involves significant reductions in public service employment and CETA summer youth programs, and a legislative proposal to eliminate portions of impact aid. In addition, the estimate of full funding of the basic education opportunity grants (BEOGS) program is considered by CBO to be too low.

The difference between CBO current policy and the President's request as reestimated by CBO is $5.9 billion in budget authority and $4.0 billion in outlays. These differences result primarily from proposed cuts in public service employment job slots and the failure to maintain real dollar levels in the education and other training programs.

EDUCATION

In fiscal year 1980, the Administration is requesting a total of $14.3 billion for the education programs. This is a decrease of $300 million from the 1979 program levels. No major new initiatives are proposed.

Education Estimates: In Billions of Dollars

	1978	1979			1980	
	Actual	Pres. Latest Request	CBO Estimate of Pres. Request	CBO Current Policy	Pres. Budget Request	CBO Est. of Pres. Request
Budget Authority	12.2	14.6	14.6	15.9	14.3	14.3
Outlays	10.3	12.7	12.8	14.5	13.3	13.9

The funding request for the elementary and secondary education programs basically maintains the 1979 levels, with the exception of increases for Title I concentration grants and education for the handicapped. These increases are estimated at $200 million. A $300 million decrease for the elimination of funds for category "B" children in the impact aid program is also requested. Taking account of inflation, federal dollars per pupil would decline 7 percent in real terms in fiscal year 1980.

Because these programs are advance-funded, outlays in one year primarily reflect the funding levels in prior years. CBO's outlays are higher than the President's by $100 million in 1979 and $200 million in 1980 to reflect current spending patterns. The Administration's outlay estimates assume a slowdown in spending from prior year budget authority.

The Administration's higher education request for fiscal year 1980 assumes full funding for the BEOG program. The budget also states that the Administration will award the maximum grant levels in fiscal year 1979. The President's budget did not include any additional funds for the BEOG program in fiscal year 1979. For fiscal year 1980 the Administration has requested a total of $2.4 billion for the program: $1.7 billion in new budget authority and $700 million in reappropriated 1978 funds. As CBO projects a larger potential BEOG recipient population, the Administration's request would provide less than full program funding.

To meet the President's stated goals, CBO estimates that an additional $100 million is needed in 1979. In 1980, CBO estimates that full program funding would require budget authority of $2.8 billion, $400 million above the Administration's estimate. In addition, CBO estimates the amount of 1978 funds which will be available for reappropriation in 1980 to be $500 million, $200 million less than the President's estimate. CBO, therefore, estimates the need for an additional $600 million in budget authority in 1980.

CBO Estimate for the Cost and Funding Requirements of the BEOG Program for Fiscal Years 1978-1980: In Millions of Dollars

Fiscal Year	Recipients (thousands)	Total Cost	Available BA	Needed New BA	Unobligated a/ BA to Be Reappropriated
1978	1,943	1,634	2,160	0	526
1979 b/	2,904	2,740	2,600	140	0
1980 c/	2,814	1,837	---	2,837	0

a/ Assumes $526 million available to be reappropriated in fiscal year 1980.

b/ Assumes maximum awards made under the appropriation law.

c/ Assumes full funding of the BEOG program.

The CBO figures are based on the latest available data and include the impact of the Middle Income Student Assistance Act as well as the new computer audit system. CBO estimates the number of BEOG recipients in 1978, 1979, and 1980 to be 1.9 million, 2.9 million, and 2.8 million, respectively. The Administration assumes recipients for those same years to be 1.8 million, 2.8 million, and 2.6 million, respectively. The main difference in the estimates is that CBO projects a higher number of eligible students.

CBO's estimates for fiscal year 1980 higher education outlays are above Administration estimates by $300 million to reflect higher spending levels from prior year budget authority.

EMPLOYMENT, TRAINING AND SOCIAL SERVICES

The President's budget authority request for CETA in fiscal year 1980 is 14 percent below the fiscal year 1979 request and 31 percent below the CBO current policy estimate. The net decrease of $1.5 billion from fiscal year 1979 reflects major decreases in the Title VI public service employment program and a decrease in the summer youth program.

The Administration estimates a $600 million drop in outlays for Title VI from the fiscal year 1979 level as a result of proposed reductions in public service employment slots from 358,000 at the end of 1979 to 200,000 at the end of 1980. The Title II D public service employment program is held steady at 267,000 slots through 1979 and 1980. Total public service employment slots in the President's request average 546,000 during 1980.

The President's estimate of outlays for fiscal year 1980 is below the CBO current policy outlay estimate by $3 billion--$2.6 billion below in public service employment estimates alone. CBO estimates assume application of the statutory formula (20 percent of the unemployed in excess of 4 percent) to Title VI which yields 576,000 slots at a CBO projected 6.75 percent unemployment rate (assumption of gradual phase-in yields an annual average of 458,000 Title VI slots in fiscal year 1980 with an end of year slot level of 576,000). Title II D is assumed to have 293,000 slots consistent with its fiscal year 1979 authorization. CBO's current policy estimates are based on an annual average of 751,000 public service employment slots in 1980.

In addition to greater slot numbers, CBO estimates a higher unit cost than that reflected in the Administration's request. The Administration's estimate of a $9,500 average slot cost for public service employment (Titles

II and VI) in fiscal year 1980 represents a 3 percent increase over the fiscal year 1979 slot cost estimate of $9,200. The CBO estimate of a $9,800 average during fiscal year 1980 represents a 7 percent increase over the fiscal year 1979 estimate to reflect indexing of the average wage to increases in public and private sector wages. If CBO slot cost estimates are applied to the Administration's outlay estimates, an average of 522,000 slots for Titles II and VI combined would be funded in fiscal year 1980. This would represent a 16 percent cut from the fiscal year 1979 level of 625,000. End of year totals for public service employment would be 419,000 slots instead of the 467,000 estimated by the Administration.

Spending for youth and other training programs remains close to fiscal year 1979 levels with the exception of the summer youth program which is to be reduced by 250,000 slots, reflecting a decision to exclude 14 year olds from eligibility. This will result in a $100 million reduction in outlays.

Funds are requested for two initiatives authorized in fiscal year 1979. The welfare reform demonstration initiative has been absorbed in the Title II D request for fiscal year 1980, of which it represents $200 million for 17,000 positions. Supplemental budget authority of $400 million is requested for fiscal year 1979 for private sector initiatives.

The Administration's 1980 budget authority request for human development and social service programs is 3 percent higher than the fiscal year 1979 request implying a real 4 percent cut. The fiscal year 1979 request includes supplementals of $200 million for grants to states for social services and $100 million for human development services. The fiscal year 1980 request includes a legislative proposal to increase the permanent ceiling for grants to states for social services from $2.5 billion to $2.9 billion. This new ceiling would absorb a now separate $200 million authorization for child welfare services which currently includes a 100 percent federal matching provision. Under the ceiling the federal matching rate for this program would drop to 75 percent.

HEALTH (FUNCTION 550)

This function includes programs for health care services, health research, education and training of health care personnel, occupational health and safety activities, and consumer education activities. Medicare and medicaid account for over 80 percent of all health outlays.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	52.0	52.5	52.7	59.3	57.6	58.3
Outlays	48.1	49.1	49.6	57.7	53.4	55.0

a/ Preliminary, subject to change.

CBO's estimate of the President's budget raises total budget authority by $200 million in 1979 and $700 million in 1980. These differentials are primarily due to the reestimate of the medicaid entitlement program. CBO has revised the President's estimate of outlays upwards by $500 million in 1979 and $1.6 billion in 1980. CBO's higher inflation forecast accounts for $500 million of the difference in 1979 and $1.1 billion in 1980. The remaining difference results primarily from CBO's lower estimates of savings generated by the medicaid fraud and abuse detection program and the proposed hospital cost containment program.

MEDICARE

The medicare program, which includes hospital insurance (HI) and supplementary medical insurance (SMI), is expected to continue to expand through fiscal year 1980. On a current policy basis, CBO projects outlays to increase 17.1 percent in fiscal year 1979 and 15.9 percent in 1980. Although some of this increase is due to growth in the covered population and increases in utilization, the major factor is the continued rise in medical care costs.

Medicare Outlay Estimates: In Millions of Dollars

	1979 Estimates			1980 Estimates		
	Pres. Latest Request	CBO Est. of Pres. Request	Difference	Pres. Budget Request	CBO Est. of Pres. Request	Difference
Current Law w/o Program Changes						
Benefits	28,490	28,477	-13	33,146	33,549	403
Admin.	1,032	1,131	99	1,064	1,217	153
Program Changes	-23	-23	0	-386	-386	0
Proposed Legislation						
Hosp. Cost Containment	-350	0	350	-1,500	-900	600
All Other	---	---	---	-244	-244	0
Total	29,149	29,585	436	32,080	33,236	1,156

The difference between CBO and the President's estimates of 1980 HI benefits under current law (no program changes) can be entirely explained by different expectations about inflation. The CBO estimate of administrative costs is $153 million higher than the President's because the President's anticipated increase of 3.1 percent in 1980 is not sufficient to allow for inflation.

The President has proposed several current law regulatory changes in an effort to trim program outlays. These changes include reduced reimbursement to inefficient providers, a stricter formula for reimbursing medicare's share of malpractice insurance costs, and more restrictive guidelines for allowable costs of inhalation therapy. Due to these efforts the Administration expects savings of $23 million in fiscal year 1979 and $386 million in fiscal year 1980.

The President is also proposing a number of legislative measures that in some cases are designed to extend benefits and in others to result in savings. The most important of these is a proposal to control the growth of total hospital expenditures. A mandatory cap on hospital expenditures would be imposed if a voluntary effort by hospitals failed to hold the annual rate of increase in expenditures to 9.7 percent. The 9.7 percent goal is based on the Administration's estimate of a 7.9 percent increase in the cost of hospital inputs, plus a 0.8 percent allowance for population growth and utilization, and a one percent allowance for additional services. The goal would be reformulated in future years in accordance with changes in the rate of increase in population and the cost of hospital inputs. According to CBO economic assumptions, hospitals would require at least an 8.9 percent annual increase to purchase the same market basket of goods in fiscal years 1979 and 1980 that they did in fiscal year 1978. With a one percent allowance each for the increase in population and increased services, the revised CBO estimate of the President's goal is 10.9 percent for 1980. This new goal is below the 11.6 percent voluntary goal announced last year by the hospital industry.

CBO currently projects total hospital expenditures to increase at a higher rate than would be allowed under the voluntary goal due to a higher estimate of increased services than the one percent allowed by the President. Therefore, CBO does not assume savings in 1979. In fiscal year 1980, savings of approximately $900 million are expected to result from the mandatory cap if implemented October 1979.

Other proposed legislation would expand medicare coverage for outpatient mental health services, shorten the waiting period for re-entitled disabled individuals, and require continuation of health care coverage by employers of aged workers as well as a contribution to medicare by the aged self-employed.

MEDICAID

The medicaid program is expected to expand through fiscal years 1979-1980, largely because of a continued increase in the prices of medical services. Without any legislated or programmatic changes, outlays are projected by CBO to increase by 11.7 percent in fiscal year 1979 and by 12.0 percent in fiscal year 1980. The Administration projects outlays on the same basis to increase by 13.8 percent in fiscal year 1979 and by 9.3 percent in fiscal year 1980.

Medicaid Outlay Estimates: In Millions of Dollars

	1979 Estimates			1980 Estimates		
	Pres. Latest Request	CBO Est. of Pres. Request	Difference	Pres. Budget Request	CBO Est. of Pres. Request	Difference
Current Law w/o Program Changes	12,152	11,928	-224	13,281	13,359	78
Program Changes						
Fraud & abuse	-348	-50	298	-616	-250	366
Other				-291	-291	0
Proposed Legislation						
Hosp. cost containment	-53	0	53	-225	-140	85
Other				206	206	0
Total	11,751	11,878	127	12,355	12,884	529

The Administration estimates savings of $348 million in 1979 and $616 million in 1980 due to an expanded program to detect fraud, abuse, and error. Based on the current plans of several large states, CBO projects federal budget savings of only $50 million in fiscal year 1979 and only $250 million in 1980. The Administration also proposes to save an additional $291 million in 1980 as a result of both regulatory changes that can be made under current law and a technical change in the way states are reimbursed. These amounts were included in CBO's estimate of the President's request for 1980.

With respect to new legislation, the Administration is assuming savings of $53 million in 1979 and $225 million in 1980 resulting from the President's proposal to control hospital costs. CBO assumes no savings will occur in 1979 and that only $140 million will be saved in 1980 (see discussion under Medicare). For fiscal year 1980, the President is proposing 12 additional pieces of legislation, both to initiate new programs and to provide cost savings. The major components are the child health assurance program (CHAP) costing $220 million and the extension of medicaid eligibility to low-income women which would cost $68 million. The $82 million in savings attributable to the other pieces of legislation is included in CBO's estimate of the President's budget. The resulting CBO estimate of the President's request for 1980 is $12.9 billion, which exceeds the President's estimate of $12.4 billion by $529 million.

OTHER HEALTH PROGRAMS

Included in this category are the major HEW discretionary programs for health services, research, education and training. Also included are programs for consumer and occupational health and safety.

The President's budget request of $9.1 billion in budget authority for these programs is $600 million for these programs is below the level CBO estimates is required to maintain current services. Most health research programs, with the exception of mental health research, have been targeted for reductions in real terms. Manpower training programs in general have also been cut, implying a policy shift away from federal promotion of an increased supply of health professionals. Nevertheless, many programs which are intended to improve distribution of health resources or increase access to care for certain groups have been expanded. Finally, the President's budget appears to emphasize preventive and public education programs. Efforts to reduce hypertension, and to improve access to genetic counseling services have received increased funding in the President's request.

INCOME SECURITY (FUNCTION 600)

Income security programs account for close to one-third of the federal budget. The function is dominated by social security which made up 64 percent of income security outlays in fiscal year 1978. Other major trust fund accounts in income security include railroad retirement, civil service retirement, and unemployment insurance. The remainder of the function provides cash and in-kind benefits, primarily to low income individuals, through a number of public assistance programs including aid to families with dependent children, supplemental security income, food stamps, school lunch and other nutrition programs, housing assistance and the refundable portion of the earned income credit. The refundable portion of the Administration's proposed real wage insurance program is also included in this function.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	191.8	191.0	193.1	221.6	214.5	216.8
Outlays	159.3	158.9	161.3	184.2	179.1	185.3

a/ Preliminary, subject to change.

Most of the income security programs are entitlements and economic conditions strongly influence their patterns of growth. Many of the benefits are, by law, automatically adjusted for increases in the cost of living. In addition, unemployment and other economic and demographic factors affect the number of persons eligible for benefits.

Percentage Increase from Preceeding Year in Income Security Outlays

						CBO Estimate	
Fiscal Years	1974	1975	1976	1977	1978	1979	1980
Nominal terms	16.2	28.6	17.3	8.2	6.5	10.5	14.1
CPI Deflated terms	6.1	15.8	9.5	0.7	-0.5	1.1	6.4

The high annual rates of increase in income security outlays from 1974 to 1976 reflect the effects of the recession combined with high rates of inflation; the lower rates of increase from 1976 to 1978 reflect the improving economic conditions. The President's request, as reestimated by CBO, shows a swing once again to a faster rate of increase in these programs, largely as a result of the economic slowdown projected by CBO. The Administration is also projecting a slowdown, but it is less severe and begins somewhat later.

CBO Reestimates of the President's Budget Request: In Billions of Dollars

	1979		1980	
	Budget Authority	Outlays	Budget Authority	Outlays
President's January Request	191.0	158.9	214.5	179.1
CBO Reestimates:				
Current Services				
Social Security	1.1	1.0	.2	1.4
Unemployment Insurance	.8	1.3	.5	2.9
Assistance Payments	.1	.1	.3	.4
Food Stamps	-.2	-.2	--	--
Earned Income Credit	.1	.1	.3	.3
Other	.2	.1	--	.2
Subtotal	2.1	2.4	1.3	5.2
Legislation				
Food Stamps	--	--	.6	.6
Assistance Payments	--	--	.1	.1
Real Wage Insurance	--	--	.1	.1
Other	--	--	.2	2
Subtotal	--	--	1.0	1.0
CBO Estimate of President's Request a/	193.1	161.3	216.8	185.3

a/ Preliminary, subject to change.

In 1980, CBO has reestimated the President's outlay estimates up by $6.2 billion. Four billion dollars or 65 percent of the reestimate results from differences in economic assumptions. An additional $0.4 to $0.5 billion of the $6.2 billion difference reflects CBO's lower estimates of savings that could result from certain management improvements, additional quality control, and fraud and abuse reduction. While savings in these areas are possible, historical experience has shown that these savings are frequently overestimated. The remaining $1.8 billion revision in 1980 outlays results from factors relating to individual programs and are detailed in the program discussions that follow.

SOCIAL SECURITY

Budget authority in the old age and survivor's insurance (OASI) and disability insurance (DI) programs primarily consists of payroll tax receipts. These receipts are a component of social insurance revenues which are discussed in Chapter 2. Social security outlays for fiscal years 1979 and 1980 are expected to increase somewhat more rapidly than over the past year. About two-thirds of the expected increase in cash payments in 1980 is the result of the automatic cost of living benefit increases in June 1979 and June 1980. Increases in the number of beneficiaries and in the real benefit for new retirees account for the remainder of the program's growth.

Social Security Outlay Estimates: In Billions of Dollars

	1979 Estimate			1980 Estimate		
	Pres. Latest Request	CBO Reest. of Budget Request	Difference	Pres. Budget Request	CBO Reest. of Budget Request	Difference
Current Law						
OASI	89.6	90.4	0.7	101.5	102.2	0.7
DI	14.1	14.4	0.3	15.7	16.5	0.8
OASDI Subtotal	103.7	104.8	1.1	117.2	118.7	1.4
Proposed Legislation						
OASI	*	*	*	-0.5	-0.4	0.1
DI	--	--	--	-0.1	-0.2	-0.1
OASDI Subtotal	--	--	--	-.6	-.6	0.0
Total Outlays	103.7	104.8	1.1	116.6	118.1	1.4

* Less than $50 million

Totals may not add due to rounding.

The CBO current policy estimate of social security outlays in 1980 is $1.4 billion higher than the Administration's. The CBO estimate explicitly takes into account the effect of unemployment, wages, and social security benefit levels in determining the number of beneficiaries coming onto the social security rolls. The CBO economic assumptions for higher unemployment and slower growth in real wages (wages adjusted for inflation) result in an acceleration of retirements, reversing the trend of the past two years. The effect is stronger for the disability program.

The Administration intends to improve the review process for screening DI applicants and to make other improvements in the management of the program. If these efforts are instituted they may well result in program savings; but these have not been taken into account in the current CBO estimates.

The Administration is proposing several minor changes in the social security legislation, estimated to save about $600 million in fiscal year 1980. If enacted, the proposals would tend to strengthen the earnings replacement features of social security and limit dependents benefits and other benefits which are more welfare oriented. Low income recipients of these benefits would receive increased benefits from other programs to compensate for the loss of social security benefits.

CBO Estimates of the Savings in OASDI Outlays From Administration's Proposed Legislation a/: In Millions of Dollars

	1980	1984
Phase-out of post-secondary school student benefit	175	1,700
Eliminate lump sum death benefit	150	300
Eliminate minimum benefit	50	200
Eliminate windfall for those with federal pension	20	200
Reduce drop-out years for calculating disabled worker and survivor benefits	35	300
Limit family benefit for disabled	120	620
Phase-out benefit for parents of 16-17 year olds	20	500
Other proposals	30	200
Total	600	4,020

a/ Preliminary, subject to change.

As indicated in the table, the proposal with the largest dollar savings would phase-out benefits to students aged 18 to 22 years enrolled in post-secondary schools, who are children of retired, disabled or deceased workers. Variants of this change have been proposed in past budgets. The phasing out of the student benefits is expected to result in additional costs to the Basic Educational Opportunity Grants (BEOG) of $10 million in fiscal year 1980 and $40 million in fiscal year 1984.

Another proposal would eliminate the lump-sum death payment to survivors of deceased workers. The Administration has estimated this would save $206 million in payments for fiscal year 1980 plus additional savings in staff. CBO is estimating a 1980 savings of only $150 million after allowing for increased expenses of determining beneficiary deaths.

A proposal to eliminate the minimum benefit for all new recipients has been reintroduced. (The 1977 social security amendments froze these benefits at $122 a month to new recipients) The Administration estimates

98-864 O - 79 - 9

that SSI payments would rise by about $10 million to offset reduced social security payments to low income recipients of the minimum. About 30 percent of retired federal workers who had also worked in covered employment currently receive the minimum. This group would also be affected by a new proposal providing for a reduction of a dollar of social security benefits for every $3 of federal pension for federal pension amounts above the average social security benefit. Social security benefits, however, would not fall below the level where they replaced 32 percent of the federal pensioner's average covered earnings. The intent is to eliminate windfall benefits to federal workers with only a few years of covered employment who now benefit from the progressivity in the formula for determining social security benefits.

Several proposals are variants of legislation introduced in the 95th Congress which aim to limit benefits to disabled workers. One of these proposals would limit the ratio of family benefits to past earnings. Currently it is possible for a disabled worker to collect total family benefits which far exceed prior earnings. Other proposed changes are intended to provide incentives for disabled workers to return to work and ultimately leave the rolls. Such incentives include expanded medicare coverage, a longer trial work period and increased allowances for certain disability related work expenses. These provisions would result in small additional costs to the program in the short run.

The net savings of all of these proposals is projected to be approximately $4.0 billion by fiscal year 1984. Assuming the maximum taxable wage base changes as scheduled, these savings would allow the currently legislated OASDI tax rates to be lowered by 0.1 percentage point in fiscal year 1984 without any change in the trust fund balances.

UNEMPLOYMENT INSURANCE

CBO has reestimated the President's outlay request in unemployment insurance up $1.3 billion in 1979 and up $2.9 billion in 1980. Most of the differences relate to higher CBO estimates of state benefit payments in the regular and extended benefit programs. Differences in economic assumptions account for $300 million of the difference in 1979 and $2.3 billion in 1980. The remainder of the difference in 1980 ($600 million) and part of the remainder in 1979 ($400 million) results from higher CBO

estimates of the average weekly benefit. The average benefit projected by the Administration seems unrealistic, since benefits are tied to wages which, even under the President's guidelines, would rise by 7 percent a year.

Average Unemployment Insurance Benefit: In Dollars

	1978 Actual	1979 Estimated	1980 Estimated
CBO	80.38	84.01	91.40
Administration	80.38	80.55	83.88

The differences in average weekly benefit estimates account for about $400 million in 1976 and $600 million in 1980. This leaves $600 million of the 1979 difference unexplained.

ASSISTANCE PAYMENTS

The President's estimates of outlays for aid to families with dependent children (AFDC) fall below CBO's by $100 million in 1979 and by $400 million in 1980. These differences result primarily from higher CBO projections of the average monthly payment per recipient.

Average Monthly AFDC Payment Per Recipient: In Dollars

	1978 a/	1979	1980
CBO Estimates	82.16	88.08	95.12
President's Estimates	82.16	86.58	91.04

a/ Actual

The Administration also includes an estimate for $100 million in savings for both 1979 and 1980 for ongoing quality control activities. CBO estimates implicitly include savings for quality control based on historical trends in the program. CBO does not believe that additional quality control savings are likely to materialize.

The Administration is proposing legislation which it estimates would save a net of $212 million in AFDC during fiscal year 1980. The proposals include counting the income of a stepparent in determining AFDC benefits, standardizing the work expense disregard, raising federal reimbursements for Guam, Puerto Rico and the Virgin Islands, and modifying the child support enforcement program. CBO believes the Administration has overestimated the savings from proposed changes in the work expense disregard and in the child support program. CBO estimates total savings from these proposals at $111 million.

FOOD STAMPS

The Administration is requesting a supplemental appropriation of $245 million for fiscal year 1979, while CBO estimates show a need for a supplemental of $54 million. The Administration's request for a larger supplemental reflects the uncertain outlook for program growth resulting from the implementation of new food stamp regulations. These new regulations, implemented in January 1979, result in major changes in the program as authorized in the Food Stamp Act of 1977. CBO estimates reflect a gradual program growth over the remainder of fiscal year 1979 resulting from the new provisions. The Administration estimates imply a more rapid adjustment.

The Administration's request for fiscal year 1980 assumes enactment of legislation removing the current law authorization ceiling of $6.2 billion. The authorization ceilings were based on significantly different food price and economic projections than have actually occurred since the law was enacted. Along with proposed legislation to improve quality control in the program, the Administration estimates outlays of $6.9 billion -- approximately $700 million higher than the outlays that would occur under the authorization ceiling. Using CBO economic assumptions and assuming legislation removing the authorization ceiling, CBO estimates that outlays would be $7.5 billion, an increase of $600 million over the Administration's estimate. Approximately $500 million of the increase results from less

optimistic economic assumptions. The remaining $100 million is for lower savings from the Administration's proposed quality control legislation. Because of the time constraints inherent in establishing national error payment standards that could then be implemented in fiscal year 1980, the CBO estimate does not include any additional quality control savings. Savings from the proposed legislation could occur beginning in fiscal year 1981.

EARNED INCOME CREDIT

The addition of $100 million in 1979 and $300 million in 1980 to the Administration's budget estimates for the earned income credit reflects CBO's estimate of a provision in the Revenue Act of 1978 which allows some individuals to file for benefits through withholding. The President's budget is carrying similiar estimates except the entire impact of the new legislation is shown as a revenue loss. This change, therefore, is an accounting change which should have no impact on the budget deficit.

REAL WAGE INSURANCE

CBO has reestimated the President's request for the refundable portion of real wage insurance by $100 million in 1980. This reestimate is based primarily on the higher inflation rate assumed by CBO.

CHILD NUTRITION

The President's budget request proposes reducing subsidies by 5 cents per meal to middle and high income children, eliminating the special milk program in schools operating a lunch or breakfast program, and redefining the eligibility requirements for free and reduced price meals. The Administration estimates that these changes would save $358 million in 1980. Due to implementation problems, CBO assumes that only about half of these savings could be realized in fiscal year 1980.

HOUSING ASSISTANCE

There are major program changes in the President's budget submission for housing assistance programs. Additional Section 8 and public housing units are being reduced from 370,000 in 1978 to 360,000 in 1979 to

300,000 in 1980. In addition, the President's budget proposes a rescission of $600 million of existing authority in fiscal year 1979. These funds, appropriated in the 1976 HUD Appropriations Act, were intended for interest reduction grants to state housing agencies pursuant to Section 802 of the Housing and Community Development Act of 1974. HUD indicates that these funds are not needed because of the availability of financing under more favorable terms from other sources.

VETERANS' BENEFITS AND SERVICES (FUNCTION 700)

This function provides a variety of benefits and services to veterans, their families and survivors. These benefits include compensation to veterans for service-incurred disabilities and to the survivors of veterans dying in service, income assistance for needy veterans disabled from causes not related to military service, educational benefits for recently discharged veterans, medical care for disabled and elderly veterans, and loan guarantees for veterans wishing to purchase homes.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy b/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	21.05	20.4	20.4	21.8	21.0	21.0
Outlays	20.7	20.2	20.2	21.6	20.5	20.6

a/ Preliminary, subject to change.

b/ CBO current policy estimates assume full discretionary inflation. In function 700 this comprises cost-of-living increases in the compensation and readjustment benefits programs and the cost with inflation of maintaining the current level of services in the medical programs.

The President's fiscal year 1980 budget requests an increase of $0.6 billion in budget authority and $0.2 billion in outlays from 1979 levels. This increase is the result primarily of increases in the compensation and pension programs necessitated by the enactment of the Veterans' and Survivors' Pension Improvement Act of 1978 (Public Law 95-588) and the Veterans' Disability Compensation and Survivors' Benefit Act of 1978 (Public Law 95-479). Although the CBO estimates of the President's request do not change the functional totals (with the exception of $0.1 billion difference in 1980 outlays), the estimates of several accounts differ significantly.

Differences Between Administration and CBO Spending Estimates: In Billions of Dollars

	1979		1980	
	Budget Authority	Outlays	Budget Authority	Outlays
President's January Request	20.4	20.2	21.0	20.5
CBO Reestimates:				
Comp. & Pen.	-0.1	-0.1	-0.1	-0.1
Readj. Benefits	0.1	0.1	0.1	0.1
Loan Guaranty	--	--	--	0.2
CBO Estimate of President's Request a/	20.4	20.2	21.0	20.6

a/ Preliminary, subject to change.

The CBO estimate of the compensation and pensions account is down approximately $100 million in budget authority and outlays for both fiscal years 1979 and 1980 as the result of a reestimate of the anticipated cost of the new pension law. The Administration's estimate assumes that all pensioners who would benefit by electing the new program would do so, while the new CBO estimate assumes that only one-third of the eligibles will switch.

The President is proposing a 7.8 percent increase in the rates of disability compensation at an estimated cost of $498 million in budget authority and $457 million in outlays for 1980. According to the current CBO economic forecast, however, an 8.3 percent rate increase would be required in this program to cover the inflation anticipated during fiscal year 1979. A rate increase at this level is expected to cost approximately $577 million in budget authority and $531 million in outlays.

In the readjustment benefits program, the CBO reestimate of the President's request for budget authority and outlays exceeds the Administration's estimates in both 1979 and 1980 by about $100 million. In 1979 the increase is due to a higher CBO projection of the number of trainees, and in 1980 to a higher CBO estimate of average cost.

The Administration has proposed legislation which would eliminate correspondence and flight training for veterans, service persons and those receiving dependents educational benefits for an estimated savings of $58 million in 1980. In addition, the Administration has proposed a two-year extension of the GI Bill training period for Vietnam era veterans taking on-the-job training and for those without a high school diploma (or equivalent) for the purpose of taking vocational, technical or high school training, at an estimated cost of $54 million.

The President's 1980 request does not include a cost-of-living increase for readjustment benefits. The CBO current policy estimate assumes an 8 percent increase for fiscal year 1979 inflation. It is more likely, however, that Congress will follow convention and raise rate levels by 17 percent to cover the increase in the CPI from October 1, 1977, the effective date of the last rate increase. A rate increase of this magnitude could be expected to add approximately $600 million to outlays in fiscal year 1980. The absence of a rate increase in the President's request implies a continuing real decline in the purchasing power of GI Bill benefits.

The outlays in the loan guaranty program for 1980 are estimated by CBO to be $159 million more than requested by the President. This is a direct result of a CBO estimate of $250 million in loan sales as opposed to the VA estimate of $409 million.

The President has requested a 3.4 percent increase in 1980 outlays for veterans medical care. This is approximately 4 percent below the increase in the CPI anticipated by CBO and about 6 percent below the expected increase in the medical CPI. The Administration expects to avoid higher cost increases through greater efficiency. In some cases, however, the expected efficiency savings may be difficult to achieve. For example, the President's budget does not include an inflation allowance for grants to state-operated facilities treating veterans, even though the Administration has little control over the management of these facilities. Thus, the Administration proposed funding levels could result in a reduction in service. CBO estimates that approximately $300 million over the amount shown in the President's 1980 request would be required to maintain current program levels.

The President has also proposed other legislation that the Administration anticipates will result in a net savings of about $300 million in 1980. Included in these proposals are measures that would provide psychological readjustment counseling for Vietnam veterans, require reimbursement to the Veterans Administration from health insurers for certain treatment of insured veterans, and limit travel allowances and over-the-counter drugs for veterans with non-service connected disabilities.

ADMINISTRATION OF JUSTICE (FUNCTION 750)

Function 750 includes activities of the Federal Bureau of Investigation, the Immigration and Naturalization Service, the Drug Enforcement Administration, the Federal Prison System, the Law Enforcement Assistance Administration, the Customs Service, the Legal Services Administration, the Equal Employment Opportunity Commission and the Judiciary.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	4.3	4.2	4.2	4.5	4.3	4.3
Outlays	4.2	4.3	4.3	4.5	4.4	4.5

a/ Preliminary, subject to change.

As shown above, the President's 1980 budget authority request is $0.1 billion above the 1979 level (an increase of about 2 percent) and $0.2 billion below the CBO current policy estimate of $4.5 billion. Much of this difference relative to current policy is attributable to the President's funding request for the Law Enforcement Assistance Administration (LEAA). He will be submitting a proposal to combine activities operated under the present LEAA with those of the National Institute of Corrections (a part of the Federal Prison System) to form the Office of Justice Assistance, Research and Statistics (OJARS). A total of $546 million in budget authority is requested for this office in fiscal year 1980, $112 million below the 1979 funding level for the two existing programs and $163 million below what would be expected under current policy assumptions in 1980. This reduction in funding would be reflected in 1) the elimination of several block grant programs, such as planning formula grants and corrections formula grants, 2) a decrease in funds for criminal justice formula grants, and 3) the termination of certain correctional programs.

For the other activities in this function, the President's 1980 request for budget authority is $213 million above the current 1979 estimate, while projected outlays are up by $217 million. Both represent an increase of 6 percent over the President's 1979 estimate, but fall short of CBO's projected current policy levels. Almost half ($104 million) of the requested increase in budget authority is for judicial activities, with the largest increases sought for salaries and expenses of bankruptcy courts (up $33 million, almost doubling the 1979 level) and salaries of supporting personnel (up $25 million, an increase of 14 percent). These increases reflect the costs of establishing independent bankruptcy courts as mandated in the Bankruptcy Reform Act of 1978, and the costs associated with the increase of 152 federal judgeships created by the Omnibus Judgeship Act of 1978. The budget also provides an increase of $38 million (or 19 percent) for U.S. attorneys and marshalls, in order to meet the needs created by the additional judgeships.

The President is asking a relatively small increase in funding for law enforcement activities. He is proposing a budget authority increase of $73 million (less than 4 percent) for such activities, with outlays projected to rise by only $50 million from 1979 levels. Small increases are requested for the Federal Bureau of Investigation and the Customs Service, with virtually no change in funding for the Immigration and Naturalization Service and the Drug Enforcement Administration. As a result, the requested budget authority for law enforcement activities is $110 million (or 5 percent) below the projected current policy level.

The only major cut proposed, other than in LEAA funding, is a $29 million reduction in budget authority requested for prison buildings and facilities. No new prison construction is proposed for fiscal year 1980.

New program initiatives proposed for 1980 include fair housing assistance, authorized by Title VIII of the Civil Rights Act, to aid in eliminating housing discrimination. The President is also proposing to establish a program of services for drug dependent offenders, authorized by Title II of the Narcotic Addict Rehabilitation Act, to reduce the incidence of criminal acts by persons under supervision of the U.S. Parole Commission. The budget authority requested for each program in fiscal year 1980 is less than $4 million.

GENERAL GOVERNMENT (FUNCTION 800)

The programs in the general government function are designed to carry out the legislative and administrative responsibilities of the federal government. Included in the function are the Legislative Branch, the White House and the Executive Office of the President, and the agencies responsible for personnel management, fiscal operations, and property control.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	4.1	4.3	4.3	4.4	4.5	4.5
Outlays	4.0	4.2	4.2	4.4	4.3	4.3

a/ Preliminary, subject to change.

The President's request for fiscal year 1980 of $4.5 billion in budget authority is $145 million over the latest request for fiscal year 1979, but represents a $381 million increase over the fiscal year 1979 budget authority enacted to date. Included in the President's request for fiscal year 1979 are several supplementals totaling $214 million in budget authority, $50 million of which is for the new Senate office building, $40 million for the Internal Revenue Service (IRS), and $81 million for the General Services Administration's (GSA) motor pool. The President's request for fiscal year 1980 includes an increase of $79 million for the legislative branch. The largest portion of that increase is an added $25 million for the General Accounting Office. The President is also requesting a $97 million increase over fiscal year 1979 levels for the IRS, mainly in the Taxpayer Service and Returns Processing account. This increase is for maintaining the automated processing system and for additional staff and expenses to keep pace with the increasing workload. Another significant change from fiscal year 1979 to 1980 is in requested budget authority for the GSA. The fiscal year 1980

total is $61 million less than the 1979 request in total, but this difference can be attributed to the one-time funding needs of $81 million for the motor pool and $21 million for the Federal Buildings Fund in fiscal year 1979.

There are many accounts within the function where the preliminary CBO estimates of outlays differ slightly from those of the President for fiscal year 1980, but those differences net out to a small change. The greatest difference ($68 million) is in the estimate of outlays for the Federal Buildings Fund, for which OMB estimates that outlays will be -$138 million in fiscal year 1980.

The President's estimates for both 1979 and 1980 are affected by a change in the accounting treatment of gold sales. On November 1, 1978, the President announced that as part of his plan to strengthen the dollar, the Treasury would expand its monthly sale of gold. The proceeds from such sales have historically been included on budget as an offsetting receipt to the Department of the Treasury in function 800. In the fiscal year 1980 budget submission, the President reclassified these receipts for fiscal years 1978-1980 as a means of financing, and they are no longer included in the calculation of budget authority and outlays. For fiscal year 1979, profit on the sale of gold (the amount in excess of the $42 per ounce asset value) is estimated by the Treasury Department to be $2.5 billion, assuming a sale of 16.05 million ounces. No estimate has been included for fiscal year 1980.

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

This function includes the general revenue sharing programs, antirecession financial assistance, broad-purposed shared revenues, and payments and loans to the District of Columbia.

Function Totals: In Billions of Dollars

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	8.8	8.8	8.8	9.0	8.8	8.8
Outlays	8.8	8.9	8.9	9.0	8.8	8.8

a/ Preliminary, subject to change.

The Administration recommends full funding of the general revenue sharing program, which was extended in 1976 through fiscal year 1980. The authorization level is $6,855 million in fiscal year 1979 and 1980. General revenue sharing makes up 77 percent of this function's outlays.

The major legislative initiatives included in this function concern the Antirecession Financial Assistance (ARFA) program. This program was designed to give assistance to state and local governments during periods of high unemployment. The ARFA program expired on September 30, 1978 and has not been renewed. The Administration has included tentative proposals for two separate programs and both are intended to be highly targeted towards only the most hard-pressed governments.

Funds are included in the budget only for the proposed Targeted Fiscal Assistance program. ($250 million for 1979 and $150 million for 1980). Its function would be to provide transitional assistance to a small number of the most needy local governments.

The Administration also intends to propose a separate standby program to provide fiscal assistance to state and local governments in case of recession, but no funds are provided in the budget. The details of this proposal are not final, but it would probably be similar to the expired ARFA program, except that the trigger would be higher and the funds would be distributed in a more targeted fashion.

Under the expired program, the total amount of funds to be distributed varied with the size of the national unemployment rate. Quarterly payments for the program were made on the basis of the unemployment rate in the calendar quarter that ended three months prior. At 6 percent unemployment, $125 million was distributed and for each tenth of a percentage point over that mark another $30 million was also distributed.

Under the new proposal the unemployment rate trigger would probably be higher than 6.0 percent. If it were assumed to be be 6.5 percent or higher then there would be no payments made under the Administration's current economic assumptions. On the other hand, under CBO's current economic assumptions and assuming a 6.5 percent trigger, payments totaling $340 million would be made in fiscal year 1980 and greater amounts in fiscal year 1981.

INTEREST (Function 900)

The interest function has two major components: interest on the public debt and other interest. Interest on the public debt is the cost of borrowing to finance the public debt. Other interest is composed mostly of offsetting receipts that reflect on- and off-budget agency interest payments to the Treasury for loans outstanding. Budget authority and outlays are identical for both components.

Function Totals: In Billions of Dollars.

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	48.0	52.8	52.0	56.9	57.0	56.3
Outlays	48.0	52.8	52.0	56.9	57.0	56.3

a/ Preliminary, subject to change.

Growth in interest on the public debt is caused primarily by increases in the amount of debt outstanding. (The debt is increased to cover the on- and off-budget deficits and the trust funds' surpluses.) Additionally, changes in the level of interest rates can affect interest costs. The growth in other interest is due to increased agency borrowing (primarily by the Federal Financing Bank) from Treasury and, consequently, to larger interest repayments.

Components of the Interest Function: In Billions of Dollars

	1979 Estimates		1980 Estimates	
	Administration	CBO a/	Administration	CBO a/
Interest on the Public Debt	59.8	59.0	65.7	65.0
Other Interest	-7.0	-7.0	-8.7	-8.7
Total	52.8	52.0	57.0	56.3

a/ Preliminary, subject to change.

The only difference between the Administration's estimates and the CBO estimates in both 1979 and 1980 is for interest on the public debt. The CBO estimate of interest on the public debt is based on the assumption that the public debt will increase by $74 billion both in fiscal years 1979 and 1980. The large increase in interest on the public debt in 1979 is due to the rise in interest rates over the last 18 months and their expected continued rise during most of fiscal year 1979. During the latter part of 1979 and in 1980, interest rates are projected to decline. Thus, the increase in interest on the public debt is moderated in 1980.

The CBO estimate of interest on the public debt differs from the Administration estimate because of different assumptions about the increase in the debt outstanding and the level of interest rates. The Administration estimate assumes lower increases in the amount of debt outstanding ($56 and $60 billion for fiscal years 1979 and 1980, respectively.) The differences in the assumptions about the increase in the debt are primarily due to different unified budget deficit assumptions in both years; and, in fiscal year 1979, the Administration's assumption of a reduction to cash balances held by the Treasury. The lower amount of debt outstanding assumed for the Administration estimate is more than offset by assumed higher interest rates than projected by CBO. The net effect is that the CBO estimate is lower than the Administration's estimate.

36-664 O - 79 - 10

ALLOWANCES (Function 920)

This function is composed of two parts, allowances for civilian (nondefense) agency pay raises and for contingences.

Function Totals: In Billions of Dollars.

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	0.8	0.7	0.7	1.5	2.4	2.4
Outlays	0.8	0.7	0.7	1.4	1.4	1.4

a/ Preliminary, subject to change.

CIVILIAN AGENCY PAY RAISES

For fiscal year 1980, the President's budget has assumed a cap of 5.5 percent for civilian agency pay raises. This increase does not assume a 3 percent catch-up from the previous year's pay cap (also set at 5.5 percent) nor does it assume a comparability rate of increase. In comparison, the CBO current policy estimate assumes an estimated 7.6 percent comparability raise, but no catch-up or pay cap. The Administration's proposed pay cap reduces the allowance by about $0.5 billion from CBO current policy.

The Administration's estimate also assumes that some of the costs of a 5.5 percent pay raise will be absorbed by federal agencies. The Administration only includes funds sufficient for a 4.5 percent increase, with the remainder to be absorbed. Absorption is also being assumed in the fiscal year 1979 estimates, however at much higher rate. Funds sufficient for only a 3.8 percent increase have been budgeted, again with the remainder of the 5.5 percent cap to be absorbed by the agencies.

The Administration's budget also assumes an estimated $24 million savings in fiscal year 1980 for blue collar reform legislation that is being proposed again. The 95th Congress did not act on similar proposals offered in 1979. Other proposed legislation to modify the federal wage system includes splitting the general schedule into two parts and extending the comparability base to include fringe benefits. No budgetary impact was estimated for fiscal year 1980 for either proposal.

CONTINGENCIES

Unanticipated contingencies and possible requirements for future initiatives of $1.5 billion in budget authority and $500 million in outlays have been included in the 1980 budget estimates. Allowances for welfare reform proposals and for nondefense purchase inflation are included for 1981 and subsequent years. In last year's budget request, part of the allowance was applied toward middle income student assistance and was transferred to function 500. A similiar procedure will probably apply if future initiatives are proposed by the Administration in fiscal year 1980.

UNDISTRIBUTED OFFSETTING RECEIPTS (Function 950)

This function is composed of intragovernmental and proprietary receipts that cannot be reasonably assigned to any other single function. Intragovernmental receipts are payments from one part of government to another; proprietary receipts come from the public.

Function Totals: In Billions of Dollars.

	1979 Estimates			1980 Estimates		
	2nd Con. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Current Policy	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	-18.0	-18.7	-18.4	-19.2	-19.0	-19.3
Outlays	-18.0	-18.7	-18.4	-19.2	-19.0	-19.3

a/ Preliminary, subject to change.

EMPLOYER SHARE-EMPLOYEE RETIREMENT

Employer Share is the federal government's contribution to its employees' retirement plans (civil service, social security, and so forth). The receipt grows each year as a result of federal pay raises, and increases in social security withholding rates (fiscal year 1979 only) and the maximum taxable wage (fiscal years 1979 and 1980). CBO and Administration estimates are virtually identical for this receipt in fiscal year 1979. In fiscal year 1980, the Administration's budget estimate does not reflect the effects of the October 1, 1979 pay raise, but those effects are included in the CBO estimate of the President's request.

INTEREST RECEIVED BY TRUST FUNDS

Interest received by trust funds is the income which trust funds earn on their investment in public debt securities. Growth for this receipt is based on the net trust fund surplus and on changes in interest rates for public debt securities. CBO estimates the trust fund interest based on its estimate for interest on the public debt; Administration estimates are provided by the agencies. The CBO estimate is almost $200 million below the Administration's estimate in fiscal year 1979 due to lower interest rate assumptions. For fiscal year 1980, the estimates are virtually identical.

Legislation has been introduced by the Administration to reduce social security and medicaid outlays. This would affect trust fund balances, and, therefore, trust fund interest. The increase in interest due to the legislation, about $100 million, by fiscal year 1980, has been included as proposed legislation in this function.

RENTS AND ROYALTIES ON THE OUTER CONTINENTAL SHELF

Receipts are derived from the sale of leases of Outer Continental Shelf (OCS) lands and the royalties from the mineral production. Receipts vary from year to year based on the sale schedule and anticipated bonuses for each sale.

The bonuses received from these lease sales are highly variable. In addition to being dependent upon reserves and other physical factors in the particular area, they are also highly dependent upon the psychological mood of business and to any expectation or anticipation to changes in the price of the minerals (oil and gas). For example, CBO estimated that the change in bonus receipts in fiscal year 1979 due to increasing gas prices in the Natural Gas Policy Act of 1978 would be $700 million.

The CBO and Administration estimates by sale for fiscal years 1979 and 1980 are listed below. (The Administration weights the total sale revenue by the probability that the sale will be held; its receipts are expected receipts.)

Estimated Outer Continental Shelf Receipts:
By Fiscal Year, in Millions of Dollars

	Sale	Administration's Expected Receipts	CBO Estimate
		Fiscal Year 1979	
65	Eastern Gulf of Mexico	61	120 a/
51	Gulf of Mexico	884	730 a/
49	Mid-Atlantic	475	620
48	Southern California	244	assumed delayed
58	Gulf of Mexico	264	440
42	North Atlantic	157	440
	Escrow Release	148	--
	Rents and Royalties	1,255	1,000
	Total, Fiscal Year 1979	3,488	3,350
		Fiscal Year 1980	
58A	Gulf of Mexico	264	300
--	Beaufort Sea	--	--
55	Gulf of Alaska	55	200
62	Gulf of Mexico	264	300
42	North Atlantic	157	--
48	Southern California	104	400
49	Mid-Atlantic	119	--
	Escrow	148	--
	Rents and Royalties	1,485	1,500
	Total, Fiscal Year 1980	2,596	2,700

a/ These figures are the most recent official CBO estimate. These sales, however, have been held, and CBO underestimated them by about $100 million.

CHAPTER V. THE BUDGET OUTLOOK FOR 1981-1984

The 1980 budget reflects for the first time a three-year budget planning system instituted by the Administration to gain better control on the longer-range effects and direction of federal government policies. Budget estimates for the first two years beyond the 1980 budget year (1981 and 1982) have received explicit policy review and represent planning ceilings for executive branch agencies. Projections for 1983 and 1984 are extrapolations of the policies in the planning base.

A longer-term perspective is particularly important this year when reviewing the budget. First, one of the themes of the 1980 budget proposal is the Administration's anti-inflationary effort. Fiscal policy restraint, as exemplified in the budget, generally does not result in large near-term dividends for reducing the inflation rate, but the long-term effects can be significant. A second theme of the budget is reducing the size of the federal sector through spending restraint. To accomplish this, the budget includes a number of proposals for cuts in existing federal programs. Some of these cuts have a small effect on fiscal year 1980 budget outlays, but the effects grow significantly in 1981-1984.

This chapter analyzes the long-term aspects of the President's budget.

LONG-RANGE ECONOMIC GOALS

Inflation, unemployment, and other levels of economic activity greatly affect federal spending and revenues. For example, higher inflation and unemployment rates automatically lead to increases in federal outlays, especially for social security and unemployment compensation. On the other hand, higher inflation rates lead to greater taxable personal income and, consequently, to greater tax receipts, whereas higher unemployment rates tend to work in the opposite direction. In order to develop budget projections, therefore, explicit assumptions must be made about economic trends over the next several years.

The economic assumptions for calendar years 1979 and 1980 underlying the 1980 budget represent a forecast by the Administration of probable economic conditions. The assumptions for 1981-1984 are not forecasts but rather long-range goals, consistent with those set forth in the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act).

CBO has also prepared a set of long-range economic assumptions for the purpose of analyzing alternative budget strategies in a long-run context. These assumptions build on the CBO economic forecast for 1979 and 1980. For 1981-1984 a set of internally consistent long-range economic targets are assumed.

Over the five-year period 1980-1984, the Administration's assumptions for real economic growth (as measured by the average annual rate of increase in GNP) are very similar to those used by CBO for its five-year budget projections (See Table 20). The average rate of real growth projected by CBO is 3.9 percent, while the Administration assumes 3.8 percent. However, the Administration is considerably more optimistic than CBO about unemployment and inflation. For calendar year 1984, the rate of increase in the Consumer Price Index (CPI) assumed for the Administration's budget projections is 2.7 percent, compared to 6.0 percent for CBO's projections. The average unemployment rate during 1984 for the Administration projections is 4.0 percent, compared to 5.5 percent for CBO's.

TABLE 20. LONG-TERM ECONOMIC ASSUMPTIONS: BY CALENDAR YEAR, IN PERCENTS

Economic Variable	Administration	CBO
Real GNP Growth (average 1980-1984)	3.8	3.9
Unemployment Rate (average 1984)	4.0	5.5
Consumer Price Index (percent change, year over year, 1984)	2.7	6.0

THE BUDGET OUTLOOK UNDER CURRENT POLICY

Both the Administration and CBO estimate federal receipts and outlays under a continuation of current policy. These estimates provide a useful baseline for consideration of budget options.

The Administration's estimates for current policy receipts are lower than those of CBO beginning in 1981 (see Table 21). The average annual rate of increase in the Administration's estimates is 11.3 percent, compared

to 13.4 percent for CBO. The difference is largely attributable to lower inflation rates in the Administration's economic assumptions; these inflation rates, in turn result in lower current dollar values for personal income and corporate profits--the main determinants of federal government receipts.

TABLE 21. CURRENT POLICY PROJECTIONS OF REVENUES: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983	1984
CBO	453	502	574	661	749	849
Administration	456	504	571	647	715	778

The comparison of Administration and CBO estimates for outlays under of current policy is more complex than the comparison of receipts. The Administration's concept of "current services" differs from the CBO concept of current policy in several ways:

- The Administration does not make adjustments for inflation to the projections of all programs, but rather only adjusts national defense and various entitlement programs that are indexed to inflation under current law. CBO holds real resources constant throughout the budget and, consequently, adjusts all programs for inflation.

- With minor exceptions, the Administration projections contain budget authority and outlays for only those programs that have already been funded for fiscal year 1979, while CBO projections include allowances in the Second Concurrent Resolution on the Budget for Fiscal Year 1979 for legislation not yet enacted but anticipated within the fiscal year.

- The Administration interpretation of current policy for some individual programs differ from that of CBO, these differences are relatively minor.

CBO current policy estimates for outlays rise from about $494 billion in 1979 to $755 billion in 1984. The Administration's starting point, $491 billion for 1979, is close to the CBO estimate; but the differences between the two baselines grow very large by fiscal year 1984 (see Table 22). Part of the difference between the two estimates is attributable to economic assumptions and part is because of different concepts of "current policy."

TABLE 22. CURRENT POLICY PROJECTIONS OF OUTLAYS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983	1984
CBO Projections	494	551	604	655	706	755
Administration Projections	491	536	578	611	640	667
Difference	3	15	26	44	66	88
Conceptual difference	2	9	13	23	35	47
Economic assumptions	1	6	13	21	31	41

The inclusion of discretionary inflation adjustments in the CBO projections and other conceptual differences account for slightly more than half of the almost $90 billion difference between the CBO and Administration current policy projections for 1984. The remaining difference--over $40 billion by 1984--is attributable to different economic assumptions.

The Administration's assumptions about inflation and unemployment dramatically affect the five-year spending estimates. The Administration's lower inflation rates would mean that smaller cost-of-living increases would be necessary for programs like social security and federal employee retirement, and the lower unemployment rates would result in less spending for unemployment compensation and various other programs that provide benefit payments to individuals.

MULTIYEAR EFFECTS OF CHANGES FROM CURRENT POLICY

The 1980 budget contains many recommendations for changes from current policies. For some of these, the multiyear effects are much larger than the near-term effects in fiscal year 1980. During the next few months CBO will be reestimating the 1981-1984 effects of most of these proposals. At present, however, it is only possible to identify the major proposals and show the administration's estimates of the multiyear effects.

Receipts Proposals

On the receipts side of the budget, the major Administration proposal is for the real wage insurance program. The Administration estimates tax credits of $2.3 billion in fiscal year 1980 (plus $0.2 billion in outlays for individuals with credits in excess of liability for tax). The budget shows no effects for 1981-1984 because the proposal is for one year and, under the Administration assumption of a decline in the inflation rate, credits would not be necessary in later years even if the program were extended.

The budget also proposes various cash management initiatives that would require taxpayers to make payments closer to the time when liabilities occur and would require employers to deposit more rapidly taxes withheld. The Administration estimates that these initiatives will increase receipts up to $5 billion in 1981.

Spending Proposals

The 1980 budget proposes several changes from current policies for federal spending, which, according to the Administration, would increase projected outlays by $6 billion in 1984 (see Table 23.) These changes are the net of proposals for increases that by 1984 total $32 billion and proposed decreases of $26 billion. Some of the proposed spending changes are part of regular appropriations requests, such as the proposed increases for defense spending. Others require legislative action that would change existing laws, such as the proposed hospital cost containment and reductions in proposed social security benefits.

The proposed increases above the Administration's current services estimates are apportioned roughly equally among national defense, human resources programs, and all other spending. The increases for national defense are mostly for investments that modernize military forces. This proposal represents the effects of a policy of sustained real growth in defense spending throughout the five-year period. In the human resources area, the largest proposed increase for welfare reform. Although no funding is requested for fiscal year 1980, the Administration has provided funds for

a new welfare reform proposal in its 1981-1984 projections. The Administration anticipates that the proposal will result in increases of $5 to $6 billon per year in 1982-1984.

TABLE 23. ESTIMATED MULTIYEAR EFFECTS OF MAJOR ADMINISTRATION SPENDING PROPOSALS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1980	1981	1982	1983	1984
Increases					
Requiring Legislation	2	3	4	4	5
Not Requiring Legislation	5	12	18	23	27
Total	7	15	22	27	32
Decreases					
Requiring Legislation	-4	-7	-10	-13	-16
Not Requiring Legislation	-8	-8	-8	-9	-10
Total	-12	-15	-18	-22	-26
Grand Total, Net	-5	0	4	5	6

SOURCE: The Budget of the United States Government, Fiscal Year 1980.

For the remainder of the budget, a number of proposals are included that have a small effect on 1980 outlays, but relatively large effects by 1984. International affairs proposals are estimated to increase 1980 outlays by $0.3 billion, but the effect will grow to $3.6 billion by 1984. Most of the increase is for foreign economic development assistance. The Administration's proposals for a National Development Bank is the major new initiative in the area of community and regional economic development. Outlays for the bank, whose mission would be to stimulate private sector investment and employment in economically distressed urban and rural areas, are projected by the Administration to grow to $1.3 billion by fiscal year 1984. The budget projection also contains an allowance for other contingencies which totals $3 billion by 1984.

The reductions proposed in the President's budget are projected by the Administration to grow from about $12 billion in 1980 to about $26 billion in 1984. CBO has examined some of the estimates for fiscal year 1980, but has not yet reviewed the estimates for 1981-1984 (see Chapter IV).

The reductions in defense are for continued caps on federal pay raises. A continuation of pay caps throughout the five year period for all defense employees may have some adverse effects on recruitment and retention, especially in the uniformed military.

The largest reductions in the budget are in the human resources area. These cuts are dominated by reductions for social security and health care. By fiscal year 1984, the Administration estimates that the changes proposed for 1980 will result in savings of about $14 billion. CBO believes, however, that the 1980 savings may be overestimated. Consequently, the outyear savings may be somewhat smaller than estimated by the Administration. Most of the proposed spending reductions in 1980-1984 for the remainder of the budget results from projected caps on civilian agency federal pay raises.

LONG-RUN GOALS FOR THE ECONOMY AND THE BUDGET DEFICIT

Any formulation of long-run budgetary targets must somehow balance goals for the economy, the size of government, and the budget deficit. These goals must also be weighed against demands for tax cuts and various programmatic requirements.

Goals for the economy and the deficit are separable from goals for the size of the federal sector. Contractionary spending policies do not necessarily imply less fiscal stimulus and slower economic growth if spending reductions are offset by tax cuts. On the other hand, contractionary spending policies are often advocated as a way to reduce the budget deficit. In general, unless cuts in spending somehow produce a surge in demand in the nonfederal sectors of the economy, the two goals of a smaller federal sector and a lower deficit probably require accepting lower economic growth.

The Administration is proposing multiyear spending goals that reduce spending as a percent of GNP. Although the five year projections in the 1980 budget contain a slight net increase above the Administration's current services levels, the spending targets for 1980-1984 fall far below CBO's estimates of outlays under a continuation of current policy. A large part of the difference results from the 1980 budget proposed to hold many programs constant in current dollar for 1981 and 1982 terms. This means that these programs would in real terms decline under the Administration's proposed multiyear planning base.

The 1980 budget contains no proposed tax cuts (other than real wage insurance for 1980). The combination of restrictive spending policies and no tax cuts makes it unlikely that the assumption of 3.8 percent average real growth in 1980-1984 can be achieved. The Administration's budget takes explicit note of this and states in several cases that tax cuts may be necessary in 1981-1984. For that reason, the budget cautions against taking seriously the large budget surpluses in 1983-1984 that are implied by subtracting projected outlays from projected receipts.

CBO has estimated that, in order to achieve an assumed average of 3.9 percent real growth in 1980-1984, fiscal policy changes in the form of additional tax cuts or spending increases from current policy levels will be necessary. These fiscal policy changes would mean that the budget would probably not be balanced before 1983. A contractionary spending policy that was offset by tax cuts would have little effect on real economic growth and the date of budget balance, although the size of the federal sector would be smaller.

By way of contrast, a contractionary spending policy could be combined with a weaker economic growth target. For example, spending cuts from CBO current policy levels that are roughly consistent with the Administration's multiyear targets could be combined with a goal for average real growth of 3.4 percent per year for 1980-1984. As shown in Table 24, this would lead to a deficit in fiscal year 1980 of about $40 billion. The budget could probably be balanced by 1982 under this weaker growth scenario and the 1984 inflation rate would be about 4.5 percent. The drawback of this scenario is that the unemployment rate does not fall below 6 percent during the five-year period. 1/

1/ For further details, see CBO, Five-Year Budget Projections and Alternative Budgetary Strategies for Fiscal Years 1980-1984, January 1979.

TABLE 24. ALTERNATIVE SPENDING STRATEGIES AND GOALS FOR THE ECONOMY

	Current Policy Spending Strategy and Moderate Growth Target	Contractionary Spending Policy and Lower Growth Target
Economic Goals (in percents)		
Real growth (average, 1980-1984)	3.9	3.5
Unemployment rate (1984)	5.6	6.5
Inflation rate (1984)	6.0	4.4
Budget Deficit		
1980 (in billions of dollars)	50	40
Year of budget balance	1983	1982

The Administration's 1980 budget contains multiyear assumptions for the economy and the projections for the budget deficit that contrast sharply with those in Table 24. In particular, under a contractionary spending policy with no tax cuts, the 1980 budget projections assumes real economic average growth of 3.8 percent, unemployment at 4 percent by the end of 1983, a 1984 inflation rate of only 2.7 percent, and a near balanced budget by 1981. Unfortunately, this combination of economic growth, inflation, spending targets, and budget deficits is probably inconsistent. 2/

2/ For a further discussion of this point, see CBO, The Policy Response to Inflation, (January 1979), Chapter V.