Y4
B85/3
R31/4

DOCUMENTS

SEP 26 1979

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

GOVERNMENT
Storage

KSU LIBRARIES
A11900 563852

96th Congress
1st Session

COMMITTEE PRINT

COMMITTEE ON THE BUDGET
U.S. HOUSE OF REPRESENTATIVES

THE SECOND CONCURRENT RESOLUTION
ON THE
FISCAL YEAR 1980 BUDGET
A MULTI-YEAR PERSPECTIVE

SEPTEMBER 10, 1979

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1979

50-757

CP 96-10

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMMITTEE ON THE BUDGET

RÒBERT N. GIAIMO, Connecticut, *Chairman*

JIM WRIGHT, Texas
THOMAS L. ASHLEY, Ohio
LOUIS STOKES, Ohio
ELIZABETH HOLTZMAN, New York
DAVID R. OBEY, Wisconsin
PAUL SIMON, Illinois
NORMAN Y. MINETA, California
JIM MATTOX, Texas
JAMES R. JONES, Oklahoma
STEPHEN J. SOLARZ, New York
WILLIAM M. BRODHEAD, Michigan
TIMOTHY E. WIRTH, Colorado
LEON E. PANETTA, California
RICHARD A. GEPHARDT, Missouri
BILL NELSON, Florida
WILLIAM H. GRAY III, Pennsylvania

DELBERT L. LATTA, Ohio
JAMES T. BROYHILL, North Carolina
BARBER B. CONABLE, JR., New York
MARJORIE S. HOLT, Maryland
RALPH S. REGULA, Ohio
BUD SHUSTER, Pennsylvania
BILL FRENZEL, Minnesota
ELDON RUDD, Arizona

MACE BROIDE, *Executive Director*
WENDELL BELEW, *Chief Counsel*
ALLEN C. GROMMET, *Acting Chief Economist*
BRUCE MEREDITH, *Director, Budget Priorities*

TABLE OF CONTENTS

		PAGE
INTRODUCTION		1
I.	Need for Multiyear View in Federal Budgeting	3
II.	Evolution a Multiyear System	5
	A. The Annual Federal Budget	5
	B. Multiyear: Budget, Plans and Projections	5
	C. Approaches to a Multiyear System	5
	1. The President	
	2. The Senate	
	3. The House	
	D. The Future of Multiyear Systems	7
III.	Economic Assumptions	9
	A. Tenuous Nature of Economic Assumptions about Performance of the Economy	9
	B. Interaction Between the Budget and the Economy	9
	C. Multiyear Assumptions	10
IV.	Overview.	
	A. Current Policy Revenues	
	B. Components of Outyear Growth of Current Policy Outlays	
	C. Current Policy Projections: Outlays Compared to Revenues	
	D. The Budget Margin, 1980-1984	
	1. Parameters for Policy Choices	
	2. Summary of Major Budget Contingencies	
V.	Indicators of Overall Outyear Spending Policy	27
VI.	Multiyear Budget Outlook for Revenue and Budget Functions	33
	A. Revenues	33
	B. Budget Functions	37
	050: National Defense	37
	150: International Affairs	45
	250: General Science, Space and Technology	49
	270: Energy	53
	300: Natural Resources and Environment	59

350:	Agriculture	65
370:	Commerce and Housing Credit	69
400:	Transportation	73
450:	Community and Regional Development	81
500:	Education, Training, Employment and Social Services	85
550:	Health	91
600:	Income Security	97
700:	Veterans Benefits and Services	105
750:	Administration of Justice	113
800:	General Government	117
850:	General Purpose Fiscal Assistance	121
900:	Interest	125
920:	Allowances	129
950:	Undistributed Offsetting Receipts	133

INTRODUCTION

For the past year the House Budget Committee's Task Force on Budget Process has been considering the issue of multiyear budget planning. The Members of the Task Force are as follows:

Norman Y. Mineta, Calif., Chairman

Robert N. Giaimo, Conn.
Jim Wright, Texas
Elizabeth Holtzman, N.Y.
James R. Jones, Okla.
Timothy E. Wirth, Colo.
Leon E. Panetta, Calif.
Richard A. Gephardt, Mo.
Bill Nelson, Fla.

Barber B. Conable, N.Y.
Marjorie S. Holt, Md.

The document which follows was prepared at the direction of Chairman Mineta. Its purpose is to provide Committee Members with a more informed multiyear perspective as the Committee Members consider the Second Budget Resolution for fiscal year 1980.

The document essentially contains two major sections. The first includes parts I through V. These parts provide materials on the need for a multiyear view, the evolution of a multiyear system, and the approaches taken so far by the House, the Senate and the President. In addition this first section contains a discussion of the economic assumptions used in HBC's current policy projections and an overview section which, compares the outyear estimates of the House, the Senate and the President and sets forth selected major budget issues for the outyear.

The second major portion of the document, part VI, presents, for each function, a discussion of the controllability of the function, past spending trends, selected outyear issues and implications of the HBC Current Policy Projections, the President's Two Year plan and the Senate's Five Year figures.

I. NEED FOR MULTI-YEAR VIEW IN FEDERAL BUDGETING

Each year Congress authorizes Federal activities and programs and appropriates funds to carry them out. However, the outlays which result in a given budget year are largely determined by actions which Congress has taken in prior years. In other words, the choices made in prior years restrain the effectiveness of action in the budget year.

This is true because in a given budget year approximately three-quarters of the outlays are characterized as "relatively uncontrollable." This term describes programs and activities for which monies will be spent automatically unless Congress acts to change existing law. For example, Congress must change authorizing law to affect social security or interest payments, which become available without any action by Congress under a permanent appropriation. Many veterans' benefits payments are defined as relatively uncontrollable because they are entitlements. Congress considers itself bound under law to appropriate the needed amounts and court cases have held that such payments are legally required.

For fiscal year 1980 the President's budget requested $531.6 billion in budget authority. Of this amount, the Executive considers 74 percent to be relatively uncontrollable by Congress under existing law in the budget year. This means that of the $531.6 billion requested, $404.1 billion would be automatically spent unless Congress changes existing law. In fiscal year 1980 this includes entitlement programs which mandate payments to governments or individuals for programs and activities such as social security, medicare, medicaid and veterans benefits, as well as outlays from contracts and obligations made in previous years (prior-year outlays).

Uncontrollable outlays have soared dramatically in the last decade. Of the $335 billion outlay increase from 1970-80, about 83 percent or $278.3 billion was due to an increase in uncontrollable spending. The largest area of growth in the uncontrollables has been in the entitlements which have increased from about half of the uncontrollables in 1967 to about two-thirds in 1980 with particularly large jumps in social security, unemployment assistance, medicare and medicaid, and public assistance programs.

The Budget Committee each year addresses the uncontrollable programs with its proposals for legislative savings. The Committee's targets for these programs are characterized as legislative initiatives because Congress can always change the laws mandating this spending if it chooses to. For instance, Congress could modify social security provisions under which payments now automatically occur under a permanent appropriation or could change the law to modify medicare provisions. In addition, although such an effort would be circumscribed by many practical limitations, Congress could change prior-year contract authorities.

The Second Budget Resolution for Fiscal Year 1980 assumes $2.4 billion in outlay savings in such areas as wage board salary reform, annualizing cost-of-living increases for Federal retirees, impact aid reform, hospital cost containment,

medicare and medicaid program reform, AFDC and SSI reforms and veterans health benefit reforms. In order to achieve these savings, the committees of jurisdiction must initiate changes to laws now in effect. The Budget Committee realizes that this is no easy task. In fiscal year 1979 the Committee recommended about $2.5 billion in legislative reforms but less than $100 million was eventually achieved.

Because of the difficulty and the time required in confronting uncontrollable outlays, Congress often implements national priorities by addressing itself to the one-quarter of the budget which is defined as controllable. This 25 percent of the budget, however, should not imply a simple decision by Congress as the word controllable might suggest. For instance, 52 percent of this controllable amount is for the defense budget, which is largely composed of salaries and operating expenses and which is politically difficult to reduce. In addition, a large share of the controllables is for continuing expenses of the government. Substantial and precipitous reductions in this area could imply terminating major agencies and leaving large numbers of people without work.

A further complication in reducing proposed budget outlays sharply in the budget year is the rate at which funds are spent. This is due to the normal spendout of outlays over several years, particularly in the areas of procurement and heavy construction. For instance, new budget authority for the non-interstate highway program spends out over eight years at only eight cents to the dollar in the first year. Thus, the distinctions between controllable and uncontrollable become hazy in terms of real budget control, effectiveness of short-term control and political likelihood of reform.

A multi-year view provides Congress with a better long-range perspective and can make an important contribution to restoring more effective control over the Federal budget. As programs are evaluated in a budget year, the magnitude of the Federal commitment over the long run can be more accurately gauged.

II. EVOLUTION OF A MULTI-YEAR SYSTEM

A. The Annual Federal Budget

The President annually proposes his budget and the Congress annually appropriates funds. In addition, over the last few decades Congress has moved significantly toward annual authorizations, which is to say, laws which authorize the appropriation of funds. For instance, in the last decade annual authorizations grew from 22 in the 91st Congress to 77 in the 95th Congress. A substantial share of the proposals in the President's budget are subject to both authorizing and appropriation review on an annual basis.

B. Multi-Year: Budget, Plans and Projections

Consideration of multi-year approaches has developed gradually. Section 502(c) of the Congressional Budget Act required a study of multi-year budgeting. Multi-year budgeting, which entails the enactment of multi-year appropriation bills, should be carefully distinguished from multi-year planning, in which single-year budget decisions are made in the context of a multi-year plan. Still further, both of these approaches must be distinguished from projections of the budget year, which are future year estimates of the resources required if currently existing programs were continued at the same real level; neither multi-year plans nor projections are intended to be precise forecasts or detailed final recommendations.

The responses to the Budget Act requirement raised a series of questions about the appropriate number of years to include in a multi-year consideration, the advisability or feasibility of planning for the outyears as opposed to simply projecting the present budget year forward, and the appropriate number of decisions which Congress is equipped to address in detail for the outyears.

C. Approaches to a Multi-Year System

1. The President

The Executive first included multi-year numbers in the budget in the broadest sense in the 1961 budget in which a projection of aggregate numbers were included for ten years out from the budget year. However, no year-by-year analysis or detailed discussions of the assumptions which led to the aggregate numbers was included in the presentation. The next advance took place in 1971 when the Executive budget included a five-year projection of aggregates by year. By 1975 a brief section on long-range estimates with explanatory tables was included in the budget, with major agency and functional projections for one year beyond the budget year. These were, however, still considered projections until the fiscal year 1979 budget was presented. In the fiscal year 1979 budget the planning process began. Planning targets for two years beyond the budget year were included along with extrapolations of these planning targets for two additional years. Although the bulk of these outyear numbers were still projections, this effort did include a few major planning decisions and a greatly increased emphasis on outyears within the Executive Branch.

In the fiscal year 1980 budget the President continued the multi-year targeting approaching. The fiscal year 1980 budget included planning targets fro two years beyond the budget year, along with extrapolations of those targets to fiscal years 1983 and 1984. It is important to note that these planning targets are not merely educational devices. Clearly, the President is treating the 1981 and 1982 estimates as Government-wide planning targets. Indeed, the budget states that "agencies were directed this year to prepare budget requests within the context of a planning period two years beyond the budget year"; and, "All significant program and tax policy proposals prepared for budgetary consideration now include an analysis of their fiscal implications for two years beyond the budget year. Thus, this Spring the administration will begin policy review of budget plans extending through 1983."

2. The Senate

The Senate Budget Committee began focusing on five-year budget figures in the First Budget Resolution for Fiscal Year 1978. The Committee addressed five-year projections of current policy and current law for each function. (A current policy projection expands a base to take account of inflation on all Federal programs plus growth resulting from any increase in mandated caseloads or spending from existing contracts. A current law projection differs only in that if a program is not indexed by law, no inflation adjustment is included.) However, the Committee did not vote on these numbers and the Committee report did not emphasize them.

In 1979, the Senate initiated outyear planning for the first time and the Committee voted on the outyear numbers by function and mission. These outyear numbers included a few deliberate major planning decisions by the Committee rather than simple extrapolations of the budget year totals. These numbers were included in the Senate report.

In fiscal year 1980 the Senate refined and improved the process as markup focused in greater detail on the outyear funding levels and the number of policy decisions made for the outyears increased. The Senate Budget Committee provided an economic forecast for fiscal year 1980 and projections of economic objectives through 1984 in their reports on the Budget Resolution for Fiscal Year 1980. The Committee voted in markup on each "mission area" (similar to subfunction) of each function and the vote applied to the budget year and each of the outyears. For each year from 1980-84, the Senate Budget Committee started from a current law projection of fiscal year 1979. Policy changes for the outyears were added or subtracted from this base. The Committee report included the outyear numbers for each mission, and the function totals for each of the five years were part of the Budget Resolution as approved by the Senate.

3. The House

The House each year since fiscal year 1977 has included appendices in its reports accompanying budget resolutions, which have been based on five-year projections of the proposed Committee budget resolutions. The House Budget Committee has not yet included multi-year recommendations on functions to the House, although aggregate current policy figures were included in the Conference report on the First Budget Resolution for Fiscal Year 1980 for fiscal years 1981 and 1982. These numbers fid not represent planning goals, however, but were projections of the fiscal year 1980 resolution.

Over the past two years, the House with the assistance of CBO has developed a more sophisticated data base system which can produce five-year projections of the Budget Resolution and comparisons with the Executive and Senate Budget Committee five-year assumptions. In addition, for fiscal year 1980 the Budget Committee requested that committees in their March 15 report to the Budget Committee comment on their plans for fiscal years 1981 and 1982 as well as on the budget year.

House Budget Committee consideration of the Second Budget Resolution for Fiscal Year 1980 will include current policy projections of the budget aggregates for fiscal years 1981 and 1982 in the Resolution. In addition, Part III of this markup document provides Committee members with multi-year information and analysis, function by function, for use during the markup of the Second Budget Resolution. For each function, Part VI provides a more detailed perspective on controllability, past spending trends, major outyear issues, and implications of the Senate's outyear figures, the HBC projections and the President's planning targets.

D. The Future of Multi-Year Systems

In the past year, the House Budget Committee has been examining the issue of multi-year budget planning through its Task Force on Budget Process. The Task Force is moving deliberately because the issues are complicated. They involve not only internal Budget Committee procedures but, more importantly, if efforts are to be truly successful, close coordination with the President, the Senate, and all committees of the House, as well as support agencies of the Congress.

Before the House can be asked to approve budget plans for one or more years beyond the budget year, these institutional needs of Congress must be considered. Furthermore, close cooperation with the Executive will be required. More detailed Presidential outyear numbers are needed so that Congress and the President can focus together on selected major outyear budget issues. It will be important for Congress to consider the workload and other considerations of a system requiring systematic outyear analysis and planning by the authorizing and appropriations committees. Careful attention must be given to other implications on the present Congressional budget process including: the present trend of moving toward annual authorizations; proposed sunset legislation and how it could most effectively fit into a multi-year decision making process; the procedural requirements for committees set up by the Budget Act, such as the March 15 reports; and the mechanics of scorekeeping Congressional spending actions against a multi-year budget target.

All this is to suggest that important questions remain to be answered about multi-year appropriations and authorizations, biennial budgeting, reducing controllability in outyears and how it all relates to the Budget Act requirements as presently applied to the one-year budget recommendation included in the concurrent resolution on the budget.

III. ECONOMIC ASSUMPTIONS

A. Tenuous Nature of Assumptions About Performance of the Economy

The multi-year projections contained in this document are based on the policy recommendations of the proposed Second Budget Resolution for Fiscal Year 1980 and the HBC's economic assumptions which apply to the 1980-1984 period. Everyone is probably aware of the tenuous nature of any economic assumptions applied to the outyears.

When conditions are reasonably stable, it is possible to make economic projections for the coming year or two with some confidence. When there are outside shocks to the economy which cannot be predicted in advance, forecasting is much more difficult. When the shocks result in supply shortages and inflation, estimation of future trends is even more difficult. Under these circumstances, economic forecasters must rely on their assumptions about how the economy would perform if it were facing a smooth path in the future and then make judgments about what adjustments would be necessary to achieve economic stability.

Forecasters were caught off-guard by the shocks which helped to precipitate the recession that began in 1973. They were unprepared for the OPEC price increases and their profound repercussions in the economy. They did not anticipate the effects of the 1972 crop failure nor the results of the huge U. S. grain sales. These events pointed up the inability of contemporary economic theory to handle adequately the after-effects of sudden heavy strains on the economy.

In the multi-year forecasts which follow, the projections assume the economy is operating at very high utilization levels. Consequently, there is no allowance for unforeseen shocks nor actions taken to offset such shocks. The size and impact of an upheaval is difficult to incorporate into an econometric model. While some argue that a decreased growth rate should be assumed in order to provide a cushion against inflationary jolts, the scope and repercussions of such events are so uncertain that compensatory adjustments have not been incorporated in this forecast.

B. Interaction Between the Budget and the Economy

Because Federal budget outlays and receipts have been running at roughly 20 percent of the Nation's total output, the Federal budget by its very size has an impact on the economy. The principal way in which the budget affects the level of economic activity is through the size of the budget margin--the deficit or surplus--and the changes in that margin. The effect of the budget on economic growth cannot be measured simply by whether there is a budget surplus or deficit. The important consideration is whether, under current law and policy, the budget would be in surplus or deficit at full employment.

Also, the Federal budget has a retarding impact on the economy when, at full employment, the budget is in surplus. Simply stated, if economic resources were fully utilized, a tax increase or expenditure reduction would push the economy downward. Under such circumstances, the budget is said to be exerting "fiscal drag." Conversely, an increase in expenditures or a reduction in taxes under these conditions would tend to create inflation rather than raise total output since the economy is already operating at capacity.

Inflation may also be created by shocks resulting from circumstances outside our own economy. The United States economy has not been running at high employment during most of the 1970's and, therefore, excess demand has not been the main source of the price rises. While the decade of the 1960's was relatively free of outside sources of price increases, the present decade has faced a series of these jolts: the OPEC price hikes, the changes in world food conditions that affect domestic food prices and the decline in confidence in the dollar requiring monetary policies that have boosted domestic inflation. Payroll tax and minimum wage increases and many new governmental health, safety and environmental regulations have also increased business costs. These costs have been passed through to the price of products. Employees have sought rising wages to keep up with the rising prices of food, fuel, and other necessities and choices in the market. In general, wages in the last ten years have barely kept pace with the upward movement in the cost of living. However, pressure has been building for compensatory wage increases that it will be difficult to deny in the immediate future. Upward wage adjustment will feed into the costs of doing business and lead to further price increases. The wage price spiral becomes obstinate, and policymakers have not found satisfactory methods for interrupting the cycle. It is unlikely that the five-year projections contained herein will be realized unless we can conquer this inflationary spiral.

C. Multi-Year Assumptions

The five-year extrapolations of economic assumptions are not forecasts of future economic conditions nor goals for future fiscal policy. But they may be used as valuable indicators of the future economic framework in which coming Federal budgets will opperate. The specific assumptions made show only gradual progress in the inflation battle, strong but not robust economic growth and unemployment close to 6½ percent even five years out.

Inflation which has continued to surprise forecasters and has run at an annual level above 13 percent for the first half of 1979, remains a stubborn problem and barely sinks below 7 percent even by fiscal year 1984. As measured by the Consumer Price Index, inflation slides just below the double digit range to 9.8 percent in fiscal year 1980 and falls gradually to 6.8 percent. A broader measure of inflation, the GNP price deflator, reflects changes in prices of the whole gross national product, not just consumer purchases. While it is predicted to increase at 8.4 percent in fiscal year 1979, compared to a 10.1 percent rate for the CPI, it rises just above 9 percent next year and then falls more slowly to a level almost identical to that of the CPI in 1984.

The recession, which is expected to result in negative growth in the economy for three quarters in 1979, recedes in 1980, although the economy is stagnant, registering no expansion for that fiscal year. By 1981, the pace has picked up and growth is estimated at 3.3 percent, rising to 4 percent for the outyears.

Unemployment has been registering very steadily in the 5.8 percent range for the last year. As a result of the recession, it is forecast to rise to 7.2 percent in fiscal year 1980. Because in today's economy, output must expand by 3 to 3.5 percent a year simply to keep unemployment from rising, and growth is not forecast to surpass that, the unemployment rate is not expected to fall to present levels in the multi-year horizon period. It is projected to remain at 7.2 percent in fiscal year 1981 and then fall slowly to 6.4 percent by 1984.

In summary, according to this extrapolation, the economy will follow a steady course, not deviating far from a stable growth in the GNP if it is not subject to extreme swings in the business cycle. The projection would be changed, however, if there were a severe recession or significant changes in economic policy.

The projections of the economy for the next five years are as follows:

	Calendar Year Average (percent)				
	1980	1981	1982	1983	1984
Growth in GNP:					
current dollars	10.1	12.3	12.1	11.4	11.1
1972 constant dollars	0.9	3.5	4.0	4.0	4.0
Inflation:					
CPI (%)	9.3	8.6	7.8	7.1	6.8
GNP deflator (%)	9.0	8.5	7.8	7.1	6.9
Unemployment rate (%)	7.2	7.1	6.9	6.6	6.3

IV. OVERVIEW

A. Current Policy Revenues

Current policy revenues are shown below for fiscal years 1980-1984.

Revenue Estimates, Fiscal Year 1980-1984
In billions of dollars

	Fiscal year				
	1980	1981	1982	1983	1984
Base Line Projection.....	512.7	593.3	689.3	785.0	890.8
Assumed Changes:					
Windfall Profits Tax.....	+2.8	+7.7	+11.5	+11.0	+11.0
Other Current House Status Items.....	+0.1	...	...	...	...
Foreign Tax Credit.....	+0.5	+0.4	+0.4	+0.4	+0.4
Reform of Tax-Exempt Bonds.....	+0.2	+0.7	+2.2	+4.6	+8.2
Energy Tax Credits.....	-0.2	-0.6	-0.8	-1.1	-1.4
Cash Management.....	0	+2.0	+3.5	+1.5	+0.8
Miscellaneous.....	-0.1	...	...	...	...
Total Recommendation.....	516.0	603.5	706.1	801.4	909.8

By fiscal year 1984 total revenues are projected to rise to $909.8 billion. This would raise revenues to an unprecedented 23.3 percent of GNP (nominal GNP = $3,901.4 billion) compared to 20.6 percent in fiscal year 1980. However, the increase is mainly the result of inflation pushing taxpayers into higher tax brackets. While these increases are likely to be offset by future tax cuts, the projection assumes no general tax cuts during the next five years because they are not assumed in current policy.

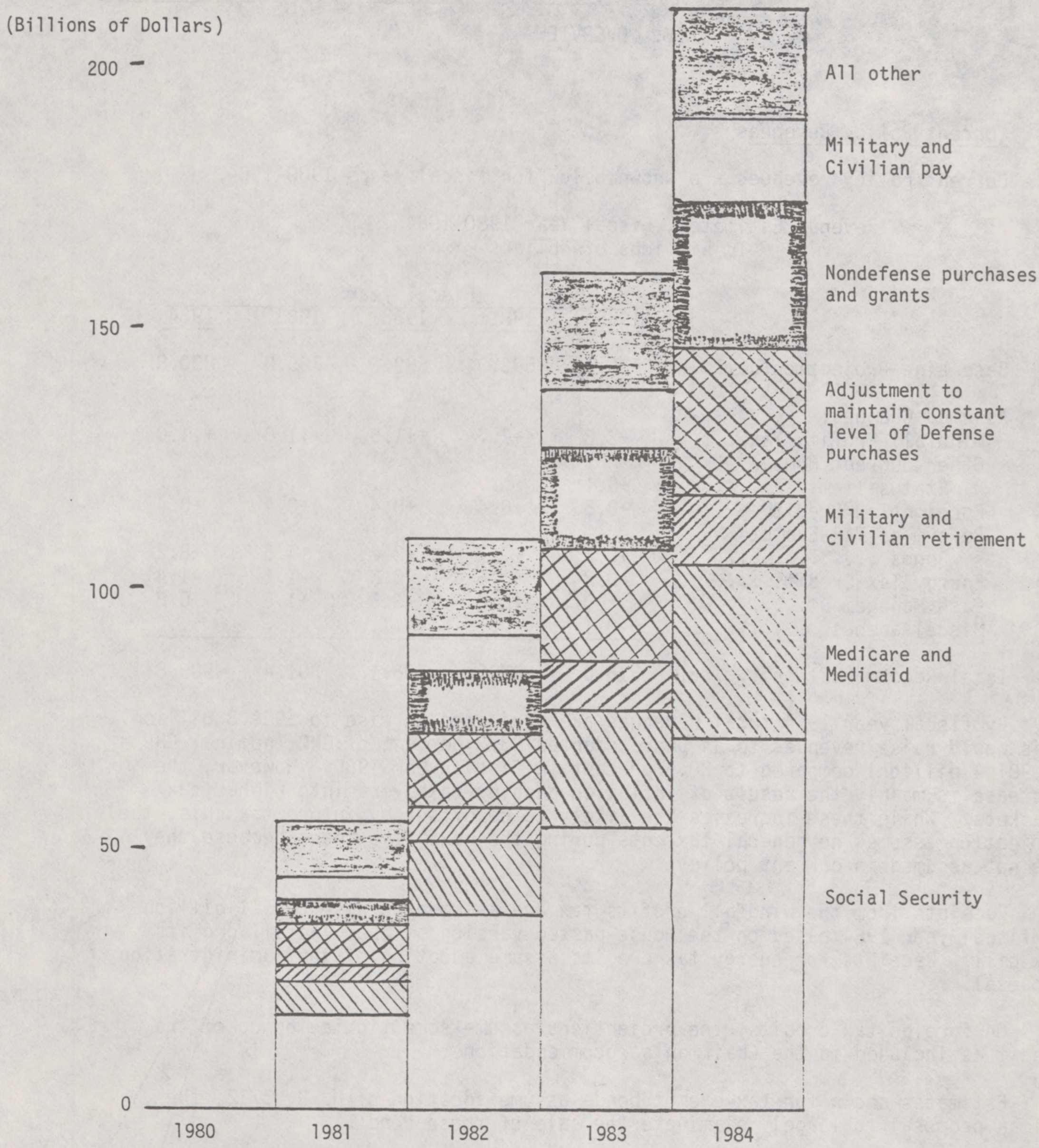
Receipts from the windfall profits tax are assumed to rise to $11 billion by fiscal year 1984 based on the House-passed version of the windfall profits tax bill. Receipts for energy tax credits assume adoption of the administration proposal.

On foreign tax credits, the projections assume some tightening up of the credit as included in the Chairman's recommendations.

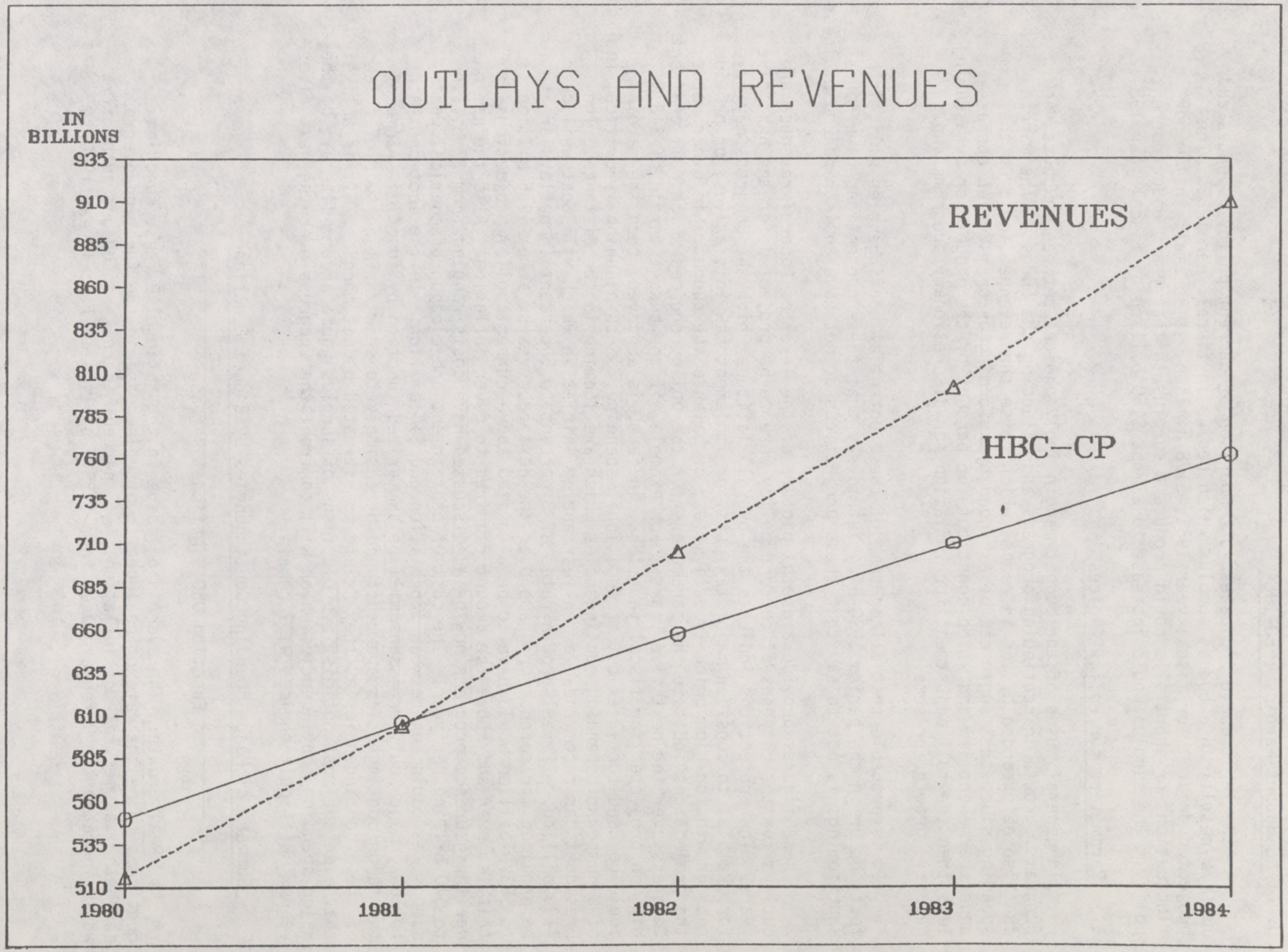
Estimates shown for tax-exempt bonds assume adoption of H. R. 3712, the Ullman proposal to largely eliminate the sale of these bonds.

50-757 O - 79 - 2

B. COMPONENTS OF OUTYEAR GROWTH OF CURRENT POLICY OUTLAYS



C. Current Policy Projections: Outlays Compared to Revenues



D. The Budget Margin, 1980-1984

As the table above indicates, a comparison of current policy revenues and outlays results in a budget surplus which begins in fiscal year 1982. The projected deficit for fiscal year 1981, $1.8 billion, is so small that minor fluctuations or shortfalls could produce a surplus in that year, under current policy. The surplus would increase to almost $150 billion by fiscal year 1984.

1. Parameters for Policy Choices

In general, uses of the budget margin imply choices between tax cuts, new programs, growth in continuing programs and balancing the budget. The margin can also be expanded by tax increases which raise the revenue line. On the spending side, the margin can be expanded by reforming programs which operate under permanent law and which constitute 56 percent of the budget, or by assuming less than the full adjustment for inflation for discretionary programs and/or negative growth for some.

It is probable that all or some of these potential contingencies will, in fact, occur in the period 1980-84. Yet to say that these projections have honest shortcomings is not to say that these projections do not have an intrinsic usefulness.

These figures provide a useful picture of the level of Federal revenues and outlays for the outyears if current policy were to be projected for the next five years. The projections indicate the overall latitude which the Congress may have, for example, to consider major tax cuts, or implement new initiatives, or provide real growth for high priority activities, or balance the budget. In other words, the projections indicate the parameters for the policy choices which will confront Congress over the next five years. For example, if the budget margin of $48.3 billion projected for fiscal year 1982, in fact, is achieved, then the margin could be used for a tax cut or additional spending. Such planning is critical in light of a number of spending contingencies which are looming in the distance. The President has recommended a ten-year energy initiative which will cost well over $100 billion. If real growth rates of 3 percent to 5 percent in outlays are to be provided for defense programs over the next four years, some $49.5 billion to $83.9 billion would have to be allocated above current policy projections, that is, over and above the amount required to cover inflation. Also the national health insurance programs now being discussed have costs ranging from $7 billion to $40 billion per year. The cost of containment and cleanup of chemical waste dump sites could run between $26 billion and $44 billion. In the section that follows, major outyear issues will be summarized function by function. Some of the major contingencies are mentioned here simply to show the magnitude of a few of these contingencies as they relate to estimated budget margins. It is unlikely that even the most optimistic projections of surplus would accommodate all of the major spending contingencies which will confront the Congress over the next five years. Difficult choices will remain.

2. Summary of Major Spending Contingencies by Budget Function

Function 050: National Defense

- Real growth: The overriding issue in the National Defense function continues to be the rate of real growth, the increase in the function over and above the assumed rate of inflation. A 3 percent increase in budget authority would increase the Defense budget from $138.5 billion in fiscal year 1980 to

$206.0 billion in fiscal year 1984. A 5 percent increase would provide budget authority of $222.5 billion by fiscal year 1984. In other words, if 3 percent to 5 percent real growth in National Defense is to be sustained over the next four years, an additional $53 billion to $93 billion, above current policy, will have to be allocated to defense.

• Procurement: The President's budget includes major new initiatives for strategic forces which will result in a significant increase in cost in future years. For example, a new land-based intercontinental ballistic missile system (MX) is proposed to complete engineering development and enter into production. The fiscal year 1980 budget includes $670 million, while total costs of the system have been estimated at $30 billion. The budget includes funds to begin an extensive modification program for B-52 bombers. Air and ground launched cruise missile programs are entering into production. Procurement of TRIDENT submarines and missiles continues and funding is included to develop a new larger TRIDENT missile.

The fiscal year 1980 shipbuilding budget includes only 16 ships, significantly less than required for Navy force objectives. The Navy proposes to procure a new aircraft carrier for $1.7 billion, while procuring fewer aircraft than required to maintain planned force levels. Both the shipbuilding and aircraft procurement programs will increase significantly by 1984.

While the Army has indicated equipment requirements for wartime contingencies which total $131 billion, only about $50 billion of the requirement has been identified in the Department of Defense 5-year plan. Within that total, the Army is planning a procurement program in fiscal year 1984 for ammunition, aircraft, missiles, weapons and tracked combat vehicles which is 97 percent higher than the requested fiscal year 1980 level.

Function 150: International Affairs

• International financial institutions: Current policy projections continue contributions to International Financial Institutions at current levels and make no assumptions concerning U. S. participation in the sixth replenishment of the International Development Association (IDA VI) or about possible doubling the capital resources of the World Bank. If these programs are to be fully funded, it could require adding up to $5.0 billion in budget authority and $1.0 billion in outlays over the five-year period.

Function 250: General Science, Space and Technology

• Civilian space program: Further delays in the space shuttle development and procurement phases beyond the current planning milestones could necessitate additional outlays of from $300 to $600 million in the period 1981-1983. Second, if in 1981 Congress decides to proceed with the procurement of a fifth shuttle orbiter, additional outlays of approximately $100 million in 1981 and $200 million in each year 1982-1984 would be necessary. Third, outlays will increase if new mission starts are approved to take full advantage of the unique capabilities of the space shuttle.

• General science and basic research programs: The basic issue confronting the Congress will be whether to provide for real growth of about 2 to 3 percent as has been experienced over the last two years. Providing full adjustment for inflation would cause outlays to increase by over $400 million by fiscal year 1984. Additionally, continuation of the real growth trend experienced over the last two years would cause outlays to further increase above current law estimates by approximately $100-150 million by 1984.

Function 270: Energy

• New energy initiatives: The President has proposed energy initiatives designed to reduce U. S. oil imports from the current level of 9 million barrels per day (MMBD) to 4.5 MMBD. The initiatives involve encouraging the private sector development of synthetic fuels; encouraging electric utilities to accelerate the reduction in oil use; new mass transportation improvements; additional energy conservation efforts; a low-income assistance program; and various tax incentives to encourage development of oil shale, heavy oil, and unconventional natural gas. The cost of these initiatives as proposed by the President is estimated to be $142 billion over a 10-year period with $26.4 billion in budget authority and $2.3 billion in outlays. These expenditures are to be financed through a proposed windfall profits tax on oil companies and are contingent on enactment of such a tax.

Although Congressional decisions of these new initiatives will be made in fiscal years 1979 and 1980, the effects of these decisions in terms of outlays will fall largely over the next five to 10 years. The initiatives related to synthetic fuels involves a broad set of financial arrangements including price guarantees, purchase agreements, direct loans and loan guarantees. Significant outlays for these kinds of initiatives will not occur before seven to 10 years because of the long lead time required for construction of plants and subsequent production of synthetic fuels. Conversely, the initiatives related to conservation, transportation, and low-income assistance as proposed by the President will result in an immediate outlay impact and will become more substantial over the next 10-year period.

• Strategic Petroleum Reserve: Currently, the Reserve has an appropriated ceiling of 750 million barrels of storage. However, technical problems in the preparation of storage sites have caused the current storage level to reach only 90 million barrels. These problems however have now been largely overcome. Also the tight supply situation led to a policy decision to temporarily discontinue oil purchases for the Reserve. However, as the supply situation becomes more favorable, oil purchases for the Reserve are likely to resume. In view of rapidly rising oil prices and in view of Congressional consideration of additional energy initiatives designed to make the U. S. more energy secure, it may be appropriate to reconsider the role of the Reserve within the entire energy strategy. The issues relate to what should be the ultimate site of the Reserve. Obviously, the larger the Reserve, the higher the cost. As a rule of thumb, every 100 million barrels of oil will cost over $2.2 billion at today's oil prices.

Function 300: Natural Resources and Environment

• Oil spills and hazardous waste dump sites: During the past year, a major effort has been undertaken by the EPA to determine the scope of environmentally dangerous chemical waste dump sites. Preliminary reports indicate that there are between one and two thousand such sites. The cost of containment, clean-up, and remedy of the problem at these sites (without restoration or third-party costs) is estimated between $26 and $44 billion. These estimates of cost could go up or down significantly as the problem is further scrutinized.

This year the President proposed legislation to create a "superfund" for cleaning up oil spills and hazardous waste sites. This legislation would provide 80 percent of the program costs through levies on oil and chemical companies as well as hazardous waste disposal companies. The remaining 20 percent would be provided by the Federal Government. The President assumes a $1.6 billion fund will be built up during the next four years starting with fiscal year 1981. There seems no doubt that Congress will be faced with responding in a major and costly way to the enormous problems presented by oil spills and hazardous waste sites. This response will be costly not only for the next five years but perhaps the next 25 years.

• Construction programs: EPA estimates the nation's total municipal wastewater treatment requirements at $106 billion in 1978 dollars, approximately $80 billion of which will be Federal funds. About $28 billion in appropriations has been provided thus far. However, inflation is rapidly escalating these cost estimates. Just between 1976 and 1978, inflation caused a $13 billion increase in cost estimates. To meet the Federal share of the total wastewater construction needs over a 20-year period would require an annual appropriation of $6.6 billion at an annual construction inflation rate of only 7 percent and $8.2 billion at a 10 percent inflation rate. As noted earlier, the current inflation rate for wastewater construction programs is about 13 percent.

In the Corps of Engineers' construction program, most of the projects in past years have been oriented toward midwestern or rural areas. However, it is expected that more urban areas, with rapidly deteriorating water supply systems, will make increasing and very significant claims on the Corps construction budget.

Function 350: Agriculture

• Omnibus farm bill: Current agricultural legislation expires with the 1981 crop year. Although it is too early to tell what direction new farm legislation will take, there is the possibility of some rather far reaching changes in agricultural policy. It appears that target and loan price adjustments will continue to be the primary policy tools having the greatest impact on Federal budget outlays. Since specific legislative proposals have not been developed to date, it is virtually impossible to estimate the cost of this prospective legislation. However, it should be noted that the 1977 omnibus farm legislation as enacted was estimated to cost about $800 million although proposals costing up to $7 billion were considered during the course of Congressional debate.

Function 370: Commerce and Housing Credit

• Off-budget activities: The Government's primary off-budget agency, the Federal Financing Bank, produces about $12 billion in net off-budget outlays in a relatively normal year. The House Budget Committee has recommended that some method be developed to treat the problem of off-budget agencies. There are no multi-year estimates for off-budget agencies. Leaving aside FFB transactions that are predominantly in aid of other functions, off-budget transactions that are directly supportive of commerce and housing credit account for about $3 billion. A significant problem for this year and all outyears is the treatment of off-budget agencies. Simple inclusion of off-budget agencies in the unified budget would add $12 billion (or more) to budget authority, outlays, and public debt.

• Credit control: There is a growing appreciation that Federal loan and loan-guarantee (credit) activities may be of equal importance with direct Federal expenditures. Thus, a significant outyear question will be the budgetary treatment of credit activities, which have reached a total of over $500 billion of direct and guaranteed loans by on-budget, off-budget, and Government-sponsored enterprises. Unless there is a fundamental change in budgetary accounting procedures, there would be no effect on statutory budget aggregates.

• Postal subsidies: There is continuing pressure for increases in general-fund financing of postal deficits. Although the U. S. Postal Service is running a surplus this year, future deficits are unavoidable unless postal policy provides for increasing postage rates to finance cost-of-living raises for postal employees and the impact of inflation on fuel and other items. Enactment and funding of H. R. 79 could add over $400 million to fiscal year 1980 spending, rising to $850 million in 1983.

Function 400: Transportation

• Highway programs: It is likely that a new highway authorization may be considered as early as fiscal year 1981. As part of that debate, major issues are anticipated. (a) What will be the final cost and completion date for the interstate system? The cost of the interstate has grown from $27 billion to $104 billion and could conceivably cost an additional $100 billion. The completion date had slipped from 1972 to 1990 and could be changed again. (b) The most recent authorization provided expansion of the Federal maintenance role in bridge projects from a level of $0.2 billion to over $1 billion per year. The original estimate of backlogged bridge projects was $23 billion but additional expansion of overall Federal highway maintenance responsibilities could eventually involve hundreds of billions of dollars. (c) The Department of Transportation and other transportation experts have forecast a significant slowdown in the revenue curve of the highway trust fund. In the past, trust fund revenues have kept pace with program funding increases. It is not certain that the trust fund growth will be sufficient to meet expanding program needs as required by law.

• Mass transportation programs: The major issue involves the President's proposed $16.5 billion, 10-year transportation related energy initiative. Of the $16.5 billion, $13 billion is for public transportation capital programs and is projected by the President to result in an all-funds mass transportation program of $50 billion for the 1980's versus $15 billion in the 1970's. The main issues are likely to be (1) if the Congress enacts the program, at what funding level will the program be authorized and will the Congress make enactment totally dependent

on the windfall profits tax being enacted , as assumed by the President, and (2) will the Congress include a new operating subsidy which is not part of the President's proposal? It is likely to be argued that localities cannot provide significantly expanded operations with increased Federal capital monies if an additional operating subsidy is not provided.

• Rail assistance programs: A number of the nation's freight railroads are in bankruptcy proceedings or are experiencing serious financial difficulties. In addition, the National Railroad Passenger Corporation (AMTRAK) has experienced precipitously growing deficits and Federal subsidy requirements.

(a) Freight issues. The President proposes dergulation of the rail freight industry which should significantly reduce Federal subsidy requirements. The President's rail legislation initiative would provide as much as $1.2 billion in transition aid over the next few years as railroads adjust to a deregulated environment. If deregulation is not legislated by the Congress, Federal rail freight subsidies could be many times the $1.2 billion transition amount and could be required in perpetuity or result in the nationalization of the railroads. The freight issue is illustrated by the Consolidated Rail Corporation (ConRail) which has been authorized to receive $3.3 billion in Federal subsidy in two succeeding authorizations. ConRail projects the need for additional Federal aid beyond the $3.3 billion if deregulation is not legislated by the Congress.

(b) Passenger issues. AMTRAK Federal subsidy requirements have grown from an original $70 million in 1971 to over $800 million projected in fiscal year 1980. The President proposed significant route-service reductions and the Congress has included specific route-service reduction criteria in the fiscal year 1980 authorization bills. Congress will have to decide what service level should be funded. In addition, AMTRAK requires growing capital funding and requires additional funding for the Northeast Corridor Project which ultimately could cost double the existing $1.75 billion authorization.

• Air mode programs: The issue is whether Congress will make substantial program and/or funding changes when the Airport and Airways Trust Fund programs are reauthorized for fiscal year 1981. The President has proposed an air mode legislative initiative which would extend the Trust Fund, expand individual program levels, and provide substantial changes in the air trust fund mechanism associated with reducing the growing air trust fund surplus. Funding levels for fiscal years 1981-1985 under the President's air legislation initiative would total $14.6 billion.

Function 450: Community and Regional Development

• Community Development Block Grants: Reauthorization will be required to extend the program beyond fiscal year 1981 and may have special significance as the Congress continues to debate the general issue of growth in Federal aid to State and local governments, and renewal of the General Revenue Sharing program. The fiscal year 1980 appropriation of $3,900 million will serve as the base for outyear spending levels. Between fiscal year 1981 and 1984 outlays could range from $3.8 up to $5.2 billion.

• SBA disaster loans/program reform: The HBC supported administration initiatives designed to reform the SBA disaster loan program in 1978 and 1979. Both the House and the Senate passed amendments to the program in 1979 (S. 918) which would reduce the subsidization of interest rates and eliminate farmers from participation. However, the conference report on this legislation has been delayed because of differences between the conferees over variations in the Farmers Home and Small Business disaster programs. The legislative outlook for enactment of these amendments in 1979 is uncertain. Current outyear estimates between fiscal year 1981 and 1984 range from $524 million down to $468 million for the SBA program. These estimates assume the enactment of the pending reforms. If these reforms are not enacted, outyear costs could rise to between $776 million in fiscal year 1981 up to $1,084 million in fiscal year 1984--increases of from $252 million to $616 million.

• Economic development assistance reauthorization: Reauthorization of the EDA programs is required to extend the programs beyond fiscal year 1979. The administration has proposed an initiative to restructure the programs into an expanded Economic Development Financing Administration. The Senate has passed a bill to accomplish the changes. The House Public Works Committee has reported a bill which would extend EDA programs for 3 years. However, the House Banking Committee has not completed action on related portions of the proposal. Estimates of outyear costs range from $864 million in fiscal year 1981 up to $1,160 million in fiscal year 1984.

Function 500: Education, Training, Employment, and Social Services

• Welfare reform jobs: The administration has proposed legislation which would provide about 400,000 new CETA jobs, bringing the total number of welfare jobs to 618,000 under the proposal; State and local employment and training agencies would place eligible jobseekers in unsubsidized employment in both the public and private sectors. The administration has estimated that the fiscal year 1982 program costs will be $4,987 million in new outlays offset by $2,282 million in savings from other programs for a total net cost of $2,705 million.

Representatives Perkins and Hawkins have introduced a different welfare reform jobs proposal which would create an open-ended entitlement to each CETA prime sponsor. The Federal Government would reimburse the prime sponsor for the costs of providing employment or training to eligible persons. The jobs or training would be for those persons who are the principal earners in families receiving AFDC or in households receiving food stamps. A cost estimate for this bill will not be available until middle or late September.

Function 550: Health

• National health insurance: The major issue in health will be national health insurance. Predominant among the insurance proposals under consideration are those developed by the President, Senator Edward Kennedy and Senator Russell Long. The initial costs of these plans range from $7 billion to $40 billion per year. The plan proposed by Senator Long centers around efforts to provide assistance in the case of catastrophic illness. The health insurance plans of the

President and Senator Kennedy provide comprehensive benefits and universal coverage. The President and Senator Kennedy have proposed that national health insurance be implemented in stages beginning in 1983. The plan proposed by Senator Long could be implemented shortly after its enactment.

• Hospital cost containment: In addition, efforts to restrain cost increases, especially with regard to hospital cost containment, will probably continue. Legislation to impose such controls already has been reported by the House Ways and Means Committee. It is estimated that this bill, if enacted, would save the Federal Government $7.7 billion from 1980-1984. Total savings for the nation would be $18.4 billion.

• Tax subsidies: Congress is beginning to consider more carefully the effects of health insurance and tax subsidies on medical care price increases. These subsidies currently total $10.6 billion annually in employer tax exclusions and in employee deductions for health insurance. The ongoing reviews may suggest other approaches which might help to slow down the rate of medical care increases.

Function 600: Income Security

• Social security: The old age survivors and disability system is the basic retirement program for more than 90 percent of the nation's workers, and is the largest single program in the budget. More than 100 million people work at jobs covered by social security. (The administration points to future problems caused by projected decreases in the ratio of productive workers to retired persons.) People born during the post-World War II baby boom will begin to retire after 2010, while at the same time the labor force is expected to grow much more slowly. Current administration projections indicate that the rate of taxpayers to beneficiaries will drop from 3:1 in the 1980's, to 2:1 in the 2030's.

As a result, over the next 5 years, one of the most important budgetary issues will be the financing and the benefit structure of the social security system. In the Social Security Act Amendments of 1977, Congress approved major increases in the payroll tax, including an increase scheduled for 1981 of 1.04 percent in the combined employer/employee rate and a $4,000 increase in amount the earnings on which the tax is paid, which will raise to $29,700, the annual income subject to the social security tax.

It now appears that tax increases from the 1977 amendments may not be sufficient to keep the trust funds solvent over the next 5 years. CBO estimates that by fiscal year 1984 the balances in the largest trust fund, the Old Age and Survivors Fund, will decline to 5.4 percent of outlays, an amount insufficient to maintain the cash flow of the program. However, the Disability fund and the Hospital Insurance fund (which is included in the health function) are projected to run a surplus, making the combined balances in all three funds by fiscal year 1984, 26.8 percent of outlays by fiscal year 1984 (a decline from the current level of 37.7 percent).

While these projections indicate a severe cash flow problem in the Old Age and Survivors fund, the combined balances for all funds would remain sufficient to finance benefits if the law were changed to reallocate receipts among the trust funds. On the other hand, it should be emphasized that the combined balances would be insufficient if economic conditions through 1984 are worse than the economic assumptions underlying these projections or if an economic downturn shortly after 1984 were to further deplete the balances.

It is likely that the Congress next year will consider some sort of roll-back in the social security tax or some other form of social security tax relief, such as the proposal to provide a refundable 20 percent tax credit against social security taxes.

Spending in this function would also be affected by changes to the benefit structure. The administration's proposals for legislative savings would reduce trust fund outlays by $4.1 billion in fiscal year 1984. The outlay reduction for the reforms to the Disability Insurance program passed by the House would reduce outlays by $1.2 billion in fiscal year 1984.

• Welfare reform: In May 1979, the administration transmitted a new welfare reform proposal, which it estimates would have a net cost of $5.7 billion when fully implemented in fiscal year 1982 ($3 billion for benefits which would primarily affect the income security function and $2.7 billion for jobs which would be funded through function 500). CBO estimates the cost of the administration's cash benefit provisions (H.R. 4321) to be $3.5 billion. The Public Assistance Subcommittee on the Committee on Ways and Means has approved a substitute to the administration's proposal. (H.R. 4904) which would have a fiscal year 1982 cost of $3.4 billion. The subcommittee bill would also provide fiscal relief to States during fiscal year 1981 totaling $640 million.

• Federal employee retirement: The cost of funding retirement and disability benefits for civilian Federal employees increased by 78 percent, or $5.4 billion, over the period fiscal year 1975-1979 and over the next 5 years is projected to increase by 59 percent, or $8.5 billion. At the request of the House Budget Committee, the Congressional Budget Office last year completed a study on this program, which found that the current civil service retirement system costs more than one and a half times what the combination of social security and a representative private sector plan would cost. This system is subsidized with large and growing general fund payments, in addition to the matching employer-employee contributions which together equal 14 percent of the payroll. The CBO estimates the long-term cost of the system to be 21.9 percent of payroll, an estimate which is substantially more conservative than the OMB estimate of 27.4 percent. Even under the conservative CBO assumptions, however, the Federal Government pays two-thirds of the cost, while Federal employees pay one-third of the cost.

Function 700: Veterans Benefits and Services

• The aging veteran: The next 5 years will mark the beginning of significant increases in expenditures for veterans pensions and medical care as a result of the aging of World War II and Korean conflict veterans. For example, veterans pension and compensation caseloads are expected to rise by more than 250,000 between fiscal year 1980 and fiscal year 1984. Program costs will increase from almost $12 billion in fiscal year 1980 to about $16 billion in fiscal year 1984, or 35 percent, as a result of inflation and rising caseloads. In addition to income security, the major long-range issue will be how best to meet the health care needs of an aging veteran population. By 1990 more than

half of U. S. males over 65 years of age will be veterans. Between 1980 and the year 2000, the number of veterans age 65 and over will double, jumping from 2.2 million to 4.4 million. These statistics emphasize the need for long-range planning in this area. The immediate future will include funding for geriatric research and pilot projects to serve aging veterans, as well as evaluations of the type of care and treatment that will best serve future needs. Such studies of long-range requirements will likely influence more immediate decisions, for example, as to whether nursing homes or acute care hospitals should be constructed, and in that way impact on short-range budgets as well. While the dollar impact cannot be determined at this time, it is clear that the expanded and divergent health care requirements of the aged veteran population will require extensive and costly changes in both facilities and services.

Function 750: Administration of Justice

- LEAA reauthorization: The House Judiciary Committee has reported a bill which would restructure and extend the LEAA program through fiscal year 1983. Floor action on this legislation is anticipated in September. Failure to extend the program beyond fiscal year 1983 or a continuing decline in annual appropriations for LEAA would have the net effect of leveling off outyear costs.

Function 800: General Government

- No major outyear budget issues.

Function 850: General Purpose Fiscal Assistance

- Aid to States and local governments: Major general aid to States and localities is provided through the General Revenue Sharing and Antirecession Fiscal Assistance programs. The revenue sharing program authorization expires at the end of fiscal year 1980. Authorization for the antirecession program expired at the end of fiscal year 1978. Current appropriation levels of these programs, together with the community development grant program (discussed in function 450) represent $10.8 billion, about 12.9 percent of total outlays for Federal grants in fiscal year 1979; and about one-fifth of the 66 percent of Federal grant outlays which support ongoing public service and capital development projects.

The renewal of the General Revenue Sharing program will therefore have the dominant effect on outlays in this function during fiscal years 1981-1984. The HBC supported a one-third reduction in revenue sharing payments in fiscal year 1980 to eliminate payments to State governments. This reduction was rejected by the Congress in appropriation actions. Congress is currently considering legislation to provide a standby antirecession program which could affect outlays in fiscal year 1981 and beyond, depending on economic conditions. The Senate Finance Committee has reported a bill which would authorize a new program. The House Government Operations Committee has not reported a bill.

Function 900: Interest

• Future trends in the economy: Response of the Federal Reserve Board and other participants in the financial system to changes in the economy is the single most significant determinant of future outlays for interest payments. Decreasing deficits or budget surpluses would, of course, reduce interest outlays over the long run.

Function 920: Allowances

• Civilian-agency pay raises: Last year, the President's budget proposed a 5.5 percent "cap" on annual salary increases granted Federal employees pursuant to the Pay Comparability Act of 1970. This budget recommendation was followed by a formal Presidential proposal which was accepted by Congress. For fiscal year 1980, the President has recommended a 7 percent increase. For the long run, the significant budget question will be whether arbitrary pay caps can continue to be imposed in the face of rising living costs and rising salary levels in the private sector. A subsidiary issue is the phenomenon of upper-pay-level compression resulting from the imposition of a ceiling of $47,500 on the salaries paid under the General Schedule.

Function 950: Undistributed Offsetting Receipts

• Sale of OCS leases: The only significant outyear issue in this function revolves around the effects of energy development on the sale of leases of petroleum-producing tracts on the Outer Continental Shelf. Other things being equal, it might be expected that a period of relative energy shortage would increase the attractiveness of OCS lands and produce a somewhat higher level of lease sales and thus of undistributed offsetting receipts.

V. INDICATORS OF OVERALL OUTYEAR SPENDING POLICY

The following tables compare the HBC projections, the Senate figures, the President's planning targets, and a projection based on actual spending over the past 5 years. In the summary graph these four outlay projections are simply compared to each other. In the remaining tables the projections are compared in three ways: (1) as a percentage of the Gross National Product; (2) percent annual nominal growth for each; and (3) percent annual real growth for each.

B. Current Policy Outlays

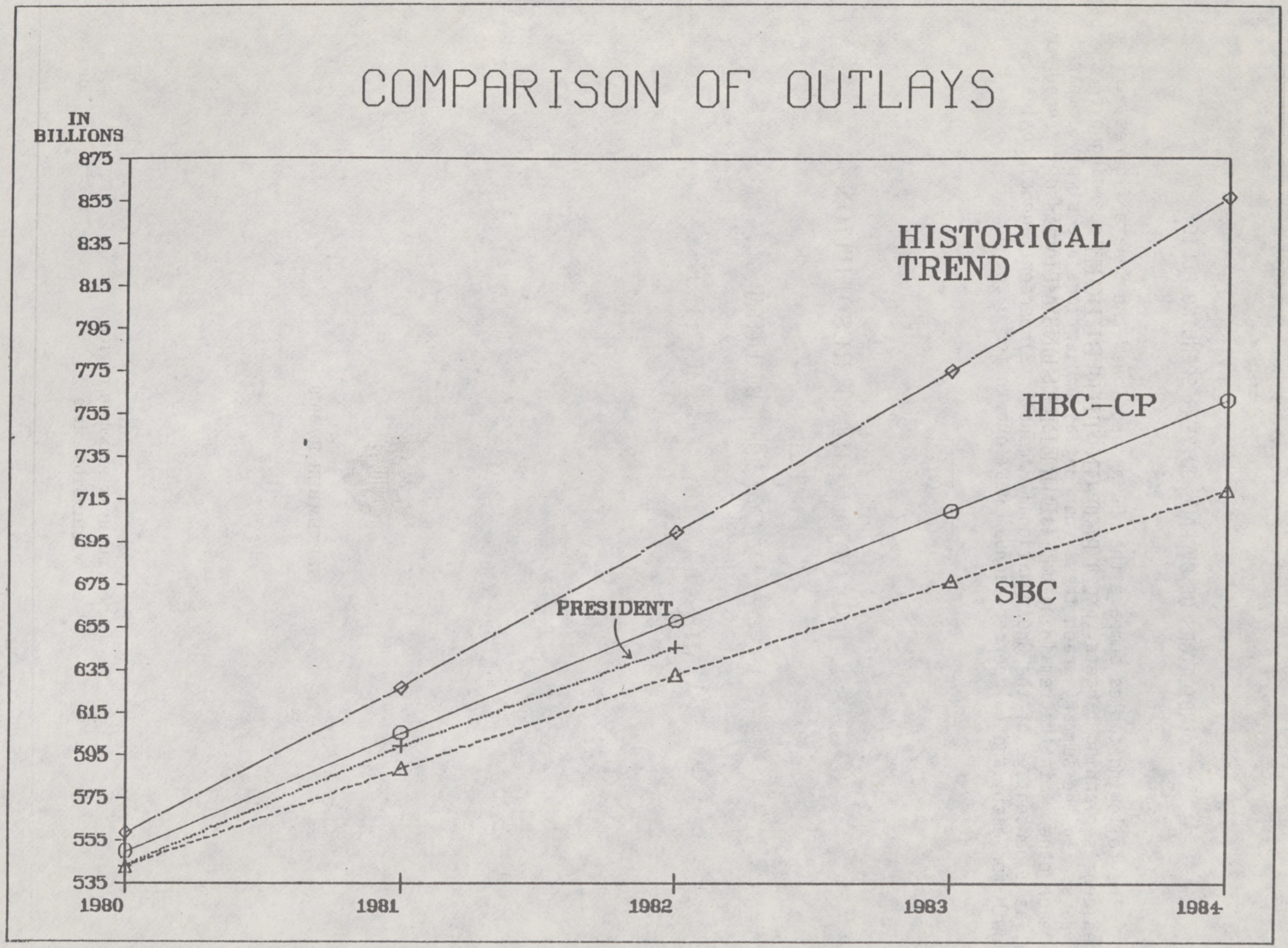


Table 1. PROJECTIONS AS A PERCENTAGE OF GNP

	1980	1981	1982	1983	1984
Past 5 years	22.3	22.4	22.2	22.1	22.0
HBC	22.0	21.6	20.9	20.2	19.5
President	21.7	21.4	20.5	20.5	19.7
Senate	21.7	21.0	20.1	19.3	18.5

By comparison, in fiscal 1978, the most recent actual figure, Federal outlays amounted to 22.1 percent of GNP.

50-757 O - 79 - 3

Table 2. PERCENT NOMINAL GROWTH OVER PREVIOUS YEAR

	1981	1982	1983	1984	Average Annual Percentage
Past 5 years	12.25	11.60	10.87	10.45	11.29
HBC	10.10	8.68	7.94	7.27	8.49
President	10.26	7.79	11.19	7.10	8.72
Senate	8.46	7.51	6.97	6.35	7.32

For purposes of comparison the average nominal growth for the last 5 years was 10.5 percent. It should be noted that in the HBC projections above, growth results from HBC's inflation assumptions, mandatory increases, and outlays which result from prior-year budget authority. Except for these factors, no program growth is assumed.

The Senate figures provide for real growth in defense activities and expansions in other high priority functions such as community development. To limit overall budget growth while providing for these increases, the outlays for other functions are planned to decline from current law.

Table 3. PERCENT REAL GROWTH OVER PREVIOUS YEAR

	1981	1982	1983	1984	Average Annual Percentage
Past 5 years	3.35	3.35	3.35	3.35	3.35
HBC	1.37	0.64	0.62	0.38	0.75
President	1.52	-0.18	3.65	0.22	1.29
Senate	-0.13	-0.42	-0.29	-0.49	-0.34

For purposes of comparison, real growth over the past 5 years has amounted to 3.35 percent.

It should be noted that in the HBC projections above, real growth results from mandatory increases and outlays from prior-year budget authority. Except for these factors, no real program growth is assumed.

The Senate figures provide for real growth in defense and program expansion in other high priority functions such as community development. Additional outlays necessary to implement welfare reform are included beginning in fiscal year 1982. But to limit budget growth while including these increases, outlays for other functions are planned to decline from current law.

VI. MULTI-YEAR BUDGET OUTLOOK FOR REVENUES AND BUDGET FUNCTIONS

A. Multi-Year Outlook for Revenues

1. Controllability of Revenues

The most fundamental factor influencing the level of revenues received by the Federal Government is the rise in current dollar GNP. The next most important consideration is the growth in taxable employment.

Changes in the level of revenues can be effected by the Congress although certain kinds of tax revenues, those earmarked for specific uses such as highway and social security payments, are much less liable to change than revenue sources which are not allocated to specific uses. Receipts allocated to trust funds are approximately 31 percent of total receipts in fiscal year 1980. The remaining 69 percent of total receipts are derived from individual and corporation income taxes and excise taxes, which are not tied to specific spending programs.

Unlike controllable outlays which are subject to annual appropriations, revenues continue to rise even if no tax is passed. Major tax acts are enacted in response to changes in the economy or when major tax reforms are successful. Tax cuts designed to offset the rise in taxes caused by inflation and to achieve other goals have become fairly common in the last 10 years.

2. Past 5-Year Revenue Trend

Revenues As A Percent of GNP
(in billions of dollars)

	Fiscal Year					
	1975	1976	1977	1978	1979 (est.)	1980 (est.)
Total Revenues	281.0	300.0	357.8	402.0	466.4	516.0
Nominal GNP	1457.3	1621.7	1834.0	2043.4	2290.7	2499.7
Revenues as % of GNP	19.3	18.5	19.5	19.7	20.4	20.6

While total revenues have remained relatively constant as a percent of GNP, the composition of revenues has changed sharply over the years. The principal changes over the last two decades are that social insurance taxes have risen substantially as a percent of total revenues, while corporate receipts have decreased.

As a percent of total receipts, social insurance taxes and contributions doubled rising from 15.9 percent of total receipts in FY 1960 to an estimated 31.2 percent in FY 1980. Corporation income taxes fell from 23.2 percent of

total revenues in FY 1960 to 13.7 percent in FY 1980 and individual income taxes varied slightly from year to year but remained relatively constant; personal taxes were 44.0 percent of total receipts in 1960 and 45.9 percent in 1980.

Over the past 5 years the composition of revenues has not changed significantly. In FY 1975 social insurance taxes and contributions were 30.8 percent of total receipts, Corporation income taxes were 14.5 percent and individual income taxes were 45.9 percent.

3. Selected Major Budget Outyear Issues

Size, composition and timing are always major issues in tax legislation.

A significant tax increase will occur in the absence of a change in law in 1981 when social security taxes are scheduled to rise substantially. The social security tax increases scheduled to take place in January 1980 and 1981 will raise social security receipts by $1.4 billion in FY 1980 and by $15.6 billion in FY 1981.

In addition, tax increases resulting from inflation pushing people into higher brackets--the bracket creep, is estimated to increase revenues by $9.6 billion in FY 1980.

The second major issue is energy and the issues related to windfall profits and the energy tax credit legislation. The House version of the windfall profits tax is estimated to raise $2.8 billion in FY 1980 and $7.7 billion in FY 1981. Those amounts are scheduled to be offset by as yet unspecified programs for developing synthetic fuels, mass transit, and income maintenance programs. Other significant issues include foreign tax credits, reform of tax exempt bonds and cash management proposals.

4. Outyear Overview

The following table presents the total revenue estimates assumed by the House and Senate Budget Committees for the Second Budget Resolution and the President in the Mid-Session Review.

Revenues
(in billions of dollars)

	Fiscal Year				
	1980	1981	1982	1983	1984
HBC	516.0	603.5	706.1	801.4	909.8
SBC	514.7	603.6	658.4	744.4	837.2
President	513.9	597.4	---	---	---

a. Implications of the House Budget Committee's Projection

The HBC recommendation assumes adoption of the House version of the windfall profits tax and the energy credits proposed by the President. It also assumes reform of tax exempt housing bonds as proposed by Chairman Ullman in H.R. 3712. It also assumes some increase in revenues for reform of the foreign tax credit.

b. Implications of the President's Two-Year Plan

The President's Mid-Session Review calls for receipts of $513.9 billion in fiscal year 1980, $2.2 billion less than the HBC projection. Most of the difference is due to economic assumptions, primarily a higher inflation rate assumed by the House Budget Committee.

c. Implications of the Senate's Projection

The Senate Budget Committee's resolution assumes fiscal year 1980 receipts of $514.7 billion, $1.3 billion less than the HBC recommendation.

The difference is due to different estimates of windall profits tax -- the HBC estimate uses an estimate of $2.8 billion for the House passed version compared to an estimated $2.0 billion assumed by the Senate for an unspecified version. In addition, the HBC recommendation assumes receipts of $0.5 billion in fiscal year 1980 for the foreign tax credit. The SBC assumes no receipts from the foreign tax credit.

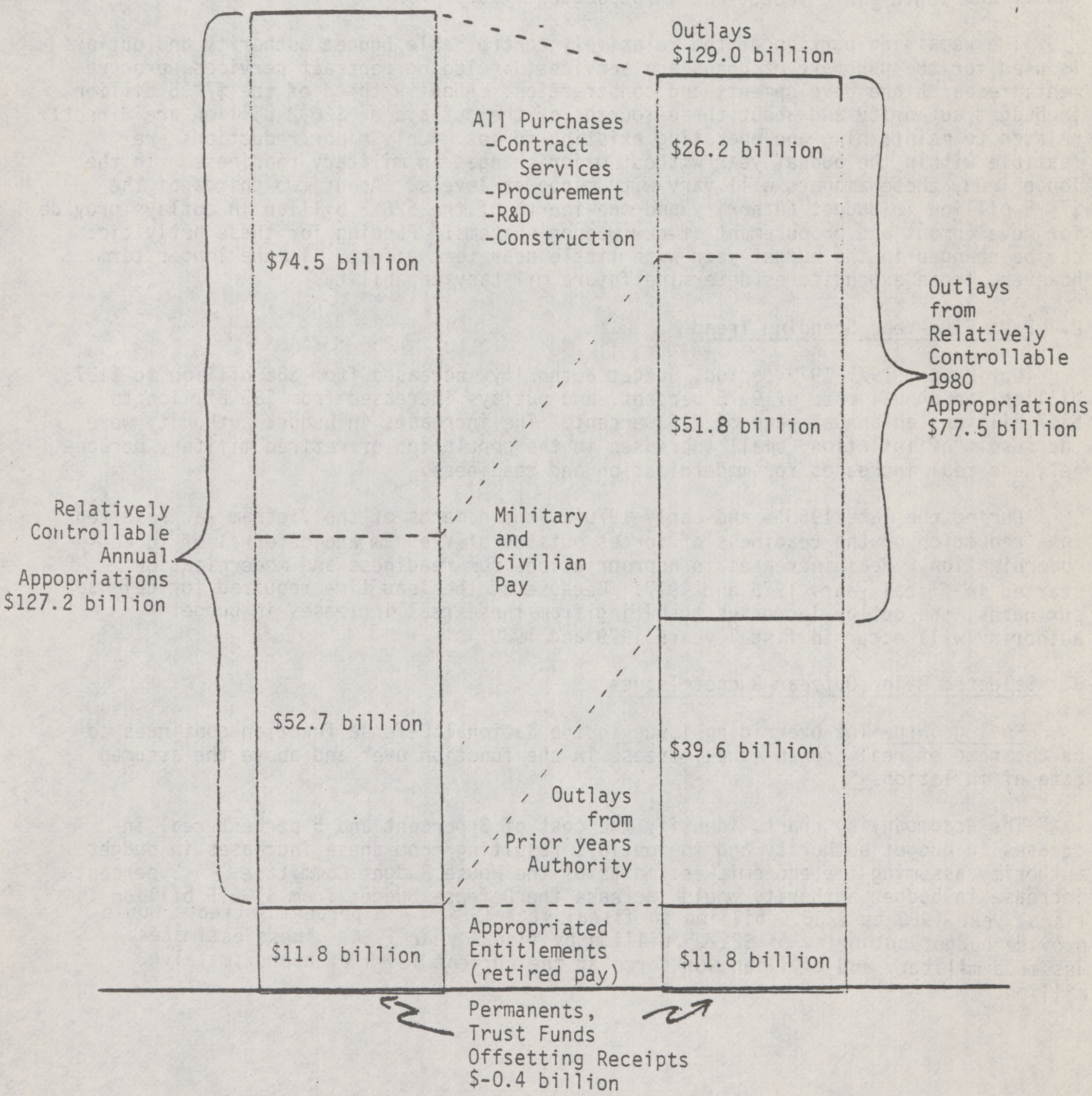
The major difference in later years is that the SBC assumes large tax cuts of $55 billion in 1982, $75 billion in fiscal year 1983, and $100 billion in 1984.

B. Budget Functions

Function 050: National Defense

1. Controllability of Function

FISCAL YEAR 1980 BUDGET AUTHORITY AND OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Sixty percent of outlays and ninety-two percent of the budget authority in this function are relatively controllable under existing law in fiscal year 1980. The remainder of the function is composed of retired military pay, outlays from prior years authority, and permanent appropriations.

Within the relatively controllable portion of the function, about $52.7 billion of the budget authority and $51.8 billion of the outlays are for military and civilian pay. Within the budget year, the costs associated with personnel reductions--terminal leave payments and severance pay--when combined with the time required for implementation, would result in little or no savings from personnel reductions. However, personnel reductions would yield reductions in subsequent years.

The remaining portion of the relatively controllable budget authority and outlays is used for the purchase of goods and services, including contract services, procurement, research and development, and construction. About a third of the $74.5 billion in budget authority and about three-fourths of the outlays of $26.2 billion are directly related to maintaining and operating existing forces. Only minor reductions are feasible within the budget year without major changes in military readiness. In the longer run, these amounts will vary with manpower levels. About two-thirds of the $74.5 billion in budget authority and one-fourth of the $26.2 billion in outlays provide for development and procurement of new weapon systems. Funding for these activities can be changed in the budget year with little near term effect. In the longer term, however, these expenditures determine future military capability.

2. Past Five-Year Spending Trend

During the 1975-1979 period, budget authority increased from $86 billion to $127 billion, an annual rate of 9.75 percent, and outlays increased from $85 billion to $117 billion, an annual rate of 7.9 percent. The increases in budget authority were the result of inflation, small increases in the population of retired military personnel, and real increases for modernization and readiness.

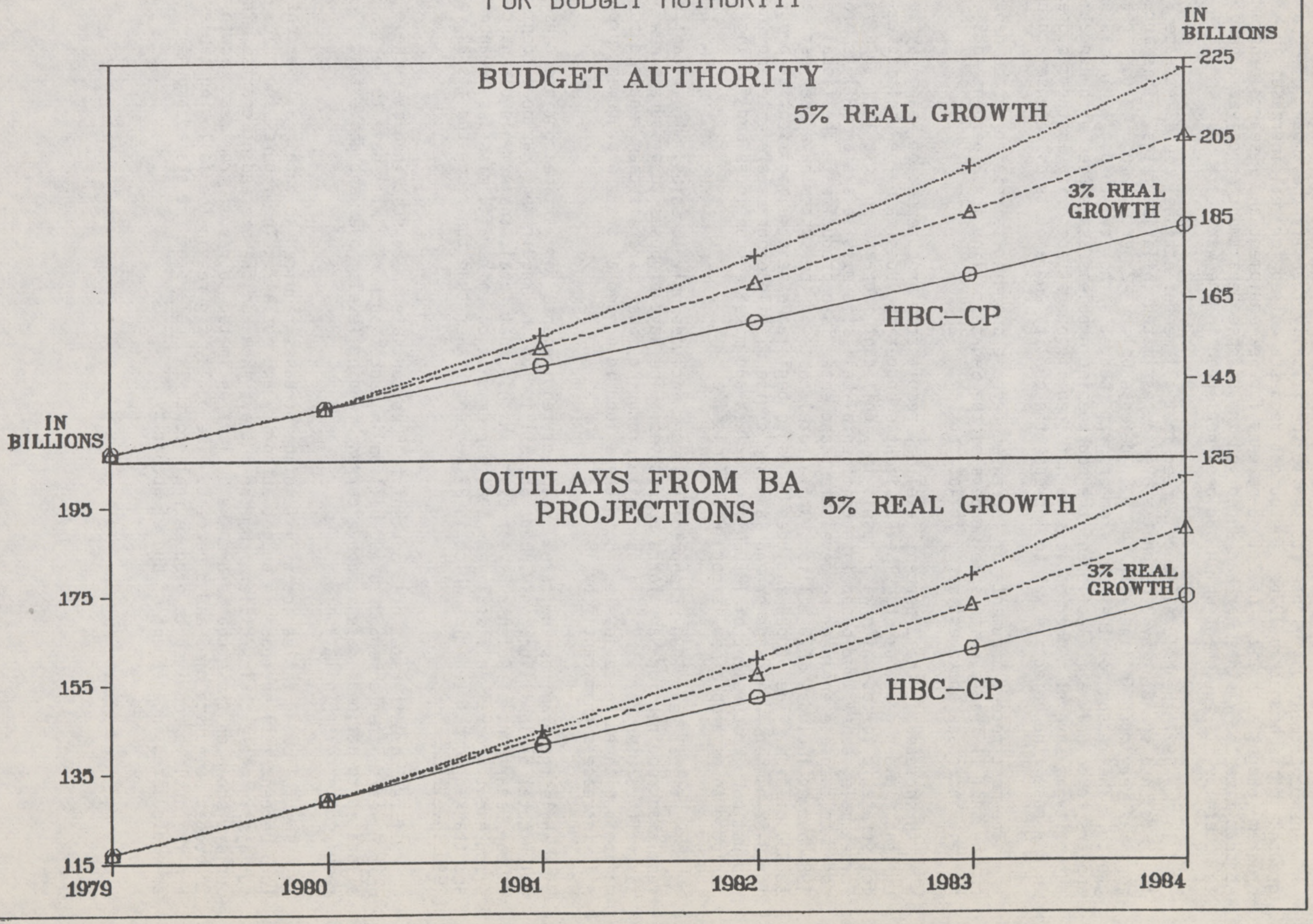
During the late 1960's and early 1970's, the demands of the Vietnam war resulted in a reduction of the readiness of forces outside of Vietnam and deferral of force modernization. Real increases in appropriations for readiness and modernization started in fiscal years 1976 and 1977. Because of the lead time required for defense purchases, the outlay increases resulting from these real increases in budget authority will occur in fiscal years 1979 and 1980.

3. Selected Major Outyear Budget Issues

Real growth--The overriding issue in the National Defense function continues to be the rate of real growth--the increase in the function over and above the assumed rate of inflation.

The accompanying charts identify the cost of 3 percent and 5 percent real increases in budget authority and the outlays resulting from these increases in budget authority assuming the economic estimates of the House Budget Committee. A 3 percent increase in budget authority would increase the Defense budget from $138.5 billion in fiscal year 1980 to $206.0 billion in fiscal year 1984. A 5 percent increase would provide budget authority of $222.5 billion by fiscal year 1984. These estimates assume a military and civilian workforce at the current level of approximately 3 million.

BUDGET TRENDS UNDER ALTERNATE GROWTH ASSUMPTIONS
FOR BUDGET AUTHORITY



The Department of Defense started to specifically identify the amount of "real growth" in its budget in 1976. The budget requests called for real increases in program (budget authority) of 2 to 3 percent for new equipment and research programs. At that time the Vietnam war had ended and the Defense Department perceived a need to modernize its equipment which had been neglected in the war years.

In May 1977 the NATO alliance agreed that all member nations would increase their defense spending by 3 percent above the estimated inflation rates. This agreement was very much in line with the U.S. defense policy--2 percent to 3 percent real growth. The reason for the move from program (budget authority) to outlay increases appears to be only a reflection of the bookkeeping problems associated with budget authority as several member nations do not identify budget authority in their budgets. In any case, the objective was to increase the quality and amounts of defense equipment.

The most recent argument for increased defense spending is related to the debate on the SALT II Treaty, with some members of the Senate calling for 3 percent to 5 percent increases above estimated inflation.

An increase at the 3 percent level may result from procurement of weapon systems currently under development. The President's budget includes major new initiatives for strategic forces which will result in significant increase in cost in future years. For example, a new land based intercontinental ballistic missile system (MX) is proposed to complete engineering development and enter into produciton. The fiscal year 1980 budget includes $670 million, while total costs of the system have been estimated at $30 billion. The budget includes funds to begin an extensive modification program for B-52 bombers. Air and ground launched cruise missile programs are entering into production. Procurement of TRIDENT submarines and missiles continues and funding is included to develop a new larger TRIDENT missile.

The fiscal year 1980 shipbuilding budget includes only 16 ships, significantly less than required for Navy force objectives. The Navy proposes to procure a new aircraft carrier for $1.7 billion, while procuring fewer aircraft than required to maintain planned force levels. Both the shipbuilding and aircraft procurement programs will increase significantly by 1984.

While the Army has indicated equipment requirements for wartime contingencies which total $131 billion, only about $50 billion of the requirement has been identified in the Department of Defense 5-year plan. Within that total, the Army is planning a procurement program in fiscal year 1984 for ammunition, aircraft, missiles, weapons and tracked combat vehicles which is 97 percent higher than the requested fiscal year 1980 level.

If real growth rates of 3 percent to 5 percent are to be sustained over the next 4 years, then some $53 to $90 billion in budget authority will have to be allocated to national defense above current funding levels, over and above that required to cover inflation.

The following tables identify funding increases required to obtain a 1 percent to 5 percent real increase in budget authority and outlays. The figures shown for outlays in these tables differ from the outlays shown on the preceeding charts. The outlays shown on those charts are the outlays estimated to result from real growth in budget authority of 3 and 5 percent. The outlay figures in the following tables are the outlays required to produce real growth in <u>outlays</u> of the stated amount. They are calculated independent of budget authority.

BUDGET AUTHORITY
(In billions of dollars)

	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	Total FY 81-84
No growth	138.5	148.8	159.6	171.0	183.1	...
1%		+1.5	+3.2	+5.2	+7.4	+17.3
2%		+3.0	+6.4	+10.5	+15.1	+35.0
3%		+4.5	+9.7	+15.9	+23.0	+53.1
4%		+6.0	+13.0	+21.3	+31.1	+71.4
5%		+7.4	+16.4	+26.9	+39.4	+90.1

OUTLAYS
(In billions of dollars)

	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	Total FY 81-84
No growth	129.0	138.5	148.6	159.1	170.4	...
1%		+1.4	+3.0	+4.8	+6.9	+16.1
2%		+2.8	+6.0	+9.7	+14.0	+32.5
3%		+4.2	+9.0	+14.8	+21.4	+49.5
4%		+5.5	+12.1	+19.9	+28.9	+66.4
5%		+6.9	+15.2	+25.1	+36.7	+83.9

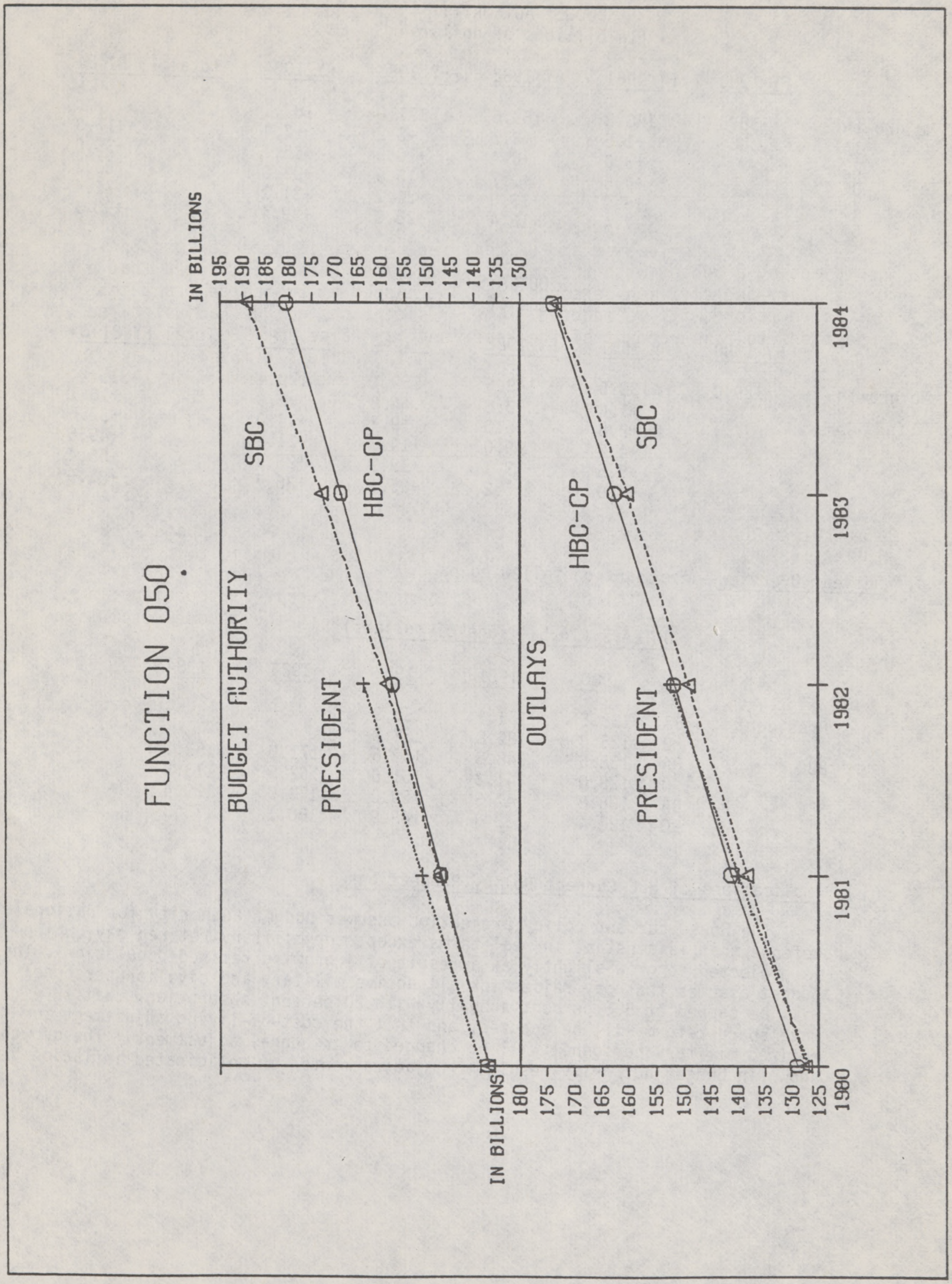
4. Outyear Overview--(See chart on following page.)

OUTLAYS (In billions of dollars)

		1980	1981	1982	1983	1984
President	BA	138.5	151.1	163.9		
	O	126.8	139.8	152.2		
HBC	BA	138.5	148.8	159.6	171.0	183.1
	O	129.0	141.2	151.6	162.5	173.9
SBC	BA	136.8	147.3	159.0	173.0	189.4
	O	127.4	138.3	148.9	160.1	173.3

(a) Implications of HBC Current Policy Projections

The House current policy projection assumes budget authority for national defense that is constant in real terms except for military retired pay, which is projected to grow slightly as a result of a growing retired population. The budget assumes that pay raises for all active military and civilian personnel will be capped at 5.5 percent annually with 20 percent absorption, that wage board reform will be enacted, and that the cost-of-living adjustment for retired military personnel will be changed to an annual adjustment. The growth shown in budget authority results from adjustments for anticipated inflation


FUNCTION 050
BUDGET AUTHORITY
PRESIDENT
SBC
HBC-CP
OUTLAYS
PRESIDENT
HBC-CP
SBC
IN BILLIONS
195
190
185
180
175
170
165
160
155
150
145
140
135
130
125
1980
1981
1982
1983
1984

and real growth in retired pay. Outlays increase as a result of the spendout of prior-year budget authority and current budget authority. Outlays for fiscal year 1981 increase 1.9 percent in real terms because of real increases in budget authority in past years.

The House current policy projection is lower than the OMB projection and the Senate Budget Committee outyear numbers.

(b) Implications of the President's Two-Year Plan

The President has announced that the United States and our NATO allies will endeavor to provide for a 3 percent real growth in defense spending. In projecting a budget with 3 percent growth, the President assumed that pay for military and civilian personnel will be capped at 5.5 percent and that wage board reform will be enacted. The President has not yet adjusted the projections to take account of the 7 percent pay raise in 1980. As a result of the midsession review of the budget, which increased estimated outlays in 1980 and 1981 and did not adjust 1982 real outlays, the growth from 1981 to 1982 in the projection has fallen to 1.5 percent.

(c) Implications of Senate Budget Committee Five-Year Figures

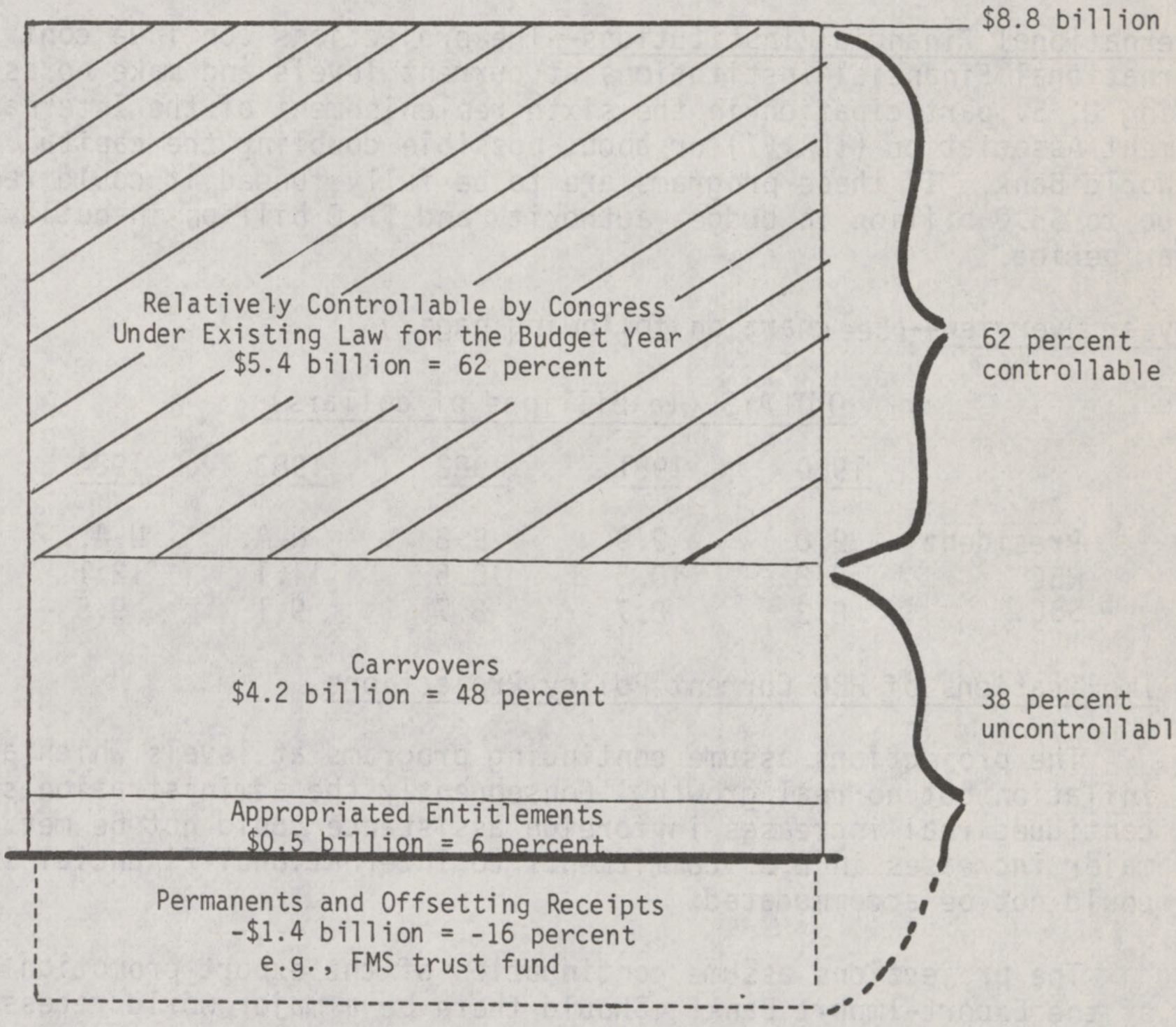
The Senate Budget Committee five-year recommendations in fiscal year 1984 are $173.3 billion in outlays, 36 percent higher than fiscal year 1980. The Committee adopted the President's projections during the First Budget Resolution with reductions for certain "efficiencies". Implicit in the Senate numbers was the 3 percent real growth proposed by the President. The efficiencies included elimination of the commissary subsidy, reductions in data processing activities, and pay absorption. During the Second Resolution markup, the Senate added funds to the outyear numbers assumed in the First Budget Resolution for increases in strategic forces. The Senate did not adjust its projections for higher anticipated inflation, as did the President in July, and as a result the Senate projections are now lower in the outyears than the President's.

MULTI-YEAR BUDGET OUTLOOK

Function 150: INTERNATIONAL AFFAIRS

Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Sixty-two percent of this function is relatively controllable under existing law. In the short run, however, it is very difficult to control outyals except in a few fast spending accounts: economic assistance, military assistance, Food for Peace, and salaries and expenses of the Department of State and related agencies.

50-757 O - 79 - 4

2. Past Five-Year Spending Trend

Outlays in the past 5 years are essentially flat due to a decrease in net outlays for the Foreign Military Sales Trust Fund (FMS) and the Export-Import Bank which offset growth in other areas. If the effects of the Export-Import Bank and the FMS Trust Fund are excluded from the totals, outlays in this function grew from $4.4 billion in fiscal year 1975 to $7.2 billion in fiscal year 1979; an average growth rate of 12.5% per annum.

The major areas of growth in this function were United States commitments to International Financial Institutions such as the World Bank and budgetary support for peace efforts in the Middle East.

3. Selected Major Outyear Budget Issues

International Financial Institutions--The projections continue contributions to International Financial Institutions at current levels and make no assumptions concerning U. S. participation in the sixth replenishment of the International Development Association (IDA VI) or about possible doubling the capital resources of the World Bank. If these programs are to be fully funded it could require adding up to $5.0 billion in budget authority and $1.0 billion in outlays over the five year period.

4. Outyear Overview--(See chart on following page.)

OUTLAYS (In billions of dollars)

	1980	1981	1982	1983	1984
President	9.0	9.9	9.8	N.A.	N.A.
HBC	8.8	10.5	10.5	11.1	12.1
SBC	8.3	8.7	8.7	9.1	9.5

(a) Implications of HBC Current Policy Projections

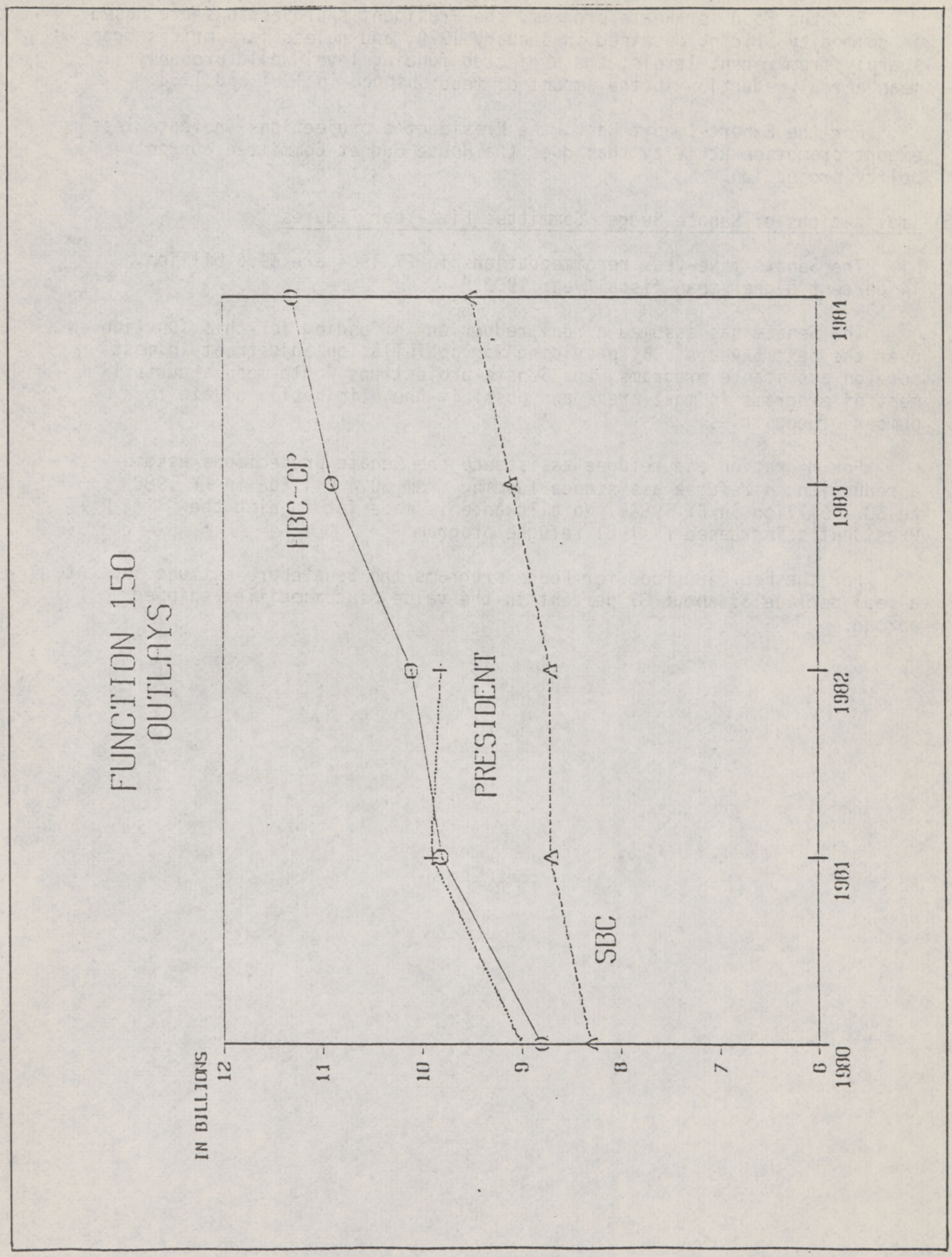
The projections assume continuing programs at levels which allow for inflation but no real growth. Consequently the administration's goal of continued real increases in foreign assistance could not be met. Further, major increases in U.S. commitments to International Financial Institutions could not be accommodated.

The projections assume continuation of the export promotion activities of the Export-Import Bank. Should there be a major world recession, these projections would probably prove to be substantially overstated.

No changes in existing laws are assumed in the House Budget Committee projections.

(b) Implications of President's Two-Year Plan

The President has projected continued real growth in selected foreign assistance programs, at the rates requested in his budget submissions for fiscal years 1979 and 1980. The President's projections also assume continued budgetary support for Middle East countries though not at levels which allow a full adjustment for inflation.


FUNCTION 150
OUTLAYS
IN BILLIONS
12
11
10
9
8
7
6
1980
1981
1982
1983
1984
HBC-CP
PRESIDENT
SBC

For the Food for Peace program, the President's projections are based on commodity pricing obtained in January 1979, and unless farm prices drop sharply from recent levels, the projected funding level would probably mean a real reduction in the amount of food shipped in 1981 and 1982.

For the Export-Import Bank, the President's projections indicate less export promotion activity than does the House Budget Committee current policy projection.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate five-year recommendations in FY 1984 are $9.5 billion, 14 percent higher than fiscal year 1980.

The Senate has assumed a real reduction in funding for this function over the next 5 years. By providing for no inflation adjustment in most foreign assistance programs, the Senate projections would mean a curtailment of programs in most areas and possibly the elimination of aid to a number of countries.

For migration and refugee assistance the Senate projections assume a reduction in refugee assistance funding from $0.4 billion in FY 1980 to $0.1 billion in FY 1984. No allowance is made for funding the President's increased FY 1981 refugee program.

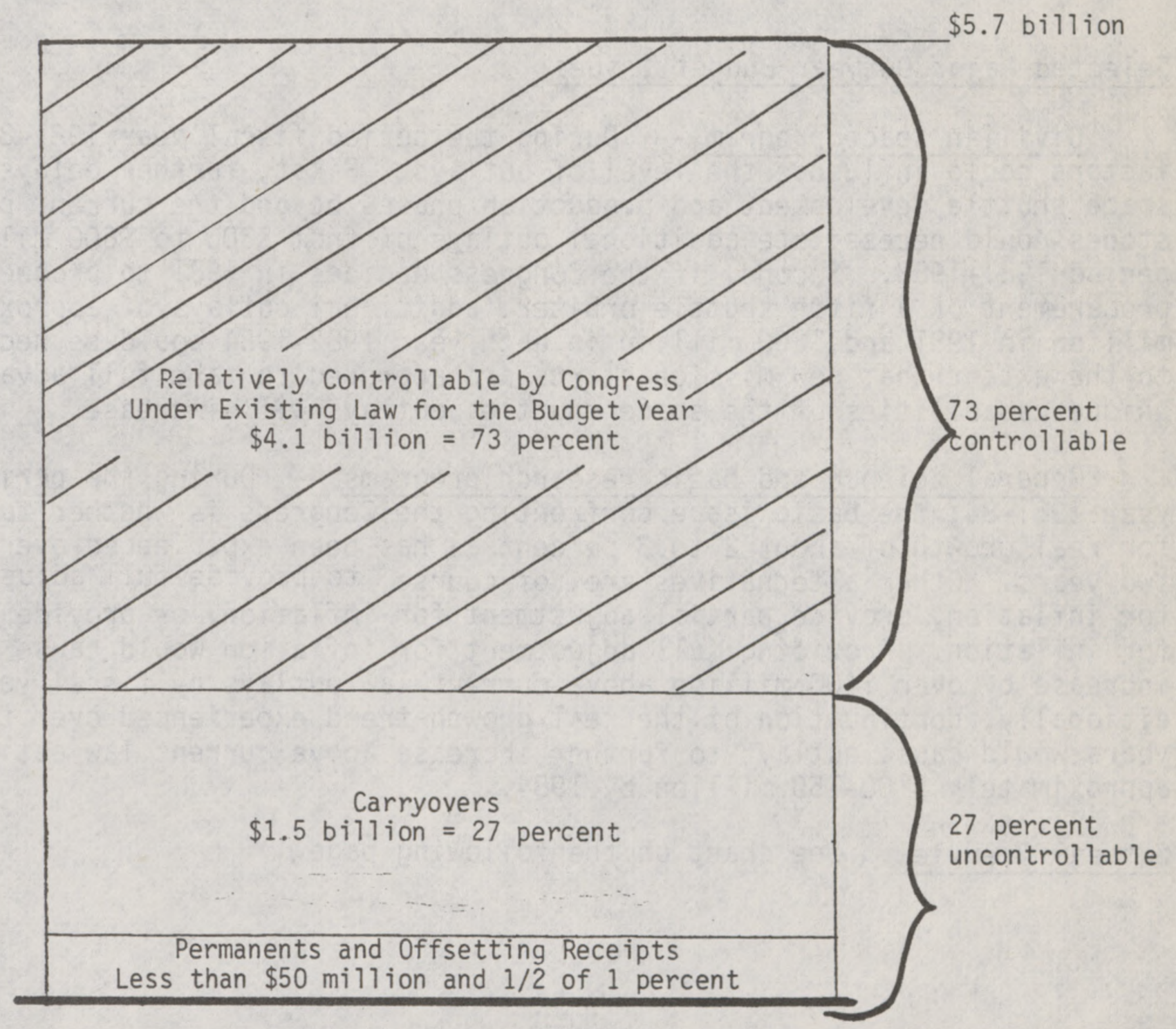
For the P.L. 480 Food for Peace programs the Senate projections indicate a real decline of about 37 percent in the value of commodities shipped abroad.

MULTI-YEAR BUDGET OUTLOOK

Function 250 : GENERAL SCIENCE, SPACE, AND TECHNOLOGY

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 73 percent of outlays in the function are relatively controllable under existing law in fiscal year 1980. The remaining 27 percent is considered to be relatively uncontrollable and consists almost entirely of outlays from prior year budget authority primarily for the NASA civilian space programs and the science programs of the Department of Energy and the National Science Foundation. The relationship of the outlays in terms of controllability will remain relatively constant throughout the period 1980-1984.

2. Past Five Year Spending Trend

Over the past five year period, outlays in the function have increased by approximately 30 percent, from $4.0 billion in fiscal year 1975 to an estimated $5.2 billion in fiscal year 1979. This represents an average annual increase in outlays of approximately 5 percent during this period. Most of this increase is associated with the peaking of the efforts in the space shuttle development program which is considered the key element of a versatile, economical space transportation system. The remaining portion of the increase in outlays is associated with general science and basic research programs of the Department of Energy and the National Science Foundation. Before 1976, these basic research programs declined in real terms; however, starting in fiscal year 1976, this downward trend was reversed in line with renewed emphasis on Federal support for basic research as a way of ensuring a strong foundation for future economic growth.

3. Selected Major Outyear Budget Issues

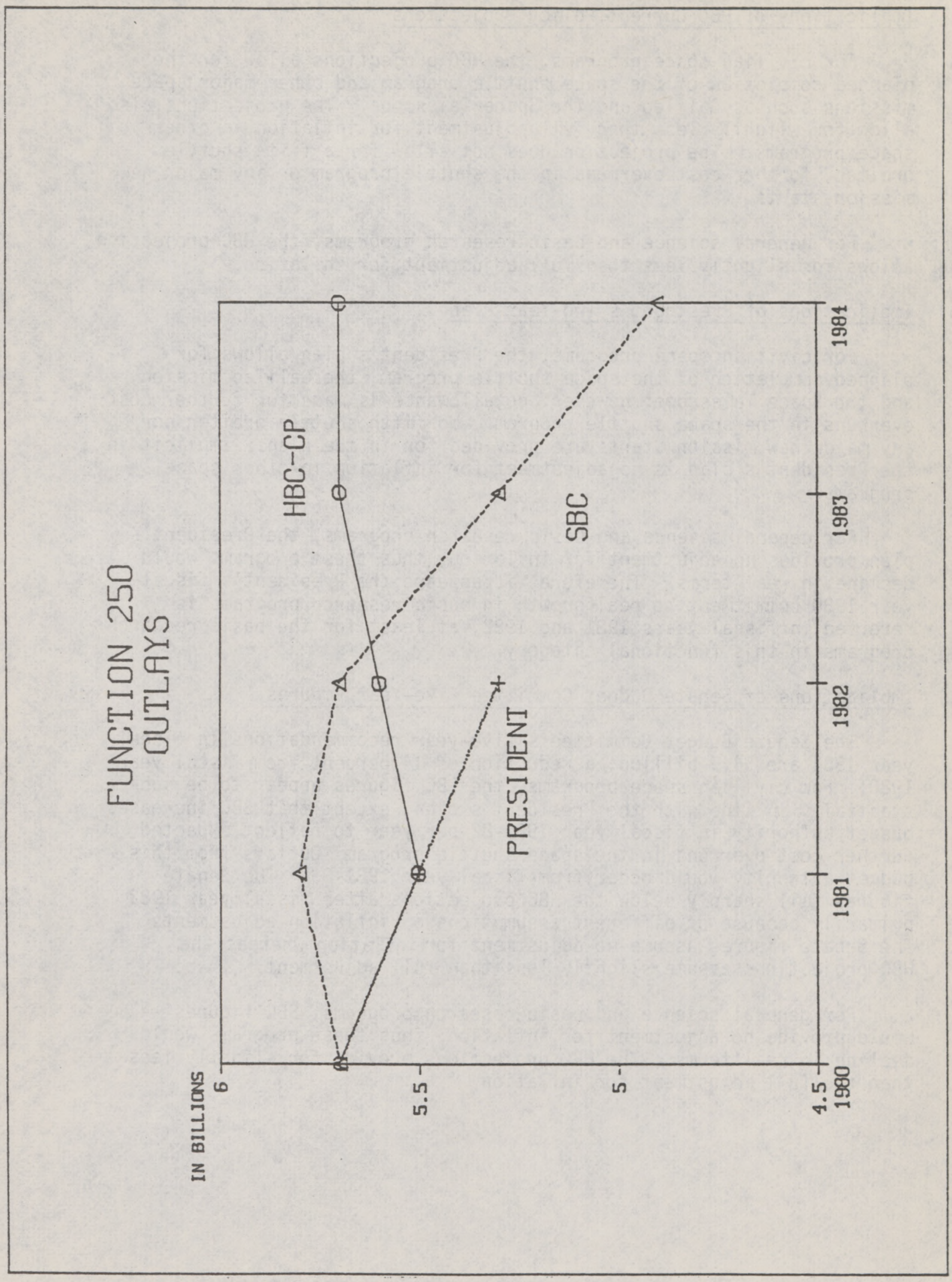
Civilian space program -- During the period fiscal year 1981-84, several factors could influence the level of outlays. First, further delays in the space shuttle development and production phases beyond the current planning milestones could necessitate additional outlays of from $300 to $600 million in the period 1981-1983. Second, if the Congress decides in 1981 to proceed with the procurement of a fifth shuttle orbiter, additional outlays of approximately $100 million in 1981 and $200 million in each year 1982-1984 would be necessary. Third, to the extent that new mission starts are approved to take full advantage of the unique capabilities of the space shuttle, outlays will increase.

General science and basic research programs -- During the period fiscal year 1981-84, the basic issue confronting the Congress is whether to provide for real growth of about 2 to 3 percent as has been experienced over the last two years. Other alternatives are, of course, to provide full adjustment for inflation, provide partial adjustment for inflation, or provide no adjustment for inflation. Providing full adjustment for inflation would cause outlays to increase by over $400 million above current law outlays by fiscal year 1984. Additionally, continuation of the real growth trend experienced over the last two years would cause outlays to further increase above current law estimates by approximately $100-150 million by 1984.

4. Outyear Overview. (See chart on the following page.)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	5.7	5.5	5.3	...	...
HBC	5.7	5.5	5.6	5.7	5.7
SBC	5.7	5.9	5.7	5.3	4.9


FUNCTION 250
OUTLAYS
HBC-CP
SBC
PRESIDENT
IN BILLIONS
6
5.5
5
4.5
1980
1981
1982
1983
1984

(a) Implications of HBC Current Policy Projections

For civilian space programs, the HBC projections allow for the planned completion of the space shuttle program and other major space missions such as Galileo and the Space Telescope. The projections also allow for slightly less than full adjustment for inflation in other space programs. The projection does not allow for a fifth shuttle orbiter, further cost overruns in the shuttle program or any major new mission starts.

For general science and basic research programs, the HBC projection allows for slightly less than full adjustment for inflation.

(b) Implications of President's Two-Year Plan

For civilian space programs, the President's plan allows for planned completion of the space shuttle program, the Galileo mission, and the Space Telescope; however, no allowance is made for further cost overruns in the space shuttle program. No fifth shuttle orbiter nor any major new mission starts are provided for in the plan. Implicit in the President's plan is no adjustment for inflation in other space programs.

For general science and basic research programs, the President's plan provides no adjustment for inflation, thus these programs would decline in real terms. Therefore, it appears the President's fiscal year 1980 commitment to real growth in basic research programs is reversed in fiscal years 1981 and 1982, at least for the basic research programs in this functional category.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate Budget Committee's five-year recommendations in fiscal year 1984 are $4.9 billion, a reduction of 14 percent from fiscal year 1980. For civilian space programs, the SBC figures appear to be substantially in line with the President's plan, except that SBC increases budget authority in fiscal year 1981-82 per year to reflect expected further cost overruns in the space shuttle program. Outlays from this budget authority would occur from fiscal year 1981-83. The Senate figures fall sharply below the HBC projections after fiscal year 1982 primarily because of different assumptions on inflation adjustments. The Senate figures assume no adjustment for inflation whereas the HBC projections assume slightly less than full adjustment.

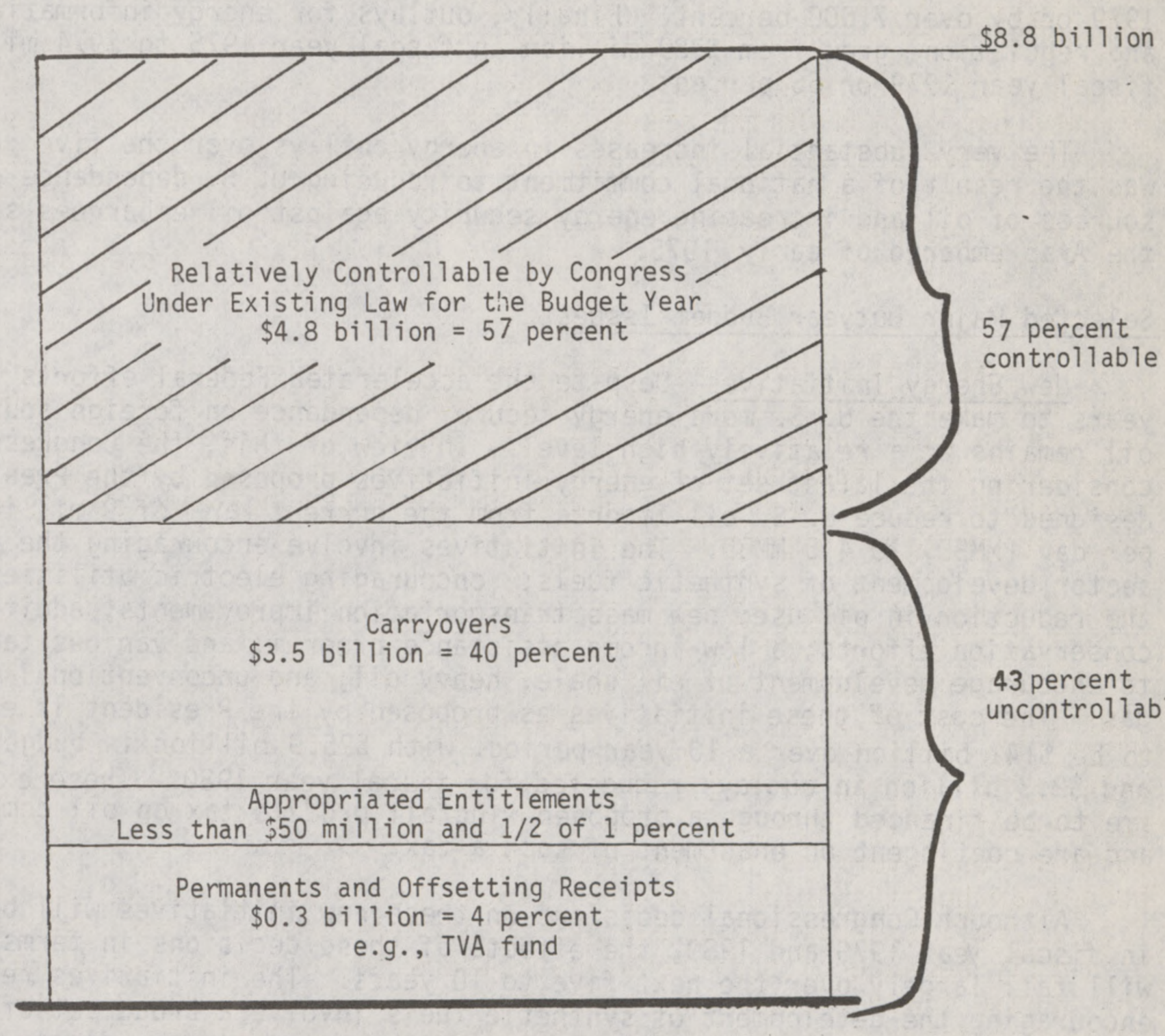
For general science and basic research programs, SBC figures would provide no adjustment for inflation; thus these programs would decline in real terms. The HBC projections provide for slightly less than the full adjustment for inflation.

MULTI-YEAR BUDGET OUTLOOK

Function 270 : ENERGY

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Under present law, 43 percent of the outlays in this function are relatively uncontrollable in fiscal year 1980. These relatively uncontrollable outlays consist primarily of outlays from prior year budget authority in the various Department of Energy programs and the mandatory outlays in the Tennessee Valley Authority (TVA) revolving fund. Therefore, except for outlays associated with the TVA revolving fund, program reductions in the current fiscal year through appropriation actions would result in outlay reductions in subsequent years.

2. Past Five Year Spending Trend

Over the past five year period, outlays in this function have increased overall by close to 300 percent, from $2.2 billion in fiscal year 1975 to $8.6 billion in fiscal year 1979. This represents an average annual increase of nearly 70 percent.

Within the function, outlays for energy supply programs grew from $1.7 billion in fiscal year 1975 to an estimated $5.9 billion in fiscal year 1979. This represents an increase of $4.2 billion or nearly 250 percent over the five year period. Energy conservation outlays increased from less than $50 million in fiscal year 1975 to nearly $500 million in fiscal year 1979 or almost 900 percent. Outlays in the Strategic Petroleum Reserve program increased from $33 million in fiscal year 1975 to an estimated $2.4 billion in fiscal year 1979 or by over 7,000 percent. Finally, outlays for energy information, policy, and regulation grew from $389 million in fiscal year 1975 to $974 million in fiscal year 1979 or 66 percent.

The very substantial increases in energy outlays over the five year period was the result of a national commitment to reducing U. S. dependence on foreign sources of oil and increasing energy security against oil embargoes such as the Arab embargo of early 1973.

3. Selected Major Outyear Budget Issues

New Energy Initiatives--Despite the accelerated Federal efforts in recent years to make the U. S. more energy secure, dependence on foreign sources of oil remains at a relatively high level. In view of this, the Congress will be considering the latest set of energy initiatives proposed by the President, designed to reduce U. S. oil imports from the current level of 9 million barrels per day (MMBD) to 4.5 MMBD. The initiatives involve encouraging the private sector development of synthetic fuels; encouraging electric utilities to accelerate the reduction in oil use; new mass transportation improvements; additional energy conservation efforts; a low-income assistance program; and various tax incentives to encourage development of oil shale, heavy oil, and unconventional natural gas. The cost of these initiatives as proposed by the President is estimated to be $142 billion over a 10 year period, with $25.9 billion in budget authority and $2.3 billion in outlays requested for fiscal year 1980. These expenditures are to be financed through a proposed windfall profits tax on oil companies and are contingent on enactment of such a tax.

Although Congressional decisions on these new initiatives will be made in fiscal year 1979 and 1980, the effects of these decisions in terms of outlays will fall largely over the next five to 10 years. The initiatives related to encouraging the development of synthetic fuels involve a broad set of financial arrangements including price guarantees, purchase agreements, direct loans and loan guarantees. Significant outlays for these kinds of initiatives will not occur before seven to 10 years because of the long lead time required for construction of plants and subsequent production of synthetic fuels. Conversely, the initiatives related to conservation, transportation, and low-income assistance as proposed by the President will result in an immediate outlay impact and will become more substantial over the next 10 year period. Therefore, the major issue in terms of multi-years relates to the extent to which the Congress deviates from the President's proposals for reducing overall oil imports and to the extent that these deviations influence the outlays in the outyears.

Strategic Petroleum Reserve--The Strategic Petroleum Reserve was authorized to provide partial protection for the U.S. economy against disruptions in the supply of oil from foreign sources. Currently, the Reserve has an appropriated ceiling of 750 million barrels of storage. However, technical problems in the preparation of storage sites have caused the current storage level to reach only 90 million barrels. These problems, however, have now been largely overcome. A further obstacle to achieving more storage is the relatively tight world oil supply situation caused in part by the oil production cutoff during the Iranian revolution. This tight supply situation led to a policy decision to temporarily discontinue oil purchases for the Reserve. However, as the supply situation becomes more favorable, oil purchases for the Reserve are likely to resume. In view of rapidly rising oil prices and in view of Congressional consideration of additional energy initiatives designed to make the U. S. more energy secure, there may be interest in reconsidering the role of the Reserve within the entire energy strategy. On the other hand, had a reserve of more than 200 million barrels been available toward the beginning of the Iranian oil interruption, it might have been possible to avoid most of the economic damage the U. S. experienced through mid-1979. The issue of primary interest will probably be what should be the ultimate size of the Reserve. Obviously, the larger the Reserve, the higher the cost. However, a decision on the size should be the outcome of an analysis of the costs versus the benefits in the event of an oil supply interruption. As a rule of thumb, every 100 million barrels of oil will cost over $2.2 billion at today's oil prices.

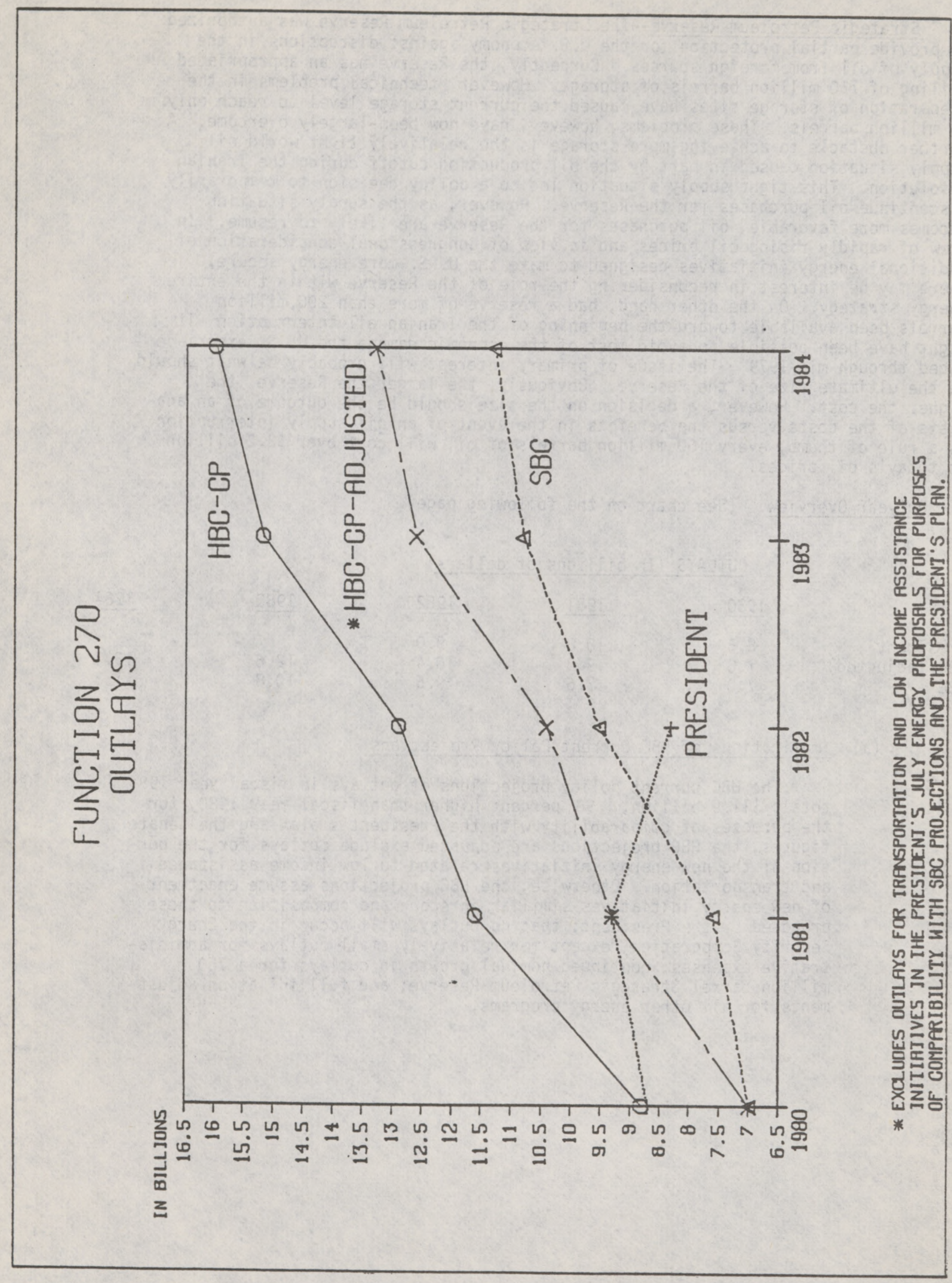
4. Outyear Overview. (See chart on the following page).

OUTLAYS (In billions of dollars)

	1980	1981	1982	1983	1984
President	8.5	10.0	9.0		
HBC (adjusted)	7.0	9.3	10.4	12.6	13.3
SBC	7.0	7.6	9.5	10.8	11.3

(a) Implications of HBC Current Policy Projections

The HBC current policy projections of outlays in fiscal year 1984 totals $11.9 billion, 90 percent higher than fiscal year 1980, for the purposes of comparability with the President's plan and the Senate figures, the HBC projections are adjusted exclude outlays for the portion of the new energy initiatives related to low income assistance and transportation. Otherwise, the HBC projections assume enactment of new energy initiatives similiar in scope and composition to those proposed by the President; that no outlays will occur in the Energy Security Corporation, except for relatively small outlays for administrative expenses; continued nominal growth in outlays for a 750 million barrel Strategic Petroleum Reserve; and full inflation adjustments for all other energy programs.


FUNCTION 270
OUTLAYS
IN BILLIONS
16.5
16
15.5
15
14.5
14
13.5
13
12.5
12
11.5
11
10.5
10
9.5
9
8.5
8
7.5
7
6.5
1980
1981
1982
1983
1984
HBC-CP
*HBC-CP-ADJUSTED
SBC
PRESIDENT
* EXCLUDES OUTLAYS FOR IRANSPORTATION AND LOW INCOME ASSISTANCE
INITIATIVES IN THE PRESIDENT'S JULY ENERGY PROPOSALS FOR PURPOSES
OF COMPARIBILITY WITH SBC PROJECTIONS AND THE PRESIDENT'S PLAN.

(b) Implications of President's Two-Year Plan

The major difference between the President's two-year plan and the HBC projections is partially attributable to a difference in fiscal year 1980 base numbers, relative to the Strategic Petroleum Reserve. The President's plan assumes that outlays for this Reserve will be $1.7 billion higher than assumed in the HBC figures. The President's plan also includes outlays for those new energy initiatives that fall in the energy function. Most of the outlays associated with these new initiatives will occur beyond the next five years. For other energy programs, the President's plan assumes no maintenance of current efforts, thus the plan shows a declining program level in real terms.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate Budget Committee recommendations for fiscal year 1984 are a 61 percent increase over fiscal year 1980. Also, the SBC five-year figures are very similar to those made by the HBC when comparable functional programs are compared, that is, when transportation and low-income assistance programs are excluded from the energy function. In fact, except for fiscal year 1981, when Strategic Petroleum Reserve outlay assumptions differ, the functional outlays in the out-years are relatively close.

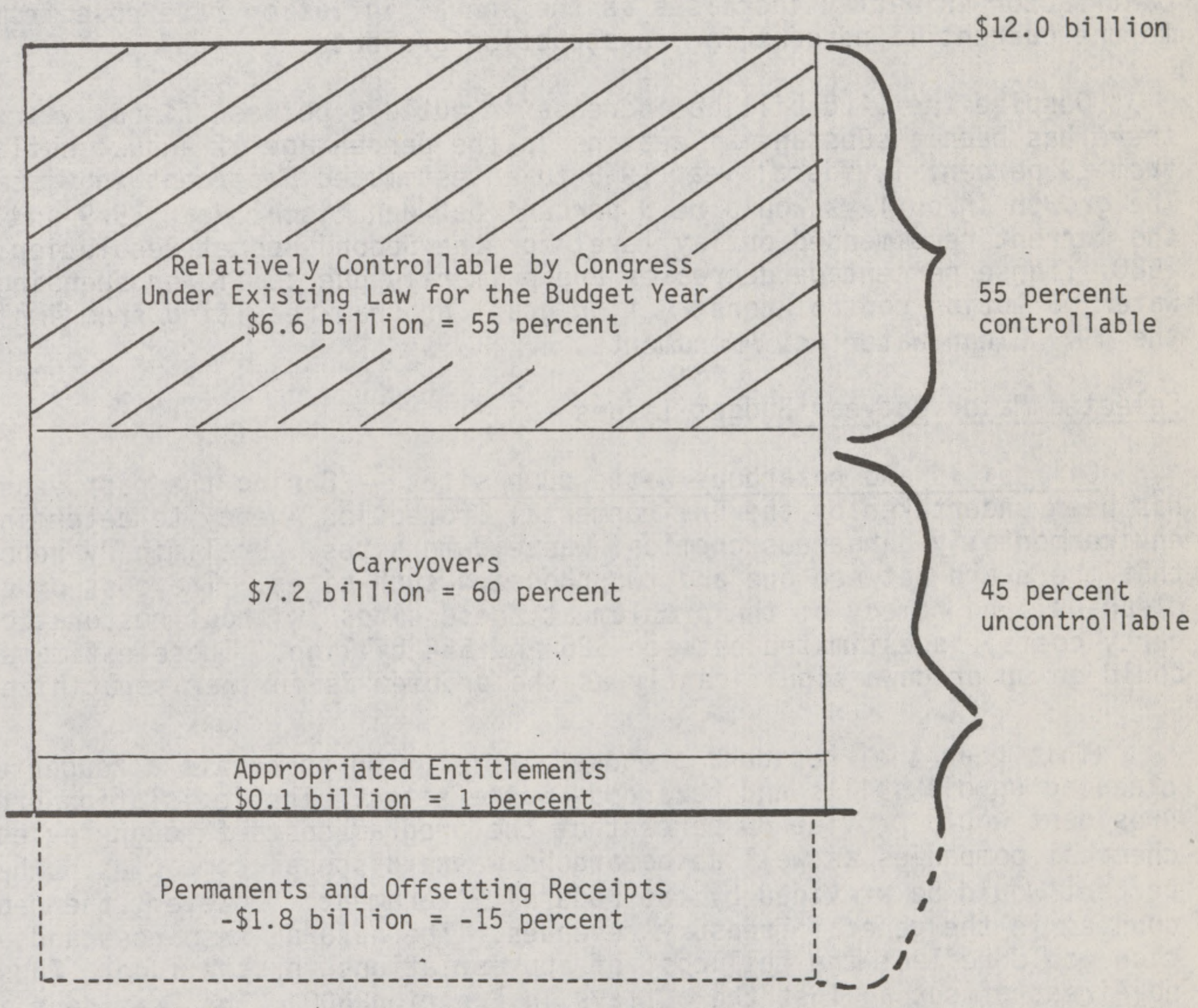
Two SBC policy assumptions differ from those made in the HBC 5-year projections, due to baseline assumptions: first, SBC assumes that the Naval Petroleum Reserves will continue to be produced past fiscal year 1981, as opposed to the HBC assumption that reflects termination of the authorization and the mechanical need for new law to be enacted in order to do that. Also, the SBC assumes that exploration of the National Petroleum Reserve in Alaska would terminate in fiscal year 1980, while the HBC makes the general assumption of keeping programs at their present level. Additionally, SBC projections assume further infusions of budget authority for the Energy Security Corporation beyond the first increment assumed by the HBC; however, this additional budget authority has no impact on outlays during the projection period. Finally, the HBC projections assume full adjustment for inflation in most of the ongoing energy programs whereas the Senate figures do not.

MULTI-YEAR BUDGET OUTLOOK

Function 300: NATURAL RESOURCES AND ENVIRONMENT

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 55 percent of the outlays in this function are relatively controllable under existing law in fiscal year 1980 for such areas as flood control, construction and operations of the Corps of Engineers, forest and land management programs, and operations of the National Park Service and the National Oceanic and Atmospheric Administration. The remaining 45 percent is considered to be relatively uncontrollable and consists almost entirely of outlays from prior year budget authority particularly in the water pollution control construction grants and the pollution abatement and control program of the Environmental Protection Agency. Additionally, the recreational projects provided under the Land and Water Conservation Fund and the construction programs of the Bureau of Reclamation and the Corps of Engineers traditionally reflect significant balances of outlays from prior year budget authority. The relationship of the outlays in terms

of controllability will remain relatively constant throughout the period 1980-1984.

2. Past Five Year Spending Trend

Outlays in this function have increased $4.5 billion or 60 percent from $7.33 billion in fiscal year 1975 to an estimated $11.7 billion in fiscal year 1979. Most of the dollar increase in outlays has occurred in two subfunctional areas--first, pollution control and abatement, and second, water resources. Outlays for pollution control and abatement have risen about $2.2 billion since fiscal year 1975 with $0.9 billion of this amount in the Environmental Protection Agency's water pollution control construction grant program. Outlays for water resources have risen approximately $1.2 billion since fiscal year 1975 with the major portion of this increase due to the Corps of Engineer's construction program. In both of these construction programs, plus a much smaller one under the Bureau of Reclamation, inflation has been a significant factor in outlay increases as the annual inflation rate rose from about 7 percent to the current 13 percent for construction projects.

Despite the $4.5 billion increase in outlays between fiscal years 1975 and 1979, there has been a substantial decline in the percentage of annual outlay increases, from 29 percent in fiscal year 1975 to an estimated 8 percent in fiscal year 1979. The growth in outlays would be 3 percent between fiscal year 1979 and 1980 when using the current recommended outlay level for the Second Budget Resolution of Fiscal Year 1980. These percentage decreases are primarily due to slower spending in the EPA's water pollution control construction grant program resulting from implementation of the 1977 Clean Water Act Amendments.

3. Selected Major Outyear Budget Issues

Oil spills and hazardous waste dump sites -- During the past year, a major effort has been undertaken by the Environmental Protection Agency to determine the scope of environmentally dangerous chemical waste dump sites. Preliminary reports indicate that there are between one and two thousand such sites. The cost of containment, clean-up, and remedy of the problem at these sites (without restoration or third party costs) is estimated between $26 and $44 billion. These estimates of cost could go up or down significantly as the problem is further scrutinized.

This year the President proposed legislation to create a "superfund" for cleaning up oil spills and hazardous waste sites. The legislation proposed by the President would provide 80 percent of the program costs through levies on oil and chemical companies as well as hazardous waste disposal companies. The remaining 20 percent would be provided by the Federal Government. However, the receipts would be counted in the general Treasury revenues. The natural resources and environment function would reflect the full cost of appropriations for the fund. Thus, there will be no direct offset against the outlays in Function 300. The President assumes a $1.6 billion fund will be built up during the next four years starting with fiscal year 1981 as follows:

($ in millions)	FY 1981	FY 1982	FY 1983	FY 1984
Budget authority	250	375	500	500
Outlays	45	205	333	441

While the legislation proposed by the President may encounter serious difficulties in Congress, particularly with its financing mechanism, there seems no doubt that Congress will be faced with responding in a major and costly way to the enormous problems presented by oil spills and hazardous waste sites. This response will be costly not only for the next five years but perhahps the next twenty-five years.

The House Budget Committee recommendations do not include any outyear funding for this program on the basis that there is insufficient information to estimate costs. The Senate Budget Committee has included the cost of the President's legislation in their outyear figures. The implication of this position is dealt with later in this report.

Construction programs -- There are three primary construction programs in this function. These are the Corps of Engineers projects, the Environmental Protection Agency's water pollution control grant program, and the Bureau of Reclamation projects. EPA estimates the nation's total municipal wastewater treatment requirements at $106 billion in 1978 dollars, approximately $80 billion of which will be federal funds. About $28 billion in appropriations has been provided thus far. However, inflation is rapidly excalating these cost estimates. Just between 1976 and 1978, inflation caused a $13 billion increase in cost estimates. To meet the Federal share of the total wastewater construction needs over a 20 year period would require an annual appropriation of $6.6 billion at an annual construction inflation rate of only 7 percent and $8.2 billion at a 10 percent inflation rate. As noted earlier, the current inflation rate for wastewater construction programs is about 13 percent.

In the Corps of Engineer's construction program, most of the projects in past years have been oriented toward midwestern or rural areas. However, it is expected that more urban areas, with rapidly deterioriating water supply systems, will make increasing and very significant claims on the Corps construction budget.

4. Outyear Overview. See chart on the following page.

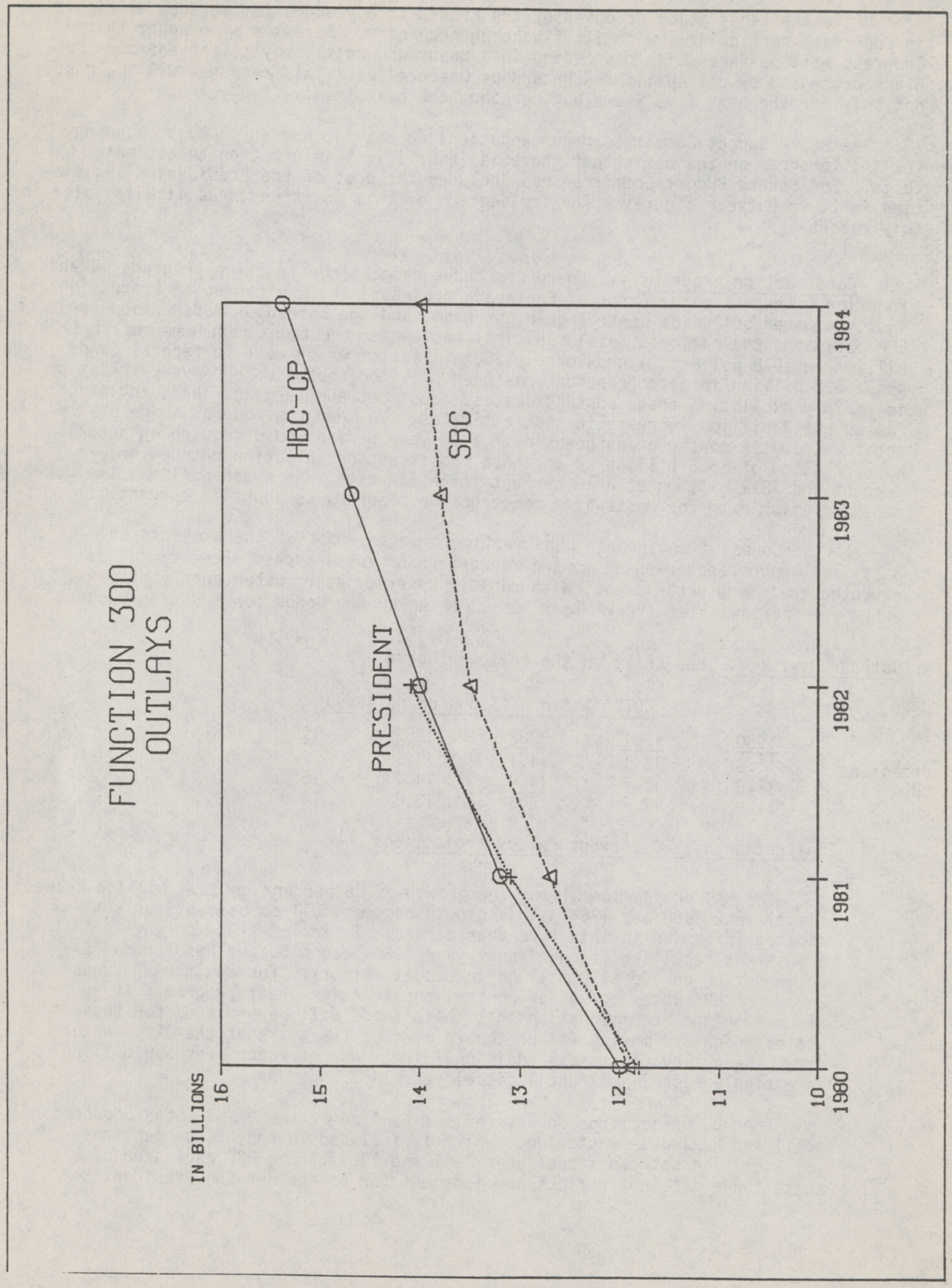
OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	11.8	13.1	14.1	...	...
HBC	12.0	13.2	14.0	14.7	15.4
SBC	11.9	12.7	13.5	13.8	14.0

(a) Implication of HBC Current Policy Projections

The HBC projection allows for growth of 28 percent or $3.4 billion between fiscal year 1980 and 1984. This growth assumes full adjustment for anticipated inflation in this five year period. It includes one policy adjustment resulting from a fiscal year 1980 Second Budget Resolution recommendation to add $250 million in budget authority for additional funds under the EPA water pollution control construction grant program. It is assumed in the recommendation that these funds will be provided for those states which are moving faster toward meeting the goals of the Clean Water Act. The outlays for these additional funds do not reach over $50 million in a single fiscal year until fiscal year 1983.

The HBC projections do not reflect funding of the President's proposed oil spill and hazardous waste fund which is included in the SBC projections ($1.6 billion between fiscal year 1981 and 1984). The HBC exclusion of these funds does not reflect any judgment for or against the President's


FUNCTION 300
OUTLAYS
HBC-CP
SBC
PRESIDENT
IN BILLIONS
16
15
14
13
12
11
10
1980
1981
1982
1983
1984

proposal or any similar effort in this area. The current data on the costs of this enormous task are considered too rough plus there has been only cursory preliminary review of the issue in Congress thus far. In other words, it is simply too early to make a reasonable estimate on the costs of a major effort to remedy the problem.

(b) Implications of President's Two-Year Plan

The HBC projections follow the President's projections closely in total. However, there are major inherent differences which net out. HBC has a higher fiscal year 1980 outlay base resulting from current appropriations action. The President has higher outlays in the outyears to accommodate his proposed oil spill and hazardous waste fund while not adjusting fully for inflation in existing programs. This proposal anticipates that the cost of the oil spill and hazardous waste fund will be offset in part by receipts counted in the general Treasury revenues.

(c) Implications of Senate Budget Committee Five-Year Figures

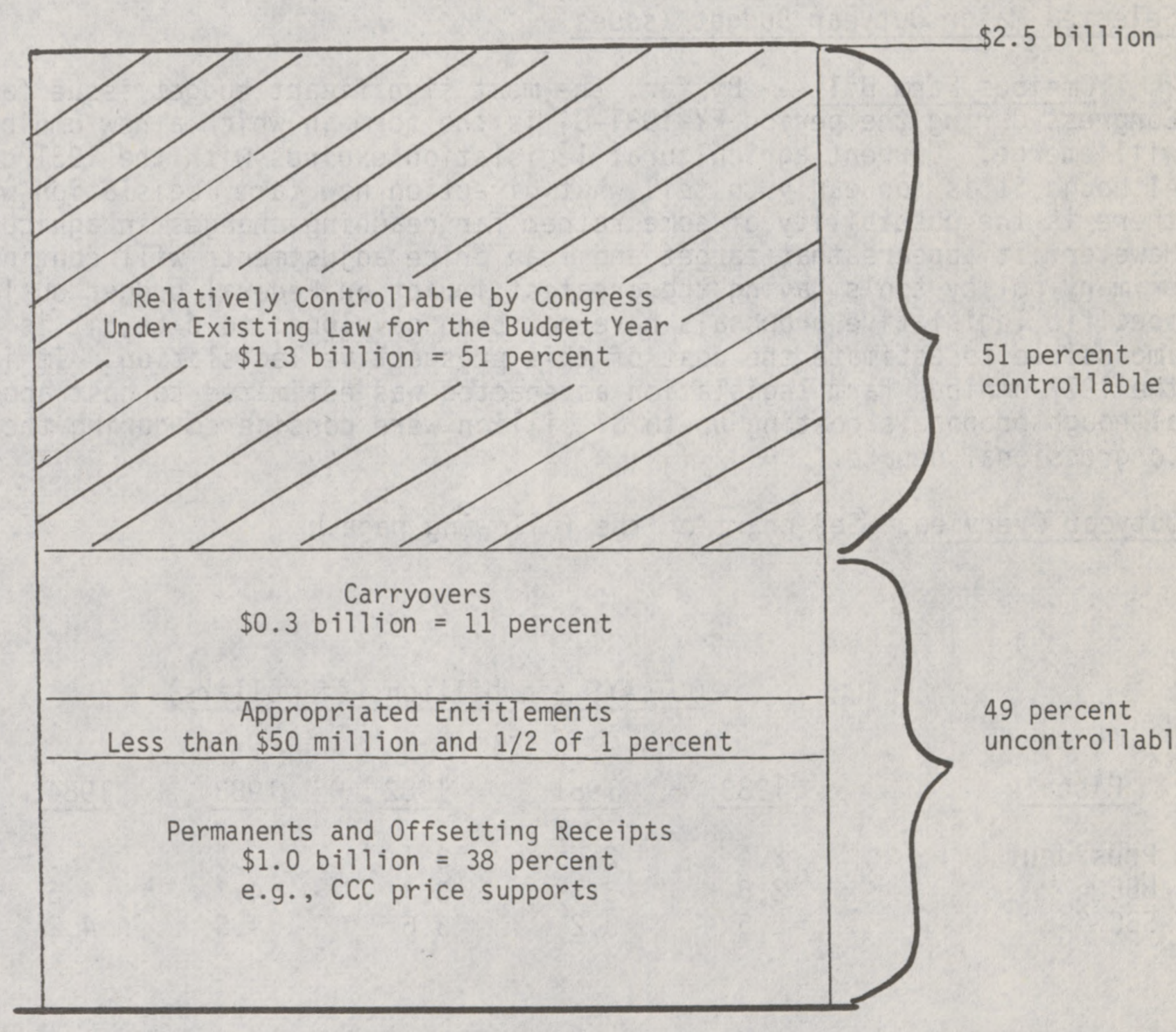
The Senate Budget Committee's recommendation in fiscal year 1984 is $14.0 billion, 15 percent higher than the SBC fiscal year 1980 base. The SBC base year for its projections is comparable to the HBC base. However, the outyear SBC projections are significantly lower than the HBC figures for several reasons. First, SBC does not assume a full adjustment for inflation in the subfunctions for water resources, conservation and land management, and other natural resources (e.g., NOAA and the Geological Survey). In fact, the outyear outlays for these subfunctions reflect negative growth. SBC does not provide a full adjustment for inflation in most programs of the subfunction for pollution abatement and control but did add the exact amounts assumed in the President's proposed oil spill and hazardous waste fund,(a total outlay addition of $724 million over the next four fiscal years). SBC projections for the recreational resources subfunction are slightly higher than the HBC projections due to higher assumptions for the Land and Water Conservation Fund, operation of the National Park Service, and the Historic Preservation Fund.

MULTI-YEAR BUDGET OUTLOOK

Function 350 : AGRICULTURE

I. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 49 percent of outlays in this function are relatively uncontrollable under existing law in fiscal year 1980. This is primarily because of the nature of the farm income stabilization programs in which the outlays are determined more by weather conditions, market conditions, and actions of the Secretary of Agriculture than by actions of the Congress.

2. Past Five Year Spending Trend

Over the past five years, outlays in this function have been extremely volatile primarily because of erratic changes in the weather and the market conditions. The following table showing agricultural outlays from fiscal year 1975 to fiscal year 1979 and the percentage change from year to year illustrates that point:

$ in billions	1975		1976		1977		1978		1979	
	$	%	$	%	$	%	$	%	$	%
	1.7	-23	2.5	47	5.5	120	7.7	40	6.2	-21

Therefore, the pattern shown here bears little or no relationship in terms of comparative levels to the outlay projections during the period fiscal years 1981-84.

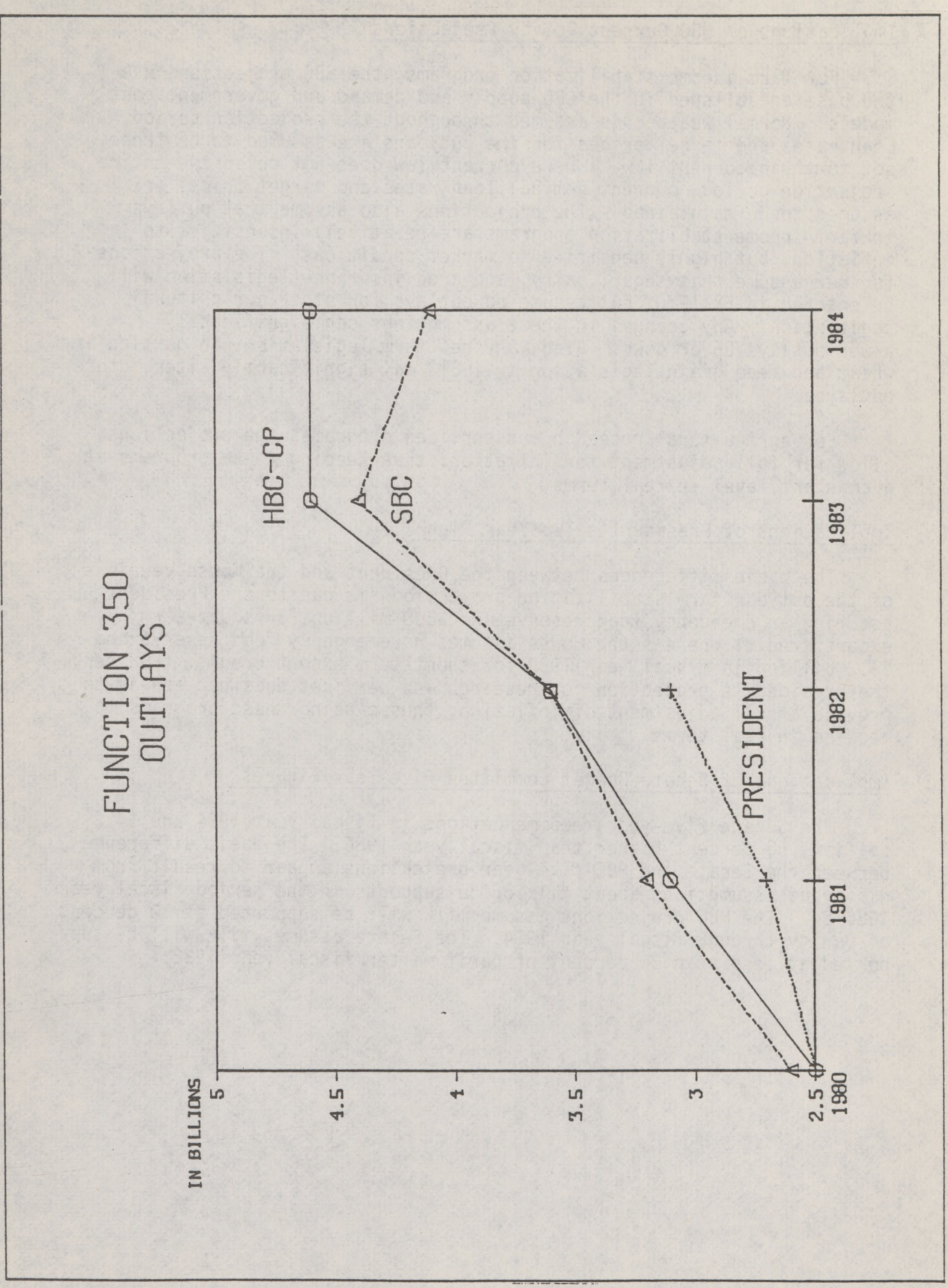
3. Selected Major Outyear Budget Issues

Omnibus Farm Bill -- By far, the most significant budget issue facing the Congress during the period FY 1981-84 is the form in which a new omnibus farm bill will emerge. Current agricultural legislation expires with the 1981 crop year. Although it is too early to tell what direction new farm legislation will take, there is the possibility of some rather far reaching changes in agricultural policy. However, it appears that target and loan price adjustments will continue to be the primary policy tools having the greatest impact on Federal budget outlays. Since specific legislative proposals have not been developed to date, it is virtually impossible to estimate the cost of this prospective legislation. It is noted that the 1977 omnibus farm legislation as enacted was estimated to cost about $800 million although proposals costing up to $7 billion were considered during the course of Congressional debate.

4. Outyear Overview. (See chart on the following page.)

OUTLAYS (in billions of dollars)

Fiscal	1980	1981	1982	1983	1984
President	2.4	2.7	3.1	...	...
HBC	2.6	3.1	3.7	4.7	4.6
SBC	2.5	3.2	3.6	4.5	4.2


FUNCTION 350
OUTLAYS
HBC-CP
SBC
PRESIDENT
IN BILLIONS
5
4.5
4
3.5
3
2.5
1980
1981
1982
1983
1984

(a) Implications of HBC Current Policy Projections

For farm income stabilization programs, the HBC projections use the base established in the CBO supply and demand and government cost models. Normal weather is assumed throughout the projection period. Loan rates and target prices for the outyears are assumed to be those set forth in current law. Where current law does not cover the entire projection period, current nominal loan rates and target prices are assumed to be maintained. The projections also assume that outlays in farm income stablization programs are relatively insensitive to inflation, but highly sensitive to market conditions. The projections further assume that sugar, dairy, and crop insurance legislation will be enacted in FY 1980, but assume no outlays for other agricultural legislation. Any changes in these assumptions can significantly alter outlays up or down. Also, any new farm legislation, in particular wheat and feed grain legislation in 1981, may significantly alter future outlays.

For agricultural research and services programs, the projections allow for full adjustment for inflation, thus keeping these programs at a constant level in real terms.

(b) Implications of President's Two-Year Plan

The basic differences between the President and the House versions of the outyear farm stabilization projections is due to the President assuming an emergency food reserve and $800 million for short-term export credit, whereas the House assumes no emergency food reserve and $1.2 billion in fiscal year 1980 for short-term export credit. Further, the President's projection for research and services does not appear to provide a full adjustment of inflation, thus causing these programs to decline in real terms.

(c) Implications of Senate Budget Committee Five-Year Figures

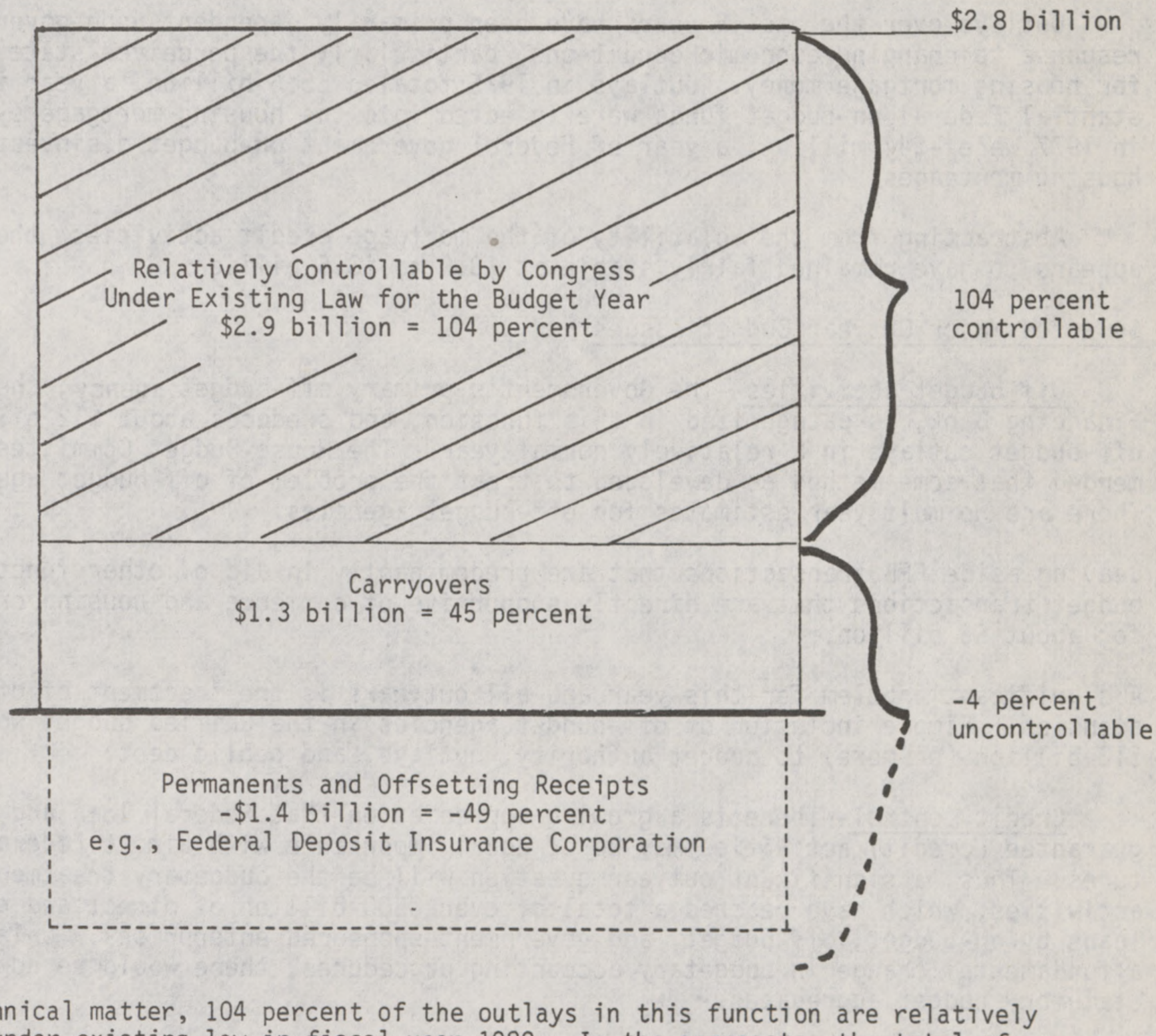
The Senate five-year recommendations in fiscal year 1984 are $4.2 billion, 68 percent higher than fiscal year 1980. The basic difference between the Senate and HBC five-year projections appear to result from different assumptions about milk price supports in the period fiscal year 1983-84. The HBC projections assume milk will be supported at 80 percent of parity through fiscal year 1984. The Senate assumes milk will be supported at less than 80 percent of parity after fiscal year 1982.

MULTI-YEAR BUDGET OUTLOOK

Function 370: COMMERCE AND HOUSING CREDIT

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



As a technical matter, 104 percent of the outlays in this function are relatively controllable under existing law in fiscal year 1980. In the aggregate, the total of outlays that are categorized as controllable by Congress under existing law exceeds the total of all net outlays which makes it appear that the function's outlays are 104 percent controllable.

However, this function is peculiar in that most of the sizeable programs and activities are administered as revolving funds in which receipts are netted against disbursements, thus obscuring real program activities. In addition, many of the programs are financially dependent upon quasi-Federal institutions such as the Federal Financing Bank which provides financing for the Farmers Home Administration programs, and the Federal National Mortgage Association provides financing for the GNMA and FHA programs. These outlays are thus removed from the unified budget.

One of the largest single programs--the U.S. Postal Service subsidy of approximately $1.6 billion--is controllable only in the sense that Congress could theoretically refuse to appropriate funds for subsidy of postal operations; however, such refusal would merely have the effect of moving the postal deficit from on-budget to off-budget status.

2. Past Five-Year Spending Trend

Outlays over the past 5 years have been primarily dependent upon governmental response to changing economic conditions, particularly the perceived state of the market for housing mortgage money. Outlays in 1975 totaled $5.6 billion, a year in which substantial Federal on-budget funds were injected into the housing mortgage system; outlays in 1977 were -$44 million, a year of Federal government on-budget disinvestment in housing mortgages.

Abstracting from the volatility of the mortgage credit activities, the function appears to have remained fairly stable at $3.0 to $3.5 billion.

3. Selected Major Outyear Budget Issues

Off-budget activities--The Government's primary off-budget agency, the Federal Financing Bank, is categorized in this function, and produces about $12 billion in net off-budget outlays in a relatively normal year. The House Budget Committee has recommended that some method be developed to treat the problem of off-budget agencies. There are no multiyear estimates for off-budget agencies.

Leaving aside FFB transactions that are predominantly in aid of other functions, off-budget transactions that are directly supportive of commerce and housing credit account for about $3 billion.

A significant problem for this year and all outyears is the treatment of off-budget agencies. Simple inclusion of off-budget agencies in the unified budget would add $12 billion (or more) to budget authority, outlays, and public debt.

Credit control--There is a growing appreciation that Federal loan and loan-guarantee (credit) activities may be of equal importance with direct Federal expenditures. Thus, a significant outyear question will be the budgetary treatment of credit activities, which have reached a total of over $500 billion of direct and guaranteed loans by on-budget, off-budget, and government-sponsored enterprises. Unless there is a fundamental change in budgetary accounting procedures, there would be no effect on statutory budget aggregates.

Postal subsidies--There is continuing pressure for increases in general-fund financing of postal deficits. Although the U.S. Postal Service is running a surplus this year, future deficits are unavoidable unless postal policy provides for increasing postage rates to finance cost-of-living raises for postal employees and the impact of inflation on fuel and other items. Enactment and funding of H.R. 79, could add over $400 million to fiscal year 1980 spending, rising to $850 million in 1983.

4. Outyear Overview (see chart on the following page)

	OUTLAYS (in billions of dollars)				
	1980	1981	1982	1983	1984
President	3.2	3.2	2.8		
HBC	2.8	3.5	3.2	3.1	3.0
SBC	3.0	3.5	3.2	3.1	2.9

(a) Implications of HBC Current Policy Projections

HBC current policy projections assume no shocks to the housing-mortgage market and a continuation of financing techniques that shift costs either to the off-budget Federal Financing Bank or to government-sponsored credit enterprises such as the Federal National Mortgage Association. HBC projections also assume that the schedule for declining postal subsidies contained in existing law will be adhered to, thus reducing the public-service subsidy by $92 million each year of the period. Funding of H.R. 79, if enacted, would add $400-600 million in each year. The projections also assume relative stability in the economy (e.g., no widespread failures of banks, savings and loans, credit unions, etc.) Other programs in aid of commerce (operations of the Commerce Department, regulatory agencies, and the Small Business Administration) are assumed to continue with allowance for anticipated inflation.

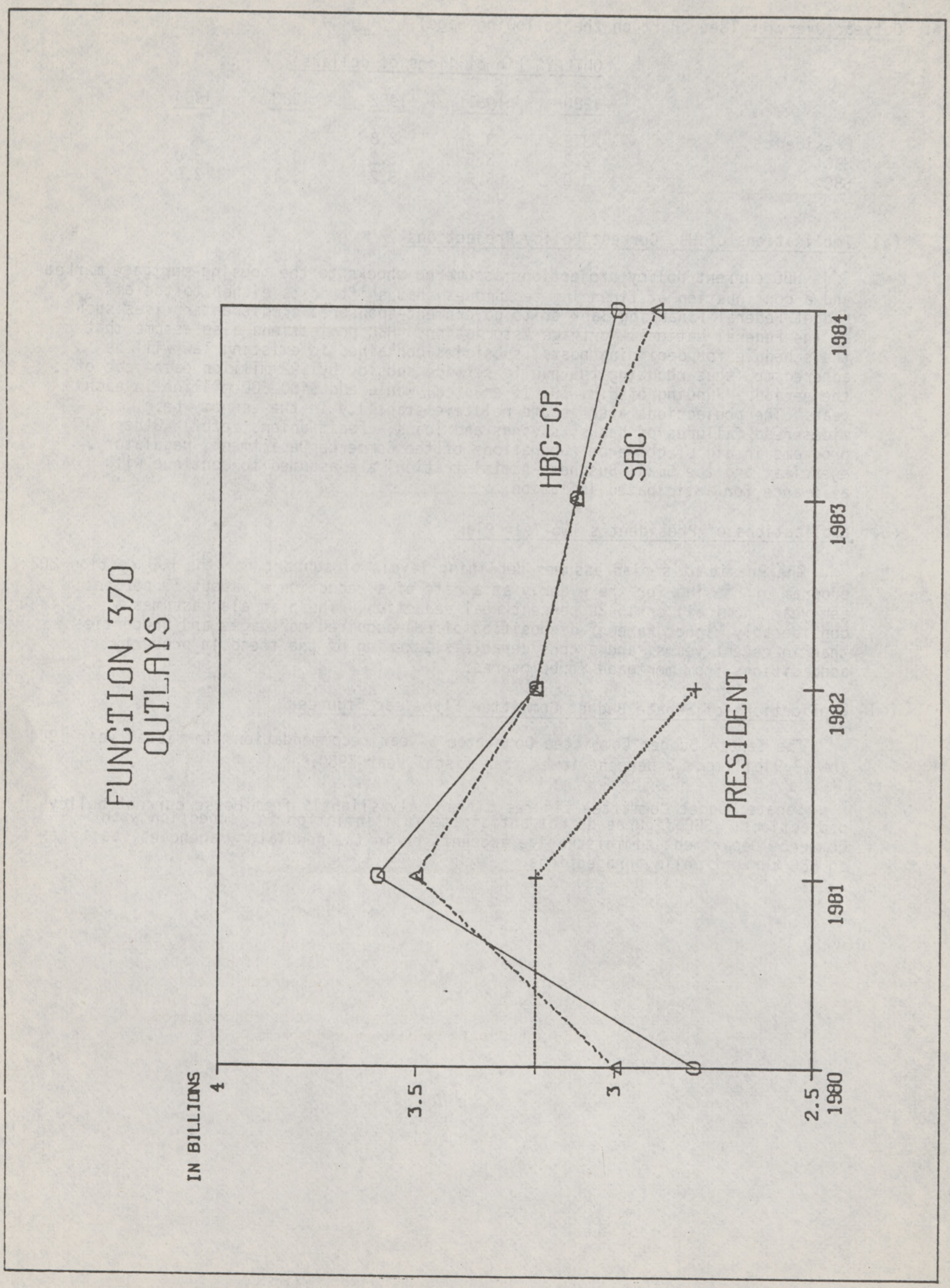
(b) Implications of President's Two-Year Plan

The President's plan assumes declining levels of support for the HUD section 202 program of housing for the elderly at a rate of a reduction of about 10 percent per year (nominal) or 15-20 percent real reduction. The plan also assumes a considerably higher rate of disposition of FHA-acquired mortgages and properties than in recent years, and a considerable slackening of the trend in property acquisitions from mortgage foreclosures.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate Budget Committee Committee 5-year recommendations in fiscal year 1984 are $2.9 billion, 3 percent lower than fiscal year 1980.

Senate Budget Committee figures differ only slightly from House current policy projections. SBC figures do not anticipate full inflation in connection with Commerce Department administrative accounts or in the regulatory agencies, as do HBC current policy projections.

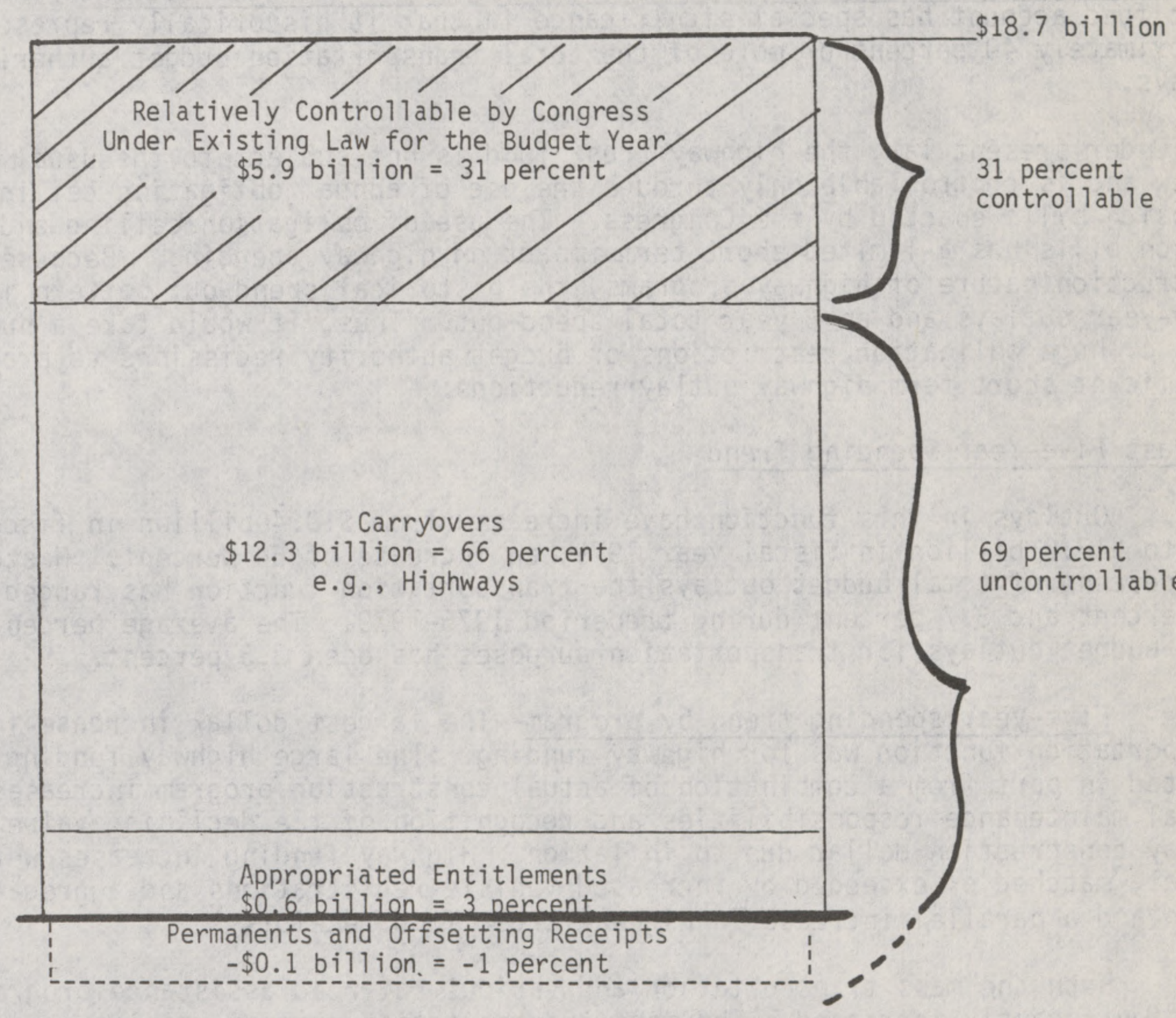

FUNCTION 370
OUTLAYS
IN BILLIONS
4
3.5
3
2.5
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

MULTI-YEAR BUDGET OUTLOOK

Function 400 : TRANSPORTATION

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Thirty-one percent of the outlays in this function are relatively controllable under existing law in fiscal year 1980. Approximately 50 percent or $33 billion of the controllable funding is in three major accounts, the Urban Mass Transportation Administration and the Federal Aviation Administration and Coast Guard Operations accounts. The remaining controllable programs are various transportation grant, construction, safety, research and development, regulatory and miscellaneous programs.

Uncontrollable transportation funding--There are four relatively uncontrollable transportation accounts, the highway trust fund, the maritime operating-differential subsidy, the Coast Guard retired pay and the Civil Aeronautics Board local air carrier subsidy accounts. The highway trust fund is a permanent appropriation, the Coast Guard and CAB accounts are entitlement programs and the maritime account is a mandatory appropriation. Spending resulting from both permanent and entitlements can be controlled only if Congress acts to change the laws which mandate such spending.

The highway trust fund account along with prior year outlays represents approximately 65 percent of all transportation spending and 97 percent of all uncontrollable spending. The other 3 percent of uncontrollable spending is derived from the three smaller uncontrollable accounts.

Special signficance and aspects of the highway trust fund account--The highway trust fund account has special significance in that it historically represents approximately 40 percent or more of the total transportation budget authority and outlays.

Under present law, the highway trust fund is not subject to the usual appropriations review and is controllable only through the use of annual obligation ceilings and/or recission bills enacted by the Congress. The use of obligation ceiling and/or recission bills has a limited short term impact on highway spending. Because of the construction nature of highway programs, the historical spend-out pattern is small early-year outlays and an 8 year total spend-out. Thus, it would take a number of years or huge obligation restrictions or budget authority recissions to produce singificant short term highway outlay reductions.

2. Past Five-Year Spending Trend

Outlays in this function have increased from $10.4 billion in fiscal year 1975 to $17.0 billion in fiscal year 1979, an increase of 64 percent. Historically, as a percent of total budget outlays the transportation function has ranged between 3.2 percent and 3.7 percent during theperiod 1975-1979. The average percentage of total budget outlays for transportation purposes has been 3.5 percent.

Five-year spending trend by program--The largest dollar increase in the transportation function was for highway funding. The large highway funding increases resulted in part from a combination of actual construction program increases, expanded Federal maintenance responsibilities and recognition of the declining value of the highway construction dollar due to inflation. Highway funding increases were in general, matched or exceeded by increased vehicle registrations and aggregate mileage driven and a parallel increase in highway trust fund receipts.

Both the mass transportation and various railroad assistance programs were also significantly increased. The mass transportation program was increased in response to perceived program needs. Significant mass transportation funding was not provided until enactment of the 1974 National Mass Transportation Act. The newness of the program resulted in smaller early year outlays and a rapid build-up in the outyears.

The real growth above inflation in railroad programs was in response to the historical decline of railroad passenger and freight utilization, particularly since World War II. Increased rail funding was also a direct response to emergency financial situations as in the case of the National Rail Passenger Corporation, the Consolidated Rail Corporation, and other bankrupt railroads.

3. Selected Major Outyear Budget Issues

Highway trust fund program--Since the inception of the modern highway program in 1956, the program has been periodically reauthorized in a series of multi-year authorizations. The current authorization is in the Surface Transportation Assistance Act of 1978 and provides highway trust fund account authorization levels as follows:

	in billions of dollars
Fiscal year 1979	8.0
Fiscal year 1980	8.6
Fiscal year 1981	9.0
Fiscal year 1982	7.8

The $1.2 billion reduction in fiscal year 1982 from the preceding year was based on a limitation on total funding in the enacting legislation in order to avoid a veto. The $1.2 billion reduction in fiscal year 1982 is contrary to the historical growth of the program, the continued need for construction funds through 1990, the increased need for road maintenance funding and the impact of inflation on the purchasing power of each program dollar. It is likely that a new highway authorization may be considered as early as fiscal year 1981 rather than waiting until fiscal year 1982.

Issues in the anticipated highway funding debate--As part of the highway funding debate, the following major issues are anticipated:

(a) What will be the final cost and completion date for the interstate system. The cost of the interstate has grown from $27 billion to $104 billion and could conceivably cost an additional $100 billion. The completion date has slipped from 1972 to 1990 and could be changed again.

(b) The most recent authorization provided expansion of the Federal maintenance role in bridge projects from a level of $.2 billion to over $1 billion per year. The original estimate of backlogged bridge projects was $23 billion but additional expansion of overall Federal highway maintenance responsibilities could eventually involve hundreds of billions of dollars.

(c) The Department of Transportation and other transportation experts have forecast a significant slowdown in the revenue curve of the highway trust fund. In the past, trust fund revenues have kept pace with program funding increases. It is not certain that the trust fund growth will be sufficient to meet expanding program needs as required by law.

Mass transportation programs--The issue is what assumptions to make regarding congressional treatment of the President's proposed $16.5 billion, 10 year transportation related energy initiative. Of the $16.5 billion, $13 billion is for public transportation capital programs and is projected by the President to result in an all funds mass transportation program of $50 billion for the 1980's versus $15 billion in the 1970's. Significant Federal Mass Transportation funding was first legislated in 1974.

The two main issues related to the President's transportation-energy initiative are likely to be (1) if the Congress enacts the program, at what funding level will the program be authorized and will the Congress make enactment totally dependent on the windfall profits tax being enacted, as assumed by the President, and (2) will the Congress include new operating subsidy which is not part of the President's proposal. It is likely to be argued that localities cannot provide significantly expanded operations with increased Federal capital monies if additional operating subsidy is not provided.

Rail assistance programs--A number of the nation's freight railroads are in bankruptcy proceedings or are experiencing serious financial difficulties. In addition, the National Railroad Passenger Corporation (AMTRAK) has experienced precipitously growing deficits and Federal subsidy requirements.

(a) Freight Issues

The President proposes deregulation of the rail freight industry which should significantly reduce Federal subsidy requirements. The President's rail legislation initiative would provide as much as $1.2 billion in transition aid over the next few years as railroads adjust to a deregulated environment. If deregulation is not legislated by the Congress, Federal rail freight subsidies could be many times the $1.2 billion transition amount and could be required in perpetuity or result in the nationalization of the railroads. The freight issue is illustrated by the Consolidated Rail Corporation (ConRail) which has been authorized to receive $3.3 billion in Federal subsidy in two succeeding authorizations. ConRail projects the need for additional Federal aid beyond the $3.3 billion if deregulation is not legislated by the Congress.

(b) Passenger Issues

AMTRAK Federal subsidy requirements have grown from an original $70 million in 1971 to over $800 million projected in fiscal year 1980. The President proposed significant route-service reductions and the Congress has included specific route-service reduction criteria in the fiscal year 1980 authorization bills. Congress will have to decide what service level should be funded. In addition, AMTRAK requires growing capital funding and requires additional funding for the Northeast Corridor Project which ultimately could cost double the existing $1.75 billion authorization.

Air mode programs--The issue is whether Congress will make substantial program and/or funding changes when the Airport and Airways Trust fund programs are reauthorized for fiscal year 1981. The President has proposed an air mode legislative initiative which would extend the trust fund, expand individual program levels, and provide substantial changes in the air trust fund mechanism associated with reducing the growing air trust fund surplus. Funding levels for fiscal years 1981-1985 under the President's air legislation initiative would total $14.6 billion.

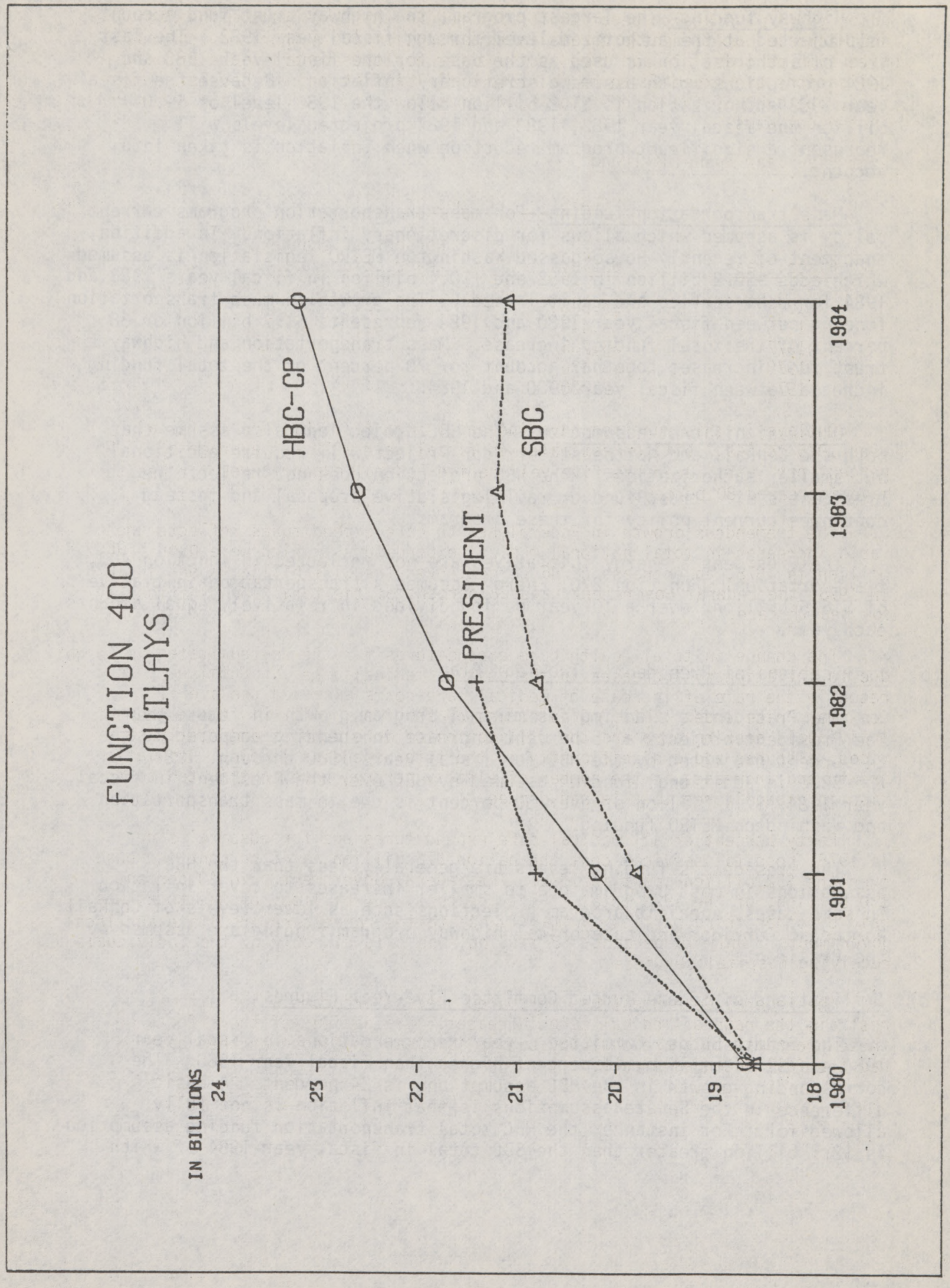
4. Outyear Overivew (See chart on the following page.)

OUTLAYS (In billions of dollars)

	1980	1981	1982	1983	1984
President	18.3	19.9	20.1	20.7	21.2
HBC	18.7	20.2	21.6	22.5	23.2
SBC	18.6	19.8	20.8	21.2	21.1

(a) Implications of HBC Current Policy Projections

The HBC current policy projection is generally based on extension of most existing programs with allowance for mandatory increases, for instance providing the increases contained in authorizing legislation and an allowance for discretionary inflation. Spending is projected to increase by 24 percent between fiscal year 1980 and fiscal year 1984.


FUNCTION 400
OUTLAYS
IN BILLIONS
24
23
22
21
20
19
18
1980
1981
1982
1983
1984
HBC-CP
PRESIDENT
SBC

Highway funding--The largest program, the highway trust fund account, is projected at the authorized level through fiscal year 1982. The last year of authorization is used as the base for the fiscal year 1983 and 1984 projections which assume discretionary inflation. Because the fiscal year 1982 authorization is $1.2 billion below the 1981 level of $9.0 billion the fiscal year 1982, 1983 and 1984 projected levels will represent a significant program reduction when inflation is taken into account.

Mass transportation funding--For mass transportation programs current policy is assumed which allows for discretionary inflation. In addition, enactment of recently House-passed Washington METRO legislation is assumed which adds +$0.2 billion in 1982 and +$0.4 billion in fiscal years 1983 and 1984 for debt service and capital needs. The growth in mass transportation funding between fiscal year 1980 and 1984 represents $1.7 billion or 38 percent of the total funding increase. Mass transportation and highway trust fund increases together account for 70 percent of the total funding increase between fiscal year 1980 and 1984.

Other significant assumptions--The HBC projections also assume that both the ConRail and Northeast Corridor Project will require additional but smaller authorizations. The HBC projection does not reflect the President's air trust fund or rail legislative proposal and instead continues current policy for these programs.

The President's energy initiatives are not reflected in function 400, transportation. Function 270, Energy, assumes a transportation initiative of $16.5 billion, over a 10-year period divided in relatively equal amounts each year.

(b) Implications of President's Two-Year Plan

The President's plan implies minimal program growth in future years. The President projects a 16 percent increase in spending compared to the 24 percent projected by the HBC for fiscal years 1980 through 1984. Of the $2.0 in additional funding assumed by HBC over the President in fiscal year 1984, $1.1 billion or over 50 percent is due to mass transportation and Washington METRO funding.

The President's funding levels are generally less than the HBC assumptions in most programs due to smaller increases to cover inflation. In some cases, specific program projections such as lower levels of ConRail, Northeast Corridor and categorical highway program funding are assumed by the President.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate Budget Committee 5-year recommendations in fiscal year 1984 are $21.1 billion, 13 percent higher than fiscal year 1980. The corresponding growth in the HBC assumptions is 24 percent. A basic difference in the Senate assumptions is that inflation is not fully allowed for. For instance, the HBC total transportation funding assumption is $2.1 billion greater than the SBC total in fiscal year 1984 of which

$1.1 billion or over 50 percent is in the urban mass transportation programs. The Senate mass transportation funding assumptions significantly lag historical levels of inflation and would severely limit capital new starts and future levels of rehabilitation, bus purchase and operating subsidies.

The other than mass transportation differences between the HBC and SBC projections are lower levels of funding for the ConRail and Northeast Corridor rail projects, lower highway outlays due to a proposed SBC $250 million highway recission in fiscal years 1980 and 1981 and a generally lower level of air mode funding scattered over a number of different air programs.

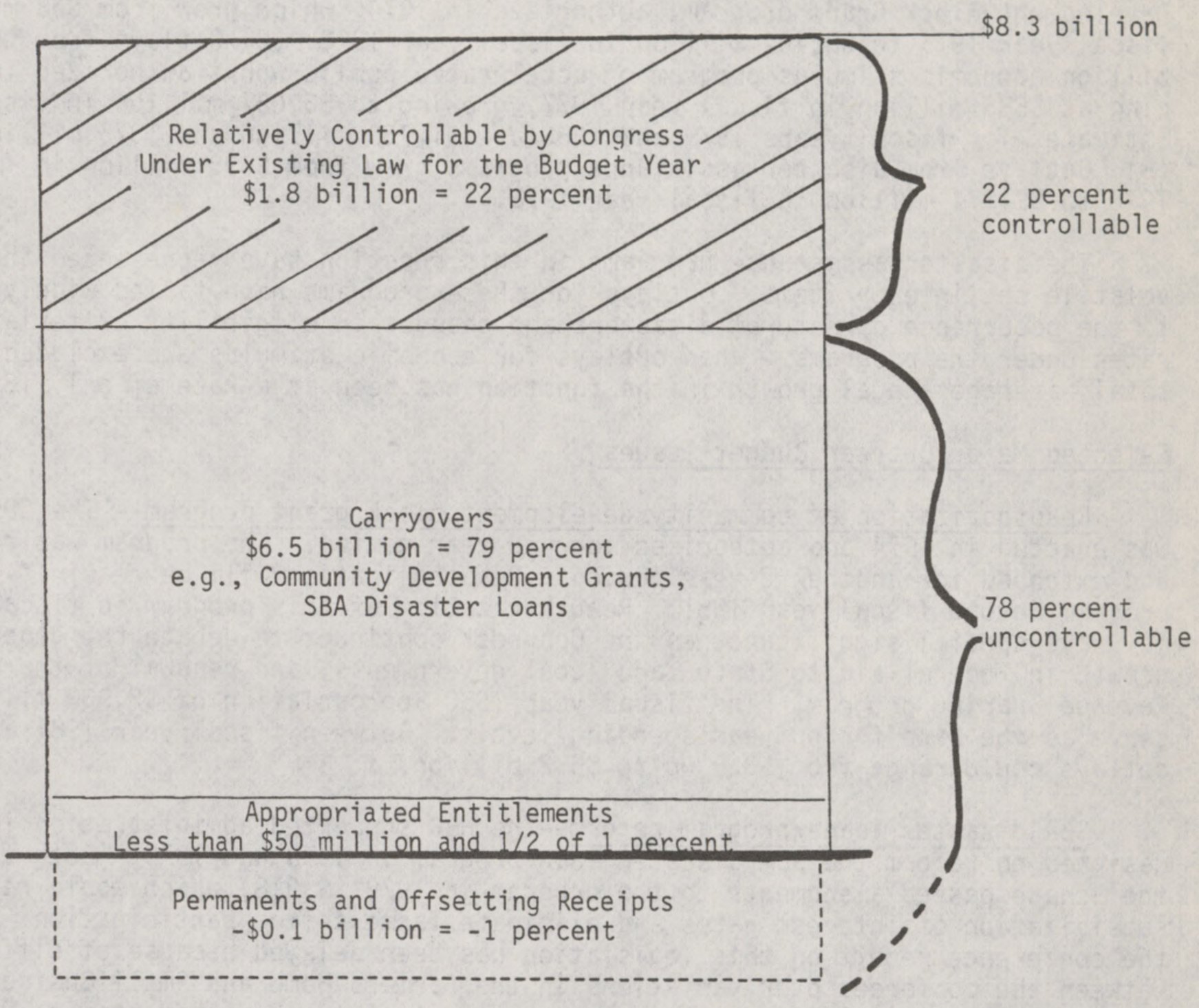
The SBC mark for function 400 assumes $200 million in budget authority and $20 million in outlays for the President's transportation-energy initiative. This is one-tenth the HBC assumption in function 270, energy for fiscal year 1980 outlays and the gap grows to over $1 billion in 1984.

MULTI-YEAR BUDGET OUTLOOK

Function 450 : COMMUNITY AND REGIONAL DEVELOPMENT

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 22 percent of the outlays in this function can be described as relatively controllable in the budget year. The balance of the outlays are the result of prior year obligations. In general, the major programs in the function spend out over a 2-to-5-year period. Therefore, significant reductions in budget authority would be required in fiscal year 1981 in order to achieve significant reductions in outlays in fiscal years 1982-1984.

Major spending in this function occurs for community and area development activities. In fiscal year 1980, the Community Development Block Grant program, administered by HUD, and the Economic Development Assistance programs administered by the Commerce Department, will account for 53 percent of spending in the function.

2. Past Five-Year Spending Trend

Spending in this function increased from $4.4 billion in fiscal year 1975 to a peak of $11.0 billion in fiscal year 1978. Growth in spending during this period was at an average nominal rate of 37.7 percent per year. The major increase in spending growth during this period is attributable to the impact of: (1) Outlays under the Community Development Block Grant program, authorized in 1974, which grew from $38 million in fiscal year 1975 to $2,464 million in fiscal year 1978. (2) Outlays from the $6.0 billion economic stimulus program of accelerated public works authorized in 1977 beginning at $585 million in fiscal year 1977, growing to $3,057 million in fiscal year 1978. Estimates for fiscal years 1979 and 1980 are $1,750 million and $375 million respectively. (3) Outlays from disaster assistance programs grew from $398 million in fiscal year 1975 to $2,871 million in fiscal year 1978.

The disaster assistance programs in this function have represented the most volatile contingency items. Outlays for these programs have varied widely in relation to the occurrence of natural disasters and changes in eligibility criteria and interest rates under the programs. When outlays for economic stimulus are excluded from the total, average annual growth in the function has been at a rate of only 13.7 percent.

3. Selected Major Outyear Budget Issues

Reauthorization of community development block grant program-- The CDBG program was enacted in 1974 and authorized for a 3-year period. The program was renewed in 1977 and extended for another 3-year period. Reauthorization will be required to extend the program beyond fiscal year 1981. Reauthorization of this program in fiscal year 1981 may have special significance as the Congress continues to debate the general issue of growth in Federal aid to State and local governments, and renewal of the General Revenue Sharing program. The fiscal year 1980 appropriation of $3,900 million will serve as the base for outyear spending levels. Between fiscal year 1981 and 1984 outlays could range from $3.8 up to $5.2 billion.

SBA disaster loans/program reform--The HBC supported administration initiatives designed to reform the SBA disaster loan program in 1978 and 1979. Both the House and the Senate passed amendments to the program in 1979 (S.918) which would reduce the subsidization of interest rates and eliminate farmers from participation. However, the conference report on this legislation has been delayed because of differences between the conferees over variations in the Farmers Home and Small Business disaster programs. The legislative outlook for enactment of these amendments in 1979 is uncertain. Current outyear estimates between fiscal year 1981 and 1984 range from $524 million down to $468 million for the SBA program. These estimates assume the enactment of the pending reforms. If these reforms are not enacted, outyear costs could rise to between $776 million in fiscal year 1981 up to $1,084 million in fiscal year 1984--increases of from $252 million to $616 million.

Economic development assistance reauthorization--Reauthorization of the EDA programs is required to extend the programs beyond fiscal year 1979. The administration has proposed an initiative to restructure the programs into an expanded Economic Development Financing Administration. The Senate has passed a bill to accomplish the changes. The House Public Works Committee has reported a bill which would extend EDA programs for 3 years. However, the House Banking Committee has not completed action on related

portions of the proposal. Estimates of outyear costs range from $864 million in fiscal year 1981 up to $1,160 million in fiscal year 1984.

4. Outyear Overview (See chart on the following page)

OUTLAY (in billions of dollars)

	1980	1981	1982	1983	1984
President	7.5	8.3	8.7		
HBC	8.3	9.1	10.2	10.8	11.2
SBC	8.4	9.2	9.6	9.9	9.6

(a) Implications of HBC Current Policy Projections

Between 1975 and 1979, real growth in this function was at an average annual rate of 12.9 percent. Nominal growth was at an average rate of 37.7 percent. HBC current policy projections assume continuation of all existing programs with increases to cover inflation. This projected rate of growth would be lower than growth projections based on past performance. However, as noted in the discussion of past years, annual outlays in this function have fluctuated widely between 1975 and 1979, reflecting the impact of a sizeable temporary economic stimulus program in fiscal year 1977 and costs of the disaster assistance programs. HBC projections assume gtowth in the community development block grants program from $3.8 billion to $5.2 billion; growth in EDA programs from $1.2 billion to $1.5 billion.

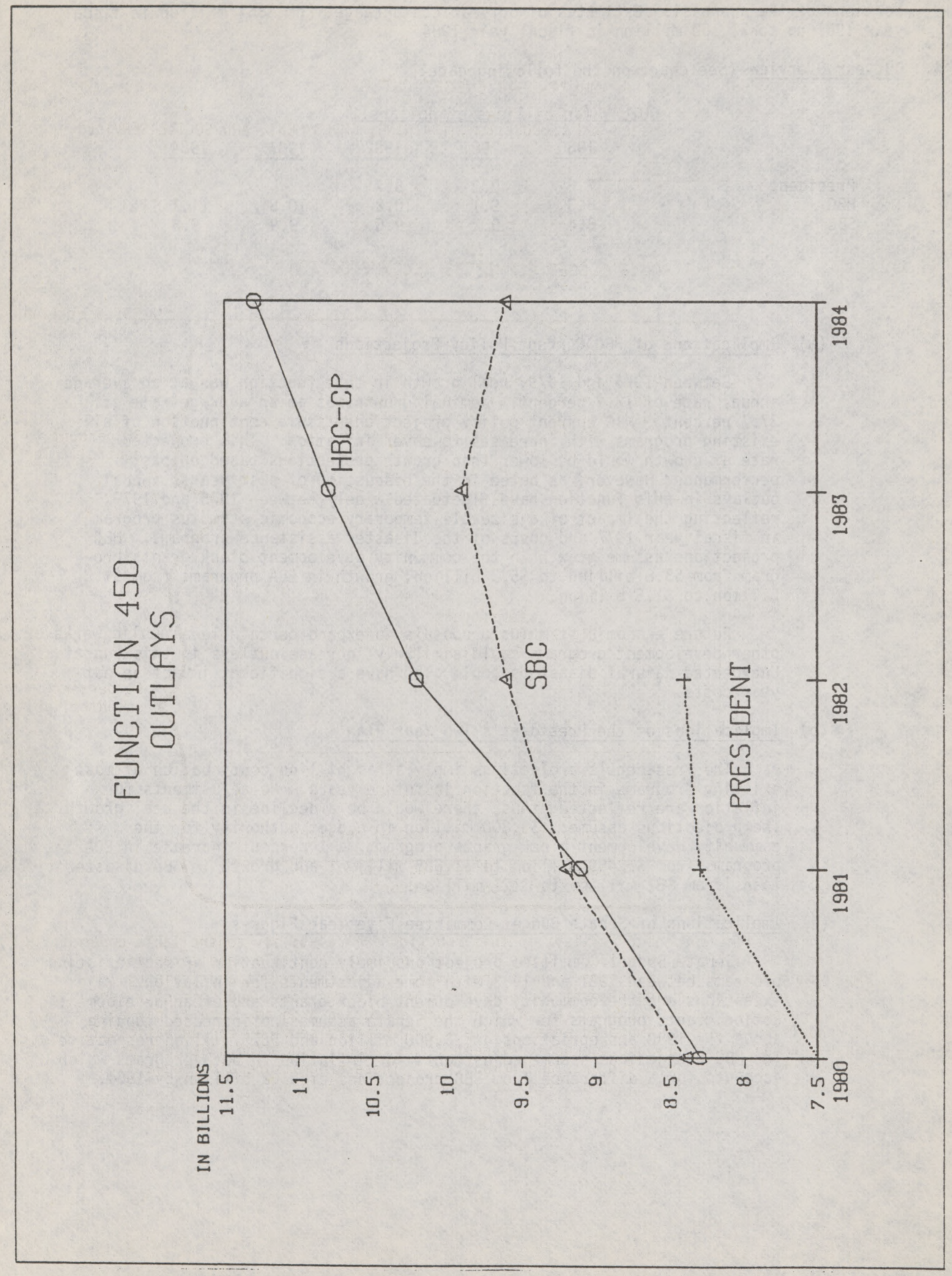
Future economic stimulus proposals to expand certain localpublic works or other development programs could similarly increase outlays in this function. Unexpected natural disasters could also have a significant impact on outyear costs.

(b) Implications of the President's Two Year Plan

The President's projections imply straight-line continuation of most existing programs in the function in future years. No adjustments for inflation are reflected; thus, there would be a decline in the real growth. The projections assume: $3,800 million in budget authority for the community development block grants program; a 1 percent increase in EDA programs from $1,459 million to $1,585 million; and growth in SBA disaster loans from $61 million to $121 million.

(c) Implications of Senate Budget Committee Five Year Figures

Senate Budget Committee projections imply continuation of most existing programs between 1981 and 1983 with some adjustments for inflation. Major exceptions are the community development block grants and urban development action grants programs for which the Senate assumes no increased funding above the 1980 appropriations of $3,900 million and $675 million respectively. The HBC projections assume adjustments for inflation in both programs which accounts for a difference from SBC projections of $1.2 billion by 1984.

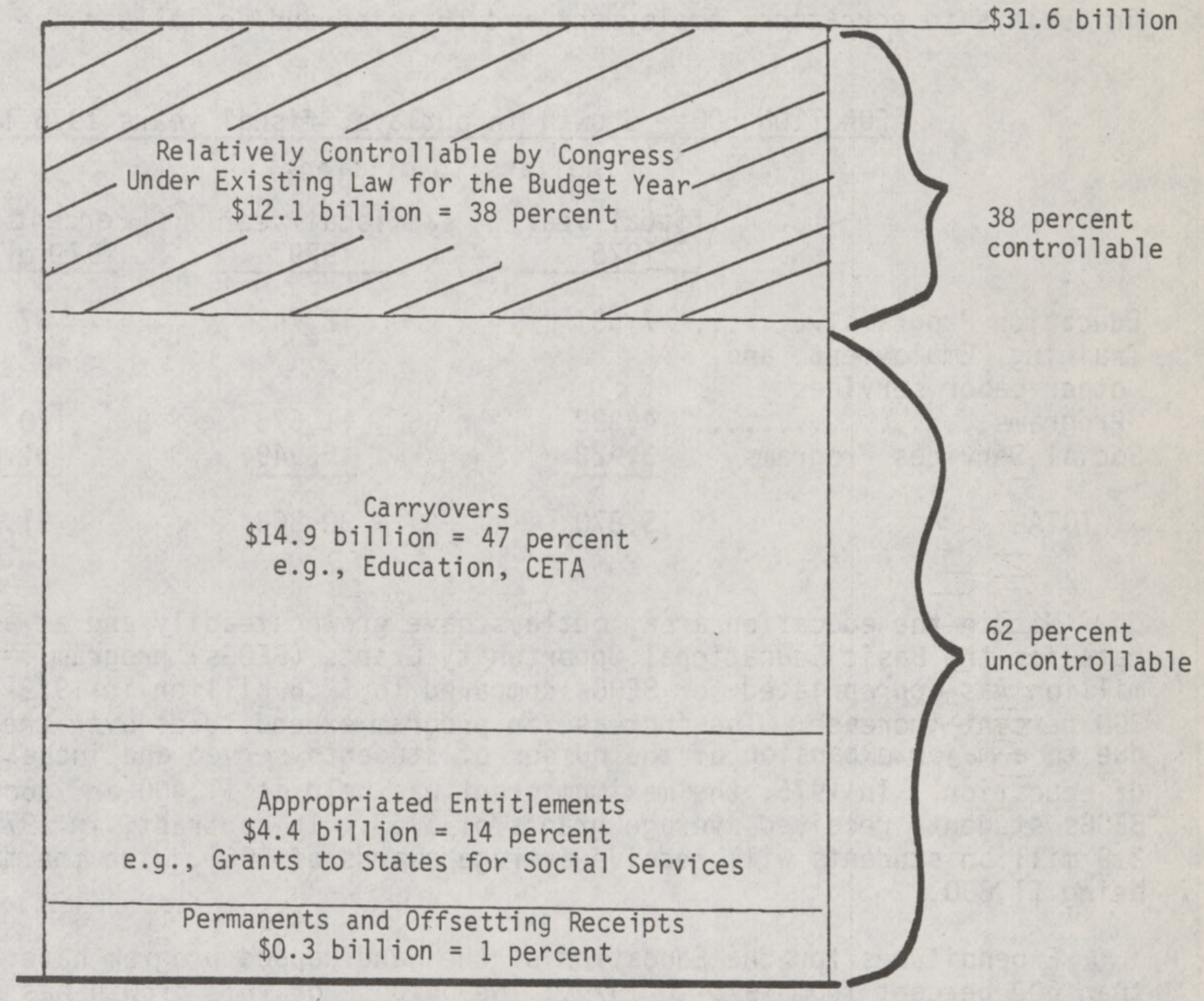

FUNCTION 450
OUTLAYS
IN BILLIONS
11.5
11
10.5
10
9.5
9
8.5
8
7.5
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

MULTI-YEAR BUDGET OUTLOOK

Function 500 : EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Thirty-eight percent of outlays in this function are relatively controllable under existing law in fiscal year 1980. These funds are associated with expenditures for employment and training programs such as the Comprehensive Employment and Training Act (CETA), social service programs such as child welfare services, and community services projects. Controllable outlays also include education programs such as payments to schools in Federally impacted areas, Title I compensatory services for educationally disadvantaged elementary and secondary students, and general education aids such as projects in research, and the arts and humanities. These programs require annual appropriations which represent discrete decisions on funding levels.

The remaining 62 percent of outlays in this function are relatively uncontrollable. They consist largely of outlays from prior year appropriations associated with forward funded education programs such as Title I of ESEA, the Education of the Handicapped program and the Basic Educaional Opportunity Grants program which provides financial assistance to needy higher education students. Also about a third of these expenditures are associated with the CETA program.

2. Past Five Year Spending Trend

In the five years from 1975 to 1979, outlays in this function increased a total of 91 percent--from $15.9 billion in 1975 to $30.4 billion in 1979. About 53 percent of the increase represented real growth, with inflation accounting for the rest of the increase. In addition to inflation, outlays have risen as a result of expansion in recipient populations, liberalization of program benefits, and responses to adverse economic conditions. Shown below is the five year increase in outlays to education, employment and training and social service programs.

FUNCTION 500: Growth in outlays, fiscal years 1975-1979

(dollars in millions)

	fiscal year 1975	fiscal year 1979	Percent increase 1979 over 1975
Education Programs.....	7,631	12,745	67.0
Training, Employment, and other Labor services Programs.....	4,322	11,673	170.1
Social Services Programs	3,923	5,949	51.6
TOTAL	15,870	30,363	91.3

Within the education area, outlays have grown steadily and at a substantial rate for the Basic Educational Opportunity Grants (BEOGs) program. In 1975, $660 million was appropriated for BEOGs compared to $2.6 billion in 1979--nearly a 300 percent increase. The increase in program expenditures over these years was due to a major expansion of the number of students served and increases in the cost of education. In 1975, the maximum grant was held at $1,400 and about 1.2 million BEOGs students received average grants of $763. In contrast, in 1979 an estimated 2.9 million students will receive average awards of $961, with the maximum award being $1,800.

Expenditures for the Education of the Handicapped program have risen more than 600 percent from 1975 to 1979. The purpose of this growth has been to achieve the mandates of the 1976 amendments to provide an appropriate education to all handicapped students. In 1975, an appropriation of $100 million provided a general subsidy of $8.75 for each pupil attending school. The 1976 law substantially increased the Federal obligations by providing larger and accelerating subsidy rates to States. Beginning in 1976, the law authorized States to receive for each handicapped child, an amount equal to 5 percent of the national average expenditure per pupil. Funds equal to a subsidy rate of 12 percent was appropriated for 1979.

Training and Employment Programs have increased by 170 percent from fiscal year 1975 through fiscal year 1979. The greatest part of this increase is due to appropriations for the Comprehensive Employment and Training Act (CETA) due to Congress's and the Administration's efforts to end the recession of the mid-1970's. At the peak of the recession the unemployment rate exceeded 9 percent, which meant that approximately 9 million people were unemployed. As part of the fiscal year 1977 economic stimulus package, $9,425 million were appropriated for CETA, most of which was applied to public service employment programs (PSE). At its peak, (March, 1978), the CETA/PSE programs had 753,000 enrollees.

Over the period fiscal years 1975 through 1979, approximately 53 percent of the increase in outlays for employment and training resulted from Congressional response to the economic recession. During this period the end of year enrollment level for CETA public service employment more than doubled from 279,000 to almost 600,000.

3. Selected Major Outyear Budget Issues

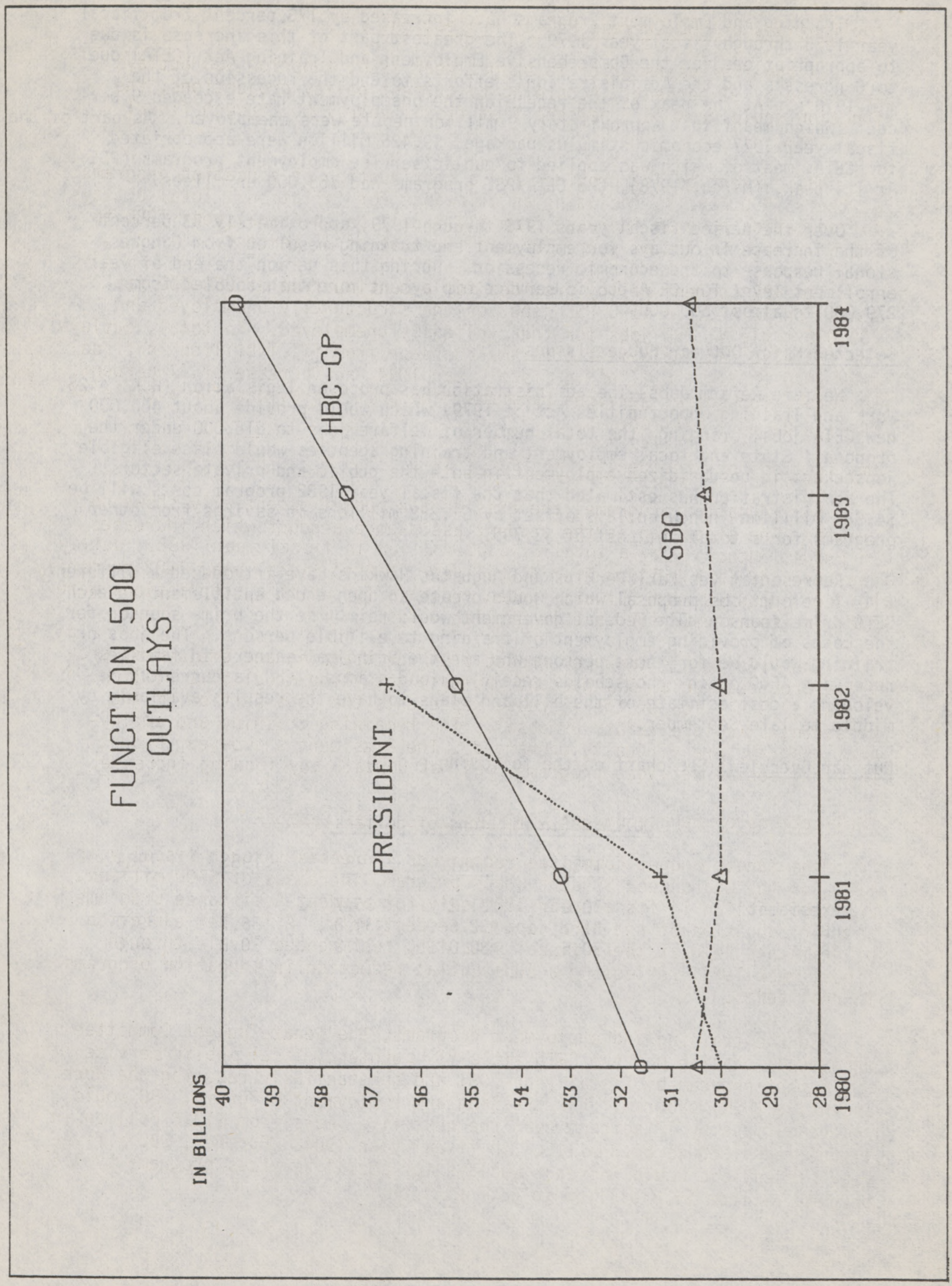
Welfare Reform Jobs--The administration has proposed legislation (H.R. 4425, Work and Training Opportunities Act of 1979) which would provide about 400,000 new CETA jobs, bringing the total number of welfare jobs to 618,000 under the proposal; State and local employment and training agencies would place eligible jobseekers in unsubsidized employment in both the public and private sectors. The administration has estimated that the fiscal year 1982 program costs will be $4,987 milllion in new outlays offset by $2,282 millions in savings from other programs for a total net cost of $2,705.

Representatives Carl Perkins and Augustus Hawkins have introduced a different welfare reform jobs proposal which would create an open-ended entitlement to each CETA prime sponsor. The Federal government would reimburse the prime sponsor for the costs of providing employment or training to eligible persons. The jobs or training would be for those persons who are the principal earners in families receiving AFDC or in households receiving food stamps. CBO is currently developing a cost estimate of the bill and plans to have the results available by middle to late September.

4. Outyear Overview. (See chart on the following page.)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	30.0	31.2	36.7		
HBC	31.1	32.6	34.8	36.7	39.0
SBC	30.5	30.0	30.0	30.3	30.6


FUNCTION 500
OUTLAYS
IN BILLIONS
40
39
38
37
36
35
34
33
32
31
30
29
28
1980
1981
1982
1983
1984
HBC-CP
PRESIDENT
SBC

(a) Implications of HBC Current Policy Projections

In the five years prior to budget year 1980, function 500 outlays increased by 91 percent. According to current policy projections, the function would grow 25.5 percent from fiscal year 1980 through fiscal year 1984.

HBC current policy provides for a continuation of education programs at their 1980 levels, including an allowance for inflation. Total outlays for education program increase from $14.4 billion in fiscal year 1980 to $18.3 billion in fiscal year 1984, an increase of 27 percent.

The HBC current policy provides for a continuation of 250,000 job slots for CETA title II-D PSE jobs for the structurally unemployed and 200,000 title VI PSE jobs for the cyclically unemployed. In total, outlays for training and employment programs increase from $11.1 billion in fiscal year 1980 to $14.1 billion in fiscal year 1984, an increase of 27 percent. In total, for social services programs, the policy provides for a title XX ceiling of $3.1 billion.

(b) Implications of President's Two Year Plan

For education programs, the President's budget essentially shows no growth. The exception is the student assistance account which increases in budget authority by a total of $300 million in fiscal year 1982. Outlay increases of $1.4 billion from fiscal year 1980 to fiscal year 1982 primarily reflect spendout from forward-funded programs for which appropriations were made in fiscal year 1980 and in earlier years.

The President's two-year budget plan for training and employment programs provides for a 48.1 percent increase totalling about $5.2 billion. Almost $4.9 billion of the increase represents the jobs portion of the President's welfare reform proposal. The remaining training and employment programs are virtually unchanged. The President's two-year budget plan for social services programs does not contain any funding increase.

(c) Implications of Senate Budget Committee Five Year Figures

The Senate Budget Committee recommends increases through fiscal year 1984 for the Guaranteed Student Loans program, increases of $700 million and $100 million in fiscal year 1981 only, for Student Assistance programs and for education of the handicapped, respectively. All other education programs are held at their fiscal year 1980 recommended levels through fiscal year 1984, reflecting a substantial reduction in education programs in real terms.

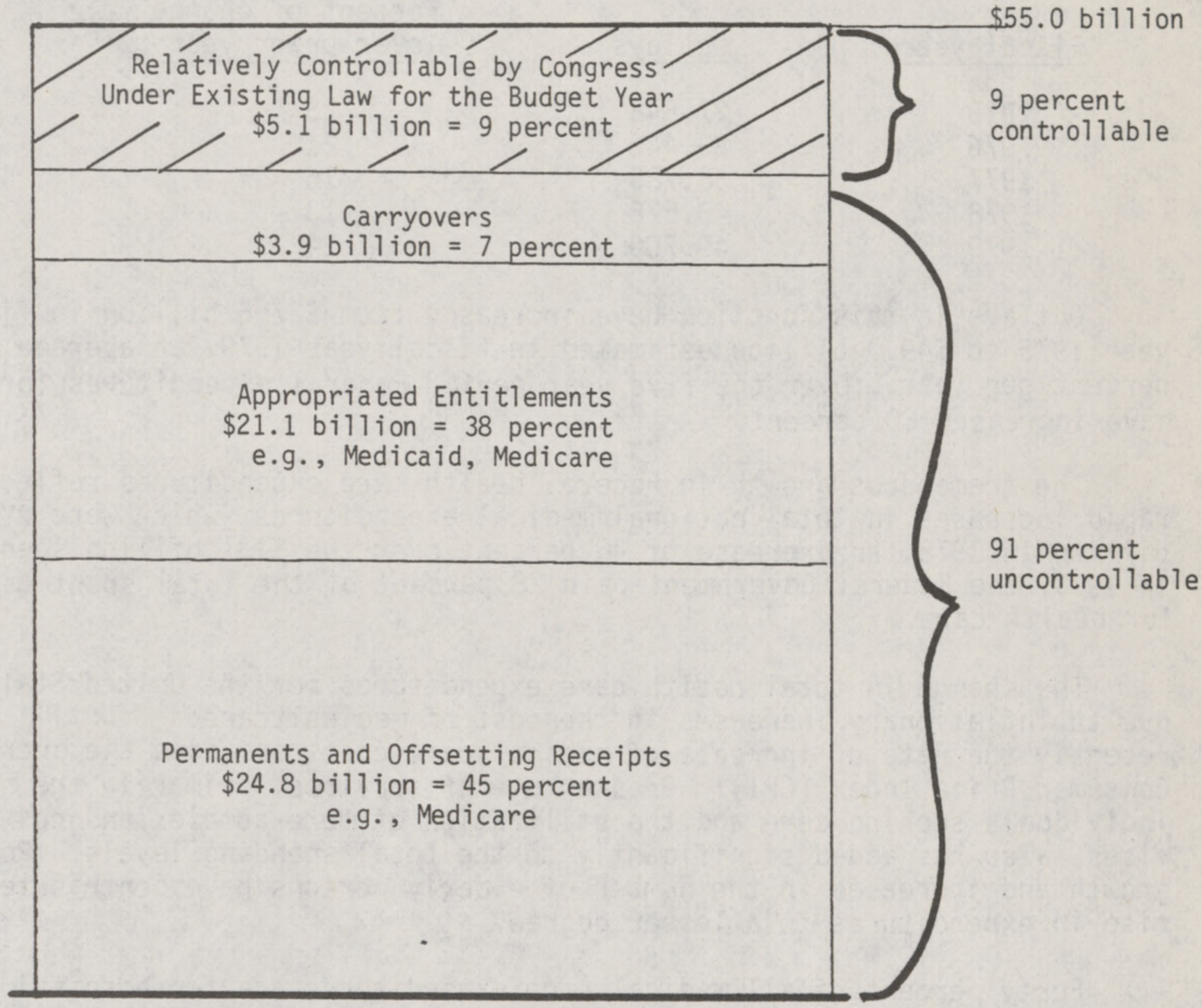
In the training and employment programs, the Senate Budget Committee recommends phasing out the CETA title VI countercyclical public service employment program by fiscal year 1981 and substantially reducing the Work Incentive (WIN) program. For training and employment programs, SBC would reduce outlays by 17 percent over the next five years from $10.6 billion in fiscal year 1980 to $8.8 billion in fiscal year 1984. Further, SBC's five-year projections would increase outlays for social services programs by 7.6 percent -- from $5.3 billion to $5.7 billion.

MULTI-YEAR BUDGET OUTLOOK

Function 550: HEALTH

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Only 9 percent of the outlays in this function are controllable in fiscal year 1980. The controllable outlays result primarily from appropriations for discretionary health programs, largely grants and contracts, and other related costs. They also include program improvements proposed for the Medicaid and Medicare programs which would result in net savings. The remaining 91 percent of outlays in this function consists of expenditures under current law for the Medicaid and Medicare programs, which provide legal entitlements to eligible beneficiaries; obligations made in

prior years; and health benefits for retired Federal employees. The Medicare and Medicaid entitlement programs in this function are authorized for indefinite time periods. In addition, outlays for employee benefits and prior year obligations are expected to be maintained at least at current levels. Therefore, the cost of the majority of funds in this account will remain uncontrollable in the outyears.

2. Past Five Year Spending Trend

OUTLAYS(in millions of dollars)

Fiscal year	Outlays	Percent of change over prior year
1975	27,648	25
1976	33,448	21
1977	38,785	16
1978	43,676	13
1979	49,700	14

Outlays in this function have increased from $27.6 billion in fiscal year 1975 to $49.7 billion estimated in fiscal year 1979, an average of 17.8 percent per year. Over the five year period Federal expenditures for health have increased 80 percent.

The tremendous growth in Federal health care expenditures reflects the rapid increases in total national medical expenditures, which were over $192 billion in 1978, an increase of 46 percent over the $131 billion spent in 1975. In 1978, the Federal Government paid 28 percent of the total spent nationally for health care.

The change in total health care expenditures for the United States is largely due to inflationary increases in the cost of medical care. Until recently the rate of increase of medical care costs exceeded the overall Consumer Price Index (CPI). Greater use of services, primarily the number of individuals seeking care and the utilization of more complex and costly services, also has added significantly to the total spending levels. Population growth and increases in the number of elderly persons have contributed to the rise in expenditures to a lesser degree.

Forty percent of all medical care expenditures are for hospital care. In 1978, hospital services cost the nation $76 billion, a 46 percent increase over the $52 billion spent in 1975. The Federal Government paid 40 percent, $30 billion, of the 1978 total. Fifty percent, $38 billion, of the total was paid by other third parties, primarily health insurance carriers, State and local governments. Only 10 percent, $8 billion, was paid directly by the individuals receiving hospital services.

The Federal Government has initiated special programs which attempt to restrain the rate of medical care increases. Evaluations of the effects of these programs still are underway,but it is clear that none of them have had the full intended impact.

In addition, the Congress now is considering legislation which would impose mandatory limitations on hospital revenues beginning in fiscal year 1980. A system of voluntary restraints has been in effect since December 1977. The rate of increase in the overall medical care index has fallen below the total CPI rate of increase since December 1978, but it is too early to determine if this shift is due to the Voluntary Effort (VE). In addition, until May 1979, the index for hospital services continued to exceed the CPI although at a slower rate of growth than would have been likely to occur without the VE.

3. Selected Major Outyear Budget Issues

National Health Insurance--The major issue that would impact on the health function in the period 1981-1984 is national health insurance. Predominant among the insurance proposals under consideration are those developed by the President, Senator Edward Kennedy and Senator Russell Long. The initial costs of these plans range from $7 billion to $40 billion per year. The plan proposed by Senator Long centers around efforts to provide assistance in the case of catastrophic illness. The health insurance plans of the President and Senator Kennedy provide comprehensive benefits and universal coverage. The President and Senator Kennedy have proposed that national health insurance be implemented in stages beginning in 1983. The plan proposed by Senator Long could be implemented shortly after its enactment.

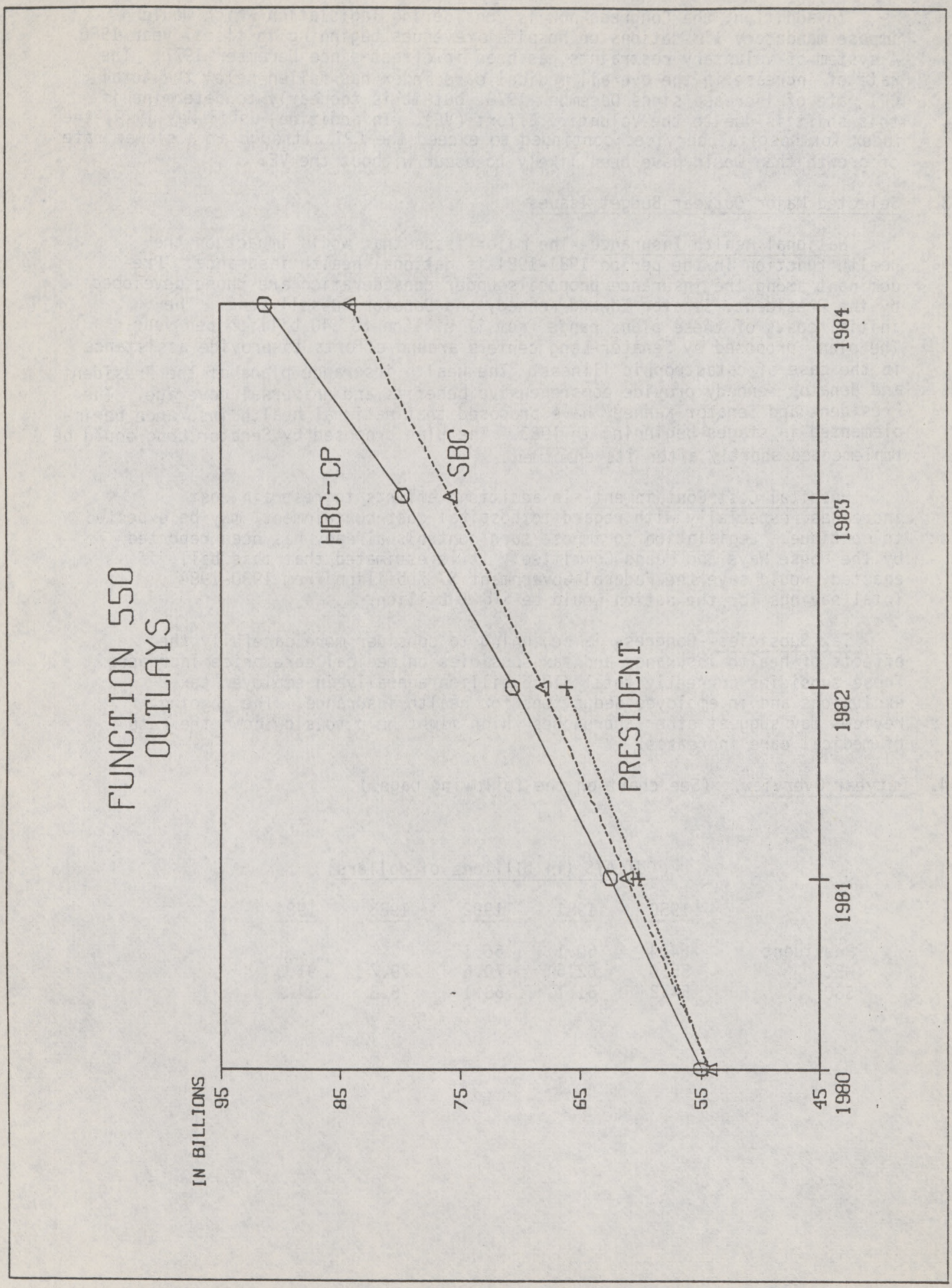
Hospital Cost Containment--In addition, efforts to restrain cost increases, especially with regard to hospital cost containment, may be expected to continue. Legislation to impose such controls already has been reported by the House Ways and Means Committee. It is estimated that this bill, if enacted, would save the Federal Government $7.7 billion from 1980-1984. Total savings for the nation would be $18.4 billion.

Tax Subsidies--Congress is beginning to consider more carefully the effects of health insurance and tax subsidies on medical care price increases. These subsidies currently total $10.6 billion annually in employer tax exclusions and in employee deductions for health insurance. The ongoing reviews may suggest other approaches which might help to slow down the rate of medical care increases.

4. Outyear Overview. (See chart on the following page.)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	54.4	60.1	66.1		
HBC	55.0	62.5	70.6	79.7	91.3
SBC	54.2	61.1	68.1	75.8	84.2


FUNCTION 550
OUTLAYS
IN BILLIONS
95
85
75
65
55
45
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

(a) Implications of HBC Current Policy Projections

Current projections by the House Budget Committee are that Federal health care program outlays will increase by 66 percent between fiscal year 1980 and fiscal year 1984. By the end of the period, budget authority for health programs will exceed $100 billion. The non-controllable Medicare and Medicaid programs are primarily responsible for the increase. By 1984, Medicare expenditures will have increased 72 percent and Medicaid by 70 percent to totals of $57 billion and $22 billion, respectively. These levels assume enactment of a number of legislative reforms and benefit improvements in fiscal year 1980. Principal among these are hospital cost containment and the Child Health Assurance Program (CHAP). By fiscal year 1984, mandatory cost containment will save $2 billion annually for the Medicare program and another $300 million in Medicaid. The cost of CHAP in Medicaid will reach $2 billion by fiscal year 1984.

Discretionary health programs are assumed to increase by 37 percent in outlays from fiscal year 1980 through fiscal year 1984. The increase reflects allowances for inflation in the direct service programs and in the discretionary grant and contract activities.

(b) Implications of President's Two Year Plan

The administration's plan assumes that total Federal health care expenditures will increase at a rate of 10 percent for each of the fiscal years 1980 through fiscal year 1982. The major changes will occur in Medicare, which will increase 26 percent during this period, and Medicaid, which will increase by 23 percent. The principal factors in the slower projected rate of growth are legislative reforms, including hospital cost containment and other program reforms which are expected to save $3.9 billion in Medicare and Medicaid expenditures by fiscal year 1982. Discretionary health programs generally are maintained at fiscal year 1980 levels.

(c) Implications of Senate Budget Committee 5 Year Figures

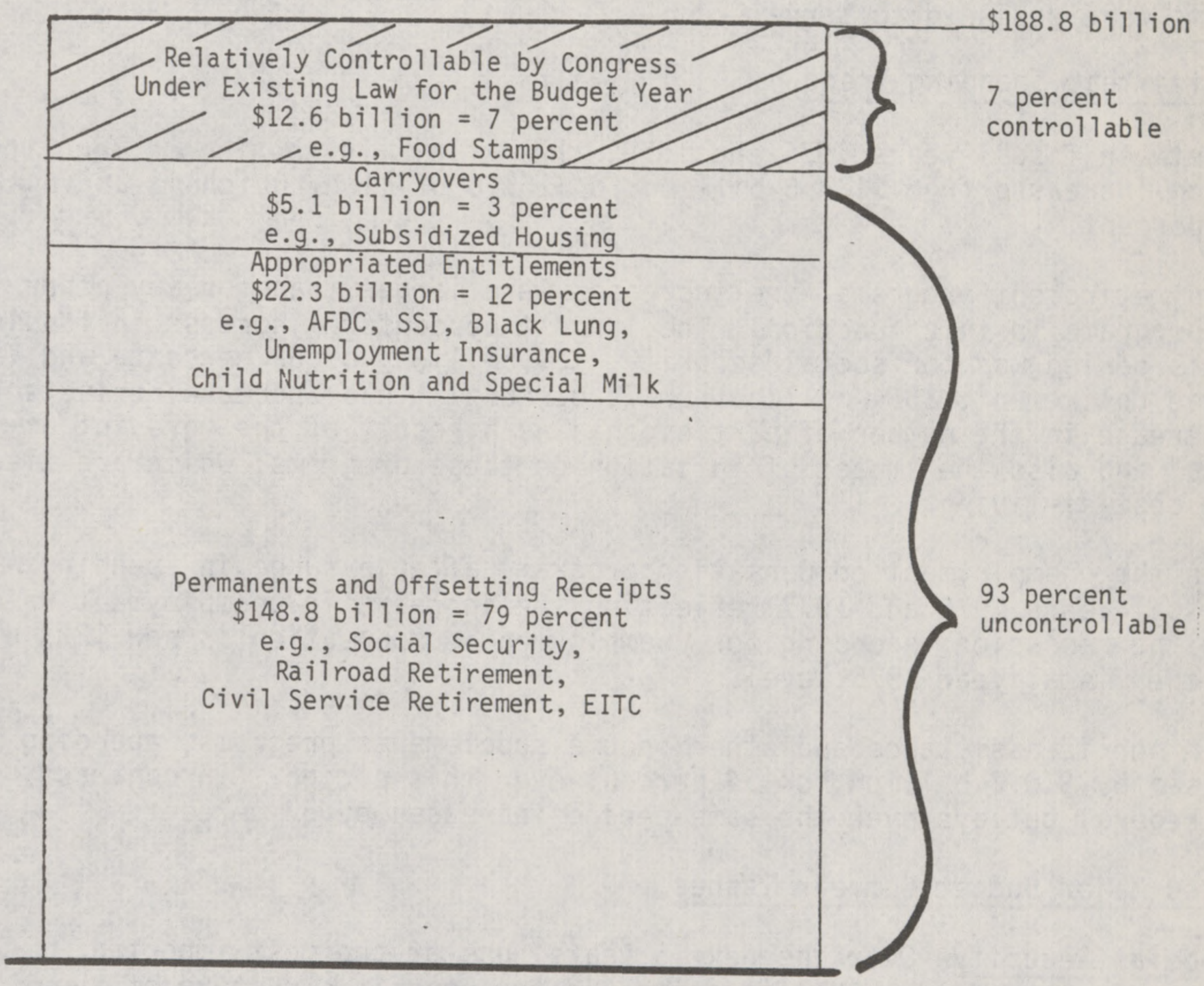
The Senate Budget Committee (SBC) recommendation for this function is projected to result in fiscal year 1984 expenditures of $84 billion, 55 percent higher than fiscal year 1980. Of the fiscal year 1984 total, Medicare is $52 billion, 62 percent of the total, and Medicaid is $20 billion, 24 percent of the total. Major savings reforms in Medicare, such as $3.4 billion associated with hospital cost containment and another $3.4 billion in other Medicare changes, are assumed to result in fiscal year 1984 savings of $6.8 billion. The Senate Budget Committee has recommended that the Finance Committee reconsider proposed amendments to achieve the additional savings. For Medicaid, the Senate Budget Committee also has assumed that hospital cost containment will save $0.6 billion by fiscal year 1984 and that the costs for the Child Health Assurance Program (CHAP) will be $0.7 billion.

MULTI-YEAR BUDGET OUTLOOK

Function 600 : INCOME SECURITY

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Only 7 percent of the outlays in this function are relatively controllable under existing law because most of the funding is mandated by statutory benefit formulae in entitlement programs, including retirement and disability, unemployment compensation, cash assistance and child nutrition. Outlays for these programs represent 90 percent of the recommendation for fiscal year 1980. In addition, 3 percent of the outlays in the recommendation for fiscal year 1980, or $5.1 billion, were made available through prior year appropriations and thus are considered relatively uncontrollable. Outlays from subsidized housing contracts account for $4.4 billion of this $5.1 billion.

Recommended outlays from discretionary appropriations include $12.5 billion to be made available from fiscal year 1980 appropriations. The largest item in this category is the Food Stamp program for which the recommendation includes $7.9 billion. Most of the remainder is for salaries and expenses, primarily associated with the social insurance trust funds. Over the next 5 years, the percentage of outlays in this function, which is relatively controllable, is likely to remain about 7 percent.

While in the long-run, all programs are controllable in the sense that the Congress could repeal any law that created an entitlement, it is not likely that the Congress will repeal the Social Security Act or any other law which created the major entitlement programs in the Income Security function. Instead, the long-term budget issues in this function will involve program reforms to ensure that funds are directed to the people that these programs were designed to serve.

2. Past Five Year Spending Trend

Between fiscal years 1975 and 1979, the outlays in the Income Security function increased from $108.6 billion to $161.6 billion, which is an increase of 49 percent.

In retirement programs, the increases were larger than for any other major programs in this function. The largest percentage increase in funding for this period was for social security, $39 billion, or 62 percent, and Federal employee retirement, $5.4 billion, or 78 percent. This increase reflects both the increase in the number of participants as a result of the "greying of America" and also the impact of inflation on these programs, which are tied to the cost-of-living.

In the unemployment compensation program, after a surge in spending for fiscal years 1976 and 1977 reflecting the increase in unemployment rates during the recession, spending for unemployment compensation is now $2.3 billion below the fiscal year 1975 level.

In public assistance and other income supplements programs, spending increased by $10.2 billion, or 54 percent over this period. In contrast, total Federal outlays over the same period increased by 52 percent.

3. Selected Major Budget Outyear Issues

Social Security--Over the next 5 years, one of the most important budgetary issues will be the financing and the benefit structure of the social security system. In the Social Security Act Amendments of 1977, Congress approved major increases in the payroll tax, including an increase scheduled for 1981 of 1.04 percent in the combined employer/employee rate and a $4,000 increase in amount the earnings on which the tax is paid, which will raise to $29,700, the annual income subject to the social security tax.

It now appears that tax increases from the 1977 amendments may not be sufficient to keep the trust funds solvent over the next 5 years. The Congressional Budget Office estimates that by fiscal year 1984 the balances in the largest trust fund, the Old Age and Survivors Fund, will decline to 5.4 percent of outlays, an amount insufficient to maintain the cash flow of the program. However, the Disability fund and the Hospital Insurance fund (which is included in the health function) are projected to run a surplus, making the combined balances in all three funds by fiscal year 1984, 26.8 percent of outlays by fiscal year 1984 (a decline from the current level of 37.7 percent). CBO notes that these estimates are affected by both economic assumptions and also methodology.

While these projections indicate a severe cash flow problem in the Old Age and Survivors fund, the combined balances for all funds would remain sufficient to finance benefits if the law were changed to reallocate receipts among the trust funds. On the other hand, it should be emphasized that the combined balances would be insufficient if economic conditions through 1984 are worse than the economic assumptions underlying these projections or if an economic downturn shortly after 1984 were to further deplete the balances.

It is likely that the Congress next year will consider some sort of roll-back in the social security tax or some other form of social security tax relief, such as the proposal to provide a refundable 20 percent tax credit against social security taxes. Enactment of proposals such as these would represent a revenue loss in the unified Federal budget since either social security or income tax receipts would be reduced. But because a tax roll-back most likely would be accompanied by a general fund appropriation to finance benefits previously paid for through the payroll tax, budget authority would not be affected since it represents receipts to the trust funds from all sources including payroll tax revenues, interest on investments, and appropriations from general revenues.

Spending in this function would also be affected by changes to the benefit structure. The administration's proposals for legislative savings would reduce trust fund outlays by $4.1 billion in fiscal year 1984. The outlay reduction for the reforms to the Disability Insurance program approved by the Committee on Ways and Means would reduce outlays by $1.2 billion in fiscal year 1984.

Welfare Reform--In May 1979, the administration transmitted a new welfare reform proposal, which it estimates would have a net cost of $5.7 billion when fully implemented in fiscal year 1982 ($3 billion for benefits which would primarily affect the income security function and $2.7 billion for jobs which would be funded through function 500). CBO estimates the cost of the administration's cash benefit provisions (H. R. 4321) to be $3.5 billion. The Public Assistance Subcommittee on the Committee on Ways and Means has approved a substitute to the administration's proposal (H. R. 4904) which would have a fiscal year 1982 cost of $3.4 billion. The subcommittee bill would also provide fiscal relief to States during fiscal year 1981 totaling $640 million.

Federal Employee Retirement--The cost of retirement and disability benefits for civilian Federal employees is included in the income security function. Funding for this activity increased by 78 percent, or $5.4 billion, over the period fiscal year 1975-1979 and over the next 5 years is projected to increase by 59 percent, or $8.5 billion. At the request of the House Budget Committee, the Congressional Budget Office last year completed a study on this program, "Options for Federal Civil Service Retirement," which found that the current Civil Service Retirement system costs more than one and a half times what the combination of social security and a representative private sector plan would cost. This system is subsidized with large and growing general fund payments, in addition to the matching employer-employee contributions which together equal 14 percent of the payroll. The CBO estimates the long-term cost of the system to be 21.9 percent of payroll, an estimate which is substantially more conservative than the OMB estimate of 27.4 percent. Even under the conservative CBO assumptions, however, the Federal Government pays two-thirds of the cost, while Federal employees pay one-third of the cost.

The Committee recommendation assumes enactment of a legislative savings proposal which would provide annual cost-of-living increases in the program on the same schedule as social security.

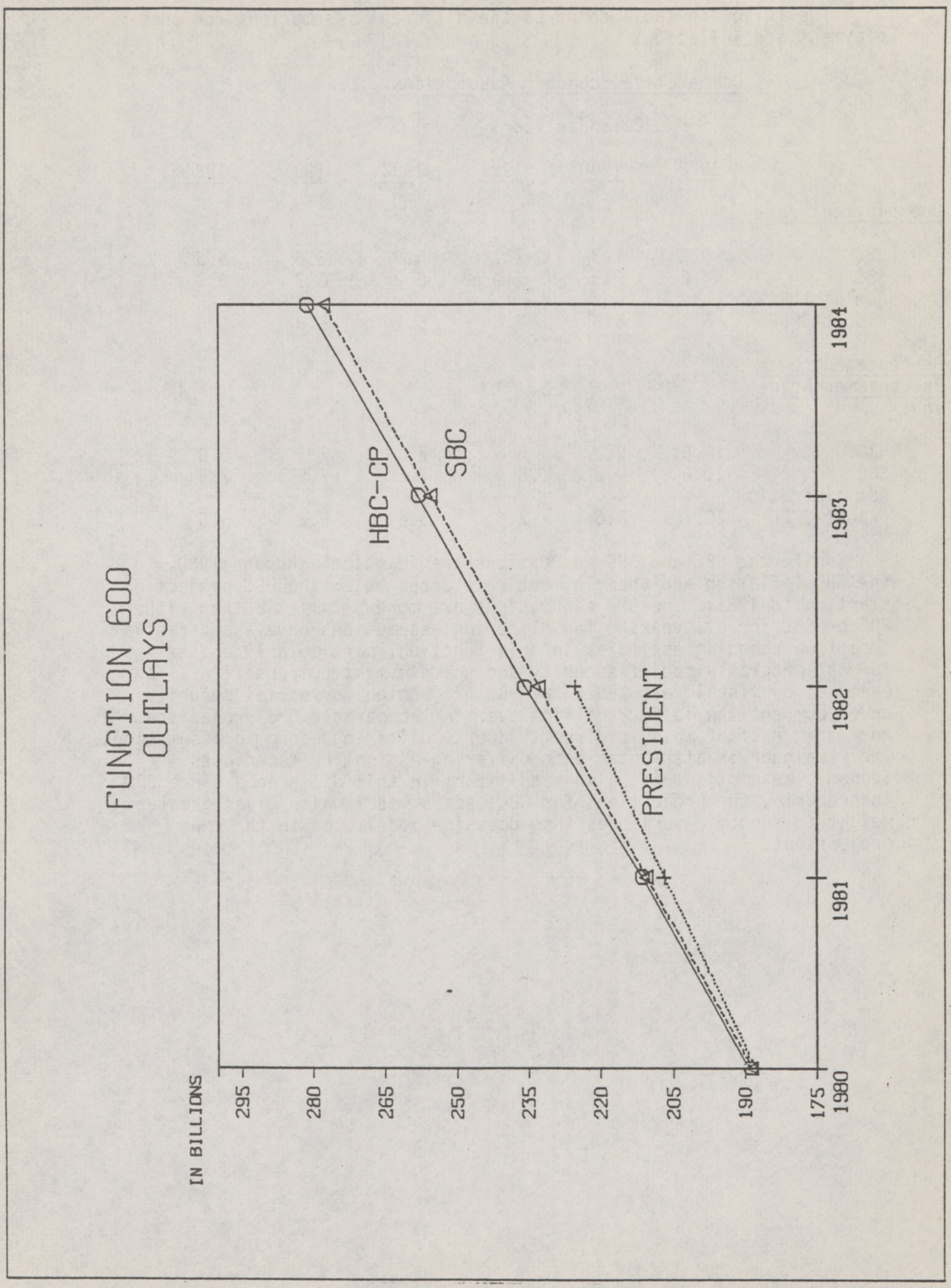
4. Outyear Overview--(See chart on the following page)

OUTLAYS(in billions of dollars)

	1980	1981	1982	1983	1984
President	186.7	206.8	225.6		
HBC	188.7	211.4	235.9	258.3	281.2
SBC	188.4	210.5	233.0	255.6	277.7

(a) Implications of HBC Current Policy Projections

The HBC current policy projections are substantially higher than others shown above in part because the HBC economic assumptions upon which those projections are based assume higher inflation and unemployment rates than the others.


FUNCTION 600
OUTLAYS
IN BILLIONS
295
280
265
250
235
220
205
190
175
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

The following table compares the different assumptions for unemployment and inflation:

Comparative Economic Assumptions

	Calendar Years					
	1979	1980	1981	1982	1983	1984
Unemployment rate						
HBC	6.2	7.3	7.1	6.9	6.6	6.3
SBC	6.2	7.3	7.0	6.3	5.7	5.3
Administration post-OPEC	6.1	6.8	6.5	6.1	5.8	5.6
Percentage growth in Consumer Price Index						
HBC	10.6	9.3	8.6	7.8	7.1	6.8
SBC	10.6	9.3	8.4	7.6	7.5	7.5
Administration post-OPEC	10.7	8.6	7.5	6.6	6.2	5.6

While the HBC and SBC assumptions are identical through 1980, the SBC inflation and unemployment rate drops below the HBC projections starting in 1981. The OMB assumptions are more optimistic than either HBC or SBC for all years. The differing assumptions have a substantial impact on spending estimates in this function, particularly on the largest programs--social security and unemployment compensation. For example, by fiscal year 1982, the HBC projection for social security under current law is $8.2 billion over the comparable OMB projection. More than half of this is directly due to differing economic assumptions. The remainder is attributable to differing estimating techniques. Economic assumptions are also significant in this difference since CBO in preparing the projections for HBC uses a model which gives greater weight to economic variables than does the model used in the OMB projections.

The HBC current policy projections assumes legislative savings of $2.5 billion in fiscal year 1984 from the Committee recommendation in fiscal year 1980 for savings in the following programs: social security disability, civil service retirement, cash assistance and nutrition programs. Failure to achieve the legislative savings assumed for fiscal year 1980 will increase current policy projections.

The projected trends between fiscal year 1980 and 1984 under the Committee recommendation show a continuation of the trends described previously for the fiscal year 1975-1979 period.

In general retirement programs, the growth will be larger than for any other program category. Social security outlays will increase by 60 percent, or $71.3 billion. Federal employee retirement outlays will increase by 59 percent, or $8.5 billion.

In the unemployment compensation program, spending will be about the same as the fiscal year 1980 recommendation of $15.5 billion.

In public assistance and other income supplements programs, spending will increase by 39 percent, or $11.4 billion. The outlay increase would be 34 percent if the spending grew at the same rate as the projected increase in inflation.

(b) Implications of President's Two Year Plan

The President's budget as updated by the OMB mid-year review includes three major initiatives with multi-year implications:

- Legislative savings in social security, nutrition programs, and AFDC which would total $3.4 billion by fiscal year 1982.

- An allowance for welfare reform, including $839 million in this function by fiscal year 1982 and $4.9 billion in the education, training, employment, and social services function.

- An allowance for assistance to low-income persons in meeting higher energy costs of $1.6 billion in fiscal year 1980 and $2.4 billion in fiscal years 1981 and 1982. This spending, which is to be financed with revenue from the windfall profits tax, is included in the energy function under the Committee recommendation.

The implications of the administration's more optimistic economic assumptions in the multi-year projections have been discussed in section 4(a) Implications of HBC Current Policy Projections.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate Budget Committee 5 year recommendations in fiscal year 1984 are $277.7 billion, or 47 percent, higher than fiscal year 1980. The projection of Senate Budget Committee outlays is lower than the House estimates by the following amounts:

Senate and House
(Outlays in Billions)

1981	1982	1983	1984
-$0.9	-$2.9	-$2.7	-$3.5

These differences are primarily attributable to the following:

- The Senate projections assume lower unemployment rates and higher increases in real GNP and the Consumer Price Index starting in 1981. By 1984, the differences in economic assumptions cause Senate outlays for unemployment compensation to be $1.2 below the House estimates and Senate outlays for social security to be $0.7 billion below the House estimates.

- The Senate retains its assumptions for legislative savings which were included in its allocation of the First Budget Resolution. By 1984, these total $4.7 billion in outlays. compared to $2.5 billion in the HBC projection.

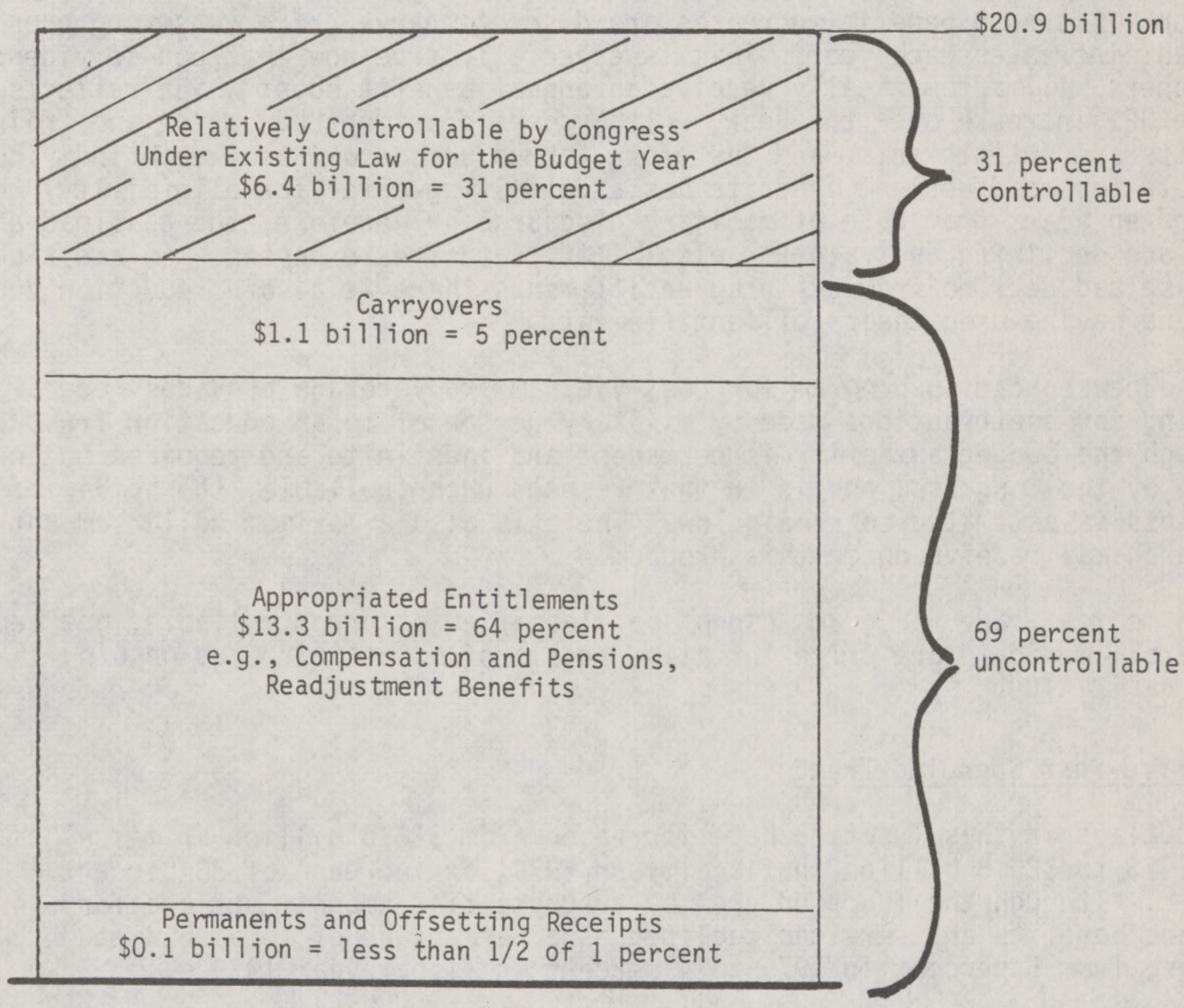
- The Senate includes allowances for welfare reform starting at $1.0 billion in fiscal year 1982 and increasing to $3.0 billion by fiscal year 1984. The amounts are the same as the Senate projections in the First Budget Resolution.

MULTI-YEAR BUDGET OUTLOOK

Function 700: VETERANS BENEFITS AND SERVICES

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



About 69 percent of this function is relatively uncontrollable because the major programs (compensation, pensions, and readjustment benefits) are entitlements. However, service-connected disability compensation, readjustment benefits, and medical care are not directly tied by law to an inflation index, as is the case in the new pension program, so there is some degree of discretion in determining cost-of-living (COLA) adjustments in these programs.

In the non-service-connected disability pension programs veterans may elect coverage under a new program created by the Veterans and Survivors Pension Improvement Act of 1978 (effective Jan. 1979) or remain on the rolls of existing programs. The new pension program insures that veterans pensions will not be reduced solely because of cost-of-living increases in social security benefits. Pensions are automatically indexed to the consumer price index (CPI) on an annual basis to coincide with inflation adjustments made in social security benefits. In addition, the 1978 law which mandated this reform included a provision for automatically increasing the ceiling on countable income for computing benefits under the old pension programs. These factors, in addition to the aging veteran population and the entitlement nature of the programs, make this portion of the function virtually uncontrollable.

In the service-connected disability compensation programs for veterans and their survivors, benefits have historically been adjusted to keep pace with inflation. Although benefit increases are discretionary, there is strong pressure to grant increases each year. This is especially true now that non-service-disabled pensioners will automatically receive an annual benefit boost which reflects the entire CPI increase over the year. Although readjustment education and training benefits are entitlements, and therefore termed uncontrollable, each individual eligible for readjustment benefits has a delimiting date (for eligibility) which occurs ten years from date of military discharge. Therefore, the caseload and costs are declining as trainees' eligibility cutoff date passes. In addition to the caseload decline from expiring entitlements, there is also a reduction due to veterans having used their full entitlement.

The new education program for post-Vietnam era veterans provides Federal matching for contributions made by military personnel to an education trust fund. Although the budget authority is permanent and indefinite and requires no annual action by the Congress, and is in that respect uncontrollable, the number of participants is estimated to remain low. There is also a maximum dollar amount which a veteran may receive under this program.

In medical care programs cannot be classified as uncontrollable, but because of overall medical care price inflation, costs of maintaining the ongoing VA programs are rising.

2. Past Five-Year Spending Trend

Outlays in this function have increased from $16.6 billion in fiscal year 1975 to $20.3 billion in fiscal year 1979, an increase of 23 percent. However, although the function grew by a substantial amount, outlays for veterans benefits and services declined as a percentage of total budget outlays, from 5 percent in 1975 to 4 percent in fiscal year 1979.

Compensation and pension accounts have steadily increased over the past five years due to benefit adjustments to compensate for increases in the cost of living. These accounts grew from $7.4 billion to more than $10.5 billion, about 42 percent, primarily as a result of program liberalizations such as the 1978 pension reform act.

Readjustment benefits peaked in 1976, primarily as a result of the recession. Since readjustment benefits are very sensitive to economic changes, that period of high unemployment caused the trainee caseload to rise sharply. In addition, in 1974 the Congress legislated payment increases to offset inflation's erosion of real benefits, an action which encouraged many veterans to participate. Since 1976 there has been a steady decline in expenditures for readjustment benefits, due to the expiration of entitlement for 3.1 million veterans on May 31, 1976, reduced unemployment rates which led to fewer GI program participants, and the continuing caseload decline due to expiring entitlements or full utilization of benefits. Between fiscal year 1975 and fiscal year 1979, readjustment benefits dropped from $4.6 billion to $2.8 billion, nearly 40 percent.

Medical program expenditures have risen from $3.7 billion in fiscal year 1975 to $5.8 billion in fiscal year 1979, or 58 percent. This growth has been primarily due to a 61 percent increase in hospital and medical care costs, which account for over $2 billion of the increase. In the area of major construction, e.g., hospitals, the VA has consistently obligated lower amounts than estimated in its initial budget submission. As a result, unobligated balances have risen over the past five years from $145 million in fiscal year 1975 to an estimated $909 million in fiscal year 1979.

3. Selected Major Outyear Budget Issues

The Aging Veteran--The next five years will mark the beginning of significant increases in expenditures for veterans pensions and medical care as a result of the aging of World War II and Korean conflict veterans. For example, veterans pension and compensation caseloads are expected to rise by more than 250,000 between fiscal year 1980 and fiscal year 1984. Program costs will increase from almost $12 billion in fiscal year 1980 to about $16 billion in fiscal year 1984, or 35 percent, as a result of inflation and rising caseloads. In addition to income security, the major long-range issue will be how best to meet the health care needs of an aging veteran population. By 1990 more than half of U.S. males over 65 years of age will be veterans. Between 1980 and the year 2000, the number of veterans age 65 and over will double, jumping from 2.2 million to 4.4 million. These statistics emphasize the need for long-range planning in this area. The immediate future will include funding for geriatric research and pilot projects to serve aging veterans, as well as evaluations of the type of care and treatment that will best serve future needs. Such studies of long-range requirements will likely influence more immediate decisions, for example, as to whether nursing homes or acute care hospitals should be constructed, and in that way impact on short-range budgets as well. While the dollar impact cannot be determined at this time, it is clear that the expanded and divergent health care requirements of the aged veteran population will require extensive and costly changes in both facilities and services.

4. Outyear Overview--(See chart on the following page)

	OUTLAYS (in billions of dollars)				
	1980	1981	1982	1983	1984
President	20.8	21.4	22.2		
HBC	20.8	22.2	23.7	25.0	26.3
SBC	20.5	21.4	22.5	23.6	24.7

(a) Implications of HBC Current Policy Projections

The HBC current policy path grows substantially higher than others shown above because full discretionary inflation is reflected. Since Congress usually passes annual compensation cost-of-living increases and annual or biannual adjustments in readjustment benefits, these factors are incorporated in the outyear estimates. If Congress did not act to increase these benefits, the outyear estimates would fall precipitously. In fiscal year 1984, for example, outlays would be approximately $4 billion less if discretionary benefit increases in compensation and readjustment benefits were not enacted.

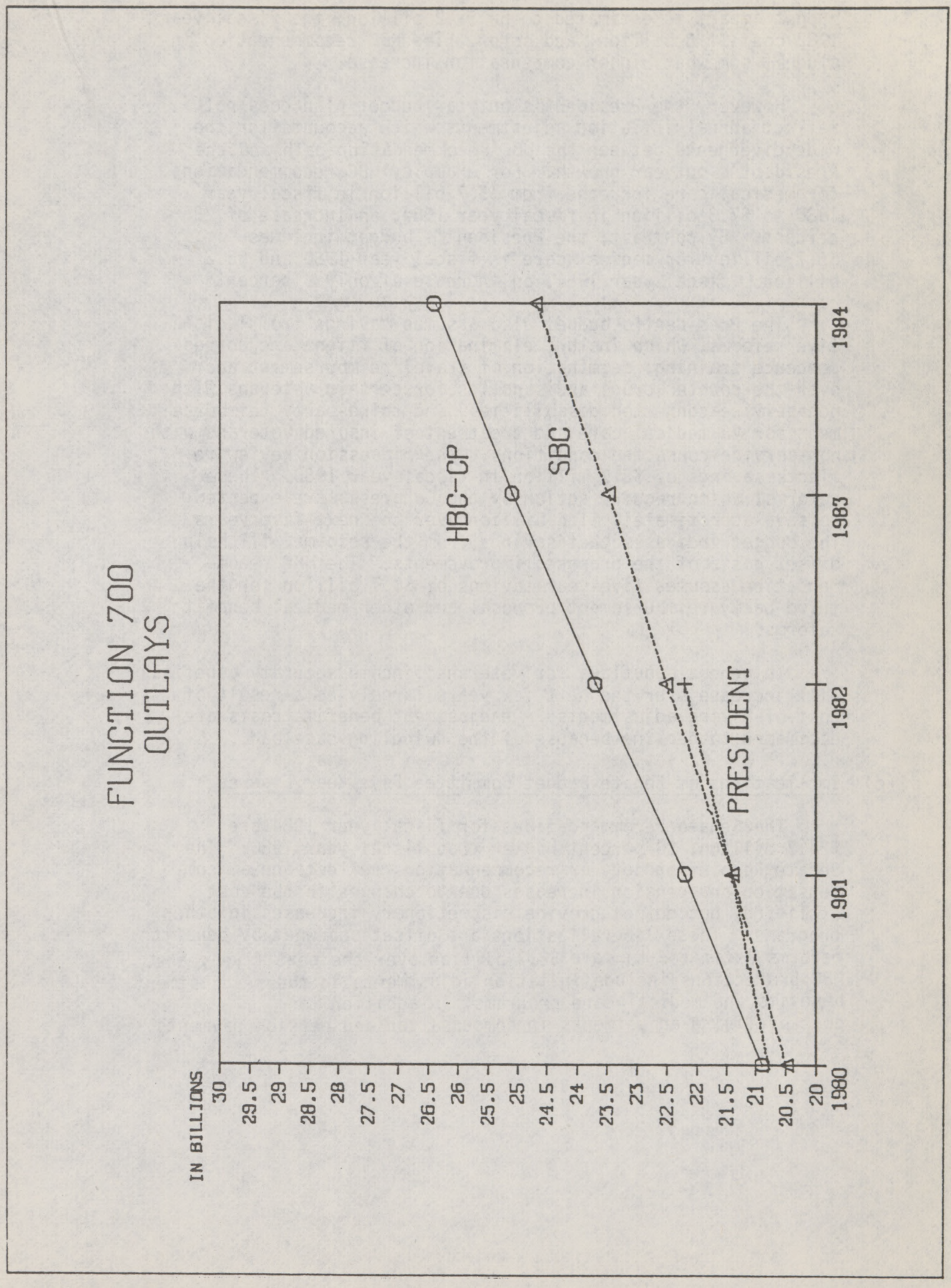
The House Budget Resolution includes $786 in budget authority and $726 million in outlays for new initiatives in fiscal year 1980. The bulk of this amount is designated for a 10.9 percent cost-of-living increase in service-disabled veterans compensation and survivor benefits.

Projected increases in the pension program are primarily due to inflation, but a significant factor is the growing caseload as World War II veterans become eligible for pensions.

The House Budget Resolution also assumes savings of $92 million in fiscal year 1980 from legislative reform of certain VA medical benefits and third-party reimbursement for medical care and treatment of veterans with non-service-connected conditions. The cumulative five-year savings from these reforms are estimated to be $1.7 billion, most (89 percent) of which is due to the third-party proposal. None of these measures have been reported in the House. If these reforms are not effected, approximately $1.7 billion will have to be added to the five-year budget forecast.

(b) Implications of President's Two-Year Plan

The President's budget includes $660 million for liberalizing compensation and readjustment benefits in fiscal year 1980. The outyear costs of the compensation COLA for service-disabled veterans and their survivors are compounded; for example, the fiscal year 1981


FUNCTION 700
OUTLAYS
IN BILLIONS
30
29.5
29
28.5
28
27.5
27
26.5
26
25.5
25
24.5
24
23.5
23
22.5
22
21.5
21
20.5
20
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

budget impact is estimated to be $1.2 billion; the fiscal year 1982 cost $1.8 billion, and so on. The HBC recommendation includes a somewhat higher compensation increase.

However, the President's outyear budget plan does not reflect annual inflation adjustments, which accounts for the wide divergence between the HBC recommendation path and the President's outyear growth. For example, HBC recommendations for medical care increase from $5.7 billion in fiscal year 1980 to $7.3 billion in fiscal year 1984, an increase of 28 percent. By contrast, the President's budget includes $5.7 billion for medical care in fiscal year 1980 and $6.2 billion in fiscal year 1984, an increase of only 9 percent.

The President's budget also assumes savings from legislative reforms, which include elimination of flight and correspondence training, termination of travel reimbursement and over-the-counter drugs and supplies for certain veterans with non-service-connected disabilities, and third-party reimbursement for VA medical care and treatment of insured veterans with non-service-connected conditions. The midsession review reflects savings of $213 million in fiscal year 1980. These reforms, which require action by the Congress, are expected to save approximately $1.6 billion over the next five years. The budget indicates that savings from the reforms will help offset costs of the proposed improvements. The HBC recommendation assumes five-year savings of $1.7 billion for the third-party reimbursement proposal and other medical benefit reforms.

In general, outlays for veterans' income security benefits will increase over the next few years largely as a result of cost-of-living adjustments. Readjustment benefits costs are estimated to decline because of the dwindling caseload.

(c) Implications of Senate Budget Committee Five Year Figures

The Senate recommendations for fiscal year 1984 are $24.7 billion, 20 percent higher than fiscal year 1980. The Senate Resolution outyear recommendations reflect annual compensation and pension increases due to changes in the cost of living, but do not provide discretionary increases in other programs. These liberalizations are offset somewhat by benefit reforms estimated to save $2.7 billion over the next five years. HBC projections include inflation adjustments in the readjustment benefits and medical care programs, in addition to cost-of-living adjustments in compensation and pension payments.

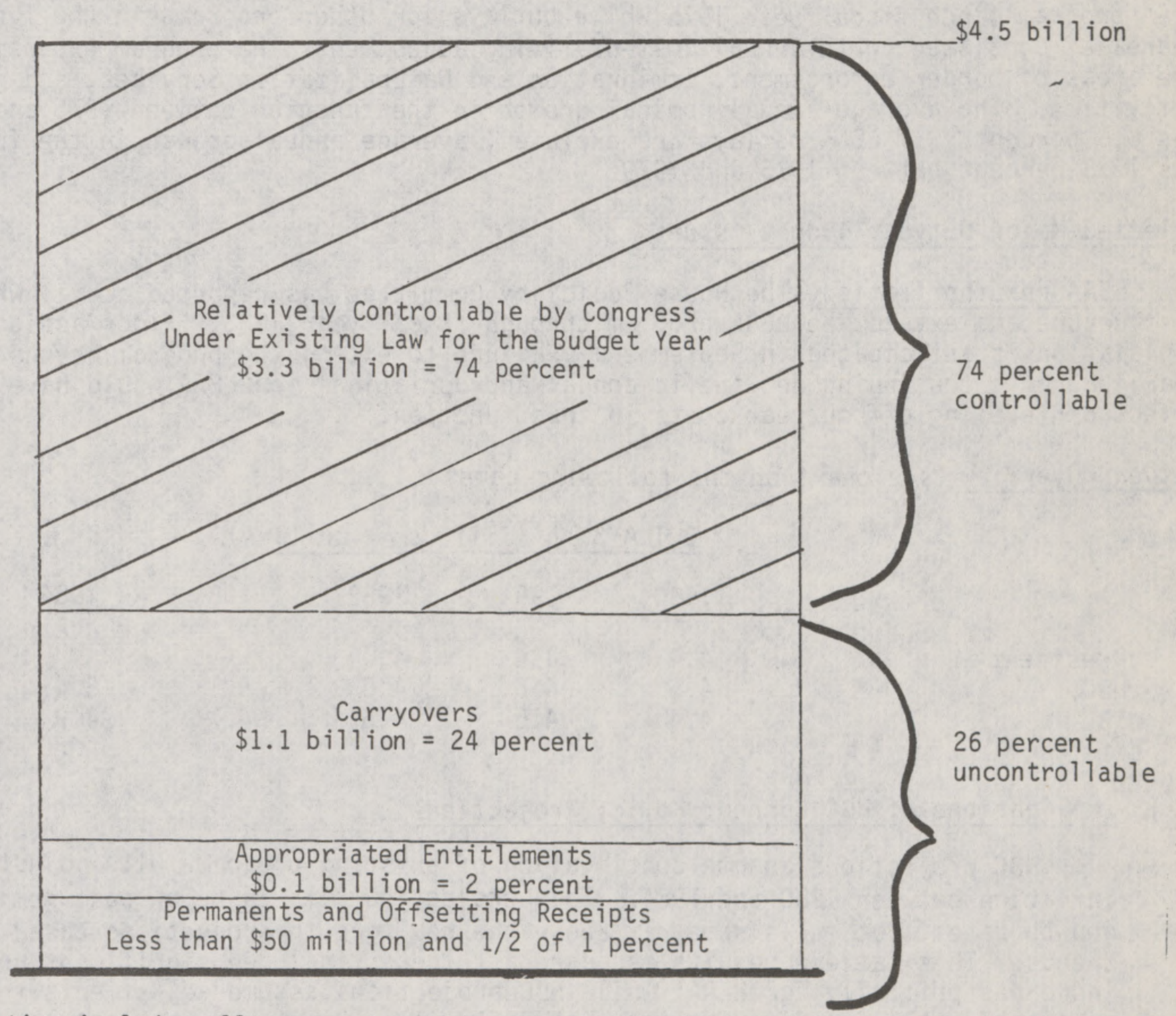
The Senate Budget Committee has recommended that reconciliation proceedings be initiated in the Senate. This could have long-range implications for this function because the Senate Veterans' Affairs Committee has been instructed to reduce spending by $200 million in fiscal year 1980. Outyear reductions from congressional action this year could vary significantly depending upon the type of changes that are made.

MULTI-YEAR BUDGET OUTLOOK

Function 750 : ADMINISTRATION OF JUSTICE

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



This function includes all programs administered by the Department of Justice and other Federal programs related to law enforcement, legal assistance, and the judiciary system. Major programs include the Law Enforcement Assistance Administration (LEAA), the Federal Bureau of Investigation and the Drug Enforcement Administration.

With the exceptions of the LEAA grant programs, and Bureau of Prisons construction activities, outlays in this function represent salaries and administrative expenses of law enforcement and criminal justice agencies. As such, 74 percent of outlays for this function can be described as relatively controllable in a budget year. Most programs operate under annual appropriations and most obligations spend out in the current budget year. However, reductions in these salaries and expenses accounts in a given budget year would not yield a comparable outlay savings in the same year due to temporary costs associated with termination of employees.

2. Past Five-Year Spending Trend

Outlays for this function grew from $2.9 billion in fiscal year 1975 to $3.8 billion in fiscal year 1978. Outlays are estimated at $4.2 billion in fiscal year 1979 and $4.5 billion in fiscal year 1980. The decline in outlay growth between fiscal year 1975 and 1978 reflects the net effect of the steady decline in appropriations for the LEAA program since fiscal year 1975 while outlays for other programs in the function have increased consistent with annual cost-of-living adjustments and program expansions in the areas of border enforcement, Immigration and Naturalization Services, and judiciary activities. The average annual nominal growth in the function between 1975 and 1978 was 8.8 percent. If LEAA outlays are excluded, average annual growth in the function was 13.8 percent between 1975 and 1979.

3. Selected Major Outyear Budget Issues

LEAA reauthorization--The House Judiciary Committee has reported a bill which would restructure and extend the LEAA program through fiscal year 1983. Floor action on this legislation is anticipated in September. Failure to extend the program beyond fiscal year 1983 or a continuing decline in annual appropriations for LEAA would have the net effect of leveling off outyear costs in this function.

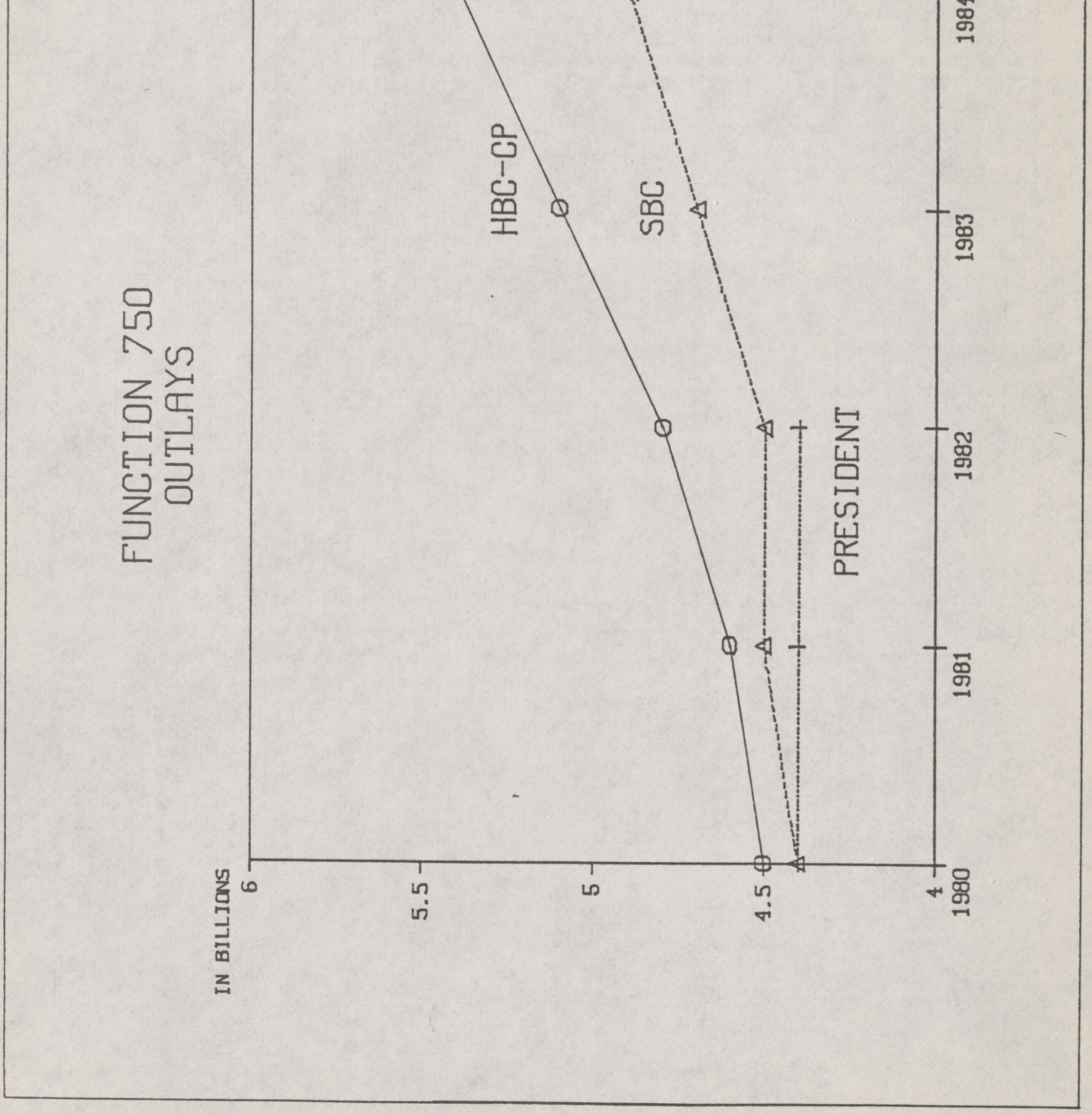
4. Outyear Overview (see chart on the following page)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	4.4	4.4	4.4		
HBC	4.5	4.6	4.8	5.1	5.4
SBC	4.4	4.5	4.5	4.7	4.9

(a) Implications of HBC Current Policy Projections

HBC projections assume continuation of existing programs with adjustments for inflation between 1980 and 1984. This projection path is below past nominal growth rates, but it is somewhat above the real growth projections based on past trends. This pattern results because past trends included significant nominal increases primarily for LEAA; while HBC projections assume adjustments for all programs in the function in line with inflation. Nominal growth between 1975 and 1979 was at an average annual rate of 11.4 percent. Real growth was at an average annual rate of 3.8 percent.


FUNCTION 750
OUTLAYS
IN BILLIONS
6
5.5
5
4.5
4
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

(b) Implications of President's Two-Year Plan

The President's projections assume level funding for all programs in the function; they assume no adjustments for inflation.

(c) Implications of Senate Budget Committee Five-Year Figures

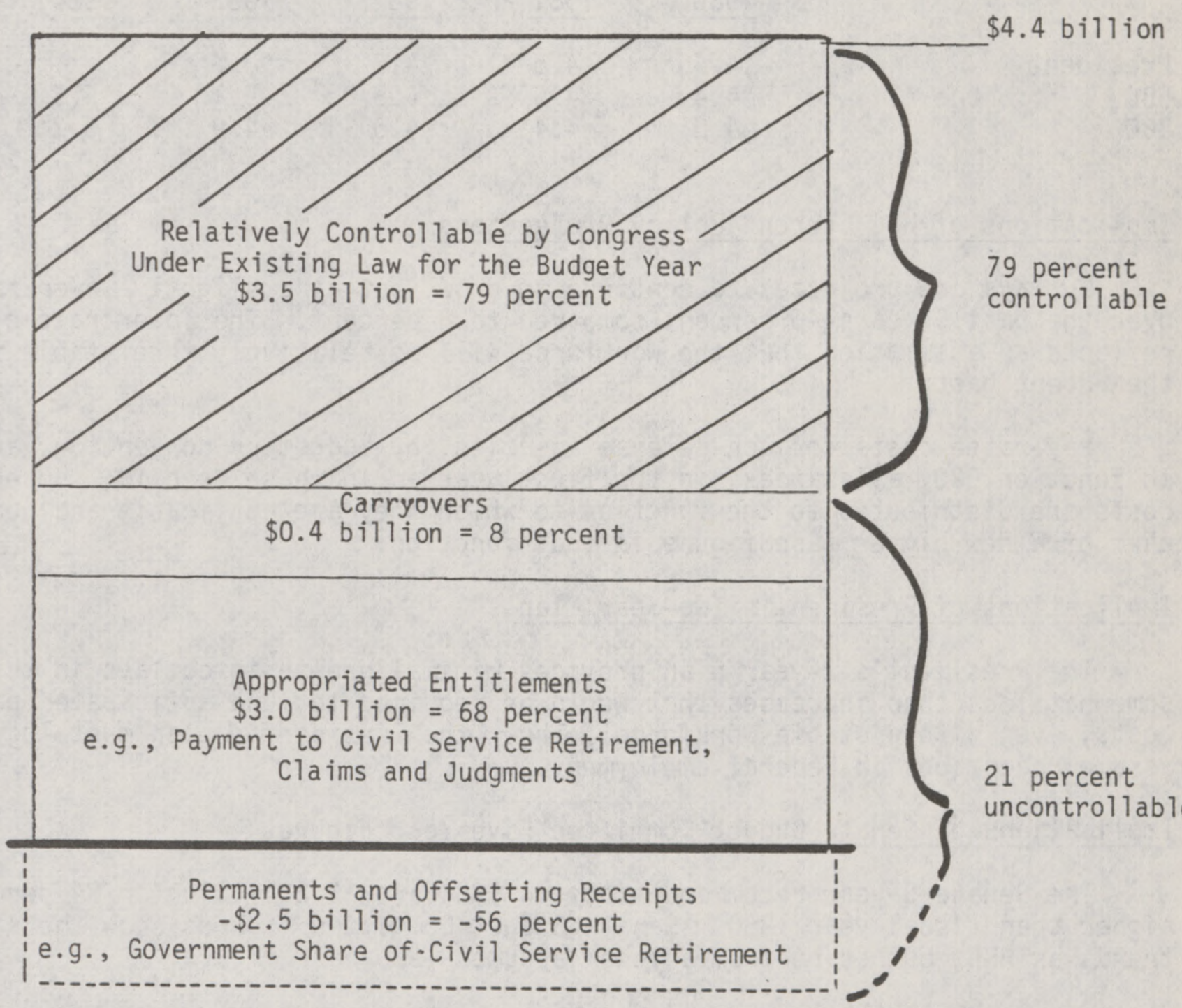
The Senate 5-year recommendations in fiscal year 1984 are $4.9 billion, 10.3 percent higher than fiscal year 1980. This assumes continuation of programs in the function with some adjustments for pay increases in the salaries and expenses accounts. SBC projections range up to $545 million below HBC projections by 1984 due primarily to the Senate assumption for lower funding levels for LEAA (essentially continuation of the current appropriation of about $446 million).

MULTI-YEAR BUDGET OUTLOOK

Function 800: GENERAL GOVERNMENT

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Seventy-nine percent of the outlays in this function are relatively controllable under existing law in the budget year because the function is made up predominantly of annual appropriations for salaries and expensies scattered throughout the Government, with no single agency or program dominating the functional category. In general, salaries and expenses accounts cannot react immediately to reductions in the short run because of terminal leave requirements and employees protection provisions. In the longer run, they are completely controllable.

2. Past Five-Year Spending Trend

Constant growth has characterized the past 5 years, reflecting the influence of increases in living costs and private-sector salaries upon salaries paid to Federal employees. Outlays in the function have grown from $3.1 billion in 1975 to $4.2 billion in 1979, about 8 percent per year.

3. Selected Major Outyear Budget Issues

None.

4. Outyear Overview (See chart on the following page.)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	4.4	4.5	4.6		
HBC	4.4	4.6	4.8	5.1	5.5
SBC	4.2	4.4	4.6	4.9	5.2

(a) Implications of HBC Current Policy Projections

Outlays are projected to continue to grow, but at a slightly lower rate than over the past 5 years--6 percent compared to 8 percent. The lower rate of growth reflects an assumption that the workforce will be relatively more stable than in the recent past.

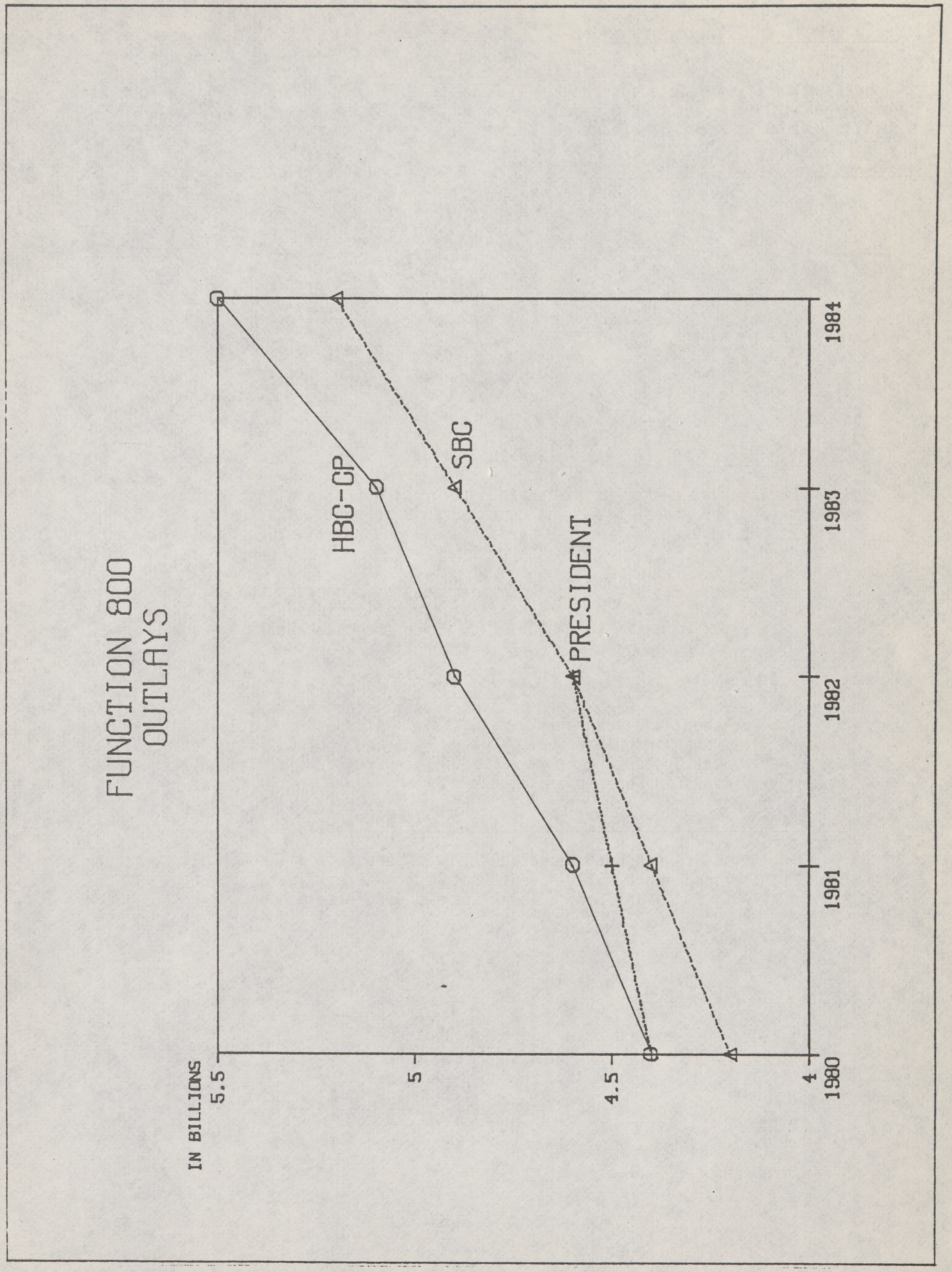
Pay-raise costs for non-defense agencies, by budgetary convention, are shown in function 920, allowances, in the first year an increase is paid; subsequently, costs are distributed to the function to which they are applicable and become part of a new higher base figure in that function.

(b) Implications of President's Two-Year Plan

The President's 2-year plan provides minimal growth in outlays in this function, somewhat less than increases that would be required to fund anticipated pay-raise costs, even with a stable workforce. Thus, the President's plan must logically assume reductions in Federal employment.

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate 5-year recommendations in 1984 are $5.2 billion or 24 percent higher than fiscal year 1980. Senate Budget Committee figures show the same trends as HBC, but start from a lower assumed 1980 base figure.

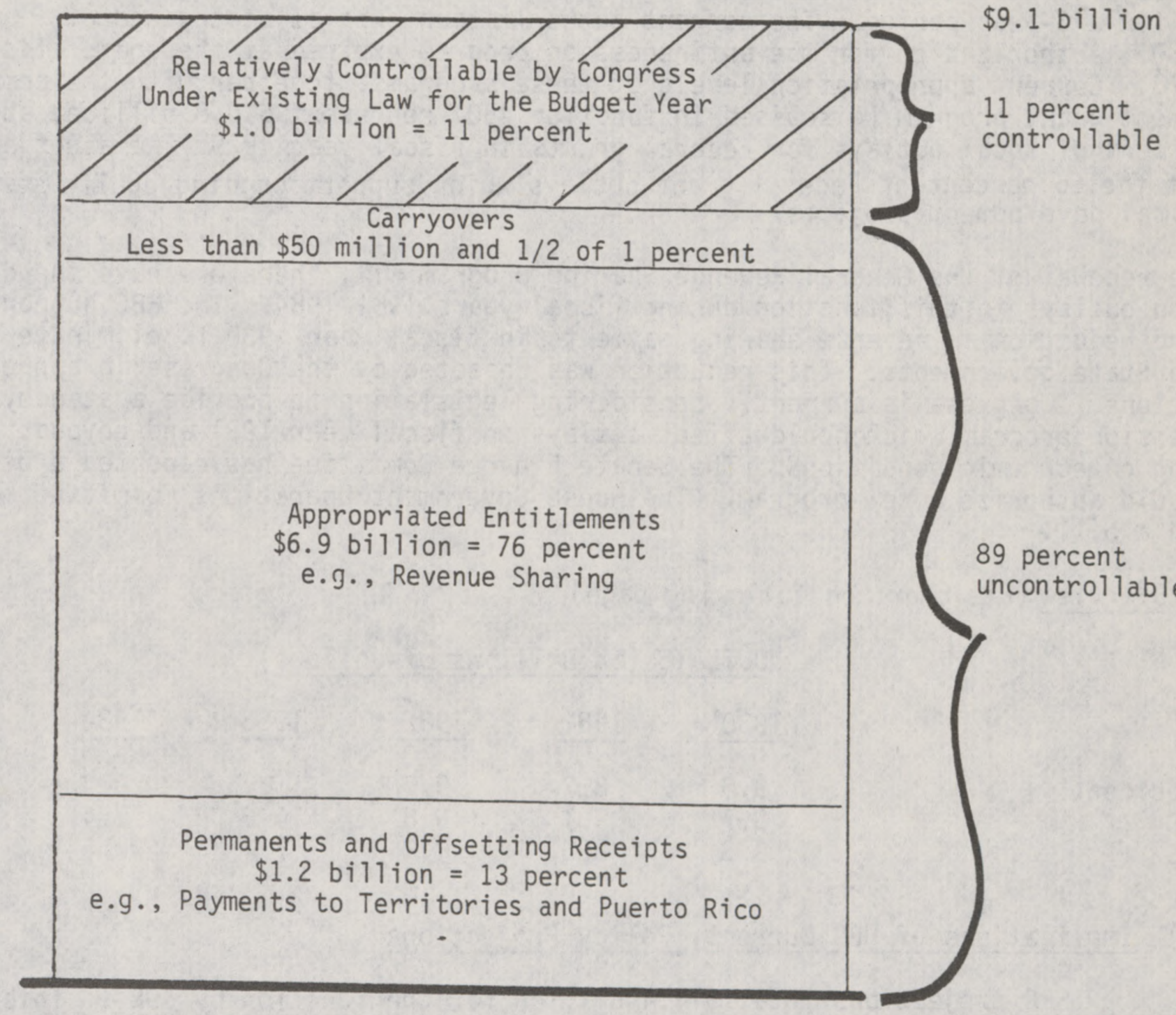

FUNCTION 800
OUTLAYS
IN BILLIONS
5.5
5
4.5
4
1980
1981
1982
1983
1984
HBC-CP
SBC
PRESIDENT

MULTI-YEAR BUDGET OUTLOOK

Function 850: GENERAL PURPOSE FISCAL ASSISTANCE

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



The General Revenue Sharing program accounts for 76 percent of the outlays in this function in fiscal year 1980. Other major programs include payments for anti-recession assistance and payments and loans to the District of Columbia. At the end of fiscal year 1980, when the authorization of the revenue sharing program expires, outlays for this function will be almost 90 percent controllable. Except for a 25 percent lag in spend-out of revenue sharing payments, annual outlays in the function are the result of current year obligations.

2. Past Five-Year Spending Trend

Between fiscal year 1975 and fiscal year 1978, outlays in this function increased from $7.1 billion to $9.6 billion. A significant increase occurred in fiscal year 1977 and fiscal year 1978 as a result of antirecession fiscal assistance provided in connection with a major economic stimulus program. Outlays are estimated at $8.6 billion in fiscal year 1979 and $8.7 billion in fiscal year 1980. The decline in outlays in fiscal year 1979 reflects a phasedown in the antirecession program. Nominal growth between 1975 and 1979 was at an average annual rate of 5.82 percent; real growth was at an average annual rate of -11.7 percent.

3. Selected Major Outyear Budget Issues

Aid to states and local governments--Major general aid to States and localities is provided in this function through the General Revenue Sharing and Antirecession Fiscal Assistance programs. The revenue sharing program was enacted in 1972, and reauthorized in 1977 for a 3-year period. The current authorization expires at the end of fiscal year 1980. Authorization for the antirecession program expired at the end of fiscal year 1978. Current appropriation levels of these programs, together with the community development grant program (discussed in function 450) represent $10.8 billion, about 12.9 percent of total outlays for Federal grants in fiscal year 1979; and about one-fifth of the 66 percent of Federal grant outlays which support ongoing public service and capital development projects.

The renewal of the General Revenue Sharing program will therefore have the dominant effect on outlays in this function during fiscal years 1981-1984. The HBC supported a one-third reduction in revenue sharing payments in fiscal year 1980 to eliminate payments to State governments. This reduction was rejected by the Congress in appropriation actions. Congress is currently considering legislation to provide a standby antirecession program which could affect outlays in fiscal year 1981 and beyond, depending on economic conditions. The Senate Finance Committee has reported a bill which would authorize a new program. The House Government Operations Committee has not reported a bill.

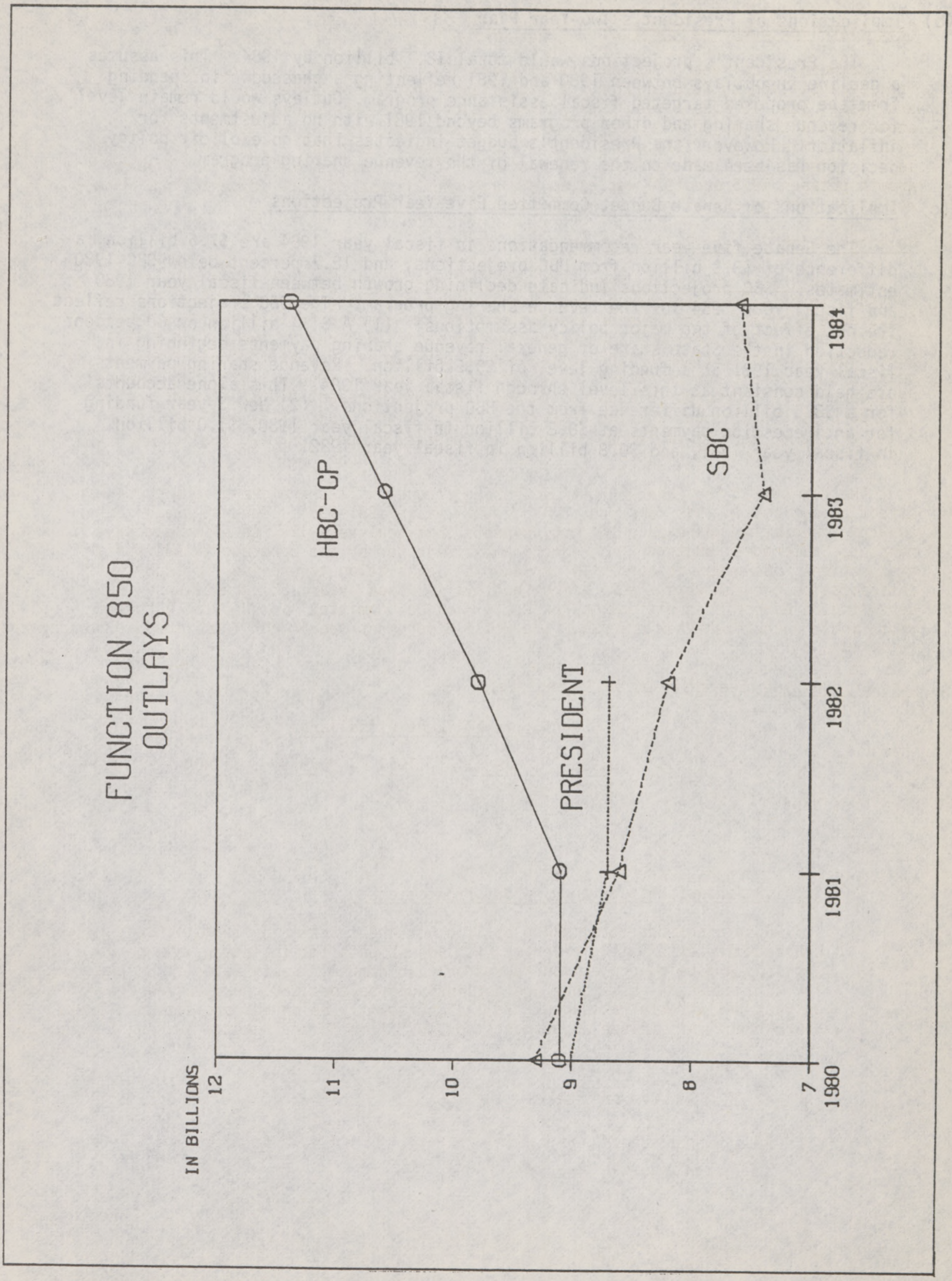
4. Outyear Overview (See chart on following page)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	9.0	8.7	8.7		
HBC	8.7	9.1	9.8	10.6	11.4
SBC	9.3	8.6	8.2	7.4	7.6

(a) Implications of HBC Currenty Policy Projections

HBC projections total $11.4 billion for the function by 1984. This assumes continuation of existing programs with adjustments for inflation. These projections are below projections based on past nominal growth rates since payments for antirecession assistance are not included beyond 1980. Projections based on past real growth rates would fall significantly below HBC projections, since HBC projections include adjustments for inflation in the revenue sharing program.


FUNCTION 850
OUTLAYS
HBC-CP
SBC
PRESIDENT
IN BILLIONS
12
11
10
9
8
7
1980
1981
1982
1983
1984

(b) Implications of President's Two-Year Plan

The President's projections would total $8.7 billion by 1984. This assumes a decline in outlays between 1980 and 1981 reflecting a phasedown in spending from the proposed targeted fiscal assistance program. Outlays would remain level for revenue sharing and other programs beyond 1981 with no adjustments for inflation. However, the President's budget indicates that no explicit policy decision has been made on the renewal of the revenue sharing program.

(c) Implications of Senate Budget Committee Five-Year Projections

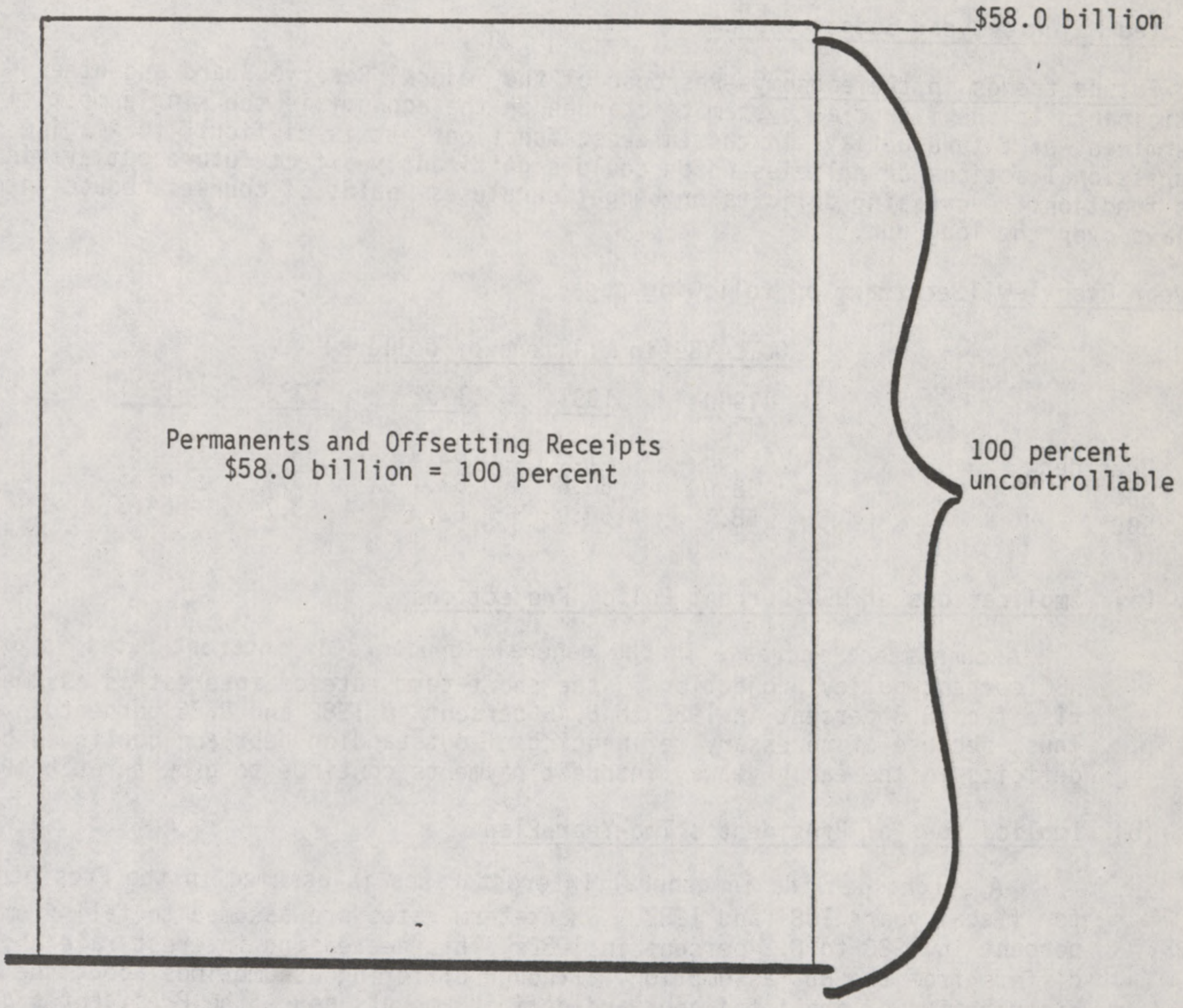
The Senate five-year recommendations in fiscal year 1984 are $7.6 billion, a difference of $3.9 billion from HBC projections, and 18.7 percent below SBC 1980 estimates. SBC projections indicate declining growth between fiscal year 1980 and fiscal year 1984 for the revenue sharing program. The SBC projections reflect the net effect of two major policy assumptions: (1) A $1.4 billion or 60 percent reduction in the State share of general revenue sharing payments beginning in fiscal year 1981 at a funding level of $5.5 billion. Revenue sharing payments are held constant at this level through fiscal year 1984. This alone accounts for a $3.6 billion difference from the HBC projections. (2) New 3-year funding for antirecession payments at $0.8 billion in fiscal year 1980, $1.0 billion in fiscal year 1981, and $0.8 billion in fiscal year 1982.

MULTI-YEAR BUDGET OUTLOOK

Function 900: INTEREST

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Outlays in the interest function are not directly controllable under current law. Payments of interest on the public debt by the Treasury Department are completely dependent upon the amount of debt outstanding and upon the contractual interest terms incorporated in the various debt instruments. Likewise, interest receipts by Treasury from payments made by other governmental agencies (both on- and off-budget) are governed by contractual agreements between Treasury and the particular agency.

50-757 O - 79 - 9

Although it can be argued that interest payments are controllable in the very long run through reduction of outstanding debt, this is a secondary effect when considered in the interest function. By the same token, interest on the public debt is controllable in a secondary sense through monetary and--to a more limited extent--fiscal actions that serve to reduce the rates of interest at which maturing debt is refinanced or new borrowings are made.

2. Past Five-Year Spending Trend

Outlays in the interest function have increased from $30.9 billion in fiscal year 1975 to $58.0 billion estimated for fiscal year 1980, representing the outlays required to service the growing Federal debt. Total interest outlays have escalated sharply in the latter half of this 5-year period; for example, the increase from 1978 to 1979 was 20 percent. Trends in outlays are highly sensitive to changes in the economy as reflected in the structure of interest rates, which are not directly controllable through actions of Congress.

3. Selected Major Outyear Budget Issues

Future trends in the economy--Response of the Federal Reserve Board and other participants in the financial system to changes in the economy is the single most significant determinant of future outlays in the interest function. It is difficult to imagine congressional actions or policies which could significantly affect future outlays in this function. Decreasing deficits or budget surpluses would, of course, reduce interest outlays over the long run.

4. Outyear Overview (See chart on following page)

OUTLAYS (in billions of dollars)

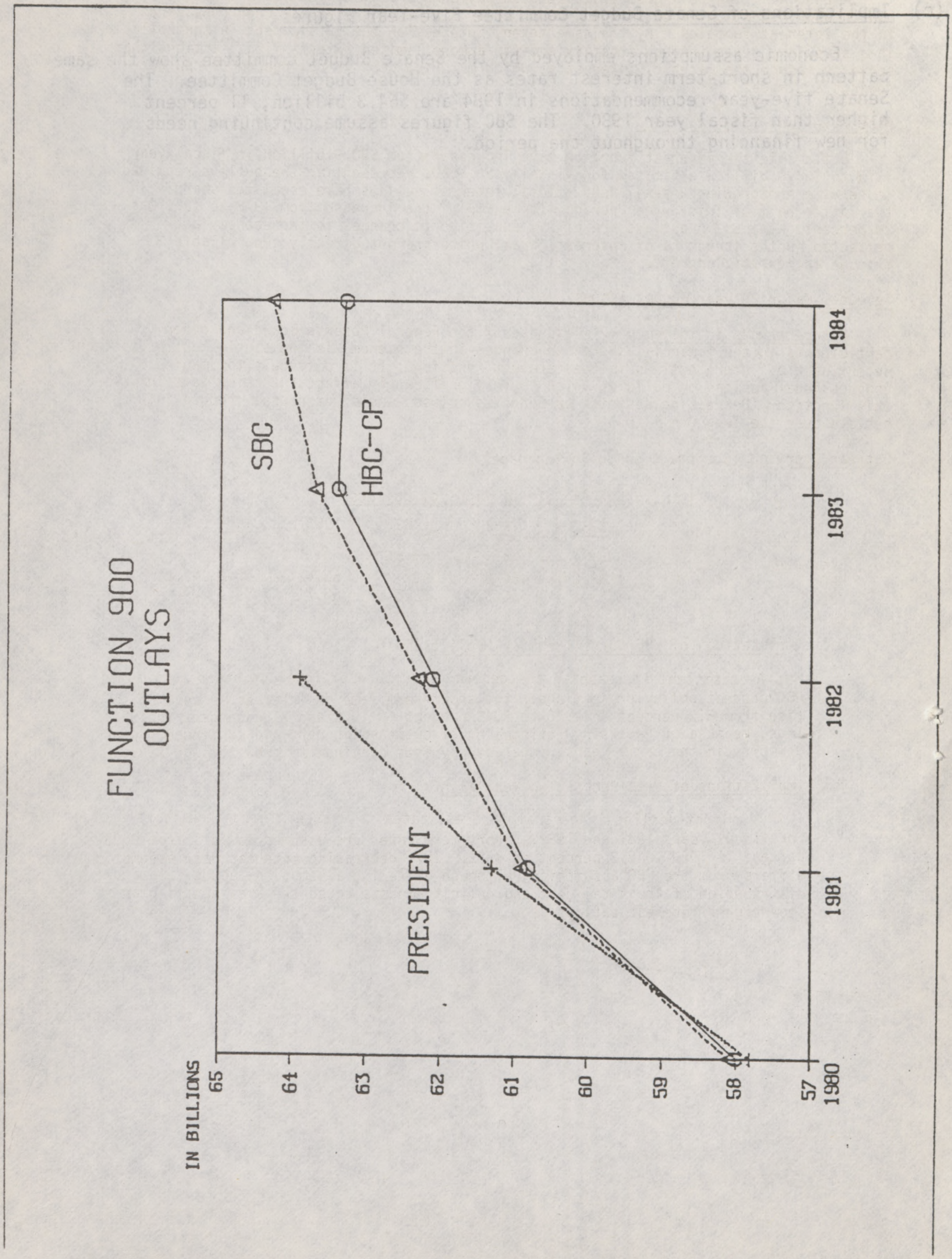
	1980	1981	1982	1983	1984
President	57.8	61.3	63.9		
HBC	58.0	60.8	62.1	63.4	63.3
SBC	58.1	60.9	62.3	63.7	64.3

(a) Implications of HBC Current Policy Projections

A consistent increase in the general structure of interest rates is assumed in HBC current policy projections: the short-term rate of interest is assumed to rise from 8.3 percent in 1980 to 8.45 percent in 1982 and 8.86 percent in 1984. Thus, because of necessary refinancing of outstanding debt and continued budget deficits in the early years, interest payments continue to grow through 1983.

(b) Implications of President's Two-Year Plan

A slight decline in general interest rates is assumed in the President's plan for fiscal years 1981 and 1982. Short-term rates are assumed to fall from 8.25 percent in 1980 to 8.2 percent in 1982. This decreasing interest rate assumption differs from the HBC assumption, although differing assumptions about the maturity distribution of the total debt and deficit amounts cause the President's plan to show higher interest outlays.


FUNCTION 900
OUTLAYS
IN BILLIONS
65
64
63
62
61
60
59
58
57
1980
1981
1982
1983
1984
SBC
HBC-CP
PRESIDENT

(c) Implications of Senate Budget Committee Five-Year Figures

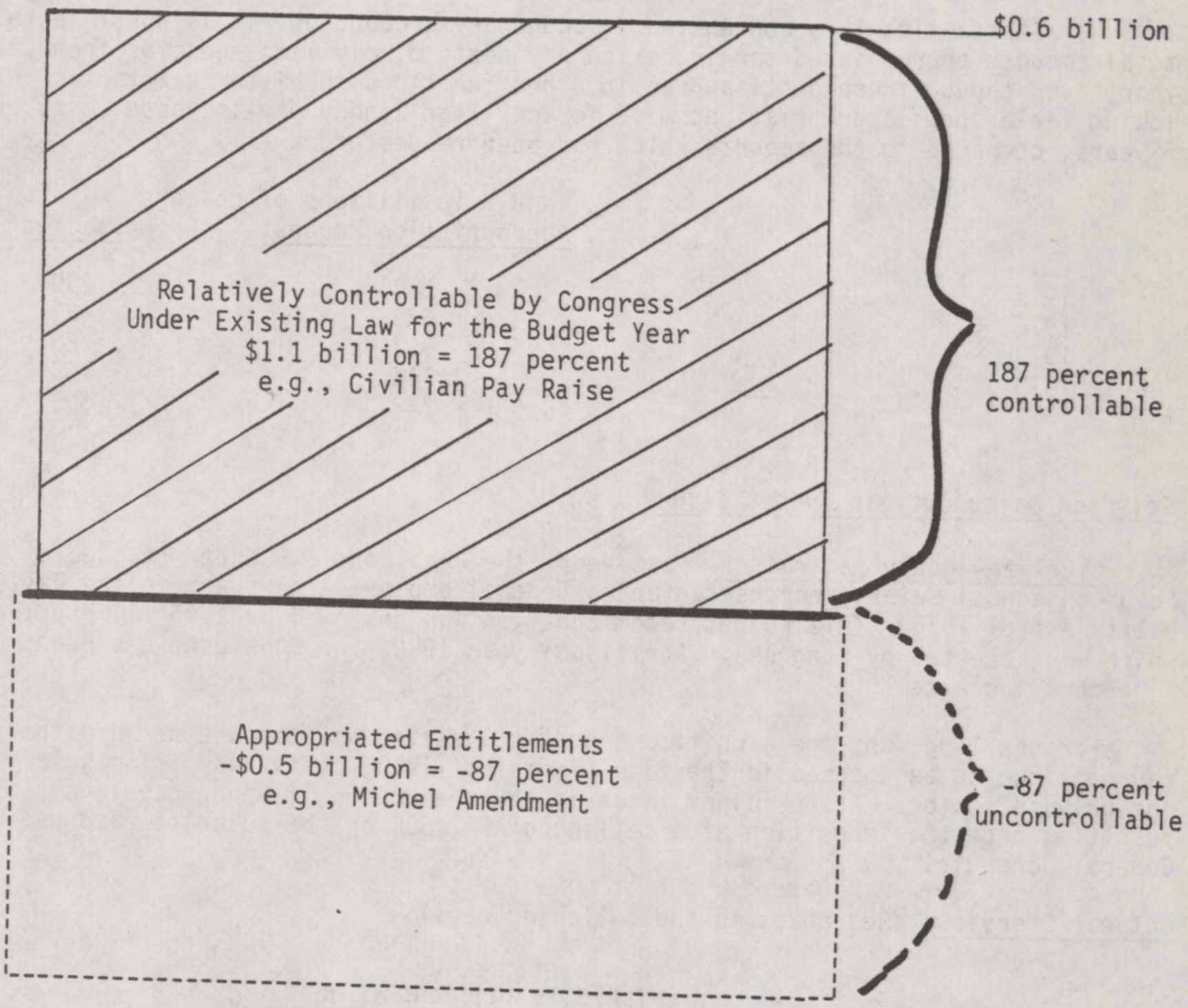
Economic assumptions employed by the Senate Budget Committee show the same pattern in short-term interest rates as the House Budget Committee. The Senate five-year recommendations in 1984 are $64.3 billion, 11 percent higher than fiscal year 1980. The SBC figures assume continuing needs for new financing throughout the period.

MULTI-YEAR BUDGET OUTLOOK

Function 920: ALLOWANCES

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



In this function, outlays for civilian-agency pay raises are relatively controllable under existing law for fiscal year 1980. The Michel Amendment has been defined to be not controllable. Traditionally, the allowances function is employed for proposals that cannot feasibly be included in another function. Accordingly, allowances ordinarily incorporates items which have not yet been specifically proposed, considered, or enacted, and thus are controllable.

However, the allowances function includes funds in the aggregate expected to be required for Federal civilian-agency pay raises. Such comparability increases are treated as entitlements (when considered in the aggregate) by budgetary convention, although a pay raise could be refused.

2. Past Five-Year Spending Trend

The concept of the allowances function as a species of "clearing account" for estimates that have not been included in other functions logically leads to there being no history. Once specific legislation is proposed, considered, and enacted, the estimates previously included within the allowances function are distributed to the functions to which they properly apply.

Notwithstanding this convention of budgetary accounting, it is possible to determine total amounts appropriated for increased pay costs of civilian agencies from year to year, even though these costs appear in other functions in historical tables. The following table shows appropriations made for civilian-agency pay-increase costs over the past 5 years, compared to the amounts which had been requested.

	in millions of dollars	
	Appropriation Request	Enacted
1975	518	490
1976	636	469
1977	807	768
1978	1,144	1,165
1979	742	593

3. Selected Major Outyear Budget Issues

Civilian-agency pay raises--Last year, the President's Budget proposed a 5.5 percent "cap" on annual salary increases granted Federal employees pursuant to the Pay Comparability Act of 1970. This budget recommendation was followed by a formal Presidential proposal which was accepted by Congress. For fiscal year 1980, the President has recommended a 7 percent increase.

For the long run, the significant budget question will be whether arbitrary pay caps can continue to be imposed in the face of rising living costs and rising salary levels in the private sector. A subsidiary issue is the phenomenon of upper-pay-level compression resulting from the imposition of a ceiling of $47,500 on the salaries paid under the General Schedule.

4. Outyear Overview (See chart on the following page)

OUTLAYS (in billions of dollars)

	1980	1981	1982	1983	1984
President	2.1	13.8	20.3		
(pay only) (cumulated)	0.9	2.2	3.4		
HBC	0.3	0.8	0.8	0.8	0.8
SBC	-0.1	-0.1	*	*	0.1

* Less than $50 million

FUNCTION 920
OUTLAYS

IN BILLIONS

11
10
9
8
7
6
5
4
3
2
1
0
-0.25
-0.50
-0.75
-1

1980
1981
1982
1983
1984

PRESIDENT

HBC-CP

SBC

(a) Implications of HBC Current Policy Projections

Current policy has been interpreted for the purpose of this analysis to be reimposition of a 5.5 percent pay cap after fiscal year 1980, together with an expectation that absorption of 20 percent of gross pay-raise costs can be realized through management efficiencies and careful budget operations.

If a 5.5 percent pay cap is not reinstated for 1981, pay-raise costs could be expected to at least double during the earlier years of the 5-year period until overall inflaticnary trends are controlled.

The costs of eliminating current compression in the upper levels of the General Schedule has not been computed. There are 16,875 employees subject to compression in some degree.

(b) Implications of the President's Two-Year Plan

The President's 2-year plan assumes that an arbitrary 5.5 percent pay cap will be imposed in fiscal years 1981 and 1982. Thus, pay raise costs in non-defense agencies are estimated at $1.3 billion in 1981 and $1.2 billion in 1982. The President's plan does not redistribute annual pay increases to applicable functions, as do both the HBC current policy projections and the SBC figures.

The 2-year plan for the allowances function includes new initiatives that might more properly be considered in other functions, as follows:

Outlays	1981	1982
	in millions of dollars	
Welfare reform contingencies	1,500	...
Energy program contingencies	3,241	7,238
Other contingencies	5,300	7,500
Relatively uncontrollable programs	1,526	2,079

(c) Implications of Senate Budget Committee Five-Year Figures

The Senate figures assume an annual 5.5 percent cap on Federal civilian-agency pay raises and assume absorption of 25 percent of gross costs.

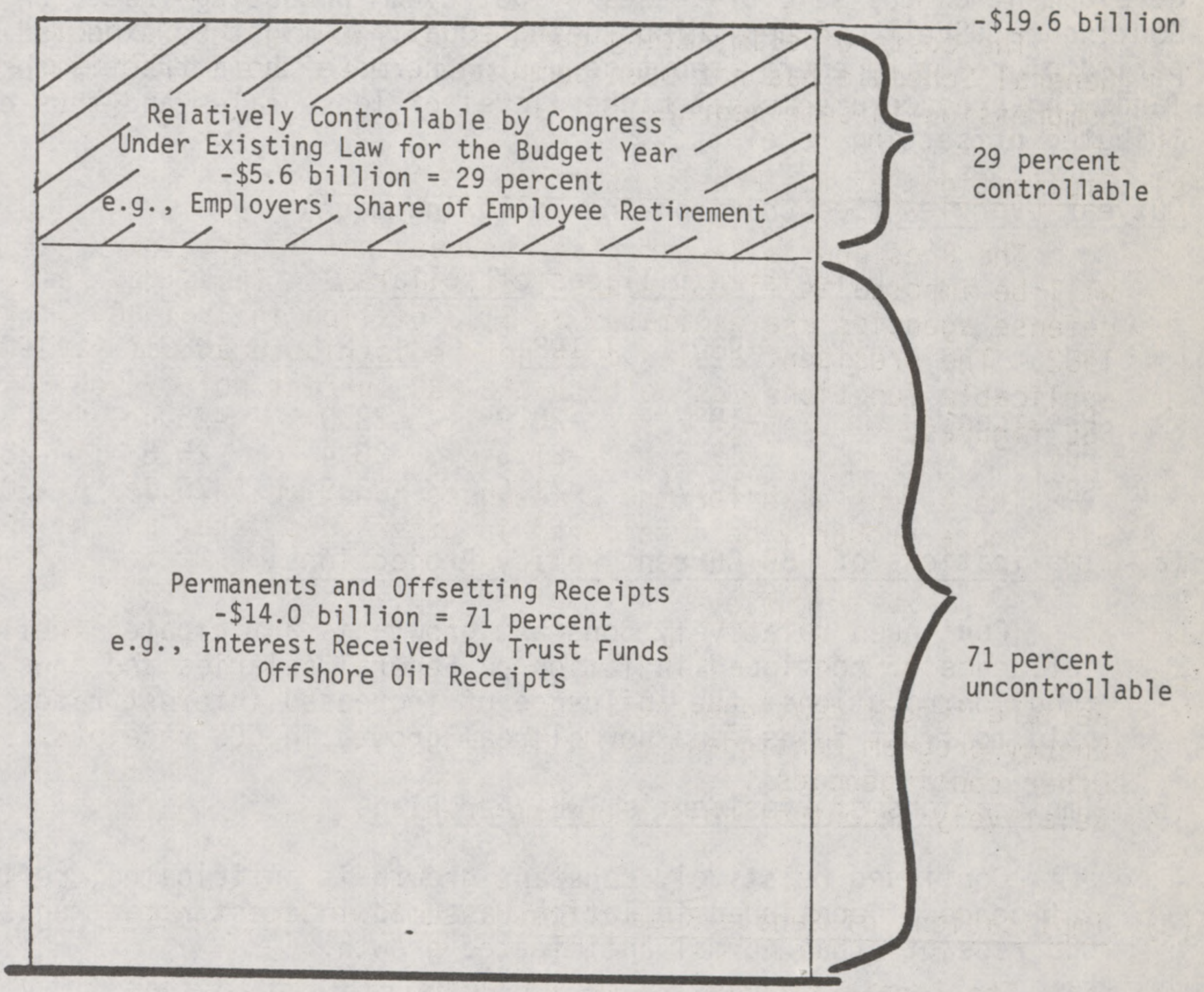
The Senate figures also anticipate continuing "management savings" of $0.9 billion each year which are not included in the HBC projection.

MULTI-YEAR BUDGET OUTLOOK

Function 950: UNDISTRIBUTED OFFSETTING RECEIPTS

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS
IN
HOUSE BUDGET COMMITTEE RECOMMENDATION



Twenty-nine percent of this function is defined as controllable under existing law. Two items within this function are purely accounting entries to offset outlays shown elsewhere in the budget and thus avoid double-counting: employer contributions to employee retirement funds and interest received by trust funds. The other item in the function is OCS rents and royalties.

2. Past Five-Year Spending Trend

Receipts in this function have grown at a relatively steady rate over the past 5 years, increasing from $14 billion in 1975 to $19 billion in 1979. All components have shown relatively constant growth rates except for OCS rents and royalties which have fluctuated around the $2.5 billion level.

3. Selected Major Outyear Budget Issues

The only significant outyear issue revolves around the effects of energy development on the sale of leases of petroleum-producing tracts on the Outer Continental Shelf. Other things being equal, it might be expected that a period of relative energy shortage would increase the attractiveness of OCS lands and produce a somewhat higher level of lease sales and thus of undistributed offsetting receipts.

4. Outyear Overview (See chart on the following page)

OUTLAYS in (billions of dollars)

	1980	1981	1982	1983	1984
President	-18.7	-20.9	-22.9	-25.4	-28.0
HBC	-19.6	-21.3	-23.4	-25.8	-28.6
SBC	-19.7	-21.5	-23.9	-26.7	-30.2

(a) Implications of HBC Current Policy Projections

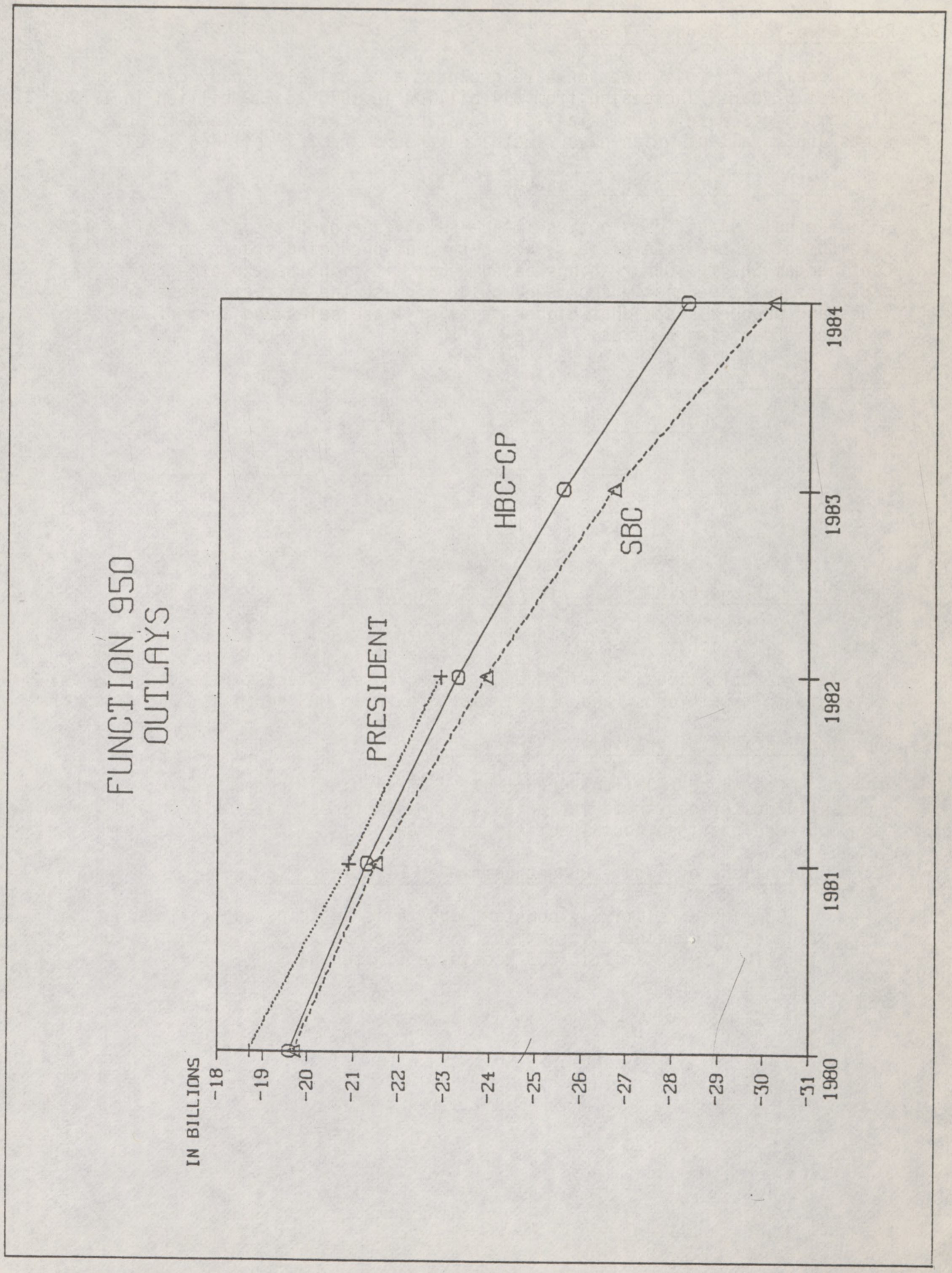
Continued relatively constant growth is anticipated, reflecting the influence of continued inflation on Federal salaries and thus on retirement fund contributions, the influence of increased interest rates on interest paid to trust funds, and normal real growth in OCS receipts.

(b) Implications of President's Two-Year Plan

Continued relatively constant growth is anticipated, reflecting the influence of continued inflation, assumed interest rate trends, and larger OCS receipts than normal anticipated growth.

(c) Implications of Senate Budget Committee Five-Year Plan

Continued relatively constant growth is anticipated, reflecting the influence of continued inflation, as in the HBC projection, but a considerably more optimistic OCS receipt estimate than HBC.


FUNCTION 950
OUTLAYS
HBC-CP
SBC
PRESIDENT
IN BILLIONS
-18
-19
-20
-21
-22
-23
-24
-25
-26
-27
-28
-29
-30
-31
1980
1981
1982
1983
1984