94th Congress
2d Session

HOUSE OF REPRESENTATIVES

REPORT
No. 94–1457

SECOND CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1977

REPORT

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H. Con. Res. 728

REVISING THE CONGRESSIONAL BUDGET FOR THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR 1977

together with

SUPPLEMENTAL AND MINORITY VIEWS

SEPTEMBER 1, 1976.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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[H. Con. Res. 728, 94th Cong., 2d Sess.]

CONCURRENT RESOLUTION

Resolved by the House of Representatives (the Senate concurring), That the Congress hereby determines and declares, pursuant to section 310(a) of the Congressional Budget Act of 1974, that for the fiscal year beginning on October 1, 1976—

(1) the recommended level of Federal revenues is $362,500,000,000, and the amount by which the aggregate level of Federal revenues should be decreased is $15,300,000,000;

(2) the appropriate level of total new budget authority is $452,583,000,000;

(3) the appropriate level of total budget outlays is $413,240,000,000;

(4) the amount of the deficit in the budget which is appropriate in the light of economic conditions and all other relevant factors is $50,740,000,000; and

(5) the appropriate level of the public debt is $700,000,000,000.

SEC. 2. Based on allocations of the appropriate level of total new budget authority and of total budget outlays as set forth in paragraphs (2) and (3) of the first section of this resolution, the Congress hereby determines and declares pursuant to section 310(a) of the Congressional Budget Act of 1974 that, for the fiscal year beginning on October 1, 1976, the appropriate level of new budget authority and the estimated budget outlays for each major functional category are as follows:

(1) National Defense (050):
- (A) New budget authority, $112,086,000,000.
- (B) Outlays, $100,606,000,000.

(2) International Affairs (150):
- (A) New budget authority, $8,770,000,000.
- (B) Outlays, $6,763,000,000.

(3) General Science, Space, and Technology (250):
- (A) New budget authority, $4,595,000,000.
- (B) Outlays, $4,505,000,000.

(4) Natural Resources, Environment, and Energy (300):
- (A) New budget authority, $17,923,000,000.
- (B) Outlays, $16,227,000,000.

(5) Agriculture (350):
- (A) New budget authority, $2,317,000,000.
- (B) Outlays, $2,239,000,000.

(6) Commerce and Transportation (400):
- (A) New budget authority, $17,699,000,000.
- (B) Outlays, $16,984,000,000.

(7) Community and Regional Development (450):
- (A) New budget authority, $9,584,000,000.
- (B) Outlays, $9,078,000,000.

(8) Education, Training, Employment, and Social Services (500):
(A) New budget authority, $23,884,000,000.
(B) Outlays, $22,187,000,000.
(9) Health (550):
(A) New budget authority, $40,527,000,000.
(B) Outlays, $38,960,000,000.
(10) Income Security (600):
(A) New budget authority, $155,872,000,000.
(B) Outlays, $137,000,000,000.
(11) Veterans' Benefits and Services (700):
(A) New budget authority, $20,323,000,000.
(B) Outlays, $19,539,000,000.
(12) Law Enforcement and Justice (750):
(A) New budget authority, $3,490,000,000.
(B) Outlays, $3,571,000,000.
(13) General Government (800):
(A) New budget authority, $3,556,000,000.
(B) Outlays, $3,534,000,000.
(14) Revenue Sharing and General Purpose Fiscal Assistance (850):
(A) New budget authority, $7,617,000,000.
(B) Outlays, $7,657,000,000.
(15) Interest (900):
(A) New budget authority, $40,400,000,000.
(B) Outlays, $40,400,000,000.
(16) Allowances:
(A) New budget authority, $860,000,000.
(B) Outlays, $910,000,000.
(17) Undistributed Offsetting Receipts (950):
(A) New budget authority, −$16,920,000,000.
(B) Outlays, −$16,920,000,000.

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SECOND CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1977

SEPTEMBER 1, 1976.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ADAMS, from the Committee on the Budget, submitted the following

REPORT

together with

SUPPLEMENTAL AND MINORITY VIEWS

[To accompany H. Con. Res. 728]

The Committee on the Budget submits the following report in explanation of the accompanying concurrent resolution (H. Con. Res. 728), setting forth the congressional budget for the United States Government for the fiscal year 1977, and recommends that it do pass.

I. SUMMARY AND PURPOSE OF H. CON. RES. 728

H. Con. Res. 728 revises the first concurrent resolution on the budget for fiscal year 1977 (H. Con. Res. 611, adopted May 14, 1976), which established targets for revenue, spending, and debt legislation for the fiscal year. It establishes the following budget aggregates and functional category amounts for fiscal year 1977, which begins October 1, 1976:

BUDGET AGGREGATES

		(*In millions of dollars*)
(1)	Revenues	362,500
(2)	Budget authority	452,583
(3)	Outlays	413,240
(4)	Deficit	50,740
(5)	Public debt	700,000

FUNCTIONAL CATEGORIES

[In millions of dollars]

	Function	Budget authority	Outlays
050	National defense	112,086	100,606
150	International affairs	8,770	6,763
250	General science, space, and technology	4,595	4,505
300	Natural resources, environment and energy	17,923	16,227
350	Agriculture	2,317	2,239
400	Commerce and transportation	17,699	16,984
450	Community and regional development	9,584	9,078
500	Education, training, employment, and social services	23,884	22,187
550	Health	40,527	38,960
600	Income security	155,872	137,000
700	Veterans benefits and services	20,323	19,539
750	Law enforcement and justice	3,490	3,571
800	General government	3,556	3,534
850	Revenue sharing and general purpose fiscal assistance	7,617	7,657
900	Interest	40,400	40,400
	Allowances	860	910
950	Undistributed offsetting receipts	−16,920	−16,920
	Total	452,583	413,240

After adoption of the resolution, neither the House nor the Senate may consider legislation which would have the effect of lowering revenues for fiscal year 1977 below the amount specified in the resolution, or which would have the effect of increasing budget authority or outlays above the total amounts specified in the resolution. The total amount specified for revenues is a *floor;* the amounts specified for total budget authority and total outlays are *ceilings*. The budget authority and outlay amounts specified for each functional category in the resolution are *not* ceilings; rather, they indicate the assumptions underlying the budget aggregates.

The recommendations proposed in the resolution for both the budget aggregates and functional categories deviate only slightly from the first budget resolution targets adopted early this year. The Committee believes the Congress is to be commended for its close adherence to the targets. In addition, all committees should be commended for their generally successful efforts to meet the various deadlines and requirements of the Budget Act which were fully implemented for the first time this year.

It should be noted that the resolution proposes a budget deficit for fiscal year 1977 of $50.7 billion, slightly below the level specified in the first resolution. Furthermore, the fiscal year 1977 deficit will be sharply lower than the deficit for fiscal year 1976—now expected to be approximately $65.6 billion—itself sharply lower than the $74.1 billion deficit anticipated for that year. While the deficit is being reduced, the Congress is making progress in providing the fiscal stimulus needed to sustain the economy and move toward full employment.

BUDGET AGGREGATES

[In millions of dollars]

	First budget resolution	Second budget resolution	Difference over (+) under (−) first budget resolution
Revenues	362,500	362,500	0
Budget authority	454,200	452,583	−1,617
Outlays	413,300	413,240	−60
Deficit	50,800	50,740	−60
Public debt	713,100	700,000	−13,100

Economic Goals of H. Con. Res. 728.—The resolution is designed to sustain and strengthen the current economic recovery. It recommends—

(1) extension of tax reductions now in effect through fiscal year 1977 in order to maintain effective consumer demand and business activity; and

(2) adoption of economic stimulus spending measures which, if enacted and effectively implemented, will produce one million jobs over the number that would have been created under the Administration's original budget and economic proposals.

Adoption of the resolution should make it possible to reduce unemployment to approximately 7 percent by the end of calendar year 1976 and to 6 percent by the end of 1977, while maintaining a rate of inflation averaging below 6 percent this year and 5.5 percent in 1977. Following is a table containing the economic assumptions on which the resolution is based.

ECONOMIC OBJECTIVES AND ASSUMPTIONS

[Calendar years; dollars in billions]

Item	1976	1977
Gross national product		
Current dollars	$1,685.0	$1,885.0
Constant (1972) dollars	1,262.0	1,338.0
Incomes:		
Personal income	1,382.0	1,542.0
Wages and salaries	893.0	995.0
Corporate profits	153.0	177.0
Unemployment rate:		
Calendar year average	7.4	6.4
End of year	7.1	6.0
Consumer price index	6.0	5.5
Interest rate, 3-month Treasury bills	5.3	5.8

The Committee believes additional economic stimulus measures should be considered early next year if the slowdown in the recovery experienced this spring continues during the third and fourth quarters of 1976. Even if the resolution's goals are fully met, unemployment will remain at very high levels, producing severe hardships for millions of our citizens. Should a significant change in economic growth occur, it must be addressed quickly and effectively at the earliest practicable time by the 95th Congress. At that time, the Committee will have to decide whether a third budget resolution revising the totals for fiscal year 1977 is warranted.

The Committee is very concerned over the continuation of the Nation's severe unemployment problem. Despite a year of substantial economic growth, spurred in large part by two years of stimulative congressional fiscal policies, the rate of unemployment has been reduced only modestly—from 8.9 percent in April 1975 to 7.8 percent in July 1976. Yet, during the same period, total employment has increased from 84.3 million to 87.9 million. Nearly seven times as many people obtained employment as were removed from the unemployment rolls.

Thus, while the economy continues to create jobs at a very rapid pace, it is unable to absorb the substantial additions to the labor force—primarily young people and women—we have experienced during the past two years. It is this problem to which the next Congress and Administration must devote their resources and energy. The Committee believes that additional effort must be directed toward designing and implementing more effective job-creating programs.

II. BACKGROUND AND NATURE OF THE RESOLUTION

Adoption of H. Con. Res. 708, the second budget resolution for fiscal year 1977, will complete the first year of full implementation of the new congressional budget process.

Establishing an Orderly Budget Process.—As indicated earlier, both the budget authority aggregates and distributions by functional category are substantially on target with the first budget resolution for fiscal year 1977. In order to achieve control of federal spending, it has been necessary first to establish an orderly and timely budget process. Lacking that foundation, Congress cannot effectively execute its fiscal policy and spending responsibilities.

In reporting that Congress is successfully meeting the challenge of establishing budget control, the Committee would be remiss if it did not point out that this success is largely attributable to the outstanding cooperation provided by all Committees of the House in implementing the budget process. The Budget Act sets difficult deadlines and involves new and complex procedures of analysis and reporting. The Committees have been fully responsive in the joint process of making this new system work.

Committee reports setting forth views and estimates for fiscal 1977 were prepared and submitted by March 15, the statutory deadline, and formed an important base of information for the first budget resolution. The May 15 deadline for reporting of authorization bills was met in all but a few cases. Most reported bills were accompanied by the necessary cost estimates and comparisons, making it possible to conduct effective scorekeeping against the allocation reports provided by the various Committees. The responsiveness and performance of the Committees in these procedural matters have been vital to the House's efforts to adhere to its overall budget procedures.

While all Committees have contributed to the process, special mention is due to the Appropriations Committee. Operating on a very tight schedule, that Committee is very close to meeting the challenge of having all regular appropriations bills enacted prior to the House's consideration of the second budget resolution. As this report is being written, all but one regular appropriations bill has passed the House, and final Senate action is expected on all bills during the week of September 7. If the remainder of the schedule is met, the fiscal year will begin on October 1 with all appropriations bills in place.

Enactment of all regular appropriations bills prior to the start of the fiscal year has not occurred since 1948. It will contribute immeasurably to a more orderly implementation of the Nation's fiscal affairs.

Second Budget Resolution Control Procedures.—The Committee wishes at this point to review the purposes and procedures associated with the second budget resolution and the accompanying reconciliation process.

Unlike the first budget resolution (H. Con. Res. 611) which established targets to guide subsequent congressional action on revenue, spending, and debt measures, this resolution establishes a floor on revenues and a ceiling on spending which shall be applicable to all subsequent revenue and spending legislation affecting fiscal year 1977. Once this resolution is adopted, neither House may take any action which will cause spending to exceed the budgeted level for budget authority and outlays, or reduce revenues below the level specified in the resolution. Determinations of the House and Senate Budget Committees are the basis for determining whether legislation would cause the appropriate levels of spending or revenues to be breached.

It should be noted that section 311 of the Budget Act provides that the ceilings established in the second budget resolution apply to *total* budget authority and outlays, and not to the distributions by functional categories. Thus, if, after adoption of the second budget resolution, a spending bill would cause the amounts provided for a specific functional category to be exceeded without breaching the *total* spending ceiling, its consideration would not be barred by section 311. If the amount specified for the function were exceeded, however, there would be less available under the overall ceiling for the remaining functions.

The resolution contains no reconciliation directives.

Remaining Spending Actions for Fiscal Year 1977.—Despite the performance of the Congress in speeding up consideration of spending legislation, certain spending actions for fiscal year 1977 were incomplete at the time the Committee considered the second budget resolution for fiscal year 1977. Of the $413.2 billion in outlays recommended by the Committee, the House had completed action by August 11 on $398.5 billion, leaving $14.7 billion still to be considered.

On July 16, 1976, the Office of Management and Budget submitted its mid-session review of the fiscal year 1977 budget proposals, which included updated estimates for many programs. These revised estimates have been reviewed by the Congressional Budget Office and by the Committee staff. About $6.4 billion for subsequent action has been included in this resolution by the Committee to cover current estimates for mandatory spending programs.

The Committee also included $5.7 billion to cover programs assumed in the first budget resolution which have not been appropriated due to the lack of enacted authorizations, and $3.7 billion for authorized programs for which House appropriation action was not complete. House action on $2.3 billion of the $3.7 billion has now been completed. Finally, the $14.7 billion in spending actions yet to be considered by the House assumes completed action on certain legislation that will result in program savings amounting to $0.9 billion.

The following table lists the major items in each of these categories yet to be considered by the House:

Amounts remaining for later action

[In billions of dollars]

	Outlays
Funding for mandatory programs:	
Federal Pay Supplementals (+2.7); Income Security Programs—primarily Food Stamps and AFDC (+1.3); Medicaid (+.9); Interest (+.6); CCC Short Term Export Credits (+.3); Claims and Judgments (+.2); Child Day Care (+.2); EPA Liquidating Cash (+0.2)	+6.4
Awaiting appropriations action:	
Public Works/Counter-Cyclical Aid (+1.8); Legislative Appropriations (+1.0); D.C. Appropriations (+0.4); Program Supplementals and Other Requirements for Natural Resources, Transportation, HUD, and Agriculture (+0.5)	+3.7
Programs not yet authorized:	
Public Service Jobs (+2.8); Veterans Benefits (+1.4); Education Programs (+0.7); Health Programs (+0.3); EPA Construction Grants (+0.1); other (+0.2)	+5.5
Legislative savings yet to be realized:	
Sale of Strategic Materials (−0.7); 1% kicker (−0.1); AFDC Reforms (−0.1)	−0.9
Total	+14.7

Committee Hearings and Consideration of the Resolution.—The Committee received testimony on August 11 from Dr. Alice Rivlin, Director of the Congressional Budget Office, on the economic outlook for the balance of 1976 and 1977. In addition, its Task Force on Economic Projections held hearings on the overall economy.

The Committee met in open executive session on August 26 and ordered the resolution reported by a voice vote.

III. GENERAL EXPLANATION OF THE RESOLUTION

A. *The Economy.*—The economy is now in the sixteenth month of recovery from the deepest recession since the 1930's. Although the expansion continues generally along the lines forecast in this Committee's report accompanying the first budget resolution for fiscal year 1977, the Nation has yet to be restored to full economic health. In particular, unacceptably high rates of unemployment remain a persistent problem.

The Committee expects the economy to continue to expand moderately, despite a second quarter slowdown and higher unemployment rates for June and July. It should be recognized that the slower real growth in gross national product experienced during the second quarter (4.3 percent) came on the heels of a very high first quarter growth rate (9.2 percent) which was simply not sustainable over a longer period.

A look at some of the reasons for the second quarter pause in the economic expansion reveals some difficult obstacles to full recovery, but also provides assurances as to the prospects for the economy in the long run. For example, housing starts did not rise as much as expected during the second quarter and actually declined in July. However, a close analysis of the housing industry reveals that the decline was largely confined to the multi-family sector. While actual housing starts went down in the second quarter, the level of permits authorizing new construction of housing units rose at a healthy rate, suggesting an increase in housing starts over the months ahead.

The increase in unemployment rates in June and July 7.5 percent and 7.8 percent, respectively, reflects a pause in the recovery for certain sectors of the economy, particularly manufacturing of nondurable goods. In contrast to June, when there was an actual decline in jobs, the July unemployment rate rose from 7.5 percent to 7.8 percent as the result of a simultaneous gain in jobs and in the labor force—an unexpected but not uncommon occurrence. As job opportunities increase, people re-enter the labor force. In July, 690,000 people entered or re-entered the labor force, while 407,000 found jobs. Although these new jobs represented the third largest increase in employment since the recovery began, the larger gain in the labor force pushed the unemployment rate upward. During the first seven months of 1976, the labor force grew at an average annual rate of 4.1 percent compared to an average of 2.3 percent over the last ten years.

Despite the slowdown in the recovery in the second quarter, the Committee still expects the economy to meet essentially the same goals projected in the first budget resolution for the upcoming fiscal year. Several factors support this conclusion. *First*, capital investments have increased more than previously forecast. Investment in plant and equipment (adjusted for inflation) rose at an average annual rate of 8.4 percent in the second quarter of 1976. And more important for the future of the recovery, contracts and orders for new plant and equipment (adjusted for inflation) were up nearly 18 percent from the recession low point.

Second, although there has been a switch from inventory liquidation to accumulation, inventories accumulated during the first half of 1976

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have not been excessive. Inventory-to-sales ratios are on the low side, providing additional insurance against a further weakening of the recovery.

Third, consumer confidence remains high, and the economy will continue to benefit from a high level of consumer spending. The latest Survey of Consumer Sentiment shows a continued increase in the confidence of high-income families who are responsible for most discretionary spending and saving. Personal savings returned to an overall rate of 7 percent (the average for the past 10 years) after sharp increases last year, while consumption expenditures (adjusted for inflation) have risen at an average annual rate of 5.7 percent since the low point of the recession. These indications of strong consumer confidence suggest that consumer spending, especially for automobiles and other durables, will continue to move upward.

Finally, the rate of inflation has leveled off from huge increases of 11.1 percent in 1974 and 9.2 percent in 1975 to 4.9 percent (at annual rates) during the second quarter of 1976. Wage increases continue to be relatively moderate, with average weekly earnings increasing at an annual rate of 4.8 percent during the first six months of 1976. Strong gains in productivity (4.4 percent over the previous year), coupled with the moderate wage increases, have kept the increase in unit labor costs to 3.4 percent, an important factor in the fight against inflation.

The Committee assumes that monetary policy will continue to foster the recovery. Interest rates on 3-month Treasury bills have dropped back to the 5 percent range, although long-term interest rates, particularly mortgage rates, remain high. These long-term rates can be expected to decline if inflation continues to moderate and monetary policy remains accommodating.

Although the Committee's economic assumptions remain essentially the same as in the first budget resolution, the Committee has revised its forecast for the unemployment rate at the end of 1976. The course of the recovery and the Committee's economic forecast, and major components of output and income for 1976 and 1977, are contained in the following tables.

ECONOMIC SITUATION AND OUTLOOK—MEASURES OF OUTPUT

[Adjusted for inflation; dollars in billions]

Calendar quarters	1975			1976		75:2 to 76:2 (percent change)
	2d qtr.	3d qtr.	4th qtr.	1st qtr.	2d qtr.	
Course of the recovery:						
Gross national product	$1,177.1	$1,209.3	$1,219.2	$1,246.3	$1,259.4	7.0
Consumption	767.5	775.3	783.9	800.7	808.6	5.4
Business investment	110.6	110.1	110.5	112.6	114.9	3.9
Residential construction	36.8	39.6	41.9	41.1	45.7	24.2
Change in business inventories	−21.2	−1.0	−5.5	10.4	11.1	NA
Industrial production index (1967=1.00)	114.2	120.5	123.4	127.0	129.4	13.3
Consumer Price Index (1967=1.00)	159.6	162.8	165.5	167.3	169.3	6.1
Unemployment rate (quarterly average) (percent)	8.7	8.6	8.5	7.6	7.4	NA

Calendar quarters	1976 4th qtr.	1977 4th qtr.	Percent change 75:4 to 76:4	Percent change 76:4 to 77:4
Economic outlook:				
Gross national product	$1,280	$1,364	5.0	6.6
Consumption	811	852	3.5	5.1
Business investment	124	141	12.2	13.7
Residential construction	50	61	19.3	22.0
Change in business inventories	9	14	NA	NA
Industrial production index (1967=1.00)	129.3	139.4	4.8	7.8
Consumer Price Index (1967=1.00)	173.7	183.3	5.4	5.5
Unemployment rate (percent):				
Quarterly average	7.2	6.1	NA	NA
End of year	7.1	6.0		

NA—not applicable.

MAJOR COMPONENTS OF OUTPUT AND INCOME, CALENDAR YEAR 1976 AND 1977

[Dollars in billions]

Calendar years	1976	1977	Percent change
Output (in constant 1972 dollars)			
GNP	$1,262.0	$1,338.0	6.0
Consumption	806.5	847.0	5.0
Investment:			
Plant and equipment	116.8	130.0	11.3
Residential construction	44.2	51.3	16.1
Inventories	5.8	10.2	NA
Exports	94.8	99.8	5.3
Imports	75.3	81.0	7.6
Income (in current dollars)			
GNP	1,685.0	1,885.0	11.9
Personal income	1,382.0	1,542.0	11.6
Profits before tax	153.0	177.0	15.7
Wages and salaries	893.0	995.0	11.4
Other indicators			
New car sales (millions of units)	10.2	11.0	7.8
3-mo Treasury bill rate (percent)	5.3	5.8	NA
Housing starts (thousands of units)	1,498	1,800	20.2
Unemployment rate (percent)	7.4	6.4	NA

NA—not applicable.

B. *Revenues.*—The resolution sets a floor for fiscal year 1977 revenues of $362.5 billion, the same as the revenue target set in the first budget resolution. This recommendation is based on the economic forecast set forth above and the following assumptions:

(1) that the Congress will extend through September 30, 1977 (the end of fiscal year 1977) the $17.3 billion in individual and corporate tax reductions provided by the Revenue Adjustment Act of 1975, which expire September 30, 1976;

(2) that the Congress will not provide the additional $11.0 billion of tax reductions and $3.3 billion in increased social security taxes proposed by the President;

(3) that the unemployment insurance tax rate will be increased from 0.5 to 0.7 percent effective January 1, 1977, consistent with legislation passed by the House, resulting in a $400 million increase in revenues above the amount assumed in the first budget resolution; and

(4) that the Congress will eliminate and/or modify existing tax expenditures to realize a $1.6 billion increase in revenues during fiscal year 1977, a reduction of $400 million from the amount assumed in the first budget resolution.

A comparison of the revenue assumptions by source in the first and second budget resolutions follows:

COMPARISON OF BUDGET RECEIPTS BY SOURCE

[In billions of dollars]

Budget receipts	Fiscal year 1977	
	First budget resolution	Second budget resolution
Individual income taxes	160.9	160.9
Corporation income taxes	57.8	57.8
Social insurance taxes and contributions	106.7	107.1
Excise taxes	17.8	17.8
Estate and gift taxes	6.0	6.0
Customs duties	4.3	4.3
Miscellaneous receipts	7.0	7.0
Tax reform	2.0	1.6
Total	362.5	362.5

The Committee is deeply concerned that a substantial shortfall in receipts may occur as a result of congressional action on the pending tax legislation. As stated in the Committee's report on the first budget resolution for fiscal year 1977 (H. Rept. 94–1030, page 24):

> Tax expenditures have become a major budget uncontrollable. They are expected to rise from $106.0 billion in fiscal year 1977 to $148.2 billion in fiscal year 1981. In view of these anticipated losses, the Committee believes that the Congress must face up to an important mandate of the Budget Act: to coordinate more effectively its direct spending policies with spending through the tax system, designated as tax expenditures.

While the House-passed bill (H.R. 10612) falls short of the first resolution target, it would raise approximately $1.6 billion in revenues in fiscal year 1977 through the elimination and modification of existing tax expenditures. Furthermore, over a 5-year period ending with fiscal year 1981, the House bill would *raise* approximately $9.9 billion. The Senate-passed bill, on the other hand, would actually *reduce* revenues by $299 million in fiscal year 1977 and by $9.7 billion over the 5-year period.

REVENUE IMPACT OF PENDING TAX REFORM PROVISIONS

[In millions of dollars]

	Fiscal year—					5-yr total
	1977	1978	1979	1980	1981	
House bill (H.R. 10612)	+1,633	+1,692	+1,966	+2,159	+2,405	+9,855
Senate bill (H.R. 10612)	−299	−1,856	−2,302	−2,425	−2,799	−9,681

The Committee believes that revenue losses of the magnitude contemplated by the Senate bill are inconsistent with several important congressional objectives: *first*, to maintain the integrity of the first budget resolution revenue targets, adopted overwhelmingly by both the House and Senate this spring; *second*, to curb the growth of tax expenditures which reduce the progressivity and overall fairness of the tax system; and *third*, to move as rapidly as possible to a balanced budget and thus help to make revenues available to meet pressing national needs.

The Committee urges the House to insist on the important revenue-raising provisions contained in its version of H.R. 10612.

C. *Budget Authority and Outlays.*—The resolution sets ceilings of $452.6 billion in budget authority and $413.2 billion in outlays for fiscal year 1977. The budget authority ceiling is $1.6 billion below the target set in the first budget resolution, while the outlay ceiling is substantially the same as that set in the first resolution.

Major Changes From the First Resolution

The increases in budget authority over the amount targeted in the first resolution are due to the following major actions:

In aggregate, the $452.6 billion budget authority ceiling recommended in the resolution does not differ significantly from the $454.2 billion contained in the first resolution targets. The composition of the budget authority is affected by revised estimates, changes resulting from completed House spending actions, and altered assumptions for items yet to be considered by the House.

The first resolution budget authority was increased by approximately $1.6 billion to reflect revised estimates affecting various programs. This net figure includes increased budget authority in the social security program because of increased tax receipts (which automatically increase budget authority), a shortfall in outer continental shelf receipts, increased requirements for Medicaid payments, and an increased estimate for military and civilian pay increases. These increases were offset by lower funding for food stamps, AFDC, and other income security programs, as well as increased interest payments into the trust funds.

Congressional action on various spending bills reduced budget authority by $4.6 billion. The major reduction was $3.6 billion in housing assistance contract authority, representing the multi-year impact of program reductions. Other reductions included defense programs, natural resources activities, and the ongoing CETA programs. Offsetting increases occurred in unemployment compensation, veterans

hospital construction, education programs, and a variety of smaller programs.

Changed assumptions for funding actions still pending before the House account for a net increase of $1.4 billion in budget authority. Lowered estimates of savings from reform of various health and income security programs increased the first resolution spending totals, and there was a major increase in budget authority for the nuclear fuel assurance program. These increases are partially offset by lower funding assumptions for programs currently unauthorized, such as EPA construction grants, and public service employment, and anticipated supplemental requirements in various ongoing programs.

The $413.2 billion outlay ceiling set by this resolution is only $100 million below the target set by the first budget resolution for fiscal year 1977. The composition of the outlay total is affected by revised estimates, changes resulting from completed House actions on spending bills, and altered assumptions for items yet to be considered by the House.

The first resolution outlays were reduced by about $600 million due to revised estimates of spending rates. This net figure results primarily from increased estimates due to a shortfall in outer continental shelf receipts; higher estimates for medicare and medicaid, defense, international security, and community development programs; and from offsetting reduced estimates for income security programs, unemployment compensation, and highway programs.

Completed House action on funding levels for discretionary programs reduced first resolution outlays by about $300 million. Reductions for defense, employment programs, housing assistance, and other programs were partially offset by increases for natural resources, environment, energy, social services, education and other programs.

Changed assumptions for funding actions still pending before the House account for a net increase of $800 million. Lowered savings expected from reform of existing programs including medicaid, food stamps, and AFDC added to the first resolution totals, while partially offsetting reductions are attributable to lower funding expected for certain still unauthorized programs, including public service employment.

Spending Priorities

The first budget resolution established spending policies and priorities which differed sharply from the President's original proposals. It called for reasonable growth in both defense and domestic programs, and restored reductions proposed by the President in health services, employment and training, and education programs.

Despite the multiplicity of changes for individual items outlined in the previous section, the second budget resolution conforms very closely with the first budget resolution in its alignment of Federal spending priorities. As described in detail in Appendix F, these priorities are estimated to result in $71.2 billion in spending for State and local governments, $10.7 billion over that proposed by the President. The Comparison of Budget Priorities table below shows that in only four cases does the second resolution differ from the first resolution by more than one-tenth of one percentage point. In each case, the difference is accounted for by undated spending estimates.

In Function 400, Commerce and Transportation, the change results from a revised estimate for highway spending; in Function 450, Community and Regional Development, the change results from a revised estimate for community development programs; in Function 550, Health, the change results from a revised estimate for medicaid due to higher health costs; and in Function 600, Income Security, the change results primarily from a lower estimate for unemployment compensation. The table comparing budget priority alignments follows:

COMPARISON OF BUDGET PRIORITIES BY OUTLAYS

[Percentages of total budget]

	Function	President's Jan. 21, 1976 submission	First budget resolution	Second budget resolution recommendation
050	National defense	25.7	24.4	24.3
150	International affairs	1.7	1.6	1.6
250	General science, space, and technology	1.1	1.1	1.1
300	Natural resources, environment, and energy	3.5	3.8	3.9
350	Agriculture	.4	.5	.5
400	Commerce and transportation	4.2	4.3	4.1
450	Community and regional development	1.4	[1] 2.0	2.2
500	Education, training, employment, and social services	4.2	5.5	5.4
550	Health	8.7	9.2	9.4
600	Income security	34.8	33.7	33.2
700	Veterans benefits and services	4.4	4.7	4.7
750	Law enforcement and justice	.9	.8	.9
800	General government	.9	.8	.9
850	Revenue sharing and general purpose fiscal assistance	1.9	1.8	1.9
900	Interest	10.5	9.8	9.8
	Allowances	.6	[1] .2	.2
950	Undistributed offsetting receipts	—4.8	—4.2	—4.1
	Total	100.0	100.0	100.0

A[1] The first budget resolution is adjusted to show the shift of the funds for jobs programs from the lowances to the Community and Regional Development function.

Note: Totals may not add due to rounding.

Economic Stimulus

This resolution, like the first resolution, places a special focus on the problem of unemployment. Unemployment in the Nation's economy is a crippling social problem, but it is a budgetary problem as well. Continued high unemployment rates are accompanied by revenue losses and by unproductive expenditures for unemployment compensation, food stamps, veterans' benefits, and the like. Thus, the congressional budget has targeted spending for job-creation programs as a very high priority item. Over $5 billion in outlays, all of which are part of the $50.7 billion deficit, are for programs which will create more than 1,000,000 jobs through direct employment and supporting activities.

The President did not request funds for these activities, and in fact has strenuously opposed passage of legislation advanced by Congress to attack the persistent problem of unemployment. Of the one million jobs added to the President's request, approximately 530,000 are

provided through direct jobs programs. The remaining 510,000 jobs are generated through accelerated spending in regular federal programs and stimulation of housing construction through support of the mortgage market. This total includes an estimated 160,000 fiscal year 1977 jobs provided as part of the pending Public Works Employment Appropriations Act.

It should be noted that much of this legislative package has yet to be considered and funded. Notwithstanding this status, the Committee believes that these are necessary and worthwhile expenditures. Funds are therefore being allocated in the resolution to accommodate this needed legislation, and the Committee will support its passage.

Investments in targeted economic stimulus will pay important dividends in the future. Much of the funding associated with these programs will go toward permanent improvements to our Nation's physical plant. At the same time, the funds are an investment in our human resources, providing training, work experience, and income to those who would otherwise be among the ranks of the unemployed. Every dollar spent to create a job will reduce our expenditures for programs such as public assistance and unemployment benefits. In addition to providing dignity to millions of willing workers, these dollars will be returned in significant measure in the form of increased taxes, thereby effectively reducing the budgetary impact of this necessary spending.

CONGRESSIONALLY ADDED ECONOMIC STIMULUS IN COMMITTEE'S RECOMMENDATION

[Dollars in millions]

Function and item	Fiscal year 1977		
	Budget authority	Outlays	Jobs (in thousands)
Direct jobs:			
450 Anti-recession assistance	$938	$1,250	120
500 Public service jobs [1]			
Summer youth			
Older Americans employment	4,392	3,060	408
Comprehensive employment and training jobs (CETA I)			
Job opportunities program			
Indirect jobs:			
300 Increase for EPA construction grants	200	24	2
Increase for water resources public works program	315	282	21
400 Acceleration of highway program above Administration proposal	(2)	170	46
Extension of Emergency Housing Act	3,000	----------	[3] 400
450 Accelerated public works	2,000	600	40
Total	$10,845	$5,386	1,037

[1] Includes Administration fiscal year 1977 supplemental request made subsequent to first budget resolution.
[2] $1,000,000,000 of prior year budget authority in addition to President's budget.
[3] Assumes the utilization of the $2,000,000,000 in GNMA funds now available.

Program Reform

In developing its first budget resolution, the Committee assumed that the Congress would act upon several program reform proposals identified by the President or suggested by various House committees in their committee views and estimates. Overall, these reform proposals were more modest in scope than those proposed by the President. The first resolution assumption would have provided an aggregate outlay savings of nearly $3 billion in fiscal year 1977, and would have had an even more substantial impact on long-run trends in the federal budget. Among the items contemplated in the first resolution were the elimination of the so-called "1 percent kicker" payment to government retirees; reforms to benefit programs such as food stamps, AFDC, Medicare and Medicaid; and legislation to provide for the sale of strategic material surpluses and naval petroleum reserves.

Realization of the outlay savings implied in each of these first resolution assumptions would require legislative action. At this point, some action has been taken on each proposed reform, but only one, involving oil produced from the sale of naval petroleum reserves, has become public law. The second resolution reflects a realistic assessment of the prospects for the remainder. In aggregate, it is now anticipated that just under one-half the anticipated savings, or $1.4 billion, can be achieved. This forecast is supported by letters and statements from the various subcommittee chairmen involved.

Had the remaining program reforms been adopted this year, approximately $1.6 billion would have been cut from the second resolution deficit, and far more would have been saved over the coming years. The Budget Committee will continue to pursue these and other potential areas for improved efficiency and cost reductions in its future deliberations.

A listing of the program savings assumed in the second budget resolution appears in the table below. Further discussion of these items is contained in the recommendations for the various functional categories. The table follows:

SAVINGS ASSUMED THROUGH LEGISLATIVE ACTION IN THE SECOND BUDGET RESOLUTION

[Outlays in millions of dollars]

Item	Fiscal year 1977 second resolution assumed savings	Second resolution assumed savings fiscal years 1977–81
Completed action: Naval petroleum reserves	450	3,586
Still under consideration:		
Sale of stragegic materials	746	746
AFDC program reform	94	500
Elimination of 1 percent kicker for federal retirees	81	2,900
Elimination of PREP program and eligibility for GI bill for persons entering military	54	1,496
Total	1,425	9,228

As the Committee's 5-year projection of the fiscal year 1977 budget resolution makes clear (see Appendix G), *even if no new program initiatives are taken during the next four fiscal years*, spending will increase from $413 billion in fiscal year 1977 to $549 billion in fiscal year 1981. This increase of approximately $136 billion will nearly absorb the substantial growth in revenues expected to result from the continued economic recovery assumed in the projection, after taking into account the current deficit level. Obviously, if the recovery falls short of these projections, the budget cannot be balanced as soon as projected.

If the Congress is serious about returning to a balanced budget and, at the same time, initiating important new program initiatives, it is essential that significant program reforms be adopted on a continuing and consistent basis. Additional revenues from economic recovery simply are inadequate to achieve these ends. The Committee urges the Congress and its various committees to undertake comprehensive evaluations of existing programs so that unnecessary, obsolete, and wasteful spending is curbed.

D. *Deficit and Debt.*—The resolution provides for a deficit of $50.7 billion in fiscal year 1977, approximately the same as the amount specified in the first resolution. Through a combination of continued economic recovery and responsible spending actions, the Congress is on target in reducing the deficit from its record peace-time high in fiscal year 1976.

The Committee is confident that the projected deficit can be financed without endangering an adequate supply of credit to private borrowers. Although the level of interest rates—particularly short-term rates—may increase slightly as the economic expansion continues, there is little expectation that the upward movement of rates will be significant. The fact is that considerable excess capacity remains in the economy and business demand for short-term funds is still relatively limited.

The resolution sets a public debt level through fiscal year 1977 of $700 billion, $13 billion lower than the amount set in the first budget resolution. The Congress recently adopted a temporary debt ceiling figure of $700 billion through September 30, 1977.

The decrease from the first budget resolution is due in large part to two factors: (1) lower-than-expected borrowing by off-budget agencies during fiscal year 1976, approximately $9.3 billion, rather than the $14 billion previously assumed; and (2) sharply lower federal outlays during fiscal year 1976, $365.6 billion, rather than the $374.9 billion previously anticipated. These factors reduced the base level of the debt outstanding at the end of fiscal year 1976 and, consequently, the fiscal year 1977 debt level is substantially lower than expected. Based on the revised estimates, the debt rise for fiscal year 1977 over fiscal year 1976, omitting the Transition Quarter, is below 9½ percent, a substantial improvement over the two preceding fiscal years when the debt rose 12 and 17 percent, respectively.

The permanent statutory ceiling remains at $400 billion as set by the Act of June 30, 1974.

IV. BUDGET AUTHORITY AND OUTLAYS BY FUNCTIONAL CATEGORIES

This section of the report sets forth the distribution of funding for each of the functional categories of the budget, reflecting the priorities established by the Committee in constructing the budget resolution, and describes the major changes in each function from the first budget resolution.

NATIONAL DEFENSE

Function 050

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	112,500	100,800
Second Budget Resolution	112,086	100,606
Difference over (+) under (−) First Resolution	−414	−194
Amount remaining requiring House action	749	849

The resolution includes budget authority of $112.1 billion and outlays of $100.6 billion for this function. This is a decrease of $414 million in budget authority and $194 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 24.3 percent of total outlays recommended by the Committee for fiscal year 1977. Funds are provided to develop, maintain and equip the military forces of the United States, to provide military assistance to friendly foreign governments, and to finance defense-related activities of the Energy Research and Development Administration. Major areas of funding include pay and benefits to active military and civilian personnel; military retired pay; all funding required for research, development and procurement of weapons systems and supporting equipment; military construction including family housing; and operations and maintenance of the entire defense establishment. Funding is also provided for the development and procurement of nuclear weapons and naval reactors managed by ERDA. Receipts from the sale of excess strategic material are also included in this function.

Major department and agency	*Major programs*
Department of Defense	Department of Defense—Military
Energy Research and Development Administration (Nuclear Weapons and Naval Reactors)	Military Assistance
	Foreign Military Sales, Trust Fund
	Atomic Energy Defense Activities
	Defense-Related Activities

SUMMARY OF CHANGES FROM FIRST REDUCTION

House Action

Cost reestimates, actions completed by the House since the first budget resolution, and an estimate of the conference action on the Defense Appropriations bill reduce the first resolution target by $1,062

million in budget authority and $558 million in outlays. This estimate assumes the Defense Appropriations bill after final passage will provide budget authority of $104.6 billion and outlays of $94.1 billion.

Spring Supplemental

The first budget resolution assumed $1,624 million in budget authority and $1,581 million in outlays for the Defense Department's Spring Supplemental, primarily to cover the costs associated with future military and civilian pay raises. The basis in the first budget resolution and the President's budget for this estimate was an anticipated average pay increase for active military and general schedule employees of 4.7 percent on October 1, 1976. The second budget resolution assumes a full comparability pay increase to average 4.8 percent for active military and general schedule employees and a pay raise for Wage Board employees based on current law. Funding for typhoon damage to Guam is also assumed. These adjustments increase the first budget resolution estimate for the Spring Supplemental by $648 million in budget authority and $364 million in outlays.

Other Pending Items

The first budget resolution assumed receipts of $746 million from new legislation authorizing the sale of selected materials from the national stockpile. The legislation has not yet passed the House; however, hearings have been held in both the House and the Senate. The second budget resolution continues the same assumption as the first resolution for this item on the basis that new legislation will be enacted to authorize the sale and provide receipts of $746 million in fiscal year 1977.

The President resubmitted to the Congress on August 23, 1976, authorization requests to restore program reductions in procurement, research and development imposed by the Congress. This request would increase the approved Defense Authorization bill (signed by the President on July 14, 1976) by $1,820 million. The second budget resolution assumes the resubmitted authorization will not be approved in fiscal year 1977.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of benefits and allowances to Armed Forces personnel		650
Exclusion of military disability pensions		90

INTERNATIONAL AFFAIRS

Function 150

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	9,100	6,600
Second Budget Resolution	8,770	6,763
Difference over (+) under (−) First Resolution	−330	+163
Amount remaining requiring House action	486	....

The resolution includes budget authority of $8.8 billion and outlays of $6.8 billion for this function. This is a decrease of $330 million in budget authority and an increase of $163 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 1.6 percent of the total outlays estimated for fiscal year 1977. Its share of total Federal outlays has been about level for the five-year period up to fiscal year 1977. Programs in this function finance the foreign affairs establishment, including embassies and other diplomatic missions abroad; sale of U.S. commodities under the Food for Peace programs; foreign aid loan and technical assistance activities in the less developed countries; security supporting assistance, primarily to Israel and Egypt; and Export-Import Bank activities.

Major departments and agencies	*Major programs*
Department of State	Foreign Affairs
United States Information Agency	Foreign Aid
Agency for International Development	Food for Peace
Department of Agriculture	Export Promotion
Export-Import Bank	
Department of Treasury	

SUMMARY OF CHANGES FROM FIRST RESOLUTION

The net budget authority decrease from the first resolution is accounted for by a lower estimate of Export-Import Bank activity (−$279 million) and an increase in the estimate for offsetting receipts which will be credited to this function. The increased outlays in fiscal year 1977 are accounted for by the late passage of the fiscal year 1976 Foreign Assistance Appropriations bill, and by a change in the Security Assistance Program estimates which will result in faster spending than assumed in the first resolution.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of income earned abroad by U.S. citizens		160
Exclusion of gross-up on dividends of LDC corporations	55	
Deferral of income of domestic international sales corporations (DISC)	1,420	
Deferral of income of controlled foreign corporations	365	
Special rate for Western Hemisphere trade corporations	50	

GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Function 250

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	4,600	4,500
Second Budget Resolution	4,595	4,505
Difference over (+) under (−) First Resolution	−5	+5
Amount remaining requiring House action	----	----

The resolution includes budget authority of $4.6 billion and outlays of $4.5 billion for this function. This is a decrease of $5 million in budget authority and an increase of $5 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function contains 1.1 percent of total outlays recommended for fiscal year 1977. Programs in this function include space research and technology, general science, and basic research not specifically covered by other functional areas. The budgets for the National Science Foundation (NSF), certain research programs of the Energy Research and Development Administration, a small Smithsonian Institution program, and the National Aeronautics and Space Administration (NASA) (except for aeronautical programs) are within this category.

Major agencies	*Major programs*
Energy Research and Development Administration	General Science and basic research
National Science Foundation	Manned space flight
National Aeronautics and Space Administration	Space science, applications and technology
	Supporting space activities

SUMMARY OF CHANGES FROM FIRST RESOLUTION

The slight changes from the first resolution reflect completed House action for programs in this function.

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NATURAL RESOURCES, ENVIRONMENT, AND ENERGY

Function 300

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	17,000	15,700
Second Budget Resolution	17,923	16,227
Difference over (+) under (−) First Resolution	+923	+527
Amount remaining requiring House action	6,503	683

The resolution includes budget authority of $17.9 billion and outlays of $16.2 billion for this function. This is an increase of $923 million in budget authority and an increase of $527 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 3.9 percent of the total outlays recommended for fiscal year 1977. Programs in this function are primarily designed to develop, manage, and maintain the Nation's natural resources and environment and to promote conservation and development of energy resources. Over the last five years, outlays in this function have risen sharply, reflecting substantial increases in spending for activities related to the national goals of increasing energy security and enhancing the environment.

Major departments and agencies

Department of the Interior
Department of Agriculture
Department of Commerce
Army Corps of Engineers
Environmental Protection Agency
Federal Energy Administration
Energy Research and Development Administration

Major programs

Natural resources management, development, and conservation
Water resources and power programs
Sewage treatment plant construction grant program
Energy R. & D. programs
Management and acquisition of the National Parks
Implementation of National environmental programs
Development, regulation, and conservation of energy and minerals
Management and preservation of the Public Lands

SUMMARY OF CHANGES FROM FIRST RESOLUTION

(In millions of dollars)

	Fiscal year 1977	
	Budget authority	Outlays
EPA construction grants	−2,400	
Nuclear Fuel Assurance Act	+4,000	
Naval petroleum reserve receipts reestimate	+234	+234
Teton Dam disaster compensation payments	+150	+250
Other natural resources	−350	−150
Miscellaneous appropriations action (net)	−711	+193
Total changes	+923	+527

EPA Construction Grants

The resolution includes a decrease of $2.4 billion in budget authority in the allowance for this program. The remaining allowance more accurately reflects the likely level of actual appropriations in fiscal year 1977 associated with the new authorization for this program. Consideration was given to the amount already appropriated for the reimbursable part of the program and to the amount in the Public Works Employment Appropriations bill included in this functional category. The Committee assumes that the total allowance will accommodate all of these completed and pending actions for this program.

Nuclear Fuel Assurance Act

The resolution includes $4.0 billion in budget authority which allows for enactment, subsequent appropriations action, and some contract approval action for this legislation. If the legislation were enacted as passed by the House, amounts assumed in the resolution would permit the approval in fiscal year 1977 of two of the four contracts that might be submitted. The first resolution made no specific allowance for this legislation, but the Committee report noted that the second resolution totals may have to be adjusted to reflect Congressional action on this bill and the specific type of financing adopted.

Naval Petroleum Reserves Receipts Reestimate

The resolution includes a downward reestimate from $684 million to $450 million in offsetting receipts from the sale of oil from the Naval Petroleum Reserves. This reflects slower development of the reserve than assumed in the first resolution. The lower estimate of receipts has the effect of increasing both budget authority and outlays by $234 million.

Teton Dam Disaster

The resolution includes $150 million in budget authority and $250 million in outlays for compensation to the victims of this disaster; $150 million of the outlays is a result of prior appropriations which became available in the transition quarter. The need for this disaster relief was not foreseen in the first resolution.

Other Natural Resources

The resolution includes a reduction of $350 million in budget authority and $150 million in outlays from the first resolution for various

natural resources programs. This reduction reflects the fact that authorizing legislation assumed in the first resolution did not materialize and certain other assumptions which are likely to materialize will require less than full year funding. The second resolution allowance covers funding for energy conservation and coastal zone management initiatives, and the forest firefighting supplemental, among others.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of interest on State and local government pollution control bonds	170	55
Expensing of exploration and development costs	840	195
Excess of percentage over cost depletion	1,020	575
Pollution control: 5-yr amortization	15	
Capital gain treatment of royalties on coal and iron ore	20	50
Capital gain treatment of certain timber income	165	65

AGRICULTURE

Function 350

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	2,300	2,000
Second Budget Resolution	2,317	2,239
Difference over (+) under (−) First Resolution	+17	+239
Amount remaining requiring House action	735	325

The resolution includes budget authority of $2.3 billion and outlays of $2.2 billion for this function. This is an increase of $17 million in budget authority and $239 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 0.5 percent of the total outlays recommended for fiscal year 1977. It contains only the farm income stabilization and research and service programs of the Department of Agriculture. Department programs related to food stamps and food-for-peace are discussed in the income security function and international affairs function, respectively.

Major department	*Major programs*
Department of Agriculture	Price support and related (Commodity Credit Corporation) programs
	Federal Crop Insurance
	FMHA Farm Loans
	Research Programs
	Extension Programs
	Consumer Protection, Marketing and Regulatory Programs
	Economic Intelligence

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Higher outlays in this function result from revised estimates for short-term export credits in the Commodity Credit Corporation. The second resolution assumes that these export credits will be increased by $300 million. This adjustment reflects an increased number of loans as a result of the record large harvests expected this fall, consistent with the present level of new loans.

Other changes reflect a relatively small increase in budget authority for miscellaneous changes in the Agriculture and Related Agencies Appropriation Act and a decrease in outlays for commodity programs in the Commodity Credit Corporation.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Expensing of certain capital outlays	115	360
Capital gain treatment of certain income	40	565
Cooperatives: deductibility of noncash patronage dividends and certain other items	455	

COMMERCE AND TRANSPORTATION

Function 400

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	18,200	17,700
Second Budget Resolution	17,699	16,984
Difference over (+) under (−) First Resolution	−501	−716
Amount remaining requiring House action	3,434	209

The resolution includes budget authority of $17.7 billion and outlays of $17.0 billion for this function. This is a decrease of $501 million in budget authority and $716 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function provides 4.1 percent of the total outlays recommended for fiscal year 1977. It includes assistance to transportation and the promotion and regulation of commerce and credit. Included are activities financed by the highway trust fund and other ground, air, and water transportation programs; aeronautical research; assistance to mortgage credit and thrift institutions and small business; federal Government support of the Postal Service; and the activities of regulatory agencies.

Major departments and agencies	*Major programs*
Department of Transportation	Highway construction and safety
Department of Commerce	Mass transit
Department of Housing and Urban Development: FHA and GNMA	Railroads
Department of Agriculture: FmHA	Airways and airports
Postal Service	Maritime subsidies
Small Business Administration	Coast Guard
NASA: Aeronautical Research	Mortgage insurance programs
Regulatory Commissions	Rural housing programs
	Payments to the Postal Service
	Small business assistance
	Regulatory agencies

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Several revisions in estimates reflect current outlay trends and recent information, of which the largest is a reduction of $662 million in estimated outlays for highway programs. This results from a slowdown in obligations during fiscal year 1976. Amounts for anticipated transportation supplementals, now estimated at $425 million in budget authority and $200 million in outlays, have been reduced from the

first resolution figure based on legislative action to date and re-evaluation of anticipated needs.

The resolution continues to provide budget authority of $3 billion for the discretionary program of mortgage credit assistance assumed in the first budget resolution. The Committee observes that the housing industry continues to lag well behind other segments of the economy, particularly in the category of multi-family housing construction, and that the unemployment rate in the construction industry, now at 18 percent, is substantially higher than the national average.

The Committee has not included any funds for additional subsidies to the U.S. Postal Service in view of the major differences between the House and Senate versions of pending legislation. Deficits arising from postal operations can continue to be funded by borrowing pursuant to existing law.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Investment credit	6,370	1,445
Depreciation on buildings (other than rental housing) in excess of straight line	280	215
Asset depreciation range	1,630	175
Dividend exclusion		350
Capital gain: corporate (other than farming and timber)	900	
Capital gain: individual (other than farming and timber)		6,225
Financial institutions: excess bad debt reserves	570	
Exemption of credit unions	135	
Deductibility of interest on consumer credit		1,075
Expensing of research and development expenditures	695	
Corporate surtax exemption	4,180	
Deferral of tax on shipping companies	130	
Railroad rolling stock: 5-yr amortization	10	
Excess 1st year depreciation	165	85
Exclusion of interest on state and local industrial development bonds	195	90
Deductibility of nonbusiness state gasoline taxes		600
Expensing of construction period interest and taxes	1,065	570
Capital gains at death		7,280
Deferral of capital gain on home sales		890
Credit for purchase of new homes		100
Deductibility of mortgage interest on owner-occupied homes		4,710
Deductibility of property taxes on owner-occupied homes		3,825
Depreciation of rental housing in excess of straight line	125	455

COMMUNITY AND REGIONAL DEVELOPMENT

Function 450

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	7,400	7,800
Second Budget Resolution	9,584	9,078
Difference over (+) under (−) First Resolution	+2,184	+1,278
Amount remaining requiring House action	3,174	2,035

The resolution includes budget authority of $9.6 billion and outlays of $9.1 billion for this function. This is an increase of $2.2 billion in budget authority and $1.3 billion in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 2.2 percent of the total outlays recommended for fiscal year 1977. It encompasses various community development activities, including Community Development block grants, Urban Renewal and other related programs of the Department of Housing and Urban Development, ACTION, the District of Columbia, and the Community Services Administration. The function also includes area and regional development programs, such as rural development under the Department of Agriculture, Indian programs operated by the Department of Interior, economic development programs under the Department of Commerce, and the Appalachian Regional Commission. In addition, this function includes disaster relief and insurance programs.

The function also includes the job-stimulus programs of accelerated public works and antirecession financial assistance pursuant to the Public Works Employment Act of 1976.

Major departments and agencies

Department of Housing and Urban Development
Department of Agriculture: FmHA
Department of Commerce: EDA
Department of Interior: BIA
Small Business Administration
Community Services Administration
ACTION
District of Columbia

Major programs

Community Development Block Grants
Rural Water and Waste Disposal Grants
Community Services Program
Economic Development Assistance
Appalachian Regional Programs
Indian Programs
Disaster Relief
Flood Insurance

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Funds provided in the first resolution for job-stimulus programs under Allowances are now transferred to this function. These transferred amounts, combined with funds for similar purposes included within function 450 in the first resolution, are sufficient to accommodate the House-passed Public Works Employment Appropriation Act, costing $2,938 million in budget authority and $1,850 million in outlays in fiscal year 1977.

The resolution includes a number of re-estimates reflecting current outlay trends and recent information, of which the largest is an increase of $447 million in outlays for the HUD community development block grant program. The resolution also includes $87 million in budget authority and $117 million in outlays in increases approved by the House above assumed funding levels for various programs in the first resolution. The second resolution also provides $100 million in budget authority and outlays for a potential supplemental appropriation request for disaster relief assistance.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Housing rehabilitation, 5-yr amortization	25	40

EDUCATION, EMPLOYMENT, TRAINING AND SOCIAL SERVICES

Function 500

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	24,600	23,000
Second Budget Resolution	23,884	22,187
Difference over (+) under (−) First Resolution	−716	−813
Amount remaining requiring House action	7,786	3,762

The resolution contains budget authority of $23.9 billion and outlays of $22.2 billion for this function. This is a decrease of $716 million in budget authority and $813 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

Outlays for this function represent about 5.4 percent of the total outlays recommended by the Committee for fiscal year 1977. It includes programs designed to promote the extension of knowledge and skills and to assist individuals to become self-supporting. About 43 percent of the outlays provide for general education programs including elementary, secondary, vocational and higher education as well as research and general education aids. Public service employment, training and other labor programs and grants to states for social services and rehabilitation account for 57 percent of the outlays. Funds in this function are available primarily as income support directly relating to education and training; cash payments (scholarships, loans and stipends); grants to state and local governments, and other public and private institutions to operate local educational, employment, training or social service programs; and as direct research and departmental management expenditures.

Major departments and agencies

Department of Health, Education, and Welfare
Department of Labor
Department of Interior
Department of the Treasury

Major programs

Financial assistance for elementary and secondary education
Occupational, vocational and adult education
Basic educational opportunity grants (BEOGS)
Other higher education programs
Comprehensive employment and training assistance (CETA)
Social service grants to states (Title XX)
Rehabilitative and developmental disabilities services

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Education Programs

Appropriations for the Departments of Interior and Treasury and the Labor-HEW conference bill contain a net $192 million in budget authority and $216 million in outlays above the first resolution assumptions for education programs. Completed House action for all education programs provides $7.3 billion in budget authority and $8.6 billion in outlays.

However, appropriations for most of higher education, portions of occupational, vocational and adult education and the National Institute of Education have been deferred pending passage of authorizing legislation. The second resolution recommends budget authority of $3.4 billion and outlays of $.7 billion for these remaining unauthorized programs, the same amounts as contained in the first resolution. Second resolution totals for education programs are $10,732 million in budget authority and $9,352 million in outlays.

Employment and Training Programs

The first resolution included $5,317 million in budget authority and $5,114 million in outlays for the work incentive program, employment and training (under the Comprehensive Employment and Training Act, Titles I through V), summer youth, and related employment programs. Appropriation action results in second resolution totals that are $523 million lower in budget authority and $510 million lower in outlays than the amounts contained in the first resolution for these programs. The bulk of the decrease is due to lower appropriations than were anticipated for employment and training under Title I of the Comprehensive Employment and Training Act (CETA).

The temporary public employment programs operated under Title VI of the Comprehensive Employment and Training Act and the Job Opportunities Program under Title X of the Public Works and Economic Development Act have not yet been reauthorized. The second resolution includes $4,135 million in budget authority and $3,907 million in outlays for these programs and remaining unauthorized employment initiatives. These amounts are sufficient to maintain the current 260,000 public service jobs through fiscal year 1977 and provide an additional 240,000 jobs beginning in that year, for a total of 500,000 jobs. The amounts, however, are $415 million less in budget authority and $675 million less in outlays than provided in the first resolution, due to the likelihood that supplemental appropriations will come after the beginning of the fiscal year.

Social Services

The first resolution included $4,175 million in budget authority and $4,158 million in outlays for social services programs. The second resolution includes $4,223 million in budget authority and $4,324 million in outlays for these programs due largely to higher funding in the Labor-HEW Appropriations bill for Older Americans and other Human Development programs. These amounts also include $200 million in both budget authority and outlays for child care, the funding level provided in the conference agreement on H.R. 12455, the day care bill.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of scholarships and fellowships		220
Parental personal exemption for student age 19 and over		715
Deductibility of contributions to educational institutions	280	500
Deductibility of child and dependent care expenses		420
Child care facilities: 5-yr amortization	5	
Credit for employing AFDC recipients and public assistance recipients under work incentive program	10	
Deductibility of charitable contributions (other than education)	350	3,125

HEALTH

Function 550

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	39,300	37,900
Second Budget Resolution	40,527	38,960
Difference over (+) under (−) First Resolution	+1,227	+1,060
Amount remaining requiring House action	1,544	1,152

The resolution includes budget authority of $40.5 billion and outlays of $39.0 billion for this function. These amounts represent increases of $1.2 billion in budget authority and $1.1 billion in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 9.4 percent of total outlays recommended by the Committee for fiscal year 1977. Programs in this function include financing of medical care for aged, poor, and disabled persons; provision of health care for certain population groups, such as American Indians and merchant seamen; and grants to states, localities, and community groups to support health services programs. The function also includes research into the causes and cure of disease; promotion of consumer and occupational health and safety; training support for health workers and researchers; construction of health training and health care facilities; and food, drug, and other product safety and inspection programs.

Major departments and agencies

Department of Health, Education, and Welfare
Department of Labor
Civil Service Commission
Department of Agriculture
Department of Interior

Major programs

Health insurance for the aged and disabled (Medicare)
Grants to states for medical assistance programs (Medicaid)
Bio-medical research
Alcoholism, drug abuse and mental health research, training and services
Health manpower and facilities development
Health delivery system improvement
Health services to designated population groups
Disease prevention and control and food and drug safety
Occupational safety and health
Health insurance for federal employees
Animal and plant health inspection
Mining enforcement and safety

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SUMMARY OF CHANGES FROM FIRST RESOLUTION

All of the increases in budget authority and outlays above the first resolution are due to reestimates of the requirements for the Medicare and Medicaid programs.

[In millions of dollars]

	First budget resolution		Second budget resolution		Change	
	BA	O	BA	O	BA	O
Medicare current law estimates	22,800	21,650	23,092	21,856	+292	+206
Program reform savings		−250				+250
Medicaid current law estimates	9,600	9,600	10,235	10,169	+635	+569
Program reform savings	−300	−300			+300	+300
Other health programs	7,200	7,200				
Appropriated to date			6,600	6,660		
Provided for programs requiring authorization and other initiatives			600	275		
Subtotal (other health)	(7,200)	(7,200)	(7,200)	(6,935)	(-------)	(−265)
Total, function 550	39,300	37,900	40,527	38,960	+1,227	+1,060

Medicare

The current estimate of social security tax receipts and enrollee premiums (which are automatically appropriated as budget authority to the Hospital Insurance and Supplementary Medical Insurance trust funds) provides $23,092 million for Medicare trust funds, an increase of $292 million above the first resolution. Outlays are estimated to increase by $456 million above the first resolution as a result of two factors: lack of authorizing legislation for Medicare cost control and benefit improvements anticipated in the first resolution and a slightly longer length of average hospitalization for Medicare beneficiaries than projected in the first resolution.

Medicaid

The first budget resolution projected federal payments to the states for health care costs for the poor under Medicaid to be $9.6 billion in budget authority and outlays. These totals were partially offset by assumed savings of $300 million in budget authority and outlays to be achieved through legislation to limit the rate of increase in program costs. The current estimate for the Medicaid program is $10,235 million in budget authority and $10,169 million in outlays. These increases of $935 million in budget authority and $869 million in outlays result from the lack of action by the authorizing committee in developing the anticipated cost-limiting legislation and from the continued acceleration in medical care prices. Thus, there continues to be a serious need for cost control legislation in both the Medicare and Medicaid programs, and it is anticipated that this will be given high priority in the next session of Congress.

Other Health Programs

The first resolution provided $7,200 million in budget authority and outlays for all health programs other than Medicare and Medicaid. In addition to authorized programs providing health services, bio-medical

research, and manpower training, the total target included funds for health programs for which authorizations have expired. The major health programs needing legislation include the Emergency Medical Services program, project and formula grants for alcoholism prevention and treatment, and professional manpower training programs.

The second resolution retains the budget authority of $7,200 million provided in the first resolution for health programs other than Medicare and Medicaid, but reduces the outlay estimate to $6,935 million.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of employer contributions to medical insurance premiums and medical care		4,225
Deductibility of medical expenses		2,095
Deductibility of charitable contributions (primarily for health service)	175	830

INCOME SECURITY

Function 600

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	158,900	139,300
Second Budget Resolution	155,872	137,000
Difference over (+) under (−) First Resolution	−3,028	−2,300
Amount remaining requiring House action	1,178	1,129

The resolution includes budget authority of $155.9 billion and outlays of $137.0 billion for this function. This is a decrease of $3.0 billion in budget authority and $2.3 billion in outlays below the first resolution.

DESCRIPTION OF FUNCTION

This function includes 33.2 percent of the total outlays recommended for fiscal year 1977. Programs in this function provide cash and in-kind benefits to people who need permanent or temporary income assistance. Over half of the estimated outlays will go to retirees through such programs as social security, federal civilian retirement, and railroad retirement. In-kind assistance benefits include food stamps and other feeding programs, as well as subsidized housing. Cash benefits include aid to families with dependent children (AFDC), supplemental security income (SSI), and special benefits for disabled coal miners. Cash benefits for the disabled are provided through special programs, the largest of which is the disability insurance component of social security. Finally, unemployment benefits for workers temporarily out of work are included in this function.

Major departments and agencies

Department of Health, Education, and Welfare
Department of Labor
Civil Service Commission
Department of Agriculture:
  Food and Nutrition Service
Department of Housing and Urban Development
Railroad Retirement Board

Major programs

Old-age, survivors and disability insurance
Special benefits for disabled coal miners
Supplemental security income (SSI)
Federal employee retirement and disability
Unemployment insurance
Grants to states for maintenance payments (primarily AFDC)
Food stamps
Child nutrition
Housing assistance
Railroad retirement

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Several major items are involved in the net change from the first resolution:

Social Security and Railroad Retirement

Reestimates of revenue to the social security and railroad retirement funds increase budget authority by $1,274 million. Outlays are increased by $137 million due to a reestimate of outlays from the railroad retirement trust fund and lack of legislative action on elimination of the monthly retirement test in the social security program, as assumed in the first resolution. The resolution includes $6 million in outlays to finance the technical amendments to the Railroad Retirement Act (H.R. 14041) approved by the Interstate and Foreign Commerce Committee.

Federal Employee Retirement

Budget authority is reduced by $303 million due to House action on several entitlement bills as well as a reestimate of the budget authority required to finance the civil service retirement trust fund. Outlays are reduced by $133 million due to a reestimate and the assumed elimination of the one-percent kicker with a reduction in the interval between cost-of-living adjustments. The changes to the Foreign Service retirement program included in the State Department authorization (P.L. 94–350) increase budget authority by $12 million and outlays by $1 million. The resolution assumes enactment of S. 12, Reform of Judicial Survivors Annuities, which will increase budget authority by $14 million and outlays by $2 million.

Unemployment Compensation

An increase in budget authority of $305 million and a decrease in outlays of $1,370 million reflect primarily the impact of the following:

Revenue impact from the Unemployment Compensation Amendments of 1976 (H.R. 10210).

Extension of special unemployment assistance (SUA) as reported to the full Committee on Ways and Means (H.R. 14970).

An assessment that federal supplemental benefits (FSB) will not be extended as assumed in the first resolution.

Aid to Families With Dependent Children

The first resolution assumed savings from reform legislation of $256 million in budget authority and outlays. Final action is considered likely on two AFDC cost-savings bills: the Social Services amendments (H.R. 12455) and an amendment to the Social Security Act which would require unemployed fathers to collect unemployment aid before receiving AFDC payments (H.R. 13272). These bills, which have passed the House, are estimated to reduce AFDC costs by $95 million in budget authority and outlays. These assumed savings and lower anticipated supplemental requirements result in a net reduction of $199 million in budget authority and $248 million in outlays.

Supplemental Security Income (SSI)

The resolution assumes enactment of the Supplemental Security Income Amendments (H.R. 8911), as reported with committee amendments. In addition, the disregard of housing assistance payments pro-

vided under the Housing Authorization Act (P.L. 94–375) will increase outlays by $80 million. The impact of this legislation, together with a reestimate of the current policy level, results in a reduction of $81 million in budget authority and $258 million in outlays.

Food Stamps

Enactment of food stamp reform legislation is anticipated. At this point, the final cost of the legislation cannot be predicted. The House and Senate reform bills differ by $572 million. In addition, the reform legislation will require time for orderly implementation. As a result, the second resolution assumes the current policy levels of $5,550 million in budget authority and $5,509 million in outlays. These levels are $394 million in budget authority and $427 million in outlays below the first resolution.

Subsidized Housing

The HUD-Independent Agencies Appropriation Act (P.L. 94–351) reduced budget authority by $3,589 and outlays by $165 million below the levels assumed in the first resolution.

Other

The remaining differences from the first resolution reflect minor reestimates, House action on appropriations, and a higher spend-out rate for child nutrition programs than was assumed in the first resolution. The net effect of these changes is to reduce budget authority by $67 million and increase outlays by $155 million.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of social security benefits:		
Disability insurance benefits		370
OASI benefits for aged		3,525
Benefits for dependents and survivors		565
Exclusion of railroad retirement system benefits		200
Exclusion of unemployment insurance benefits		2,855
Exclusion of workmen's compensation benefits		640
Exclusion of public assistance benefits		130
Exclusion of special benefits for disabled coal miners		50
Exclusion of sick pay		350
Net exclusion of pension contributions and earnings:		
Employer plans		6,475
Plans for self-employed and others		965
Exclusion of other employee benefits:		
Premiums on group term life insurance		895
Premiums on accident and accidental death insurance		60
Income of trusts to finance supplementary unemployment benefits		5
Meals and lodging		305
Exclusion of capital gain on home sales if over 65		50

VETERANS BENEFITS AND SERVICES

Function 700

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	20,100	19,500
Second Budget Resolution	20,323	19,539
Difference over (+) under (−) First Resolution	+223	+39
Amount remaining requiring House action	1,447	1,444

The resolution provides budget authority of $20.3 billion and outlay of $19.5 billion for this function. This is an increase of $223 million in budget authority and $39 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 4.7 percent of the total outlays recommended for fiscal year 1977. It contains income security for veterans (principally veterans pensions, compensation, and life insurance); education, training and rehabilitation; hospital and medical care; and direct and guaranteed housing loans.

Major agency	*Major programs*
Veterans Administration	Veterans disability compensation
	Veterans pensions
	Veterans education and training (GI Bill)
	Veterans hospital and medical care
	Veterans guaranteed housing loans
	Veterans life insurance

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Several reestimates in this function account for a net reduction of $160 million in budget authority and $165 million in outlays from the first resolution. Estimates of National Service Life Insurance (NSLI) outlays are reduced. Budget authority and outlays for readjustment benefits are reduced to reflect limitations on prepayments incorporated in the HUD-Independent Agencies Appropriation bill.

The HUD-Independent Agencies Appropriation bill also included $333 million in budget authority and $41 million in outlays not assumed in the first resolution for medical care and major construction (primarily the President's budget amendment for hospital construction); these amounts are assumed in the resolution.

Outlays for pending veterans entitlement initiatives assumed in the first resolution are raised by $113 million from the first resolution because there is usually a 100-percent spend-out rate in these entitlement programs. In addition, $50 million in budget authority and outlays is included for an anticipated medical care supplemental, bringing the total additions to the completed House action to $1,447 million in budget authority and $1,444 million in outlays.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of veterans disability compensation		595
Exclusion of veterans pensions		30
Exclusion of GI bill benefits		280

LAW ENFORCEMENT AND JUSTICE

Function 750

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	3,400	3,500
Second Budget Resolution	3,490	3,571
Difference over (+) under (−) First Resolution	+90	+71
Amount remaining requiring House action	50	50

The resolution includes budget authority of $3.5 billion and outlays of $3.6 billion for this function. This is an increase of $90 million in budget authority and $71 million outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function contains 0.9 percent of the total outlays recommended for fiscal year 1977. It includes substantially all of the Federal Government's expenditures for law enforcement, prosecution, the Judiciary, federal correctional institutions, and assistance to State and local government through the Law Enforcement Assistance Administration.

Major departments and agencies

Department of Justice
Department of the Treasury
Civil Rights Commission
Equal Employment Opportunity Commission
Legal Services Corporation

Major programs

Drug enforcement
Immigration and naturalization
Legal services
Customs
Prisons
Courts
Law enforcement assistance
Juvenile delinquency prevention

SUMMARY OF CHANGES FROM FIRST RESOLUTION

The resolution includes increases of $40 million in budget authority and $21 million in outlays for various minor program increases enacted by Congress over the levels assumed in the first budget resolution.

The resolution also provides an allowance of $50 million in budget authority and outlays for pending legislation, including public safety officer benefits, victims of crime, claims under the swine flu immunization program, and increased juror fees.

GENERAL GOVERNMENT

Function 800

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	3,600	3,500
Second Budget Resolution	3,556	3,534
Difference over (+) under (−) First Resolution	−44	+34
Amount remaining requiring House action	1,141	1,089

The resolution includes budget authority of $3.6 billion and outlays of $3.5 billion for this function. This is a decrease of $44 million in budget authority and an increase of $34 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function contains 0.9 percent of the total outlays recommended for fiscal year 1977. It includes the general overhead costs of the Federal Government, including legislative and executive activities, provision of central fiscal, personnel, and property activities; and other services that cannot reasonably be classified in another major function.

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Budget authority and outlays for this function are unchanged essentially from the first resolution.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Credits and deductions for political contributions		65

REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE

Function 850

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	7,350	7,350
Second Budget Resolution	7,617	7,657
Difference over (+) under (−) First Resolution	+267	+307
Amount remaining requiring House action	411	411

The resolution includes budget authority of $7.6 billion and outlays of $7.7 billion for this function. This is an increase of $267 million in budget authority and $307 million in outlays from the first resolution.

DESCRIPTION OF FUNCTION

This function contains 1.9 percent of the total outlays recommended for fiscal year 1977. It includes the general revenue sharing program, the New York City seasonal loan program, the District of Columbia federal payment, and the return of portions of certain taxes and other charges to state and local governments.

Major department	*Major programs*
Department of the Treasury	General revenue sharing New York City seasonal loans District of Columbia Federal payment

SUMMARY OF CHANGES FROM FIRST RESOLUTION

The resolution includes $141 million in budget authority and outlays for increases approved by the House above the first resolution assumptions for the general revenue sharing and mineral leasing programs. The resolution also provides $126 million in budget authority and outlays for pending legislation, including payments-in-lieu of taxes and Virgin Islands grants.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Exclusion of interest on general purpose state and local debt	3,150	1,390
Exclusion of income earned in U.S. possessions	285	
Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes and gasoline)		6,680

INTEREST

Function 900

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	40,400	40,400
Second Budget Resolution	40,400	40,400
Difference over (+) under (—) First Resolution	.....	.....
Amount remaining requiring House action	813	813

The resolution includes budget authority and outlays of $40.4 billion for this function. These amounts are unchanged from the first resolution.

DESCRIPTION OF FUNCTION

This function includes 9.8 percent of the total outlays recommended for fiscal year 1977. It covers interest on the public debt, offset by receipts from off-budget agencies and certain intrafund transactions.

Major department	*Major programs*
Department of the Treasury	Interest on the public debt Interest on income-tax refunds

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Budget authority and outlays for this function are unchanged from the first resolution.

TAX EXPENDITURES

Tax expenditures identified by the Congressional Budget Office and the Joint Committee on Internal Revenue Taxation for fiscal year 1977 are estimated as follows (in millions of dollars):

	Corporations	Individuals
Deferral of interest on savings bonds		685

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ALLOWANCES

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	2,850	1,150
Second Budget Resolution	860	910
Difference over (+) under (−) First Resolution	−1,990	−240
Amount remaining requiring House action	860	910

The resolution includes budget authority and outlays of $0.9 billion for allowances. This is a reduction of $2.0 billion in budget authority and $0.2 billion in outlays from the first resolution.

DESCRIPTION OF FUNCTION

Allowances includes 0.2 percent of the total outlays recommended for fiscal year 1977. It provides for requests which the President will make for pay raises for civilian agencies and, in the first resolution, covered programs for which sufficiently detailed information was not available.

SUMMARY OF CHANGES FROM FIRST RESOLUTION

Civilian agency pay raises are now expected to average 4.8 percent rather than an average of 4.7 percent assumed in connection with the first budget resolution.

Enactment of the Public Works Employment Act of 1976 and funding provided by the Public Works Employment Appropriations Act require transfer of $2,050 million in budget authority and $350 million in outlays to Function 450, Community and Regional Development.

UNDISTRIBUTED OFFSETTING RECEIPTS

Function 950

[In millions of dollars]

	Fiscal year 1977	
	Budget authority	Outlays
First Budget Resolution	−17,400	−17,400
Second Budget Resolution	−16,920	−16,920
Difference over (+) under (−) First Resolution	+480	+480
Amount remaining requiring House action	−170	−170

The resolution includes budget authority and outlays of *minus* $16.9 billion for this function. This offset to outlays is $480 million lower than in the first resolution.

DESCRIPTION OF FUNCTION

This function offsets 4.1 percent of the total outlays recommended for fiscal year 1977. It includes receipts that are offsets to transactions elsewhere in the budget and are deducted from budget authority and outlays of the Government as a whole. Included are the employers' contribution to employee retirement funds, interest paid to trust funds, and receipts from leasing of mineral rights on the Outer Continental Shelf.

SUMMARY OF CHANGES FROM FIRST RESOLUTION

A portion of the function, interest received by trust funds, is made consistent with the recommendation on the interest function.

Rents and royalties from the Outer Continental Shelf are now estimated to provide $3.2 billion, a reduction of $0.8 billion from the first resolution.

APPENDICES

APPENDIX A

HOUSE BUDGET COMMITTEE RECOMMENDATIONS—FISCAL YEAR 1977

SUMMARY OF BUDGET AGGREGATES

[In millions of dollars]

	President's original budget request	First budget resolution	President's July 16, 1976 revision	Second budget resolution	
				Committee recommendation	Difference over (+) under (−) 1st budget resolution
Revenues	351,262	362,500	352,500	362,500	0
Budget authority	433,409	454,200	431,415	452,583	−1,617
Outlays	394,237	413,300	399,973	413,240	−60
Deficit	42,975	50,800	47,473	50,740	−60
Public debt	710,393	713,100	712,700	700,000	−13,100

APPENDIX B

HOUSE BUDGET COMMITTEE RECOMMENDATIONS—FISCAL YEAR 1977

FUNCTIONAL SUMMARY—BUDGET AUTHORITY

[In millions of dollars]

	Function	President's original budget request	First budget resolution	President's July 16, 1976 revision	Second budget resolution: Committee recommendation	Second budget resolution: Difference over (+) under (−) 1st budget resolution
050	National defense	114,905	112,500	115,113	112,086	−414
150	International affairs	9,666	9,100	9,216	8,770	−330
250	General science, space, and technology	4,618	4,600	4,615	4,595	−5
300	Natural resources, environment, and energy	9,702	17,000	11,487	17,923	+923
350	Agriculture	2,262	2,300	2,260	2,317	+17
400	Commerce and transportation	17,925	18,200	13,653	17,699	−501
450	Community and regional development	5,819	7,400	5,679	9,584	+2,184
500	Education, training, employment, and social services	15,943	24,600	16,872	23,884	−716
550	Health	38,038	39,300	38,380	40,527	+1,227
600	Income security	157,678	158,900	157,260	155,872	−3,028
700	Veterans benefits and services	17,681	20,100	18,545	20,323	+223
750	Law enforcement and justice	3,318	3,400	3,307	3,490	+90
800	General government	3,460	3,600	3,494	3,556	−44
850	Revenue sharing and general purpose fiscal assistance	7,347	7,350	7,347	7,617	+267
900	Interest	41,296	40,400	40,187	40,400	0
	Allowances	2,590	2,850	790	860	−1,990
950	Undistributed offsetting receipts	−18,840	−17,400	−16,789	−16,920	+480
	Total	433,409	454,200	431,415	452,583	−1,617

APPENDIX C

HOUSE BUDGET COMMITTEE RECOMMENDATIONS—FISCAL YEAR 1977

FUNCTIONAL SUMMARY—OUTLAYS

[In millions of dollars]

	Function	President's original budget request	First budget resolution	President's July 16, 1976 revision	Second budget resolution: Committee recommendation	Second budget resolution: Difference over (+) under (−) 1st budget resolution
050	National defense	101,129	100,800	101,582	**100,606**	−194
150	International affairs	6,824	6,600	7,137	**6,763**	+163
250	General science, space, and technology	4,507	4,500	4,506	**4,505**	+5
300	Natural resources, environment, and energy	13,772	15,700	15,137	**16,227**	+527
350	Agriculture	1,729	2,000	1,841	**2,239**	+239
400	Commerce and transportation	16,498	17,700	16,417	**16,984**	−716
450	Community and regional development	5,532	7,800	6,027	**9,078**	+1,278
500	Education, training, employment, and social services	16,615	23,000	18,394	**22,187**	−813
550	Health	34,393	37,900	36,493	**38,960**	+1,060
600	Income security	137,115	139,300	136,215	**137,000**	−2,300
700	Veterans benefits and services	17,196	19,500	17,771	**19,539**	+39
750	Law enforcement and justice	3,426	3,500	3,435	**3,571**	+71
800	General government	3,433	3,500	3,477	**3,534**	+34
850	Revenue sharing and general purpose fiscal assistance	7,351	7,350	7,384	**7,657**	+307
900	Interest	41,297	40,400	40,187	**40,400**	0
	Allowances	2,260	1,150	760	**910**	−240
950	Undistributed offsetting receipts	−18,840	−17,400	−16,789	**−16,920**	+480
	Total	394,237	413,300	399,973	**413,240**	−60

APPENDIX D

ECONOMIC STIMULUS

The details on the economic stimulus programs contained in this budget resolution are shown in the table below.

CONGRESSIONALLY-ADDED ECONOMIC STIMULUS IN COMMITTEE'S RECOMMENDATION

[Dollars in millions]

Function and item	Fiscal year 1977		
	Budget authority	Outlays	Number of jobs (thousands)
Direct job:			
450 Anti-recession assistance	$938	$1,250	120
500 Public service jobs [1]			
Summer youth			
Older Americans employment			
Comprehensive employment and training jobs (CETA I)	4,392	3,060	408
Job opportunities program			
Indirect jobs:			
300 Increase for EPA construction grants	200	24	2
Increase for water resources public works program	315	282	21
400 Acceleration of highway program above administration proposal	(2)	170	46
Extension of Emergency Housing Act	3,000	--------	[3] 400
450 Accelerated public works	2,000	600	40
Total	$10,845	$5,386	1,037

[1] Includes Administration fiscal year supplemental 1977 request made subsequent to 1st budget resolution.
[2] $1,000,000,000 of prior year budget authority in addition to President's budget.
[3] Assumes the utilization of the $2,000,000.000 in GNMA funds now available.

METHODOLOGY FOR DETERMINING JOB ESTIMATES

Accelerated Public Works

The most recent study by the Congressional Budget Office estimates that $1 billion in accelerated public works funds generates 56,000 to 70,000 direct jobs during the first twelve months of the program. The Committee has projected 40,000 direct jobs in fiscal year 1977 to result from enactment of Title I of the Public Works Employment Appropriations Act.

Anti-Recession Assistance

CBO estimates that $1 billion in funds for an anti-recession or counter-cyclical assistance program generates 70,000 to 97,000 jobs in the first year. The Committee projects 120,000 direct jobs from Title II of the Public Works Employment Appropriations Act.

Public Service Jobs

A Department of Labor survey in October 1975 found the average cost of a public service job to be $8,200. This was the cost used in the President's budget. In the second resolution the Committee has increased the President's original budget by $2,625 million. This amount divided by $8,200 equals 320,122 jobs.

Summer Youth

Summer youth work nine weeks, 26 hours per week, for a total of 234 hours. They receive $2.30 per hour (the minimum wage) or a total salary of $538.20. They get 7 percent fringe benefits and program administration costs about 8 percent (according to the Department of Labor and OMB), but historically 3 percent of the funds lapse each year. Thus, the total cost per job is $595. The Labor-HEW Appropriation added $195 million to the President's budget for summer youth. The amount of $195 million divided by $595 equals 327,731 jobs. However, since these are only part-time jobs, they must be annualized for the purposes of this chart. The annualization factor is .173. Thus, 327,731 multiplied by .173 equals 56,697 jobs.

Older Americans

Older Americans are employed for 20 hours a week, 50 weeks a year. The Office of Management and Budget and the Department of Labor have confirmed the fiscal year 1977 *Budget Appendix* estimate that $50 million will support 12,400 Older American jobs. This is an average cost of about $4,000 per job. The Committee added $69 million to the President's budget for this program—enough to support 17,250 part-time jobs, or 8,625 annual jobs.

Job Opportunities Program

According to the House Public Works and Transportation Committee, the duration of an average job under this program was eight months at a cost of $5,000. The Committee adds $150 million in outlays above the President's request for the Job Opportunities program. The amount of $150 million divided by $5,000 equals 30,000 jobs. However, since these jobs only last two-thirds of the year, the annual number of jobs is one-third less, or 20,000 jobs.

Comprehensive Employment and Training Jobs (CETA I)

Fiscal year 1975 Department of Labor data reveals that 7 percent of CETA Title I funds are spent on public service jobs which last for nine months at 40 hours a week. The latest full-time equivalent job cost data is for fiscal year 1975 from the Department of Labor. That data showed average full-time equivalent job costs of $9,000. CBO has adjusted this figure by the GNP deflator (1.14) to arrive at a full-time equivalent job cost of $10,260 in fiscal year 1977. The Labor-HEW Appropriation added $300 million to the President's request; 7 percent of which is $21 million divided by $10,260 per job equals 2,048.

Increases for EPA Construction Grant Program and Water Resources Public Works Program

The direct jobs are obtained by calculating the average wages per employee for construction work and adding to it the average materials used per employee. The average wage per employee is $13,350, in

1976 dollars. The average materials per employee would boost this to approximately $20,000 per employee. Therefore, the direct jobs produced are calculated at $20,000 per employee. The indirect jobs resulting from the materials required by the direct jobs are calculated at the rate of one-half a job per direct job produced. (Direct—15,300 jobs; indirect—7,650 jobs.)

Acceleration of Highway Program above Administration Proposal

Highway job estimates are based on Administration testimony to the Budget Committee Task Force on Community Resources that each $1 billion of highway construction produces approximately 46,000 jobs, divided nearly equally between on-site employees and jobs in industries supplying equipment and materials. For the purposes of the job estimate, job creation is attributed at the point of highway obligation rather than outlays, which are considered reimbursements for work already completed.

Mortgage Market Assistance

The standard job-creating estimates used by the House Committee on Banking, Currency and Housing are, per billion dollars of mortgage funds:

Direct jobs	22,500
Indirect jobs	57,500
Total	80,000

Accordingly, for the full $5 billion program of mortgage purchases assumed in the Committee recommendation for fiscal year 1977, the estimates are:

Direct jobs	112,500
Indirect jobs	287,500
Total	400,000

APPENDIX E

CONTROLLABILITY OF OUTLAYS

Congress must control outlays and receipts in order to achieve the surplus or deficit position necessary to meet its economic objectives. This analysis describes the kinds of action required by Congress to control outlays in a given fiscal year.

Congress does not enact outlays. Congress enacts budget authority. It is budget authority that authorizes federal agencies to commit or obligate the Federal Government to spending. No outlay occurs unless previously authorized by Congress as budget authority.

Outlays for a given fiscal year are frequently related to authority which Congress has granted in earlier years. Control of these outlays requires an act of Congress to change existing law. Included within this category are outlays from programs with (1) permanent authority, (2) prior authority, and (3) entitlements already specified by law. For the purpose of this analysis, all other outlays are classified as relatively controllable.

Outlays from "permanent" budget authority become available automatically under existing law and require no further congressional action. Permanent authority is composed almost entirely of trust funds, interest on the debt, and general revenue sharing. Outlays from "prior years" result from budget authority which has been previously enacted on an annual basis. This situation simply reflects the fact that there will always be some time lag between contractual commitment and the actual disbursement of funds to honor contract obligations. Formulas in existing law which set a definite benefit payment and define those people eligible for the payment also account for a significant level of outlays in the budget year. The food stamp and public assistance programs, certain veterans programs, and other programs which require such payments are examples of entitlement programs.

The following table shows that $144.1 billion or 35 percent of the $413.2 billion in outlays will result from permanent authority already made available by existing laws. Lesser amounts of $78.9 billion and $69.1 billion will result from prior authority and entitlement legislation. A total of $292.1 billion or 70.7 percent of the $413.2 billion budget total included in the estimate of the Budget Committee is mandatory under existing law. The portion of the outlays designated as relatively controllable is approximately $121.2 billion, or 29.3 percent of the total.

Outlays within the various classifications of controllability are estimated for each function and appear in the accompanying tables and charts. In the functions for interest, veterans benefits and services, income security, health, and undistributed offsetting receipts, over 75 percent of the outlays result from prior legislative action. On the other hand, in the functions of National Defense; General Science, Space and Technology; General Government; and Allowances, over 60 percent of the outlays are classified as relatively controllable.

TABLE 1.—ESTIMATED CONTROLLABLE OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATIONS FOR FISCAL YEAR 1977

[In billions of dollars]

	Function	Mandatory under existing law			Total	Relatively controllable	Total budget
		Permanent authority	Prior authority	Entitlement and other programs			
050	National defense	−0.8	26.1	8.4	33.7	66.9	100.6
150	International affairs	−.6	3.7	.6	3.7	3.1	6.8
250	General science, space, and technology	−.1	1.6	0	1.5	3.0	4.5
300	Natural resources, environment, and energy	−.9	9.1	0	8.2	8.0	16.2
350	Agriculture	0	.4	1.3	1.7	.5	2.2
400	Commerce and transportation	−.9	10.4	2.8	12.3	4.7	17.0
450	Community and regional development	.1	5.0	0	5.1	4.0	9.1
500	Education, training, employment, and social services	.6	9.6	3.1	13.3	8.9	22.2
550	Health	21.7	3.1	10.6	35.4	3.6	39.0
600	Income security	101.0	6.2	29.5	136.7	.3	137.0
700	Veterans benefits and services	−.1	2.0	12.8	14.7	4.8	19.5
750	Law enforcement and justice	0	1.0	0	1.0	2.6	3.6
800	General government	−3.0	.3	0	−2.7	6.2	3.5
850	Revenue sharing and general purpose fiscal assistance	3.9	.1	0	4.0	3.7	7.7
900	Interest	40.1	.3	0	40.4	0	40.4
	Allowances	0	0	0	0	.9	.9
950	Undistributed offsetting receipts	−16.9	0	0	−16.9	0	−16.9
	Total	144.1	78.9	69.1	292.1	121.2	413.2

Note: Totals may not add due to rounding.

TABLE 2.—PERCENT OF OUTLAYS THAT ARE MANDATORY UNDER EXISTING LAW AND THOSE THAT ARE RELATIVELY CONTROLLABLE IN FISCAL YEAR 1977

	Function	Percent mandatory under existing law	Percent relatively controllable
050	National defense	33.5	66.5
150	International affairs	54.4	45.6
250	General science, space, and technology	33.3	66.7
300	Natural resources, environment, and energy	50.6	49.4
350	Agriculture	77.3	22.7
400	Commerce and transportation	72.4	27.6
450	Community and regional development	56.0	44.0
500	Education, training, employment, and social services	59.9	40.1
550	Health	90.8	9.2
600	Income security	99.8	.2
700	Veterans benefits and services	75.4	24.6
750	Law enforcement and justice	27.8	72.2
800	General government	−77.1	177.1
850	Revenue sharing and general purpose fiscal assistance	52.0	48.0
900	Interest	100.0	0
	Allowances	0	100.0
950	Undistributed offsetting receipts	100.0	0
	Total	70.7	29.3

APPENDIX F

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Under the Budget Committee's recommendations, outlays during fiscal year 1977 for federal aid to state and local governments will be $71,221 million. This is an increase of $10,698 million or 17.7 percent above the $60,523 million proposed in the President's January budget submittal.

Proposed changes in the President's budget are detailed in Table 1. The largest increase, $3,620 million, occurs in Function 500: Education, Training, Employment and Social Services. For the various education programs, the Committee provides significant increases in funding above 1976 levels. The bulk of the increase in this function is for employment and training programs. The Committee rejects the President's proposal to phase out the public service jobs program and includes funding to bring the program to a peak level of 550,000 jobs during the year.

The next largest increase, $3,267 million, over the President's budget is in Function 450: Community and Regional Development. The major portion of this increase results from the $1,850 million provided by the Committee in support of the accelerated public works and anti-recession programs contained in the House passed Public Works Employment Appropriations Act. The Committee provided $117 million to restore various urban and rural categorical programs to 1976 levels and estimates that $847 million more will be utilized by local governments under the HUD commuity development block grant program.

The Committee recommendation provides an increase of $2,100 million over the President's budget and an increase of $300 million over the first resolution for health programs. This rise reflects substantially higher estimates of costs for the Medicaid program, and major increases over the President's budget request for health services and manpower training programs.

The increase of $1,233 million in the Income Security function reflects the Committee's decision to maintain child nutrition programs at current law levels and to include reestimates for other entitlement programs.

Changes recommended in other budget function are smaller. In the first resolution, the Committee provided for increased mass transit funding in the Commerce and Transportation function. These increases are continued in the second resolution but are now offset by downward reestimates in highway outlays stemming from the lag in obligations during fiscal year 1976. The Committee recommends an increase of $360 million for the EPA Construction Grant program in the Natural Resources function. This amount will be used to fund new projects and to reimburse localities for plants built since 1966.

TABLE 1.—FEDERAL GRANT OUTLAYS BY FUNCTION

[In millions of dollars]

	Function	1976 President's estimate	Fiscal year 1977			
			President's January budget [1]	1st budget resolution	2d budget resolution	2d resolution change over (+) under (−) President
050	National defense	77	67	67	71	+4
300	Natural resources, environment, and energy	3,142	4,505	4,925	4,959	+454
350	Agriculture	473	556	566	647	+91
400	Commerce and transportation	7,924	8,990	9,265	8,764	−226
450	Community and regional development	3,802	3,917	6,494	7,184	+3,267
500	Education, training, employment, and social services	14,068	12,497	17,420	16,117	+3,620
550	Health	10,753	10,188	11,800	12,117	+1,929
600	Income security	11,029	11,434	12,695	12,667	+1,233
700	Veterans benefits and services	56	80	80	56	−24
750	Law enforcement and justice	841	805	825	853	+48
800	General government	145	135	135	133	−2
850	Revenue sharing and general purpose fiscal assistance	7,152	7,349	7,349	7,653	+304
	Total	59,462	60,523	71,621	71,221	+10,698

[1] President's budget does not include revisions submitted on July 16. These revisions, most of which were anticipated in Committee action, would increase the President's budget figure by approximately $1,400 million.

APPENDIX G

THE FIVE-YEAR IMPLICATIONS OF THE FISCAL YEAR 1977 BUDGET

Several provisions of the Congressional Budget Act of 1974 require five-year projections of the outlay and revenue consequences of the current budget, assuming that current programs are continued in substantially the same form throughout the five-year period. These projections are not forecasts of the future, since various program changes should and will be made, and economic and demographic assumptions used in developing the projections will inevitably not be identical to the actual conditions that develop. Nevertheless, the projections are valuable tools for demonstrating the degree to which current law controls future spending levels for much of the federal budget.

The analysis below (Tables 3 and 4) illustrates the extent to which current law commits future revenues to present programs. The next analysis (Tables 5 and 6) illustrates the approximate outlays that would be required over the five-year period to maintain all federal programs (not just the ones which presently contain a mandatory inflation adjustment) at fiscal year 1977 activity levels.

There are, of course, many uncertainties about the details of these analyses. However, they clearly demonstrate: (1) that money for real program growth, new program initiatives, and tax reductions will become available slowly as the economy recovers from the recent recession; but, (2) that hard decisions about the value and necessity of many current programs will be required soon if Congress wishes to make available significant additional resources for real program growth, new program initiatives, or tax reductions during the next five years.

The analysis of the future implications of the fiscal year 1977 budget is developed in four steps:

(1) A projection is made of a reasonable path of economic recovery from the recession (a variety of paths could realistically be assumed, and all would lead to somewhat different surplus and deficit results) (Table 1);

(2) A projection is made of the resources that present tax laws (and proposed legislation assumed in the budget resolution) will make available to the federal government, based on reasonable economic assumptions (Table 2);

(3) A projection is made of the outlays that would occur under a narrow definition of future spending commitments built into existing law (and proposed legislation assumed in the budget resolution) (Table 3);

(4) A projection is made of additional outlays likely to be needed to meet cost increases to cover inflation adjustments in all other federal programs (Table 5).

ECONOMIC ASSUMPTIONS

Over the five-year period both revenues and outlays will grow as a result of expansion of the economy, including increases in population and productivity, and the effects of inflation. It is assumed that the economy will continue to recover from the recent recession. If the recovery is slower than the rate indicated by the assumptions shown in Table 1, then budget deficits could occur through 1981. On the other hand, a more vigorous recovery than projected would result in larger budget surpluses.

Gross national product is assumed to increase by almost one-half between 1977 and 1981, providing $2,746 billion in goods and services by 1981. The unemployment rate will decline slowly from 7.4 percent in 1976 to 5.0 percent in 1981, because of the large number of people expected to enter the labor force during that period.

TABLE 1.—ECONOMIC ASSUMPTIONS

[Calendar years]

Selected economic indicators	Actual 1975	1976	1977	1978	1979	1980	1981	Percent increase 1977–81
Current dollar GNP (in billions)	1,516	1,685	1,885	2,050	2,260	2,490	2,746	46
Real GNP (1972 dollars in billions)	1,192	1,262	1,338	1,386	1,455	1,528	1,604	20
Unemployment rate (percent)	8.5	7.4	6.4	6.3	5.9	5.5	5.0	------
Consumer price index (percent change)	9.2	6.0	5.5	5.0	5.0	5.0	5.0	22

RECEIPTS

Based on these economic assumptions and tax legislation assumed in this resolution, receipts are projected to grow by $191 billion, more than 50 percent, from $363 billion in fiscal year 1977 to $554 billion in 1981.

Table 2. Receipts, fiscal year 1977 to fiscal year 1981

	(*In billions of dollars*)
1977	363
1978	408
1979	457
1980	506
1981	554
Increase, 1977 to 1981	191

COMMITMENTS TO OUTLAY INCREASES UNDER EXISTING LAW

The programs enumerated in Table 3 have built-in legislative provisions which impose mandatory expenditure increases as economic and demographic conditions change. Under existing law (or proposed legislation assumed in the budget resolution), these expenditures would grow from $218 billion in 1977 to $309 billion in 1981. This is an increase of $91 billion, or approximately 42 percent.

TABLE 3.—PROJECTED OUTLAYS FOR PROGRAMS WITH INCREASES MANDATED BY EXISTING LAW,[1] FISCAL YEAR 1977 TO FISCAL YEAR 1981 [2]

[In billions of dollars]

Program	1977	1978	1979	1980	1981
Social security (OASDI)	83	93	102	112	123
Railroad retirement	4	4	4	4	4
Civil service retirement	10	11	12	14	15
Military retirement	8	9	10	11	12
Benefits to coal miners	1	1	1	1	1
Unemployment compensation	15	14	14	13	13
Public assistance (AFDC and SSI)	12	13	13	14	14
Housing assistance	3	4	5	5	7
Food stamps and child nutrition	9	9	9	10	10
Medicare	22	25	29	34	40
Medicaid	10	12	13	14	16
Interest	40	47	50	51	52
Total, outlay increases presently mandated	217	240	262	283	307
All other programs	196	196	196	196	196
Total outlays, narrow definition of commitments	413	436	458	479	503

[1] Includes proposed legislation assumed in this resolution.
[2] Columns in tables may not add to totals due to rounding.

Table 4 compares the estimated outlays committed under existing law with estimated receipts, based on the tax laws assumed in the budget resolution and on the assumed economic conditions. Using this restrictive definition of commitments to future outlay increases, a surplus develops by fiscal year 1980. It is obvious, however, that Congress will probably find it essential to increase budgets for other programs also, just to maintain activity levels as inflation pushes costs up.

TABLE 4.—ESTIMATED RECEIPTS COMPARED TO OUTLAYS [1] (OUTLAYS INCREASED ONLY FOR MANDATORY CHANGES UNDER EXISTING LAW

[In billions of dollars]

	1977	1978	1979	1980	1981
Receipts	363	408	457	506	554
Less: Outlay commitments, narrowly defined	413	436	458	479	503
Surplus (+) or deficit (−)	−51	−28	−1	+27	+51

[1] Includes effects of proposed legislation assumed in this resolution.

FURTHER ADJUSTMENTS FOR INFLATION

Table 5 shows the approximate outlay increases that would be needed to maintain 1977 activity levels in programs other than the ones with built-in mandatory increases, shown in Table 3. The largest of these further increases is the amount that will be needed to keep federal civil and military pay at levels comparable to the salaries projected for similar work in private industry.

TABLE 5.—FURTHER ADJUSTMENTS FOR INFLATION

[In billions of dollars]

Program	1978	1979	1980	1981
Pay increases for GS, military, and Wage Board employees	4	7	12	16
Maintain 1977 value of grants	2	4	7	9
Maintain 1977 value of DOD purchases	2	4	7	10
Veterans cost of living increase for GI bill, compensation, pensions, and health care	1	2	3	4
Maintain 1977 level of other federal operations	1	2	4	5
Subtotal	10	21	32	44
Adjustment for indirect effect on interest of inflationary adjustments	([1])	1	2	2
Total further inflation adjustments	10	22	34	46

[1] Less than $500 million.

Table 6 compares projected estimated outlays with estimated receipts if all federal programs were maintained at fiscal year 1977 levels. It differs from Table 4 in that budget increases necessary to offset inflation are assumed for all programs, instead of only for those programs where such increases are mandated under existing law.

TABLE 6.—ESTIMATED RECEIPTS COMPARED TO OUTLAYS (ALL OUTLAYS ADJUSTED FOR INFLATION)

[In billions of dollars]

	1977	1978	1979	1980	1981
Receipts	363	408	457	506	554
Less: Outlay commitments, narrowly defined	413	436	458	479	503
Inflation adjustment for all other programs		10	22	34	46
Subtotal outlays adjusted for inflation	413	446	480	513	549
Surplus (+) or deficit (−)	−51	−38	−23	−7	+5

Tax reductions, new or expanded programs, reductions in lower-priority programs (including programs with presently mandated increases), and departures from the assumed economic conditions would, of course, alter these projections. For example, a somewhat more vigorous economic recovery, yielding increased receipts and lower government costs associated with unemployment, might result in the larger surpluses shown in Table 7.

TABLE 7.—COMPARISON OF SURPLUSES AND DEFICITS USING DIFFERENT ECONOMIC ASSUMPTIONS

[In billions of dollars]

	1977	1978	1979	1980	1981
Narrow definition of commitments:					
Surplus (+) or deficit (−) under economic conditions shown in Table 1	−51	−28	−1	+27	+51
Surplus (+) or deficit (−) with a more vigorous economic recovery	−51	−27	+9	+51	+96
All outlays adjusted for inflation:					
Surplus (+) or deficit (−) under economic conditions shown in Table 1	−51	−38	−23	−7	+5
Surplus (+) or deficit (−) with a more vigorous economic recovery	−51	−36	−13	+18	+51

SUPPLEMENTAL VIEWS OF HON. ROBERT N. GIAIMO

The Congress of the United States, with the passage of the second concurrent resolution establishing expenditure ceilings and a revenue floor for Fiscal Year 1977, will bring to a successful close the first year of full implementation of its new budgetary process. Initiated at a time when rampant inflation accompanied by high unemployment disturbed the calm of economic security, this new process holds the promise of sweeping away the frequently ill-advised and hasty programs of yesterday and offering in their stead a more realistic opportunity in the design of needed public policies for tomorrow.

During these initial two years, we have experimented with different procedures, trying always not to cast off the old ones before the new ones were ready. Chairman Adams sought and heeded the counsel of experience, realizing all along that the Budget Committee could succeed only if it did not rupture the past. Members of the House of Representatives frequently set aside their own preferences and choices to support these first attempts at Congressional budgetary control. The Congress, often the butt of the pessimism of its critics both inside and out, has proven that it can be as innovative as it is tenacious of the customary.

This has not, then, been a trivial cause. Unfortunately, our modern economic life does not lend itself to quick and easy solutions. No matter what our dreams or aspirations for a better life for our people, we must first know what it is we are about. *Knowing* what we are about is our accomplishment to date. No longer are we forced to think in narrow economic terms; no longer are we in doubt of why the deficit is what it is; no longer are we at the mercy of executive estimates or miscalculations; no longer is the potential long-term cost of programs uncharted, and no longer can we lay any valid claim to the commonplace excuse that "had we known, we would have done differently." For these, I believe, the public is grateful.

Those of us who have served on the Budget Committee are painfully conscious of our inadequacies and omissions. In establishing the ceiling for next year, we have not eliminated deficit spending. Our defense budget is high, by anyone's calculations, yet I, for one, am not prepared to recommend drastic cuts on the basis of downright guesses. We are beginning to move above the level of guesswork. We know that our retirement and welfare systems contain the seeds of permanent budgetary imbalance, but our data are still too primitive and unrefined to jump from this fire into what might be a bigger one. We know, further, that we have provided stimulus for a faltering economy; we have tried much harder than the President to get people back to work with knowledge of both the human as well as the budgetary implications of that decision. But even here, ultimate solutions evade our grasp.

I urge all my colleagues to support this resolution and the process because they represent realism. We must all come to understand that

we cannot control the budget or set national priorities without a realistic appraisal of macroeconomic conditions. In this resolution, we can see that the committees of the Congress accepted budget allocations in good faith and were guided by them. This cooperation between those charged with assessing the overall and those responsible for the basic programs was essential. It is, in the final analysis, an exercise in self-discipline in which all must work together. We have begun and we have begun together.

ROBERT N. GIAIMO.

SUPPLEMENTAL VIEWS OF HON. ROBERT L. LEGGETT

The budget process, now at the end of the second year and the first year of full implementation, has much to commend it. We, in the Congress, with the adoption of this second resolution establishing expenditure ceilings and a revenue floor for FY 1977, have begun a new era of honest and forthright accounting of our decisions. This new process is not a single specialized technique for solving our economic problems. Rather it represents a combination of sweeping comprehensiveness with individual program analysis to give each and every Member a basis for managing the present and planning for the future in more precise budgetary terms than heretofore thought possible.

This second budget resolution contains a relatively simple but revealing sketch of our present dilemma. For one thing, we have not been able to balance the budget, more money flows out than we take in. We do, however, have a much clearer picture of why this is so. We do not have and have not had for almost seven years anything approaching full employment. Unemployment is costly, both in human and dollar terms. Even if one ignores the suffering of the jobless, and I don't see how he or she could, the dollar loss to our economy is staggering. Widespread unemployment costs the taxpayer over sixteen billion dollars for every one percent unemployed. This Committee and this Congress did make an effort to get us more rapidly on the road back to recovery. Despite vetoes and the threat of vetoes, the Congress did provide for a million more jobs than proposed by the President. The Congress did embrace the Humphrey-Hawkins concept of the guaranteed job and set aside funds for its study and implementation. If nothing else, the Congressional budget process makes it clear that full employment is an absolute minimum condition necessary for fiscal responsibility.

The new realism injected by our procedures has made us painfully aware that the minimum controls established this year over the range and direction of expenditures will be insufficient in future years. Appendices to reports all too frequently go unnoticed, but I suggest that all Members make special note of our five-year projections contained in Appendix G. As noted there, if programs just increase as presently mandated, our outlay figure will be almost $100 billion higher than it is today and this does not take into account any adjustments for inflation. Public assistance, Medicare, Medicaid, civilian and military retirement will all increase substantially. Only a healthy economy can support these increases. I have long advocated a wage and price policy that will make our private sector more responsible and cognizant of the long-term implications of its actions. I do not favor rigid and inflexible controls but reasonable guidelines should be a matter of public policy.

Still another problem lies in the area of national defense. Our defense budget is high and, in all candor, I think it is too high in this

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resolution. I cannot believe that we are incapable of finding economies in the mammoth defense budget that would save several billion dollars each year. I am particularly concerned with our large unexpended carry-over balances and with costly programs such as the B–1 Bomber. The new budget process has given us the opportunity to scrutinize more carefully our total allocations to national defense. I believe that we need a more clear cut statement of our national security objectives as they relate to the Soviet threat before we can make a meaningful determination of how costs relate to effectiveness. We need such a comprehensive statement of policy now.

Finally, although this is not an all-inclusive list, tax reform is urgent. The American people are fed up with our tax structure. There is no delicate way to express the contempt many Americans have for a federal tax policy that favors special interests and grants special favors. In this resolution, we have taken a strong position in support of tax reform as included in the measure passed in the House of Representatives a few weeks ago. I intend to press hard to preserve the revenue floor set by our Committee.

I feel the real significance of our second budget resolution is that it reflects Congress' budget priorities, not just the President's. It is our policy for where we should spend and tax and how we should revive our troubled and sagging economy. Our actions this year under the new budget process take us a long way toward regaining the control of federal priorities and purse strings which Congress has let pass to the Presidency by default over a period of many years.

ROBERT L. LEGGETT.

SUPPLEMENTAL VIEWS OF HON. PARREN J. MITCHELL AND HON. LOUIS STOKES

Employing an acute sense of hesitancy we voted to support the Second Concurrent Budget Resolution for fiscal year 1977. Our reluctance is predicated on the budget resolution's inadequate attack on the pervasive problems of structural unemployment; the resolution's acquiescence to an Administration that is perpetrating an international tone of "Cold War Politics" through a mammoth defense budget; and finally, the resolution's inability to address its statutory mandate to establish national priorities.

In adopting the budget ceilings for fiscal year 1977 it is essential to recognize that the Budget Committee has effectively relegated over seven million potential American workers to the dismal reality of unemployment. In voting to pass these ceilings we have acknowledged and accepted the fact that these same Americans are victims of a macroeconomic diversion. Victims of a political economic game designed to utilize the parochial economics of the Philip's curve to feature the poor, aged and fixed income recipients against the young, unskilled and unemployed.

The game rules are as follows:

1. The Budget Committee must adopt a resolution that maximizes the income of those who are fixed income recipients by curtailing the rate of inflation;
2. The Budget Committee must adopt a resolution that maximizes the labor resources of the nation to create a full employment economy; and
3. Any combination of the above will be at the expense of the other, thereby creating a tradeoff.

The game is over and a winner is declared when the budget resolution is passed in the Congress. It is time that the Congress question these provincial rules of the game and recognize that the losers are actually the seven million Americans who are not gainfully employed. We, as Representatives of two large black urban sectors, can not accept as a rule of the game 1.7 million unemployed teenagers with a disproportionate 34 percent actively seeking employment from the black communities of America. We are reluctant to be a participant in a game where blacks and other minorities are a disproportionate number of the losers. It is appalling when we remark that females are also disproportionately represented as failures in the political economic game of budgeting. The losers of the game are victims of an insensitive economic scheme that relegates them to a permanent economic class of structurally unemployed. It is the problem of structural unemployment that this Committee must address through the budget process.

We will not accept that the destiny of seven million unemployed rest in an intellectual tradeoff between inflation and unemployment. If there exists a tradeoff, in the budget process, it is between the combined law enforcement and justice, and income security functions and the

budget allocations for job stimulus. The income security function is the fastest growing sector and represents more than one-third of the total budget.

Income security manifests the price we pay for unemployment by displaying large outlays in unemployment insurance, food stamps, public assistance and other income supplements. With reductions in income security and increases in revenues from individual income tax brought about by job stimulus the budget becomes a macro-economic instrument of sound fiscal policy. With the income security function at unprecedented levels and structural unemployment at an unacceptable level this Committee has resolved to accept the budget consequences of high rates of unemployment. This Committee is also willing to accept the budget implications that evolve from the high correlation between the law enforcement and justice budget function and the unemployment rate. Federal, as well as state and local law enforcement cost rise in times of high unemployment. Our judicial system becomes less effective because of increased case loads in times of high unemployment. Increases in crimes of bodily injury, theft and robbery are all correlated with increases in the level of unemployment. These are budget issues that this Committee must address in the scorekeeping and development of the budget resolution. But what of the social implications of these budget issues? What cost do we, as a society, pay for the social evils of unemployment? How long can the American economy sustain a high level of structural unemployment? These are the budget related questions this Committee must be committed to address through the budget process.

We have continually expressed our disapproval of the escalating national defense function. The international political arena that is being created by massive defense purchases will render a world of hostility and aggression. The logic of large peace-time defense spending is incomprehensible to these Members of Congress. The United States has recently broken the diplomatic barriers that were held for so long with China. The United States has cultivated a rewarding friendship, culminating a joint space venture, with the Soviet Union. The Administration has denied political alliances in the trouble spots of Africa, Latin America and South America, yet we have budgeted for a national defense posture that reflects the isolationism of the "Cold War Politics" of the 1950's.

The ceiling, as set forth in the Second Concurrent Budget Resolution, reveals a problem of establishing national priorities. It is a true case of a lack in priorities to budget a 14% real growth in the defense function and zero real growth in manpower training. The Committee is supporting bombs over brains when we vote real growth in the defense function and zero growth in education. We are noticeably hesistant to support a resolution that emphasizes the destructive, hostile, political isolationism of the defense posture over the constructive, economically enhancing education posture. This country can ill afford to budget political aggression over remedial reading. We cannot, in good conscience, continue to support a budget resolution that does not address the needs of the people.

In an attempt to bring about change in the budget process we look forward to redefining national priorities through the implementation of zero based budgeting. If the zero based budgeting concept is employed on the relatively noncontroversial budget functions with

success, we would be very anxious to utilize the concept to redefine national priorities. If, as predicted by the fiscal year 1977 budget, the unemployment rate at the end of the first quarter of fiscal year 1978 is 6.0 percent then the fiscal year 1978 budget will establish national priorities through the labor market. Zero based budgeting can be employed to determine program viability in meeting the objectives of the labor market.

Through the Human Resources and Community Resources Task Forces we have requested the Congressional Budget Office to analyze program alternatives that can be used to narrow the racial unemployment differential. It is necessary for this Committee to realize the implications of racial economic differentials. The political economy of this country is not a homogeneous subculture. There exist differentials in the economy that must be corrected. Recently some 7,000 teenagers in Chicago and New York protested the general characteristics of labor market entry. They are the victims of a tight labor market that afford the employer the advantage of discriminating against the young unskilled worker. The pervasive effects of this discrimination could well shatter the philosophical foundation on which this country was built. The erosion of the work ethic would surely serve as a festering wound in our capitalist economy. Increases in crimes that are highly correlated with unemployment would dictate increases in the law enforcement and prosecution function. This would surely threaten to replace democracy and jurisprudence with fascism and a paramilitary police state. All of these factors that threaten to destroy the American political economic system are derived from the sole source of high rates of unemployment. The Budget Committee must change the rules of its game and attack the problem of unemployment. We cannot afford to adopt a budget resolution that could possibly threaten the moral and economic fiber of this society. Until such time that we establish national priorities in the budget process this committee will serve as a bookkeeping committee with no focus or national perspective. We believe in the budget process and we are willing to fight on the Floor of the House to support any resolution that addresses our concerns.

LOUIS STOKES.
PARREN J. MITCHELL.

MINORITY VIEWS OF HONS. DELBERT L. LATTA, ELFORD A. CEDERBERG, HERMAN T. SCHNEEBELI, JAMES T. BROYHILL, DEL CLAWSON, GARNER E. SHRIVER, BARBER B. CONABLE, JR., AND MARJORIE S. HOLT

The second budget resolution for fiscal year 1977 essentially confirms without much change the unacceptable fiscal and socioeconomic policies built into the spending excesses and revenue targets contained in the first resolution for the upcoming fiscal year. For that reason the Minority Members of the Committee must also oppose this measure as we did the first resolution for fiscal year 1977. Under the resolution, the combination of excessive spending and an excessive tax burden assures the continuation of the one evil that people at the grass roots in both parties—Democrats and Republicans alike—want to see dealt with effectively—big government.

Our Nation has experienced a substantial and encouraging recovery from the recent recession. It was a recession brought on in large part by an unprecedented string of Federal deficits over the last decade and a half which culminated in severe inflation and resulting unemployment during the period 1973 and 1974 prior to bottoming out in early 1975. We are of course in full agreement that efforts to further reduce unemployment and eliminate the inflationary pressures must receive highest priority. The big questions are what is the best approach to do so and does this resolution work toward accomplishing such goals in a proper manner. We think it does not.

To appreciate the significance of this resolution it is helpful to go back and explore the underlying philosophies of the first budget resolution for fiscal year 1977, which this resolution in effect endorses. Identifying various of the guiding principles (or one might say, the guiding expediencies) that are incorporated into the legislation will enable not only the Congress but also the American people to be in a much better position to judge whether or not the measure fits into what they see as the proper Federal role in our Nation.

This legislation endorses continuation of the misguided philosophy that the Federal government rather than the people themselves should spend the people's money. Rejecting additional tax and spending reductions means that the economy will be forced to stagger along with a big load of Government for at least another year—a critical year in the economic recovery. Yet the resolution rejects the President's proposed tax cut for the American people for the purpose of channeling the money into Government-spending programs. The President had proposed such steps as raising the personal tax exemption from $750 to $1000, raising the standard deduction, reducing the tax rate, and making the 10 percent investment tax credit permanent as a means of promoting job creation.

The highly disturbing trend over the last decade and a half which has seen practically a doubling of income transfer programs from

about 27 percent of the budget to half of the total budget would be continued practically unfettered.

As part of the acceptance of the growing Federal presence through the myriad of aid programs, the legislation embraces enactment of socialistic-type legislation under which the Government would provide jobs as a matter of right to all adults. Similarly, it embraces and encourages the thought of national health insurance which could cost well over $100 billion annually.

The resolution signals indifference to sincere efforts to cut costs and improve the quality of Federal programs in rejecting the President's proposal to consolidate a jumble of nearly 60 programs in the fields of health, education child nutrition and social services into four bloc grants which could increase efficiency and reduce costs.

These are some of the guideposts on which this resolution is based. They are guideposts with which we cannot agree. What we should strive for is a Congressional budget plan that is based upon a full appreciation of the impact of Federal spending on the economy and its potential danger of precipitating another round of energy-sapping inflation.

An essential element of such awareness must be a recognition that the Congressional track record is indeed poor in doing away with programs of aids and benefits even though their shortcomings are amply demonstrated. This has been shown over and over again.

For a current example we cite the case of the 1 percent "kicker." This was made a part of a law enacted in 1969 giving civilian and military retirees cost-of-living adjustments, the kicker having been hit upon as a means of compensating for delay incurred in granting the cost of living adjustment. What has been found is that over the years the kicker resulted in overcompensating retirees by approximately 20 percent over and above the actual rise in cost-of-living during that same period of time. The first budget resolution for fiscal year 1977 called for acceptance of the President's pay restraint package, which over a 5-year period would achieve $10.37 billion in savings. The 1 percent kicker is part of that package and outright repeal of just the kicker represents potentially a $3.6 billion savings over a 5-year period. A provision essentially to eliminate the 1 percent kicker was incorporated in legislation which several weeks ago failed by a relatively narrow margin to gain the necessary two-thirds vote to pass under suspension of the rules. Another effort was rescheduled but has been subsequently abruptly pulled off the schedule and the word now is that it appears the proposal is dead for the session.

Why? Why should it not be possible to achieve approval of a simple reform proposal such as this with a minimum of effort, especially when the issues are so clear-cut? The experience we are having on the retirement kicker is but one example of the paralysis that seems to set in when it comes to taking necessary steps to eliminate or modify programs to set our fiscal house in order. This difficulty must be fully recognized and serve constantly as a deterrent against approval of expensive new Federal programs and benefits.

The Majority report does allude to the need for progress in this regard as it reports on the disturbing fact that the 5-year projections show that even if no new program initiatives are taken during the next four fiscal years spending would increase from $413 billion to $549 billion in fiscal year 1981 and that the increase will largely consume

revenue intake generated from a continuing healthy economy. In commenting on this dilemma, the report (page 21) asserts:

> If the Congress is serious about returning to a balanced budget and, at the same time, initiating important new program initiatives, it is essential that significant program reforms be adopted on a continuing and consistent basis. Additional revenues from economic recovery simply are inadequate to achieve these ends. The Committee urges the Congress and its various committees to undertake comprehensive evaluations of existing programs so that unnecessary, obsolete, and wasteful spending is curbed.

To that we would add that we are in near total agreement. We say "near" total agreement because those otherwise fine-sounding words unfortunately do contain a bothersome qualification about "initiating important new program initiatives," and based on our experience and observations a determined Majority could manage to make practically anything come under that umbrella phrase. However, the admonition that program reforms must be undertaken to eliminate unnecessary, obsolete and wasteful spending is essentially sound. Our wish is that the Majority would heed its own warning with considerably more enthusiasm than has been shown thus far.

Just how important it is for the Majority to reinforce its words about eliminating unnecessary, obsolete and wasteful programs with appropriate actions is evident from a brief review of the role of inflation in large part contributed to by excessive Federal spending in causing the recession; of the role the relaxation of inflation played in the recovery; and how unemployment rates are not likely to respond merely to more Government spending.

INFLATION: UNDERLYING CAUSE OF RECESSION, UNEMPLOYMENT

The greatest threat to the durability of the strong economic recovery that this country has enjoyed for more than a year now is inflation. The budget ceilings proposed by the Majority, however, may re-ignite inflation and undermine the growing confidence in the economy if the Democratic Majority in Congress once again demonstrates that it either cannot or will not take any decisive steps against mounting Federal spending. Again, we affirm that the only way to achieve the highest sustainable rates of employment over the long run is to bring inflation under control. The failure to do this was the major cause of the recent recession.

Various accidental factors in 1973–74 are often mentioned as the causes of the inflation that precipitated the recent recession—the shortage of food supplies, energy cost increases and the dollar devaluation. However these factors account for only a small decrease in the total supply of goods and services, accounting for a rise in the price level of probably no more than 2 percent. The actual rise in the price level was much greater than 2 percent, so there must have been some other cause or causes of inflation that precipitated the recent recession. One substantial underlying cause is the excessive growth in demand relative to supply from 1965 to 1974. Over that period of years, the advance of technology, the growth in the size and quality

of the labor force; and the increase in capital stock assured an average yearly increase in the supply of goods and services of about 4 percent. However, largely due to expansionary policies that were pursued during this period aggregate demand grew at an average annual rate of 8 percent. Hence prices were forced to rise at an average annual rate of 4 percent to make up for the excess of demand over supply. Where did the excess demand come from? Surely Federal spending contributed significantly to creating the excessive demand. During this period Federal government outlays rose 127 percent, from $118.4 billion in fiscal year 1965 to $268.4 billion for fiscal year 1974, while GNP rose only 106 percent, from $658 billion in fiscal year 1965 to $1358.6 billion in fiscal year 1974.

Thus, when the inflationary pressures due to the special factors—currency devaluation, food and fuel price increases—struck in 1973 and 1974, the economy, already weakened by an underlying long-term inflation rate, succumbed and the recession occurred. Only when the inflation rate declined substantially was the stage set for recovery from the recession.

With the decline of prices brought about by the sharp reduction in demand the grounds were set for the beginning of the economic upswing. Although not the only factor in the recovery, the consumer led the way. The critical factor that triggered the recovery from the recent recession was not so much the stimulus of Government spending as it was the substantially lowered inflation rates combined with a renewed confidence that the economy would remain on a steadier course. As measured by the Consumer Price Index, inflation dropped from a high of 11 percent in 1974 to 5 percent at an annual rate so far during 1976.

The Administration's moderate fiscal policy coupled with moderate Federal monetary policy led the way in rebuilding consumer confidence in 1975–76 by reassuring people that the Government was not embarking on short-term emergency programs which would have rekindled the fires of inflation. The country gained confidence from the Administration's determination to promote as fast a recovery as could be sustained over the long run.

More Federal spending is not what is needed to reduce the still unacceptably high unemployment rates. For two reasons: First more Federal spending may aggravate inflation and inflationary expectations and thereby undermine the recovery. Second, the stimulus spending programs offered in the resolution are not likely to affect the fastest growing sectors of the labor force, for example, women and teenagers who are now entering and re-entering the labor force in unprecedented numbers.

The struggle against inflation cannot be postponed until tomorrow, not if we are going to do something effective to promote the highest sustainable employment rates. The temptation to spend our way to a faster recovery must be resisted. Particularly now, as the recovery moves into its second year, the Government must not act as a competitor against private industry and business in the private capital markets. As Secretary of the Treasury Simon pointed out to the Committee:

> The achievement of our capital formation goals depends on the necessary expenditures being financed in the private sector. In turn, the adequacy of capital flows depends on the

savings of society being less and less used to finance Federal expenditures and more and more focused on capital formation. This is the only way we can sustain a durable recovery over the long run and bring down the level of inflation. If the private sector is unable to finance capital formation because of the huge demands on savings by the Federal Government and because of the resulting strains and distortions introduced in financial markets, the boom-and-recession sequence of the last decade may be repeated. Therefore, it is imperative that we reduce the Federal deficit and work toward budget surpluses as the recovery progresses.

DEFICIENCIES OF RESOLUTION

The specific deficiencies in the budget resolution described in the following paragraphs are meant more as illustrations than as a comprehensive listing.

Among the specific deficiencies in the budget resolution is the lavish budget authority amount set for EPA construction grants. The President's budget revised as of July 17, 1976 recommended no new budget authority; the budget resolution recommends $1.7 billion! Beginning in fiscal year 1977, over $6 billion of existing budget authority will still be available for obligation. These unobligated funds will be sufficient to fund the majority of projects in most States. Consequently no additional budget authority should be needed during fiscal year 1977.

Two of the jobs programs that the resolution places heavy reliance on, public works employment and temporary public service employment, suffer disadvantages which we believe most Government job stimulus programs typically suffer in comparison to allowing the private sector to expand sufficiently to provide jobs for the unemployed. The huge amounts assumed to cover the House-passed Public Works Employment Appropriations Act, $2.938 billion in budget authority and $1.85 billion in outlays, will create relatively few jobs and at an enormous cost of up to as much as $25,000 per job. Furthermore, the peak impact of this "job stimulus" will come in late 1977 or 1978 at a time when the impact may be inflationary—stimulating competition for skilled labor. The best way to create new jobs is to pursue balanced economic policies that encourage the growth of the private sector without risking a new burst of inflation. It has to be borne in mind that the jobs stimulus funding is intended to cover spending over and above that called for in the President's budget which provides, for example, for more than $21 billion in outlays in fiscal year 1977 for important public works such as energy facilities, waste water treatment plants, roads, and veterans' hospitals, representing a 17 percent increase over fiscal year 1976 outlays.

Also, the $3.71 billion in budget authority and $3.485 billion in outlays for public service employment ($3.21 billion and $2.125 billion respectively over and above the amounts requested in the President's revised budget) is likely to provide fewer net total CETA Title VI jobs than the 475,000 on an annualized basis claimed in the report. The jobs creating impact of public service employment programs dissipates rapidly after the first year. Increasingly, States

and localities substitute these Federal public service employment funds for expenditures they would otherwise have made from their own resources. In contrast to the resolution the President's revised budget calls for 260,000 public service employment jobs on an annualized basis to serve as a countercyclical device through calendar year 1976 and coincident with the continued economic recovery, to be gradually phased out by September 30, 1977. (Funding of an additional 50,000 regular CETA Title II public service employment jobs for manpower development purposes is also provided in the President's budget.)

Apparently unmindful of the widespread disaffection with the now discredited Hawkins-Humphrey "Full Employment and Balanced Growth Act," the Democratic Majority still included funds to cover start-up costs for this massive uncontrollable employment entitlement program. This unsound legislation in attempting full employment by Government economic planning would, if ever implemented, produce either skyrocketing inflation or iron-clad wage controls. Since neither of these is acceptable, Hawkins-Humphrey would force the Government to exercise still more pervasive control of the economy.

The $1.1 billion in budget authority and $.12 billion in outlays that the resolution would add to the President's revised budget figures for unauthorized education programs is, as we have pointed out in our views accompanying the first budget resolution, simply a postponement of the day for taking a hard look at current Federal education programs and making appropriate funding decisions. Again the resolution fails to encourage any new direction in education funding, such as focusing more education money on the most needy and at the same time saving money. Instead, the resolution practically guarantees business as usual in the education area with old outmoded programs being funded at high levels alongside their intended replacements.

The resolution abandons hope that the extremely modest Medicare-Medicaid reforms in the first budget resolution will be enacted and therefore raises the funding accordingly. Yet there is no legislative prohibition on the enactment of such reforms during fiscal year 1977.

Funds to cover start-up costs for national health insurance are included in the amounts for the health function. We cannot emphasize too strongly that it was only by a distortion of the Congressional budget process that these start-up costs were inserted into the resolution in the first place. A national health insurance program when fully implemented is estimated conservatively to cost $100 billion. Nothing whatsoever was said of the economic impact of such a program. No thought was given in the Budget Committee hearings to the very real possibility that NHI will insure an astronomical increase in the demand for health care but will do little to increase the supply. The result: inflation in the costs of health care and physicians' services.

CONCLUSION

We once again affirm our support of the Congressional budget process. Among other benefits it enables the Congress to make an overall decision on Federal spending and taxes. We believe, however, that this particular budget resolution has made the wrong decision; it has

opted for more spending and no additional relief to the taxpayer. It perpetuates big Government; it risks higher inflation rates; and it risks higher unemployment rates over the long run.

DELBERT LATTA.
ELFORD A. CEDERBERG.
H. T. SCHNEEBELI.
JAMES T. BROYHILL.
DEL CLAWSON.
GARNER E. SHRIVER.
BARBER B. CONABLE, Jr.
MARJORIE S. HOLT.

SUPPLEMENTAL VIEW OF HON. MARJORIE S. HOLT

I fully concur in the Minority Views expressed in this report with the exception of the statement regarding the 1-percent "kicker." I strongly feel that all proposals to alter the method of compensating retired federal employees for increases in cost of living require further study. We must be extremely cautious that our actions do not adversely affect those living on fixed incomes.

MARJORIE S. HOLT.

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