An Analysis of President Carter's Budgetary Proposals for Fiscal Year 1982

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Committee on Appropriations
House of Representatives

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CONGRESS OF THE UNITED STATES CONGRESSIONAL BUDGET OFFICE

AN ANALYSIS OF

PRESIDENT CARTER'S BUDGETARY PROPOSALS

FOR FISCAL YEAR 1982

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Congressional Budget Office

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

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

PREFACE

An Analysis of President Carter's Budgetary Proposals for Fiscal Year 1982 was prepared at the request of the House Committee on Appropriations to assist Members and staff in preparing for overview hearings on the 1982 budget. The report analyzes the economic outlook for the next two years and the fiscal year impact of President Carter's budgetary proposals. It also examines the major features of the Carter Administration's revenue and spending proposals for 1982 and compares them with past trends and current laws. The effect of the latest Administration budget estimates for the current fiscal year (1981) is presented. Finally, the report contains a brief discussion of the federal credit budget, off-budget outlays, and the federal debt.

The report was prepared by staffs of the Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions, under the supervision of James Blum, William Beeman, and James Verdier. Thelma L. Jones supervised the production of the report, Patricia H. Johnston and Francis S. Pierce edited the manuscript, and it was typed for publication by the Budget Analysis Division.

Alice M. Rivlin
Director

January 1981

CONTENTS

		Page
PREFACE		iii
SUMMARY		xi
CHAPTER I.	THE ECONOMIC OUTLOOK AND THE CARTER ADMINISTRATION'S FISCAL POLICY	1
	The Economic Outlook	1
	The Administration's Budget Proposals and Their Impact on the Economy	4
	Longer-Term Economic and Budget Projections	9
CHAPTER II.	REVENUE ESTIMATES AND PROPOSALS	13
	Estimates of Current Law Revenue for Fiscal Years 1981 and 1982	15
	Carter Administration Legislative Proposals and Other Options	16
	Revenue Reductions	18
	Revenue Increases	23
CHAPTER III.	SPENDING ESTIMATES AND PROPOSALS	29
	Fiscal Year 1981 Estimates and Proposals	30
	Fiscal Year 1982 Estimates and Proposals	35
	Indexed Benefit Payments	43
	Off-Budget Outlays	46
	Federal Debt	48
CHAPTER IV.	THE CREDIT BUDGET	51
	1982 Credit Program Proposals	53
	Credit Program Appropriation Limitations	55
	The 1981 Credit Budget	56
	The Credit Budget Impact on Federal Outlays	58

CONTENTS (CONTINUED)

		Page
CHAPTER V.	THE BUDGET BY FUNCTION	59
	National Defense	60
	International Affairs	76
	General Science, Space and Technology	82
	Energy	84
	Natural Resources and Environment	92
	Agriculture	97
	Commerce and Housing Credit	102
	Transportation	110
	Community and Regional Development	117
	Education, Training, Employment, and Social Services	123
	Health	128
	Income Security	135
	Veterans' Benefits and Services	145
	Administration of Justice	149
	General Government	151
	General Purpose Fiscal Assistance	155
	Interest	157
	Allowances	159
	Undistributed Offsetting Receipts	161
APPENDIX		163

TABLES

		Page
TABLE 1.	THE CARTER ADMINISTRATION'S ECONOMIC FORECAST, CBO'S PRELIMINARY PROJECTIONS, AND THE FORECAST RANGE OF FOUR LARGE-SCALE COMMERCIAL FORECASTERS, 1981-1982 . . .	3
TABLE 2.	THE FEDERAL UNIFIED BUDGET FOR FISCAL YEARS 1980-1982	5
TABLE 3.	DIFFERENCE BETWEEN THE CARTER ADMINISTRATION'S SPENDING AND TAX PROPOSALS AND THE CBO BASELINE ESTIMATES	8
TABLE 4.	SHORT-RUN ECONOMIC IMPACTS OF PRESIDENT CARTER'S FISCAL PROPOSALS	9
TABLE 5.	LONGER-TERM TRENDS IN OUTPUT, PRODUCTIVITY, INFLATION, AND UNEMPLOYMENT, 1948-1980 .	10
TABLE 6.	ADMINISTRATION'S LONG-RANGE ECONOMIC ASSUMPTIONS, CALENDAR YEARS 1983-1986 .	11
TABLE 7.	BUDGET REVENUES BY SOURCE AND CBO ESTIMATES OF PRESIDENT CARTER'S BUDGET REQUESTS	14
TABLE 8.	ADMINISTRATION AND CBO ESTIMATES OF THE CARTER REVENUE REQUEST	15
TABLE 9.	CARTER BUDGET LEGISLATIVE AND ADMINISTRATIVE PROPOSALS FOR REVENUES	17
TABLE 10.	REVENUE EFFECTS OF ALTERNATIVE PROPOSALS TO LIBERALIZE DEPRECIATION	18
TABLE 11.	REVENUE REDUCTIONS FROM DIFFERENT TYPES OF INDIVIDUAL INCOME TAX CUTS	20

TABLES

Page

TABLE 12. DISTRIBUTION OF TAX REDUCTIONS FROM INDIVIDUAL INCOME TAX CUT PROPOSALS, BY INCOME GROUP 24

TABLE 13. TOTAL UNIFIED BUDGET SPENDING FOR FISCAL YEARS 1981 AND 1982 29

TABLE 14. SPENDING ESTIMATES FOR FISCAL YEAR 1981 . . 31

TABLE 15. CBO SPENDING REESTIMATES FOR FISCAL YEAR 1981 33

TABLE 16. ESTIMATED OUTLAY SAVINGS FROM CARTER ADMINISTRATION LEGISLATIVE PROPOSALS 38

TABLE 17. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS FOR SPENDING ESTIMATES 41

TABLE 18. CBO PRELIMINARY REESTIMATES OF PRESIDENT CARTER'S SPENDING TOTALS FOR FISCAL YEAR 1982 42

TABLE 19. FEDERAL RETIREMENT AND DISABILITY PROGRAMS WITH BENEFITS INDEXED TO CHANGES IN THE CONSUMER PRICE INDEX 44

TABLE 20. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES . . 47

TABLE 21. DISTRIBUTION OF FEDERAL FINANCING BANK OUTLAYS (NET) 48

TABLE 22. ESTIMATES OF THE LEVEL OF PUBLIC DEBT SUBJECT TO STATUTORY LIMIT 49

TABLE 23. THE CREDIT BUDGET TOTALS 51

TABLES

		Page
TABLE 24.	THE CREDIT BUDGET TOTALS, ADJUSTED FOR DOUBLE COUNTING IN DIRECT LOANS	52
TABLE 25.	MAJOR FEDERAL CREDIT PROGRAMS AND MAJOR ACTIVITY CHANGES BETWEEN FISCAL YEARS 1981 AND 1982	54
TABLE 26.	CONGRESSIONAL ACTION ON LIMITATION REQUESTS FOR FISCAL YEAR 1981	55
TABLE 27.	LIMITATIONS REQUESTS IN THE FISCAL YEAR 1982 BUDGET	56
TABLE 28.	THE CREDIT BUDGET TOTALS FOR 1981	57
TABLE 29.	NET LOAN OUTLAYS	58

President Carter's budget for fiscal year 1982 recommends outlays of $739.3 billion, revenues of $711.8 billion, and a unified budget deficit of $27.5 billion. The latest budget estimates for 1981 show a $30 billion increase in outlays over the level approved by the Congress in its second budget resolution, and a unified budget deficit of $55.4 billion. If the outlays of off-budget entities are included, the total budget deficits are $78.4 billion in 1981 and $45.8 billion in 1982, as shown in the following table. As a result of these deficits, the federal debt subject to limit is projected to exceed $1 trillion during the next fiscal year.

SUMMARY TABLE 1. THE FEDERAL BUDGET TOTALS FOR FISCAL YEARS 1980-1982 (In billions of dollars)

	1980 (Actual)	1981 Estimates: Second Budget Resolution	1981 Estimates: President Carter's Budget	President Carter's 1982 Budget
Revenues	520.0	605.0	607.5	711.8
Outlays				
Unified budget	579.6	632.4	662.7	739.3
Off-budget entities	14.2	22.0	23.2	18.3
Total outlays	593.9	654.4	685.9	757.6
Deficit (-)				
Unified budget	-59.6	-27.4	-55.4	-27.5
Off-budget entities	-14.2	-22.0	-23.2	-18.3
Total deficit	-73.8	-49.4	-78.4	-45.8
Debt Subject to Limit	908.7	978.6	987.3	1,053.6

THE ECONOMIC OUTLOOK

An acceleration of inflation and record interest rates in the last quarter of 1980 have caused most forecasters to predict a slowdown, if not a decline, in economic growth and rising unemployment during the first half of 1981. Some economists expect that the economy will bounce back vigorously after midyear, partly because of the enactment of tax cuts. Others believe that economic growth will be weak during the next few years given the momentum of inflation and the expectation that the Federal Reserve will pursue stringent monetary policies until the rate of inflation shows substantial improvement.

The Carter Administration expects that recovery from the 1980 recession will resume at a moderate pace in the second half of 1981, after a pause in the first half. Real growth is projected to be 1.7 percent during 1981 (fourth quarter to fourth quarter), and 3.5 percent during 1982. This forecast of economic growth over the two-year period is within the range of recent commercial forecasts and similar to CBO's preliminary assumptions.

Inflation generally is expected to remain at double-digit levels in 1981, with some moderation during 1982. The Carter Administration forecast for 1981 is somewhat higher than various commercial forecasts and CBO's assumptions. In part, this difference may be due to the ten cents a gallon increase in motor fuel taxes proposed by the Administration to begin June 1, 1981. The Carter budget spending estimates assume that the annual cost-of-living adjustment for Social Security and related benefits, which is tied directly to changes in the Consumer Price Index, will be 12.3 percent in 1981 and 11.3 percent in 1982.

The unemployment rate is generally projected to drift higher in the first half of 1981 and then to decline slowly for the next 18 months as economic growth picks up. The Carter budget predicts that unemployment will average 7.8 percent during calendar year 1981 and 7.5 percent in 1982. Interest rates are expected to be very volatile but remain at relatively high average levels throughout the next two years.

The economic outlook is particularly uncertain at this point, and there is a considerable dispersion of views among economic forecasters. Two of the most important sources of uncertainty are inflation and monetary policy. Another sizable boost in oil prices above the increases already assumed in the forecasts, or a year of bad crops, would substantially alter the outlook for the worse. With respect to monetary policy, the Federal Reserve faces the very difficult challenge of reducing inflation. Many believe that its credit policies are likely to choke off, or delay, the projected economic recovery.

The Carter Administration's proposed fiscal policy for fiscal year 1982 would not provide a significant restraint on inflation. The federal budget became strongly expansive in 1980, as the deficit rose sharply to nearly $60 billion from approximately $28 billion in 1979. The deficit rose in 1980 both because of policy changes and because of the recession, which reduced income and therefore tax receipts and increased outlays for unemployment insurance and other programs. The deficit in 1981 is expected to stay roughly at the same level as in 1980, and come down in 1982 as outlay growth slows and revenues are allowed to rise to an estimated 22.3 percent of the gross national product, partly as a result of continued high inflation.

While the Administration's proposed increase in motor fuel taxes would encourage fuel conservation and lessen dependence on foreign oil, it would also have a significant inflationary impact. CBO estimates that the proposed tax would yield motor fuel savings of around 100,000 barrels per day in fiscal year 1982, but would also increase the CPI by approximately 0.6 to 0.7 percentage points in 1982 and up to 1.0 percentage point thereafter.

The projected rapid growth in defense and other federal purchases would provide additional stimulus to the economy, despite the savings proposed in benefit programs and other federal expenditures.

THE 1981 BUDGET OUTLOOK

Less than one year ago, the Congress planned to balance the budget in fiscal year 1981. Now the budget is projected to have a deficit of at least $55 billion. Almost all of the deficit can be attributed to higher spending than contemplated by the first resolution, not to lower revenues. President Carter's 1982 budget projects 1981 outlays at $662.7 billion, almost $50 billion higher than the first budget resolution and $30 billion higher than the second budget resolution approved in November.

Most of the increase in estimated 1981 spending was the result of events over which the Congress has little or no control under current laws. While the first resolution was being debated, the economy took an unexpected nose dive as a result of tighter monetary policy. During the April-June quarter, the economy declined in real terms at a 9.6 percent rate, the sharpest single-quarter contraction of the postwar period. This pushed up unemployment to higher levels than expected, and triggered extended unemployment insurance benefits. The automobile industry was particularly hard hit, and trade adjustment assistance benefits were provided to unemployed auto workers. As a result, unemployment benefit costs rose sharply in 1980, and are projected to remain at fairly high levels in 1981. This accounts for over $7 billion of the increase in estimated spending from the first resolution.

Higher interest rates during the last several months account for an even larger part of the increase in 1981 estimated outlays. Net interest costs are now projected to be over $8 billion higher than assumed for the first budget resolution. The increase in interest rates also means that the cost of student loan insurance will be higher, that fewer federal loan assets will be sold to the public, and that federal assistance to failing thrift institutions will be more than expected a year ago. This adds another $3 billion to the 1981 outlay estimates.

Spending for various indexed benefit payments and other transfer programs that are affected by inflation and high unemployment is now projected to be almost $8 billion higher than estimated for the first budget resolution. The largest increases are for federal employee retirement benefits and health care services, partly as a result of the failure of the 96th Congress to achieve the cost savings contemplated for these programs in the first resolution.

Defense spending is also up about $7 billion from the level assumed for the first budget resolution. Part of this increase (10 percent) is a result of a larger October 1980 payraise for both military and civilian employees than was assumed for the resolution. Most of the increase, however, is the result of higher spending rates for procurement of weapon systems and stepped up defense activities and fuel costs.

Unexpected events also caused increases in federal spending. For example, disaster assistance and Corps of Engineers spending will be about $2 billion higher in 1981 than expected because of Mt. Saint Helens and other natural disasters last year. The heavy influx of Cuban/Haitian entrants last year will cause 1981 spending for refugee assistance to be higher than expected a year ago. The recent Penn Central settlement will add another $2.1 billion to federal outlays in 1981.

On the revenue side, there has been a slight fall-off in expected receipts because of lower incomes now being assumed. Current law revenues for 1981 are now projected to be about $605 billion. President Carter's 1982 budget proposes a net tax increase of $2.5 billion in 1981, largely as a result of his proposed increase in the federal motor fuels tax. The 1981 second resolution revenue estimate was also $605 billion, but this assumed a tax cut this year that would reduce fiscal year 1981 receipts by $10 billion. If the Congress were to pass such a tax cut, with little or no reduction in spending and no other tax changes, the 1981 budget deficit could approach $70 billion.

THE 1982 BUDGET OUTLOOK

The budget outlook for 1982 is little better than for the current fiscal year. CBO estimates that revenues under current law will grow by 17.2 percent in 1982, for an increase of $104 billion, largely as a result of legislated increases in Social Security taxes and continued high inflation which pushes people into higher tax brackets. CBO's preliminary projections for 1982 outlays under current policies show a falling off in spending growth to about 12.5 percent, compared to 14 percent in 1981 and over 17 percent in 1980. The projected deficit under these assumptions would decline to about $34 billion, as shown in the following table.

SUMMARY TABLE 2. CBO BASELINE PROJECTIONS AND REESTIMATES OF PRESIDENT CARTER'S BUDGET FOR FISCAL YEAR 1982 (In billions of dollars)

	CBO Baseline Projections	President Carter's 1982 Budget	CBO Reestimate of Carter Budget
Revenues	708.5	711.8	711.8
Outlays	742.9	739.3	745.0
Deficit (-)	-34.4	-27.5	-33.2

The net effect of the Carter budget proposals would be a small increase in both revenues and outlays above current law levels, adjusted for inflation, population growth, and other increased costs resulting from previous policy decisions. After CBO reestimated the Administration's revenue and spending proposals, adjusting for differences in economic assumptions and estimating methods, the President's proposed revenues would be about $3 billion above CBO's baseline projections, and outlays about $2 billion.

The budget presented by President Carter stresses increased spending for national defense, tax cuts, and spending increases to encourage capital formation and increased industrial productivity, and various measures--including a ten cents a gallon gasoline tax--to encourage energy conservation. To offset the projected $7 billion rise in Social Security taxes in 1982, the Carter budget proposes that individuals and employers be given an 8 percent income tax credit. Various budget reductions and proposed legislative savings, many of them requested in previous budgets, would offset most of the recommended spending increases above current policy levels.

Revenues

The composition and timing of the tax proposals in the Carter budget indicate that the major objective of the Administration's tax policy is to achieve faster economic growth over the long run rather than to provide stimulus to offset the projected weakness of the economy in the near term. The Carter $18.3 billion tax cut package emphasizes incentives for business investment, with about 70 percent of the tax relief going to business in fiscal year 1982 and about 60 percent in future years.

Tax relief for individuals in 1982 comes mainly from an income tax credit equal to 8 percent of Social Security payroll taxes. The tax saving to employees from this proposal in fiscal year 1982 would only be about $5.3 billion. Tax reductions would be concentrated on those workers with incomes between $10,000 and $30,000. Government workers, retirees, and others who do not pay Social Security taxes would not benefit from this tax credit.

All of these tax reduction proposals were contained in the economic revitalization program that the Carter Administration proposed last August. Effective dates for most of the individual tax cuts have been postponed to January 1, 1982, however, while the major business tax cuts are still scheduled to take effect retroactively on January 1, 1981.

The Carter budget also proposes $23.6 billion in tax increases for fiscal year 1982. After adjusting for the restrictive effect of the overall tax program, the Carter Administration tax proposals in the aggregate would raise revenues an estimated $3 billion over projected current law levels. Beside the 10 cents a gallon increase in the gasoline tax, which is estimated to raise $13.1 billion in revenues in 1982, the major tax increase proposals include withholding on interest and dividends ($3.9 billion), new funding for the expired airport and airway trust fund ($1.4 billion), increases in certain other excise taxes that support the highway trust fund ($1.4 billion), and taxation of commodity "straddles" and futures contracts ($1.3 billion).

Outlays

The major spending initiative in President Carter's budget for 1982 is increased spending authority for national defense programs. The budget proposes $200 billion in new budget authority for the national defense function, which CBO estimates would provide about 4 percent in real growth above 1981 levels. The proposed real growth for defense operations, construction, and research, however, masks a significant real decline in the number of major weapons to be purchased. Fewer aircraft, ships, and tanks would be procured at significantly higher costs per unit in 1982 than previously planned.

CBO also estimates that the 1982 defense purchases are underfunded by over $5 billion in President Carter's budget. As a result of higher inflation assumptions for defense purchases than those used by the Administration, CBO estimates that an additional $2 billion in new budget authority would be required for projected fuel consumption, $2 billion for full funding of proposed weapon purchases, and $1 billion for defense supplies and other purchases.

Nondefense spending would be held constant in real terms in 1982. To accomplish this result, the budget proposes a number of reductions in federal spending programs for 1982, many of which would require changes in existing law. The most prominent of the legislative savings proposals are federal employee compensation reform and changes in the indexing formulas for selected benefit programs. Under the pay reform proposals, the comparability increases for the October 1981 payraise would be an estimated 9.1 percent for military employees and 8.6 percent for civilian employees. The Carter Administration estimates that the pay reform proposals would save $3.5 billion in 1982 from the projected 13.5 percent comparability increase under current law. The Carter budget also assumes $1.5 billion in additional savings by limiting the October 1981 payraise to 5.5 percent for civilian employees.

The Carter budget also proposes a shift to annual cost-of-living increases for all indexed federal programs that are currently adjusted more than once a year. Under this proposal, the September increase for federal employee retirement programs would be eliminated for an estimated saving of $1.1 billion in 1982. Annual adjustments for dairy price supports and child nutrition programs, together with a change in the way food stamp benefits are adjusted for inflation, would save an additional $600 million.

72-339 O - 81 - 2

A limited number of new spending initiatives that would require legislative action are also proposed. These include a refundable investment tax credit to provide investment incentives to firms that have little or no earnings, and to those experiencing structural adjustment problems ($2.3 billion in 1982 outlays); making the 8 percent Social Security tax credit refundable to state and local governments, nonprofit organizations, and businesses, but not to individuals ($1.5 billion in outlays as reestimated by CBO); and renewing the Administration's youth education and training initiative to provide basic education and training for educationally disadvantaged, particularly minority youth who are poorly prepared for employment ($2.0 billion in budget authority and $925 million in outlays). A 12.3 percent cost-of-living increase for veterans' compensation benefits, effective in October 1981, is also proposed.

President Carter also recommended that interfund borrowing be authorized for the three major Social Security trust funds to meet the short-term cash flow needs of the old age and survivors insurance program. Such authority would only be sufficient to solve the Social Security financing problems for the next two to three years. Some additional action to increase trust fund revenues and/or curtail projected costs will be necessary before the end of fiscal year 1984.

THE CREDIT BUDGET

The federal credit budget, first instituted last year, records the estimates of new direct loan obligations and new loan guarantee commitments for both on-budget and off-budget agencies. For 1982, the credit budget totals $153 billion, about one-fifth of the size of the federal budget for spending. In addition, the Administration is requesting annual appropriation bill limitations for 67 percent of new credit activities. The purposes of the federal credit budget and the annual program limitations are to exercise greater control over the growth of federal credit activities, to ensure that the level of resources for these activities is justified, allocate resources among the various programs consistent with national priorities, and to give more careful consideration to the impact of total federal credit activity on the economy as a whole.

The credit budget totals shown in Summary Table 3 rise by $34 billion in 1981 and fall by $13 billion in 1982. If the projected decrease is achieved in 1982, it will be a marked departure from the steady growth in federal credit activities, which have grown about a third faster than budget outlays during the past decade. As originally estimated a year ago, the 1981 credit budget projected a 5 percent increase over 1980, compared to the 26 percent increase now estimated by the Carter Administration.

SUMMARY TABLE 3. THE CREDIT BUDGET (By fiscal year, in billions of dollars)

Credit Activity	1980 (Actual)	1981 Estimates: Second Budget Resolution	1981 Estimates: President Carter's Budget	President Carter's 1982 Budget
New Direct Loan Obligations				
Unified budget	37.8	44.6	42.1	34.1
Off-budget	23.6	28.9	32.2	26.1
Subtotal, direct loans	61.4	73.5	74.2	60.2
New Loan Guarantee Commitments				
Gross	134.2	135.8	164.3	166.7
Less secondary	-64.4	-53.0	-73.2	-74.3
Subtotal, primary loan guarantees	69.8	82.8	91.1	92.4
Total, credit budget	131.2	156.3	165.4	152.6

CHAPTER I. THE ECONOMIC OUTLOOK AND THE CARTER ADMINISTRATION'S FISCAL POLICY

The state of the economy has important implications for the federal budget, and budgetary decisions can in turn have significant effects on the economy. This chapter reviews the Carter Administration's forecast of the economy through 1982 and compares it to other economic forecasts, describes the fiscal policy proposed in the Administration's budget, and discusses the longer-term interaction between the economy and the budget.

In brief, the Carter Administration's budget for fiscal year 1982 is based on a forecast of weak growth, high inflation, and high unemployment. The economy is expected to show little, if any, economic growth until mid-year 1981, inflation is expected to continue at or near double-digit levels, and the unemployment rate is forecast to remain close to 7.5 percent through 1982.

The Carter Administration's budget proposal calls for a slowing--but nevertheless high--rate of growth of federal outlays. Spending, which rose by 17.4 percent in 1980, is projected to increase by 14.3 percent in 1981 and 11.6 percent in 1982. Receipts are expected to grow at an even faster pace --by 16.8 percent in 1981 and 17.2 percent in 1982.

On balance, the Administration's budget proposes net tax increases in both 1981 and 1982; the revenue gains which include the proposed 10 cents a gallon motor fuel tax and withholding on interest and dividends more than offset the proposed tax reductions--which include faster depreciation, reduction in the marriage tax penalty, and an 8 percent income tax credit for Social Security taxes. The composition and timing of the Administration's proposed tax reductions indicate that the major objective of tax policy is to boost the capital stock so as to achieve faster economic growth over the long run, rather than to provide a stimulus to offset the projected weakness of the economy in the near term.

THE ECONOMIC OUTLOOK

The Carter Administration's Forecast

The Carter Administration's economic forecast predicts that after a period of little or no growth during the first half of 1981, the economy will continue its recovery from the 1980 recession. Real growth (measured fourth quarter to fourth quarter) is expected to be 1.7 percent in 1981 and 3.5 percent during 1982 (see Table 1). This scenario for economic growth leaves the unemployment rate little changed by late 1982, compared with recent levels; unemployment is projected to inch higher, reaching 7.7 percent in late 1981, before declining slowly to 7.4 percent in late 1982.

Under the Carter Administration's forecast, inflation is expected to remain very high in 1981—about the same as in 1980. Some improvement in inflation rates is expected in 1982, but the increase in the Consumer Price Index will remain near double-digit levels. The Carter Administration's economic projections assume that interest rates will remain very high, consistent with the forecast of continued high inflation. Specifically, the average interest rate on new 91-day Treasury bills is projected at 13.5 percent in 1981 and 11.0 percent in 1982. These projections assume that interest rates decline with the rate of inflation.

The Carter Administration's forecast is broadly in line with that of other economic forecasters and with the preliminary economic forecast used by CBO to generate the budget estimates contained in this report. 1/ The Carter Administration's estimates for nominal GNP growth and the unemployment rate fall within the range of estimates made by four large commercial forecasters (see Table 1). Its forecasts of economic growth and inflation lie close to the range of the commercial forecasts.

Comparisons with other forecasts should, however, be interpreted with great caution. 2/ Forecasts can differ because of differences in the assumptions that underlie the forecasts. The fiscal policy assumptions incorporated in both the commercial forecasts and that of CBO depart substantially from the fiscal policy assumed by the Carter Administration.

1/ The CBO preliminary economic forecast was prepared in November 1980, before the Commerce Department's recent revisions in GNP were available. CBO's formal forecast is being prepared for release in March.

2/ For convenient summaries of recent economic forecasts of 1981, see "The Year Should Improve With Age," Business Week (December 29, 1980), pp. 72-74; and Eggert Economic Enterprises, Inc. Blue Chip Economic Indicators (January 10, 1981). The average forecast for 1981, as reported in these sources, tends to be quite close to that of the Carter Administration. Other forecasters, however, seem to be about one percentage point lower on inflation (some of that difference could be due to the Administration's assumption of higher gasoline taxes).

TABLE 1. THE CARTER ADMINISTRATION'S ECONOMIC FORECAST, CBO'S PRELIMINARY PROJECTIONS, AND THE FORECAST RANGE OF FOUR LARGE-SCALE COMMERCIAL FORECASTERS, 1981-1982

Economic Variable	Administration Forecast a/	CBO Preliminary Projections b/	Range of Four Commercial Forecasts c/
Nominal GNP (percent change)			
1980:4 to 1981:4	12.3	12.8	11.3 to 12.6
1981:4 to 1982:4	12.6	14.1	12.1 to 15.4
Real GNP (percent change)			
1980:4 to 1981:4	1.7	2.2	1.0 to 3.2
1981:4 to 1982:4	3.5	4.0	3.7 to 5.8
Inflation (percent change in GNP deflator)			
1980:4 to 1981:4	10.4	10.3	9.1 to 10.2
1981:4 to 1982:4	8.8	9.7	8.0 to 10.2
Consumer Price Index (percent change)			
1980:4 to 1981:4	12.6	10.0	10.9 to 12.4
1981:4 to 1982:4	9.6	9.7	8.8 to 10.4
Unemployment Rate (percent)			
1981:4	7.7	7.9	7.1 to 8.2
1982:4	7.4	7.1	6.1 to 7.7

Note: The forecasts are not directly comparable because of differences in economic and policy assumptions, and in forecast dates.

a/ Budget of the United States Government Fiscal Year 1982, p. 3.

b/ CBO's preliminary projections were prepared in late November 1980, for the purpose of analyzing the Carter Administration's budget. CBO's formal forecast for 1981-1982 will be available in March 1981.

c/ The models and dates of forecasts are:

Chase Econometrics, Inc., January 7, 1981
Data Resources, Inc., December 24, 1980
Evans Economics, January 7, 1981
Wharton Econometric Forecasting Associates, Inc., December 3, 1980

All of the commercial forecasts assume that individual income taxes will be cut in 1981, and none assume an increase in the motor fuel tax or the withholding of taxes on interest and dividends, which are incorporated in the Carter Administration's forecast. Three of the four commercial forecasts expect growth to be from 1.0 to 1.8 percent in 1981, close to the Carter Administration's estimate, but their forecasts would probably fall below that of the Administration's if they used the same assumptions for tax policy. On the other hand, the Carter Administration's forecast for inflation in 1981 is slightly higher than that of the four commercial models. This difference may be due to the 10 cents a gallon increase in motor fuel taxes proposed by the Carter Administration.

Risks to the Forecast

At present the economic outlook is very uncertain. Two important sources of this uncertainty are inflation and monetary policy. With respect to inflation, another sizable boost in oil prices above that assumed in the forecast, or a year of bad crops, would substantially alter the forecast for the worse. With respect to monetary policy, the Federal Reserve faces the very difficult challenge of reducing inflation without choking off or unduly delaying the recovery. Consumer spending, another source of uncertainty, could be greater than anticipated, as was the case before the 1980 recession. This could produce a stronger economy than currently expected.

THE ADMINISTRATION'S BUDGET PROPOSALS AND THEIR IMPACT ON THE ECONOMY

The impact of the federal budget on the economy became strongly expansive in fiscal 1980. The deficit for the year rose sharply to $59.6 billion from $27.7 billion in 1979 (see Table 2). The deficit rose both because of discretionary policy changes and because the recession reduced income and therefore receipts, while increasing outlays for such programs as unemployment insurance.

The Administration's budget projects a deficit of $27.5 billion in 1982, about one-half of the $55.2 billion deficit anticipated in 1981. The reduction in the 1982 deficit would be attained in part by reducing the growth in outlays to 11.6 percent, from 14.3 percent in 1981, and in part by allowing receipts to increase by 17.2 percent in 1982 over 1981. As a percent of gross national product, outlays would fall from 23.3 percent in 1981 to 23.0 percent in 1982 while receipts would climb from 20.3 percent in 1980 to 21.4 percent in 1981 and to a historic high of 22.1 percent in 1982.

TABLE 2. THE FEDERAL UNIFIED BUDGET FOR FISCAL YEARS 1980-1982

	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982
	Budget Totals (billions of dollars)		
Revenues	520.0	607.5	711.8
Outlays	579.6	662.7	739.3 a/
Deficit	59.6	55.2	27.5
	Growth Rates from Year Earlier (percent change)		
Revenues	11.6	16.8	17.2
Outlays	17.4	14.3	11.6
Outlays in Constant 1972 Dollars	4.4	0.8	1.0

SOURCE: The Budget of the United States Government Fiscal Year 1982, Table 22.

a/ CBO's preliminary reestimates for the Carter budget are $745.0 billion in outlays. For discussion see Chapter 3.

Despite the reduction in the size of the deficit, the slowing in the rate of growth of outlays, and the decline in spending as a fraction of gross national product, the Carter Administration's proposed fiscal policy for 1982 is not expected to restrain inflation significantly. The tax proposals, the rapid growth in defense and other purchases, and the lagged impact of previous fiscal stimulus lie behind this judgment.

The Administration's Policy Proposals

The Administration's tax proposals in the 1982 budget emphasize stimulating longer-term growth, lowering inflationary pressures, and reducing dependence on foreign oil, rather than short-run stimulus to reduce unemployment. The "economic revitalization" program includes proposals to stimulate business capital spending and an income tax credit for Social Security taxes to reduce employers' costs and individuals' tax burdens. The spending initiatives emphasize increases for defense, measures to enhance productivity, and steps to curb the growth of income security outlays.

The Administration's major tax proposals include:

- o Faster depreciation for tax purposes on business capital—a 40 percent reduction in depreciation lives, effective retroactively to January 1, 1981;

- o Income tax credit of 8 percent for Social Security taxes paid by both employers and employees, effective January 1, 1982;

- o Withholding of income taxes on interest and dividend income, effective January 1, 1982;

- o A motor fuel tax increase of 10 cents per gallon, effective June 1, 1981;

- o Reduction in the marriage penalty for income taxes, effective January 1, 1982; and

- o Allowing the Targeted Jobs Tax Credit to expire on December 31, 1981.

These tax proposals are analyzed in Chapter 2. Two of them—the gasoline tax and withholding on interest and dividends--were made by the Administration in 1980, but rejected by the Congress.

The Administration's principal spending proposals, which are analyzed in Chapter 3, include:

- o A substantial increase for defense;

- o Allowing refunds of 30 percent of the investment tax credit earned by corporations with no corporate income tax liability, effective January 1, 1981;

- o An increase for federal support of basic research and development;

- o Reductions in the growth of federal employee compensation; and

- Curbing the growth of spending for income security programs through policies such as making cost-of-living adjustments once, rather than twice, a year for federal retirees, and modifying the index used to adjust benefits for inflation.

Impact of the Proposals on the Economy

The Carter Administration's budget proposals provide both higher taxes and higher spending than the CBO baseline budget estimates, which are extrapolations of the policies adopted in the second budget resolution for fiscal year 1981. On balance, the policies proposed by the Carter Administration in the short run will lead to higher unemployment, lower real GNP, and higher inflation than would the policies reflected in the baseline estimates.

With respect to taxes, the second budget resolution incorporated a sizable, but not clearly defined, tax cut. CBO's baseline estimates assume the tax cut includes the 2-4-7-10 depreciation proposal developed by the Senate Finance Committee (effective January 1, 1981) and a 10 percent reduction in personal income taxes (effective July 1, 1981). The differences between the baseline and the Carter budget with respect to the broad categories of spending are quite small (Table 3). 4/

The economic impact of the Carter proposals, compared to the CBO baseline assumptions, is shown in Table 4. The personal and excise tax increases in 1981 would work quickly to reduce economic activity. In the fourth quarter of 1981, real gross national product (in 1972 dollars) would be about $10 billion (0.7 percent) lower and the unemployment rate 0.2 percent higher than the CBO baseline. In addition, because of the motor fuel tax, the price level as measured by the implicit deflator for gross national product would be 0.5 percent higher in the fourth quarter of 1981. The payroll tax credit would keep the economy from weakening further in 1982 and offset the tendency of the gasoline tax to push up the level of prices still further. 5/

4/ The constant rate depreciation proposal of the Carter budget is not shown in Table 2 since it is roughly of the same magnitude as the depreciation package assumed by CBO, and the short-run implications for the overall economy are probably quite similar.

5/ The business portion of payroll taxes is thought by many economists to represent a component in the price of a firm's output. Thus, a reduction in these taxes will lower business costs and could be passed forward to consumers in the form of lower prices.

TABLE 3. DIFFERENCE BETWEEN THE CARTER ADMINISTRATION'S SPENDING AND TAX PROPOSALS AND THE CBO BASELINE ESTIMATES (NIA basis, billions of dollars)

	Calendar Years	
Budget Changes	1981	1982
Spending		
Purchases of goods and services	-1	8
Transfer payments	6	-2
Grants to state and local governments	2	-2
Total spending	7	4
Taxes		
Income	15	18
Payroll	(0)	(-12)
Other	(15)	(30)
Excise	7	14
Total taxes	22	32

These economic impact estimates help to explain why the Carter Administration's forecast of economic growth lies toward the low end of the range of 1982 forecasts presented in Table 1. In short, its proposed tax package would slow the recovery. 6/

6/ The likely response of the monetary authorities to increased upward pressure on the price level is unclear. Monetary policy could become even more restrictive and set the stage for a lackluster performance of the economy in 1982 as well.

TABLE 4. SHORT-RUN ECONOMIC IMPACTS OF PRESIDENT CARTER'S FISCAL PROPOSALS

Economic Indicator	1981:IV	1982:IV
Gross National Product (Billions of 1972 dollars)	-10	-12
Unemployment Rate (Percent)	0.2	0.3
Implicit Price Deflator (Change from baseline, percent)	.5	.5

LONGER-TERM ECONOMIC AND BUDGET PROJECTIONS

The longer-run performance of the economy has profound implications for the budget, and vice versa. By several important measures, the performance of the U.S. economy has been slipping since the mid-1960s and especially since 1973 (see Table 5). Economic growth averaged 3.8 percent per year during the 1948 - 1973 period, then declined to 2.7 percent during the subsequent five-year period. From 1978 to 1980, there was hardly any growth--due in part to the 1980 recession. Productivity growth declined steadily while inflation continued on its long-term upward trend.

These longer-term economic trends have intensified the pressures on the federal budget. For example, slower economic growth tends to reduce the growth in receipts, while reduced productivity growth tends to lower the growth in real earnings and to weaken the financial condition of the Social Security system.

Economic Projections

The Carter Administration's longer-run economic assumptions are required to be in accord with the goals established by the Full Employment and Balanced Growth Act (P.L. 95-523). Last year, the Administration postponed the timetable for achieving the specific employment and inflation goals of this Act, as it is permitted to do. This year, the Administration

TABLE 5. LONGER-TERM TRENDS IN OUTPUT, PRODUCTIVITY, INFLATION, AND UNEMPLOYMENT, 1948 -1980

	1948 to 1965	1965 to 1973	1973 to 1978	1978 to 1980
	(Average annual changes, in percent)			
Gross National Product in Constant 1972 Dollars	3.8	3.8	2.7	1.5 a/
Output per Hour, Private Business Sector	3.2	2.5	1.0	-.4 b/
Inflation				
GNP Deflator	2.0	4.5	7.3	8.7 a/
Personal Consumption Deflator	1.9	4.0	7.2	9.6 a/
Consumer Price Index	1.6	4.4	7.9	12.5 c/
	(Average annual percent)			
Unemployment Rate	4.9	4.5	6.6	6.3

SOURCE: Computed from data in the Economic Report of the President 1981, Tables B-2, B-3, B-29 and B-39; and Budget of the United States, p. 3.

a/ Data for 1980 are preliminary.

b/ 1978 to 1979.

c/ The 1980 figure is an estimate based on incomplete data.

again postponed attainment of these goals, citing as one reason the huge oil price increases that occurred in 1979.

The budget's longer-range economic assumptions include real growth slightly above 3-1/2 percent over the 1983-1986 period, with unemployment falling to 6.0 percent and inflation declining to a little over 6 percent in 1986 (see Table 6). Unless the performance of the economy improves markedly, however, even these longer-term projections will be extremely difficult to meet.

Budget Outlook, 1983-1986

In the Carter Administration's longer-term projections, the budget comes close to balance in fiscal 1983, and shows large and growing surpluses in 1984-1986. As the Administration pointed out, these projections should not be interpreted as realistic expectations that large surpluses will in fact develop. The projections assume that tax laws are not changed despite rising nominal incomes. The Administration recognized that tax cuts may be necessary to offset the fiscal drag produced by rising tax burdens, but left their timing and make-up unspecified.

TABLE 6. ADMINISTRATION'S LONG-RANGE ECONOMIC ASSUMPTIONS, CALENDAR YEARS 1983-1986

Year	Real GNP (1972 dollars, percent change)	Inflation (percent change in GNP deflator)	Unemployment Rate, Annual Average (percent)
1983	3.5	8.5	7.1
1984	3.7	7.8	6.7
1985	3.7	7.0	6.3
1986	3.7	6.3	6.0

SOURCE: Budget of the United States Government, Fiscal Year 1981, p. 5.

A critical longer-term issue is the extent to which tax reductions will stimulate aggregate demand as against aggregate supply. The Carter fiscal strategy calls for a combination of business tax cuts focused on investment rather than on large, across-the-board cuts in personal taxes. Sustained economic slack would be tolerated during the early years. The Carter Administration doubted that large tax cuts for individuals would have a significant effect in increasing aggregate supply. Moreover, it argued that increases in supply resulting from tax stimulants to investment would likely be relatively small, though significant, and that the increment in supply would occur very gradually. 7/ Some others, however, believe that economic conditions can be improved more rapidly by reducing marginal tax rates on individuals.

7/ See Economic Report of the President 1981, pp. 78-84 and 156-78.

CHAPTER II. REVENUE ESTIMATES AND PROPOSALS

The Carter Administration budget for fiscal year 1982 proposes revenues of $711.8 billion, including a net tax increase of $5.3 billion consisting of $18.3 billion in proposed tax reductions and $23.6 billion in proposed increases. If all the proposals were enacted, however, their restrictive effect on the economy would reduce the net increase over current law to $3.0 billion.

CBO estimates current law revenues for fiscal year 1982 at $708.5 billion, $104 billion above CBO's estimate of current law revenues for fiscal year 1981. 1/ CBO's estimates are very close to those of the Administration for both years.

Under the proposed Carter 1982 budget, revenues as a percentage of Gross National Product (GNP) will increase to 22.3 percent, the highest level in history, (see Table 7). With no tax cuts beyond those proposed in the budget, the Administration estimates that revenues as a percentage of GNP will continue to increase, rising to 24.0 percent by fiscal year 1986.

The Carter tax cut package emphasizes incentives for business investment, with about 70 percent of the tax relief going to business in fiscal year 1982 and about 60 percent in future years. The main tax relief for individuals in 1982 comes in the form of a $5.3 billion Social Security tax credit. The tax increase proposals include a $13.1 billion increase in the federal gasoline tax and $3.9 billion from withholding on interest and dividends, proposals the Congress has rejected in the past.

This chapter compares the revenue estimates of the Carter Administration with those of CBO, and discusses the revenue proposals contained in the budget and other options currently being considered by the Congress and President Reagan.

1/ Current law revenues reflect projected levels of economic activity that would prevail in the absence of changes in fiscal policy.

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TABLE 7. BUDGET REVENUES BY SOURCE AND CBO ESTIMATES OF PRESIDENT CARTER'S BUDGET REQUESTS (By fiscal year)

Source	1966	1971	1976	CBO Estimates of President's Budget a/ 1981	CBO Estimates of President's Budget a/ 1982
			(In billions of dollars)		
Individual Income Taxes	55.4	86.2	131.6	280.9	326.0
Corporation Income Taxes	30.1	26.8	41.4	68.2	72.9
Social Insurance Taxes and Contributions	25.6	48.6	92.7	183.7	213.0
Excise Taxes b/	13.1	16.6	17.0	44.9	68.5
Other	6.7	10.2	17.3	28.4	31.4
Total	130.9	188.4	300.0	606.1	711.8
			(As a percent of GNP)		
Individual Income Taxes	7.6	8.4	8.0	9.9	10.2
Corporation Income Taxes	4.1	2.6	2.5	2.4	2.3
Social Insurance Taxes and Contributions	3.5	4.7	5.6	6.5	6.7
Excise Taxes b/	1.8	1.6	1.0	1.6	2.1
Other	0.9	1.0	1.1	1.0	1.0
Total	18.0	18.2	18.3	21.3	22.3

a/ Includes CBO reestimates of two Administration legislative proposals, as shown in Table 9.

b/ Excise tax receipts include preliminary CBO gross windfall profit tax estimates of $23.0 billion in 1981 and $35.5 billion in 1982.

ESTIMATES OF CURRENT LAW REVENUE FOR FISCAL YEARS 1981 AND 1982

CBO's estimate of current law revenues for fiscal year 1981, based on the preliminary CBO economic forecast, is $604.5 billion, $1.4 billion below the comparable Carter Administration estimate, (see Table 8). CBO's estimate is slightly below the $605.0 billion revenue floor established in the Second Concurrent Resolution on the Budget for Fiscal Year 1981 which assumed a nex tax reduction of $10.1 billion in 1981.

For fiscal year 1982, CBO estimates current law revenues at $708.5 billion, virtually identical with the Carter Administration estimate of $708.8 billion. The $104 billion increase in estimated current law revenues between fiscal years 1981 and 1982 includes $17 billion from inflation-induced increases in individual income taxes, $7 billion from increases in Social Security taxes legislated in 1977, and $12.5 billion from increased windfall profit tax collections. The remaining $63.5 billion comes from increased real growth and increases in corporate and other taxes.

TABLE 8. ADMINISTRATION AND CBO ESTIMATES OF THE CARTER REVENUE REQUEST (By fiscal year, in billions of dollars)

	1981	1982	1983	1984	1985	1986
Administration						
Current Law a/	605.9	708.8	817.1	932.4	1,057.2	1,190.7
Budget Proposals	2.5	5.3	-7.9	-15.0	-15.1	-17.8
Reflows b/	-0.9	-2.3	*	4.9	10.5	15.6
Total	607.5	711.8	809.2	922.3	1,052.6	1,188.5
CBO						
Current Law	604.5	708.5	819.2	932.8	1,057.8	1,191.7
Budget Proposals	2.5	5.9	-8.1	-15.7	-15.9	-19.4
Reflows	-0.9	-2.6	*	4.9	11.1	17.0
Total	606.1	711.8	811.1	922.0	1,053.0	1,189.3

* $50 million or less.

a/ Current law revenues reflect projected levels of economic activity which would prevail in the absence of changes in fiscal policy. The 1985 and 1986 numbers are CBO estimates.

b/ Revenue reduction or increase resulting from restrictive or stimulative effect of tax proposals on economic activity. The 1981 through 1984 reflows are Administration estimates and those in 1985 and 1986 are CBO's. The Administration's current services receipts are equal to its current law estimates plus these reflows.

CARTER ADMINISTRATION LEGISLATIVE PROPOSALS AND OTHER OPTIONS

The Carter budget for fiscal year 1982 includes $18.3 billion in tax reduction proposals, all of which were contained in the economic revitalization program proposed by the Administration last August. Effective dates for most of the individual tax cuts have been postponed to January 1, 1982, however, while the major business tax cuts are still scheduled to take effect retroactively on January 1, 1981.

The Carter budget also proposes $23.6 billion in tax increases for fiscal year 1982, resulting in a net increase from proposed tax changes of $5.3 billion. As shown in Table 8, the restrictive effect of the overall tax program on the economy reduces revenues by $2.3 billion (shown as negative "reflows"), resulting in a net increase in taxes over current law of $3.0 billion. As the tax program becomes more stimulative in later years, the reflows become positive indicating increased tax collections.

The tax reduction proposals emphasize cuts in business taxes and incentives for business investment. About 70 percent of the total tax relief in fiscal year 1982 goes to business. This pattern continues in the later years, with about 60 percent of the total relief going to business in fiscal year 1986. Tax relief for individuals in 1982 comes mainly from an income tax credit equal to 8 percent of Social Security payroll taxes. The tax saving to employees from this proposal in fiscal year 1982 would be about $5.3 billion. Proposed relief from the marriage penalty would reduce taxes by large amounts in later years.

The tax increase proposals include an increase of 10 cents a gallon in the gasoline tax ($13.1 billion in fiscal year 1982) and withholding on interest and dividends ($3.9 billion). Similar proposals have been submitted before and rejected by the Congress. The budget proposals dealing with the foreign tax credit, independent contractors, railroad retirement taxes, and the airport and airway trust fund have also been made before. New proposals dealing with commodity "straddles" and tax-exempt bonds would raise significant amounts of additional revenues if adopted. The revenue effects of all the Carter budget proposals for fiscal years 1981 to 1986 are shown in Table 9.

The remainder of the chapter discusses the Carter budget proposals for revenues and other major tax proposals being considered in the Congress and by President Reagan.

TABLE 9. CARTER BUDGET LEGISLATIVE AND ADMINISTRATIVE PROPOSALS FOR REVENUES (By fiscal year, in billions of dollars)

Proposal	1981	1982	1983	1984	1985	1986
Revenue Reductions						
Constant-rate depreciation	-2.9	-9.0	-14.2	-18.4	-22.2	-25.4
Refundable investment tax credit a/	-0.1	*	0.2	0.3	0.5	0.7
Social Security tax credit a/ b/	--	-8.5	-13.1	-14.5	-16.6	-18.5
Earned income tax credit a/	--	*	-0.2	-0.1	-0.1	-0.1
Marriage penality relief	--	-0.4	-4.4	-9.1	-10.9	-12.5
Exclusion for Americans working abroad	-0.1	-0.3	-0.3	-0.3	-0.3	-0.4
Other	*	*	*	*	*	*
Subtotal, reductions	-3.1	-18.3	-32.0	-42.1	-49.6	-56.2
Revenue Increases						
Motor fuels tax	3.5	13.1	14.4	15.9	17.9	19.7
Highway excise tax and user charges	--	1.4	1.7	1.7	1.7	1.9
Extension of existing Highway Trust Fund taxes	--	--	--	--	3.9	4.0
Withholding on interest and dividends	--	3.9	2.8	3.1	3.5	3.9
Foreign tax credit	1.4	0.5	0.6	0.6	0.6	0.7
Independent contractors	--	0.7	0.7	0.9	1.1	1.2
Railroad retirement taxes	--	0.3	0.3	0.3	0.3	0.3
Airport and airway trust fund	0.2	1.4	1.6	1.8	2.0	2.3
Commodity straddles	0.1	1.3	0.8	1.0	1.1	1.4
Tax-exempt bonds c/	*	0.5	1.0	1.6	2.1	2.7
Other	0.2	0.4	0.2	0.2	0.2	0.2
Subtotal, increases	5.6	23.6	24.1	27.1	34.5	38.4
Total	2.5	5.3	-7.9	-15.0	-15.1	-17.8

* $50 million or less.

a/ These estimates do not include the budget outlays associated with these proposals.

	CBO Estimates (In Billions of Dollars) 1981	1982	1983	1984	1985	1986
b/ Social Security tax credit	--	-7.7	-12.8	-14.4	-16.5	-18.9
c/ Tax-exempt bonds	*	0.3	0.5	0.8	1.2	1.5

REVENUE REDUCTIONS

Accelerated Depreciation

The constant-rate depreciation proposal in the Carter budget is similar to a plan approved last year by the Senate Finance Committee, called the 2-4-7-10 plan. An alternative, the Capital Cost Recovery, or 10-5-3, proposal has been sponsored by a large number of Congressmen and Senators. These proposals share the goals of encouraging business investment, simplifying depreciation calculations, and offsetting the erosion of depreciation deductions by inflation. None of these proposals would exactly offset the effects of inflation unless the depreciation rates were constantly adjusted, since the rate of inflation varies from year to year. The proposals also vary significantly in their effects on different industries and types of assets. Their revenue effects for fiscal years 1981-1986 are shown in Table 10.

Constant-Rate Depreciation. The Carter constant-rate depreciation (CRD) proposal would allow businesses a 40 percent increase in depreciation deductions for each type of investment. The proposal would significantly reduce the number of separate depreciation accounts businesses would have to maintain, and allow them to apply a constant annual depreciation rate to each account.

TABLE 10. REVENUE EFFECTS OF ALTERNATIVE PROPOSALS TO LIBERALIZE DEPRECIATION (By fiscal years, in billions of dollars) a/

Proposals	1981	1982	1983	1984	1985	1986
Constant-Rate Depreciation	-2.9	-9.0	-14.2	-18.4	-22.2	-25.4
2-4-7-10	-4.3	-13.7	-18.6	-19.0	-19.7	-21.0
10-5-3	-2.9	-10.8	-22.1	-37.8	-56.3	-74.5

SOURCE: Joint Committee on Taxation, Treasury Department, and Congressional Research Service.

a/ Assumes a January 1, 1981 effective date.

The CRD proposal succeeds in liberalizing depreciation significantly for all assets, but reduces effective tax burdens most for short-lived assets such as industrial equipment. The proposal would also increase the investment tax credit to 10 percent for short-lived investments that are only eligible for a reduced credit under present law.

2-4-7-10. This Senate Finance Committee proposal also increases tax depreciation deductions by 40 percent and simplifies depreciation accounting. All equipment would be assigned to an open-ended depreciation account of 2, 4, 7, or 10 years. Any of three depreciation rates could be applied to each account. The investment tax credit would also be liberalized for certain short-lived assets. The pattern of tax reductions for different assets is similar to that for the Carter proposal.

10-5-3. The Capital Cost Recovery System would assign all capital investments to three depreciable-life accounts: 10 years for buildings, five years for equipment, and three years for cars and light trucks. The plan would thus shorten depreciation tax lives substantially relative to present law, under which equipment, for example, is written off over periods of up to 30 years. The plan simplifies depreciation accounting significantly, but is more costly than the other two, and its distribution of tax reductions for different assets is more uneven.

Across-the-Board Individual Income Tax Reductions

Social Security Tax Credit. The Carter budget proposes that employees be given an income tax credit equal to 8 percent of their Social Security payroll taxes. Employers would receive the same credit. Since the employer's credit would have the effect of reducing business costs, it would tend to reduce inflation and increase employment to a small degree. The credit would reduce individual income taxes for employees in fiscal year 1982 by $5.3 billion, more than offsetting the employee share of the $7 billion fiscal year 1982 increase in employee Social Security taxes (see table 11). Tax reductions would be concentrated on those with incomes between about $10,000 and $30,000. (Table 6) Low-income families would receive little benefit from this proposal, since the credit is not refundable to individuals. President Carter has also proposed an increase in the refundable earned income credit for low-income families, however. Government workers, retirees, and others who do not pay Social Security taxes would not benefit from a Social Security tax credit.

TABLE 11. REVENUE REDUCTIONS FROM DIFFERENT TYPES OF INDIVIDUAL INCOME TAX CUTS (By fiscal year, in billions of dollars)

Individual Tax Cuts	1981	1982	1983	1984	1985	1986
8 Percent Social Security Tax Credit (Employee Portion) a/	--	-5.3	-7.6	-8.5	-9.7	-11.1
Indexing Income Tax b/	-9.0	-30.5	-61.4	-101.8	-152.7	-216.6
Kemp-Roth c/	-5.3	-38.2	-76.6	-127.2	-182.1	-240.9
Extension of $200/ $400 Interest and Dividend Exclusion d/	-0.4	-2.7	-3.0	-3.3	-3.4	-3.8
Limited Employee Retirement Accounts e/	-0.6	-1.3	-1.5	-1.7	-1.8	-1.9
Education Savings Accounts f/	-0.4	-2.7	-3.0	-3.6	-4.2	-4.9
Housing Savings Accounts g/	--	-0.6	-1.9	-2.2	-2.3	-2.5
Reduction in Marriage Penalty h/	-1.1	-10.2	-12.4	-14.9	-17.2	-20.3
Increase in Capital Gains Exclusion to 70 Percent i/	--	-1.8	-2.2	-2.6	-3.0	-3.4
Reduction in Top Marginal Rate to 50 Percent	-1.5	-4.3	-5.4	-6.8	-8.5	-10.7

SOURCE: Joint Committee on Taxation and Congressional Budget Office.

NOTE: All proposals assume January 1, 1981 effective date unless otherwise noted.

a/ CBO estimate. Assumed effective as of January 1, 1982.
b/ Assumes increase in bracket widths, personal exemptions, standard deduction, and earned income credit equal to the increase in the GNP deflator assumed by CBO in each year.
c/ Assumed effective as of July 1, 1981.
d/ Includes revenue loss under present law.
e/ Proposal would permit participants in retirement plans to deduct 15 percent of income up to $1,500 annually for contributions to the plan or an IRA.
f/ Proposal would allow parents to deduct up to $1,000 per year per child for amounts deposited into education savings accounts.
g/ Assumed effective as of January 1, 1982. Proposal would allow taxpayers with incomes of $40,000 or below to deduct up to $5,000 annually ($2,500 for single taxpayers) for amounts deposited into an account toward the purchase of a first home.
h/ This proposal would give married couples a tax credit equal to the marriage penalty on their personal service income.
i/ Estimates include revenue feedback from proposal.

Indexing. A tax cut could also be designed to offset the effects of inflation on the individual income tax. The 1981 to 1986 revenue reductions from indexing are shown in Table 11. The tax savings by income level from indexing would be roughly proportional to current law tax burdens (see Table 12).

Kemp-Roth. Another major income tax cut proposal, the Kemp-Roth bill, would cut individual income tax rates across the board by 10 percent each year for the next three years, and index individual income taxes thereafter. The Kemp-Roth bill would reduce revenue by $18 billion in fiscal year 1981 if it were retroactive to January 1, 1981. Because of lags in withholding and collections, postponing the effective date to July 1, 1981, would reduce the fiscal year 1981 revenue loss to $5.3 billion. The tax reductions in later years would be much larger (see Table 11). The tax savings by income group would be similar to those from indexing, although somewhat more of the relief would go to those with incomes above $50,000.

Tax Incentives for Personal Saving

The across-the-board income tax cuts discussed above would all increase personal savings to some extent, since a portion of the tax cut would be saved. Many proposals to tie tax cuts more closely to saving have also been made and one--the temporary $200/$400 interest and dividend exclusion--was enacted last year. Some would exclude from taxable income amounts set aside in savings accounts, others would exclude the interest earned on accounts, and some would do both. Some are designed to encourage general-purpose saving, while others are aimed at increasing saving for retirement, first-time home purchases, and education. The 1981-1986 revenue losses from four such proposals are shown in Table 11.

The increase in the overall level of savings from any of these proposals is likely to be quite small. A large part of the tax reduction is attributable to savings that would take place in any event. This is especially true of the interest and dividend exclusion; at its present level of $200 for individuals and $400 for joint returns almost no additional saving is induced. The major effect of these proposals is to shift savings into the forms given a tax advantage.

Of the wide range of savings incentives that has been proposed, perhaps the most likely to result in increased total savings are those that would expand existing incentives for retirement savings, such as individual retirement accounts (IRAs) and Keogh plans. The money invested in these plans must be withdrawn from consumption for long periods, so it is less likely to be a substitute for normal everyday savings.

Marriage Penalty

About 40 percent of married couples currently pay more income tax than they would if they were single. President Carter's budget proposes a reduction in this "marriage penalty" that would cost about $10 billion a year in lost revenues when fully effective (see Table 9). The proposal, similar to one approved last year by the Senate Finance Committee, would allow a deduction of 10 percent of the first $30,000 of earnings of the lesser-earning spouse. The proposal would not precisely offset the marriage penalty for all couples, however. Some would get more than a complete offset, and some less.

An alternative that would allow a tax credit exactly equal to the amount of the marriage penalty has also been proposed. As shown in Table 11, the revenue loss would be more than the Carter proposal, and while it would be more complicated, simple tables could be devised so taxpayers could take advantage of it fairly easily.

Capital Gains Tax Cuts

The Senate Finance Committee last year approved an increase from 60 to 70 percent in the amount of capital gains excluded from taxation. This would reduce the maximum tax rate on capital gains from 28 to 21 percent (top marginal income tax rate of 70 percent times 30 percent of the gain). This proposal would achieve an increase in the mobility of capital, but its effects on total saving would mainly be compositional, increasing the attractiveness of assets offering capital gains at the expense of other forms of investment. The estimated revenue loss, reflecting some reflows from increased asset sales, is shown in Table 11.

Reduction in Top Marginal Tax Rate to 50 Percent

The top marginal income tax rate on "personal service" income (mostly wages and salaries) is now 50 percent, while all other income is taxed at rates up to 70 percent. Proposals have frequently been made to reduce the top rate to 50 percent for all income. The present high marginal rates impose a significant burden on savings and investment income and push taxpayers into tax shelters and speculative investments that can divert economic resources from their most productive uses. Reducing the top marginal rate on all income to 50 percent would result in an estimated direct revenue loss of \$4.3 billion in fiscal year 1982, with almost all the tax savings going to those with incomes over \$50,000 (see Tables 11 and 12). The indirect or reflow effects of such a change could be significant if investors responded by shifting from tax shelters into other more productive economic activity. A rate reduction of this kind would also reduce the top tax rate on capital gains from 28 to 20 percent, with no change in the present 40 percent exclusion of gains.

REVENUE INCREASES

Energy Taxes

Motor Fuels Tax. The Carter Budget proposes a ten cents a gallon increase in motor fuels taxes starting June 1, 1981. Thereafter, the tax would be increased quarterly in accordance with changes in producers' prices. The Administration estimates that the tax would yield \$13.1 billion in fiscal year 1982, and \$19.7 billion in fiscal year 1986 (see Table 9).

The proposed tax would tend to encourage conservation of motor fuels. It represents an increase in motor fuels prices of about 8 percent. Based upon available evidence, which suggests that the price elasticity of gasoline is around -.2 in the long run and somewhat less in the short run, the proposed tax would yield motor fuel savings of about 1.5 percent, or around 100,000 barrels per day in fiscal year 1982.

In 1982 and after, two cents per gallon from the proposed tax would go to the Highway Trust Fund. This is an initial increase of 50 percent in the amount of motor fuels tax devoted to highway programs, since the current tax of four cents per gallon is devoted to that purpose. Together with increases that the Administration proposes to make in other taxes that support the Highway Trust Fund, the proposed motor fuels tax would substantially restore the historical balance between highway expenditures and trust fund receipts. This would help insure that the cash balance in the trust fund is adequate to finance outstanding commitments.

The proposed tax on motor fuels would also have a significant impact on inflation, increasing the Consumer Price Index by approximately 0.6 to 0.7 percent in fiscal year 1982 and up to 1.0 percent thereafter.

TABLE 12. DISTRIBUTION OF TAX REDUCTIONS FROM INDIVIDUAL INCOME TAX CUT PROPOSALS BY INCOME GROUP (In percents)

Expanded Income Class (in thousands of dollars)	Percent of Tax Liabilities Paid Under Current Law	8 Percent Social Security Tax Credit (Employee Portion)	Indexing b/	10 Percent Rate Reduction (Kemp-Roth, 1st Year)
Below 5	-0.2 a/	1.1	1.0	.2
5 - 10	2.4	6.2	7.6	3.3
10 - 15	5.8	10.4	8.4	6.6
15 - 20	8.3	13.1	9.5	9.0
20 - 30	20.8	28.8	21.8	21.4
30 - 50	29.7	30.6	30.1	30.8
50 - 100	17.4	8.1	15.7	17.5
100 - 200	8.2	1.4	4.4	6.5
200 and above	7.5	0.3	1.4	4.6
Total	100.0	100.0	100.0	100.0

(Continued)

SOURCE: Joint Committee on Taxation, 1981 Income Levels.

a/ Figure is negative because of refundable Earned Income Credit.

TABLE 12. (Continued)

Expanded Income Class (in thousands of Dollars)	Extension of $200/$400 Interest and Dividend Exclusion	Reduction in Marriage Penalty c/	Increase in Capital Gains Exclusion to 70 Percent	Reduction In Top Marginal Rate to 50 Percent
Below 5	1.0	0.0	0.0	0.0
5 - 10	5.9	0.2	0.5	0.0
10 - 15	8.3	2.3	0.9	0.0
15 - 20	9.3	7.0	1.2	0.0
20 - 30	22.6	31.0	4.3	0.0
30 - 50	34.0	40.2	11.5	0.3
50 - 100	14.8	15.9	18.9	9.7
100 - 200	3.2	2.8	16.2	28.6
200 and above	0.8	0.5	46.5	61.5
Total	100.0	100.0	100.0	100.0

b/ Assumes indexing of bracket widths, personal exemptions, standard deduction, and earned income credit.

c/ Proposal would give married couples a tax credit equal to the marriage penalty on their personal service income.

Immediate Oil Decontrol. Another way to encourage gasoline conservation and reduce U.S. dependence on foreign oil imports would be to accelerate the decontrol of crude oil prices. Domestic crude oil price controls are currently being phased out, with all controls scheduled to be lifted by September 30, 1981. CBO estimates that ending controls on February 1 would increase fiscal year 1981 windfall profits tax liabilities by over $6 billion and net oil producer corporate income tax liabilities by around $1 billion. The net budgetary effect of immediate decontrol would be substantially less than this, however. Removal of all price controls would eliminate the subsidy currently received through the entitlements program by the Strategic Petroleum Reserve (SPR). Thus, if the proposed fill rate of 200,000 barrels per day were to be maintained, outlays for the SPR would have to increase by approximately $1.9 billion. Furthermore, higher oil prices could mean lower tax revenues from nonoil producers and higher outlays for inflation-indexed federal programs.

Limits on Tax-Exempt Bonds for Private Purposes

Another significant revenue increase proposal in the Carter budget would impose new limits on the use of tax-exempt bonds for private hospitals, student loans, and private businesses.

The use of tax-exempt state and local bonds for purposes other than schools, roads, sewer systems, public buildings, and other public projects has grown sharply in recent years. In 1980, only about 35 percent of all newly issued long-term bonds were for these traditional public purposes, while roughly 65 percent were issued to finance a variety of private activities, including housing, pollution control equipment for private industry, private hospital construction and equipment purchases, student loans, chain stores and fast-food outlets, office buildings, and recreational facilities. The Congress last year sharply curtailed the use of tax-exempt bonds for single-family housing, with a complete phase-out scheduled for the end of 1983.

Hospital Bonds. The Carter proposal would eliminate tax-exempt bond financing for all private nonprofit Section 501 (c)(3) organizations. The principal organizations affected would be private nonprofit hospitals, which issue over 70 percent of all hospital bonds. Some private colleges and universities would also be affected, however. Public hospitals, colleges, and universities could continue to use tax-exempt financing. Since these public institutions are supported by state and local tax funds, there is a strong indication that taxpayers view them as serving a valid public purpose. The five-year 1982-1986 revenue gain from this proposal would be $1.9 billion.

Student Loan Bonds. The Carter Administration proposal would prohibit the issuance of tax-exempt bonds to finance student loans. Until last year, state and local governments could make substantial profits on federally guaranteed student loans by using funds borrowed at low tax-exempt rates to make loans that received a market rate through a federal interest subsidy. Higher education legislation last year cut the federal interest subsidy to tax-exempt lenders in half, significantly reducing these profits. The Administration proposal would end the tax-exempt bond subsidy on student loans, but would allow state and local governments to get a full direct federal interest subsidy by issuing taxable bonds. The five-year 1982-1986 revenue gain would be $0.7 billion. More than half of the revenue gain would be offset, however, by larger federal interest subsidies.

"Small Issue" Industrial Development Bonds (IDBs). The Administration's proposal would put new restrictions on the use of tax-exempt small issue IDBs. At present, state and local governments may issue these bonds to provide low-cost financing for private firms for any purpose, and in any location, up to a maximum of $10 million. The Carter Administration recommends reducing the maximum amount of the bonds to a lifetime limit of $5 million and restricting their availability to manufacturing, construction, mining, or utility firms that have assets of less than $10 million. Firms located in targeted distressed areas would be able to issue bonds up to $10 million and would be exempt from any other restrictions. CBO estimates that implementation of these proposals would result in 1982-1986 revenue savings of $1.7 billion, significantly below the Administration's estimate of $5.3 billion.

Federal spending in fiscal year 1981 is now expected to exceed earlier estimates by a wide margin, largely because of higher interest rates, higher defense spending, and increased costs in various programs providing benefit payments to individuals. The 1982 budget submitted by President Carter estimates total 1981 outlays at $662.7 billion, an increase of $30.3 billion above the ceiling of $632.4 billion in the Second Concurrent Resolution on the Budget for Fiscal Year 1981 (see Table 13). It appears likely that the Congress will have to adjust the second budget resolution spending ceilings for 1981 in order to accommodate supplemental appropriations for certain mandatory entitlement programs and the cost of the October 1980 federal payraises. The ceilings would have to be increased even further to accommodate various Carter Administration supplemental appropriation proposals for food stamps, disaster loans, defense, and other programs.

TABLE 13. TOTAL UNIFIED BUDGET SPENDING FOR FISCAL YEARS 1981 AND 1982 (In billions of dollars)

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	694.6	726.5	723.3	801.0	809.8	809.4
Outlays	632.4	662.7	663.3	742.9	739.3	745.0

a/ Preliminary, subject to change.

The Carter Administration budget for 1982 proposes outlays of $739.3 billion, an increase of 11.6 percent from the estimated 1981 level. This represents a slowing in the growth of federal spending from the 17.4 percent growth experienced in 1980 and the 14.3 percent growth expected in 1981. After adjusting for inflation, however, this would allow some real growth in federal spending (about 1 percent). The Carter Administration proposes that real growth be limited primarily to defense programs, and that nondefense spending be held constant in real terms.

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This chapter provides an overview of President Carter's latest spending estimates for 1981 and his proposals for 1982. The chapter begins with a discussion of the 1981 budget estimates and proposals, and then moves to a discussion of the Carter Administration proposals for 1982. The chapter also includes a discussion of indexed benefit payments, off-budget outlays, and the federal debt. Chapter V provides further details and analyses of the President's spending proposals and estimates within each major functional category.

FISCAL YEAR 1981 ESTIMATES AND PROPOSALS

The Carter Administration's 1982 budget presents new spending estimates for fiscal year 1981 that indicate the second budget resolution spending ceilings will be exceeded by a wide margin, largely because of events beyond the control of the Congress. The President's budget proposes $726.5 billion in new budget authority and $662.7 billion in outlays for 1981. These proposals exceed the second budget resolution ceilings approved on November 20 by $31.9 billion in budget authority and $30.3 billion in outlays.

CBO's preliminary review of the Administration's latest estimates for 1981, using CBO's current economic assumptions and estimating methodology, indicates that the estimates for total spending are reasonable. CBO's analysis suggests that there are some estimating differences for individual programs, but their net effect on total estimated outlays for 1981 will be quite small (less than $1 billion).

Current 1981 Spending Estimates

At the close of the 96th Congress, action had been completed on most of the 1981 budget. Nine of the thirteen regular appropriation bills had been enacted, and spending for areas in the other four appropriation bills was covered through June 5, 1981 by a second continuing resolution. As shown in Table 14, outlays resulting from these actions, plus spending for certain entitlements and other mandatory items requiring further appropriation action, were estimated to be $630 billion, slightly below the second budget resolution ceiling of $632.4 billion. If the second continuing resolution is extended to September 30, the end of the fiscal year, however, an estimated additional $10.1 billion in outlays would result.

Since the adoption of the second budget resolution in November, the economic outlook has changed and new programmatic information has become available (such as the recent Penn Central settlement). The most striking change in the economic outlook is higher interest rates. Inflation is also expected to be somewhat higher during fiscal year 1981 than was assumed for the second resolution, and unemployment somewhat lower.

TABLE 14. SPENDING ESTIMATES FOR FISCAL YEAR 1981 (In billions of dollars)

	Budget Authority	Estimated Outlays
Enacted at the Close of the 96th Congress, with the Continuing Resolution Through June 5	682.0	623.8
Entitlements and Other Mandatory Items Requiring Further Appropriation Action (mostly pay supplementals)	6.3	6.2
Subtotal, current level at close of 96th Congress	688.4	630.0
Additional Spending if Continuing Resolution Is Extended to September 30	15.6	10.1
CBO Preliminary Reestimates due to Change in Economic Outlook and Other Developments	12.5	19.9
Subtotal, current level adjusted	716.5	660.0
Carter Administration Proposals		
Program supplementals under existing law not included above	5.2	2.6
Other supplementals and proposals requiring new authorizing legislation	2.9	1.3
Rescissions of previously enacted budget authority	-1.3	-0.6
Subtotal, Carter Proposals	6.9	3.2
Total spending	723.3	663.3

Using this new economic outlook and new programmatic information, as well as an analysis of actual spending patterns in 1980, CBO has reestimated 1981 outlays upwards by $19.9 billion, bringing bring total estimated outlays to $660 billion for 1981. The Carter Administration's 1982 budget requests a number of program supplementals that would add further to the 1981 spending levels. The Administration's budget also contains new information about 1981 spending that will result in additional CBO reestimates. Based on information currently available, including actual federal outlays in the first quarter of the fiscal year (October-December), it is reasonable to expect that 1981 outlays will fall within the range of $660 to $665 billion.

CBO Preliminary Reestimates

About half of the CBO outlay reestimates ($9.4 billion) can be attributed to the recent rapid increase in interest rates, which are expected to be very volatile but remain at relatively high average levels throughout fiscal year 1981. This is expected to add $7.8 billion for net interest. In addition, the higher interest rates will raise the costs of the student loan insurance program by almost $300 million, and reduce the expected sales of government-held mortgages and loans by $1.3 billion. (see Table 15.)

The remaining $9 billion in outlay reestimates is predominantly based on new information about spending trends and other programmatic developments. Defense spending has been reestimated upward by $1.5 billion, mainly for higher fuel costs. The 1981 defense appropriation bill contained about $8.2 billion for fuel. More recent estimates indicate that fuel price increases will require an additional $1.2 billion in budget authority and $1.0 billion in outlays. The Administration has requested only two-thirds of this additional amount in a proposed supplemental appropriation bill. Without appropriation action, the Defense Department could invoke Feed and Forage Authority (Revised Statutes 3732) to fund these higher fuel costs.

The Penn Central settlement will add $2.1 billion to federal spending in 1981. Federal payments will be made to creditors of the Penn Central Transportation Company on debts arising from the 1976 federal conversion of the bankrupt railway into the Consolidated Rail Corporation. Recent legislation allows the Department of Transportation to borrow the necessary funds directly from the Treasury, without prior appropriation action.

Medicare costs have been reestimated upwards by $1.4 billion, largely because of a higher than normal increase in the utilization of hospital and other medical services in 1980, a trend which is expected to continue in 1981. The normal annual increase in hospital days for Medicare patients has been about 3 percent. The actual increase in 1980 was over 6 percent. CBO estimates assume that the increase in 1981 will be about 4.5 percent.

TABLE 15. CBO SPENDING REESTIMATES FOR FISCAL YEAR 1981 (In billions of dollars)

Reestimates	Budget Authority	Outlays
Interest rate related reestimates		
Net interest	7.8	7.8
Student loan insurance	0.3	0.3
Lower asset sales by Farmers Home Administration, GNMA, and VA	--	1.3
Subtotal	8.1	9.4
Other reestimates		
Defense Department	1.5	1.5
Penn Central settlement	2.1	2.1
Medicare	0.6	1.4
Trade adjustment assistance	1.1	1.0
Federal Savings and Loan Insurance Corporation	--	0.9
Federal-aid highways (trust fund)	--	0.8
Energy programs	1.6	1.0
Veterans' readjustment benefits	0.5	0.5
All other	-3.0	1.3
Subtotal	4.4	10.5
Total	12.5	19.9

Trade adjustment assistance outlays in 1981 are also expected to be at least $1 billion higher than those contained in CBO's earlier scorekeeping estimates. Since March, many workers in automobile, steel and tire/rubber factories have been certified for trade adjustment assistance benefits. Delays in paying these benefits in fiscal year 1980 will result in higher 1981 outlays. In addition, the automobile industry's continuing economic problems are expected to cause currently certified workers to suffer more frequent and lengthier layoffs than originally anticipated.

Outlays by the Federal Savings and Loan Insurance Corporation (FSLIC) are also expected to be higher in 1981 because certain large payments anticipated in 1980 did not materialize. These payments--to purchase the assets of failing savings and loan associations--are now expected to occur in 1981. Additional assistance is also expected to be needed for other thrift institutions experiencing problems during fiscal year 1981 because of high interest rates. The total effect is estimated to add about $950 million to 1981 outlays.

Outlays have also been reestimated upwards for several education, training; and social services programs in function 500, based on actual fiscal year 1980 spending patterns, continued growth in the student loan insurance program, and actual student assistance grants already distributed to students for the 1980-81 school year. These reestimates total $941 million.

First quarter (October-December) obligations from the highway trust fund occurred at a much higher rate than expected, reflecting pent up demand by states that had been constrained by the 1980 obligation ceiling. The shift of obligations to early in the fiscal year will result in higher 1981 outlays. CBO's current estimate of outlays for the federal-aid highways program is $8.5 billion, including $150 million for emergency relief. This is $840 million higher than CBO's previous scorekeeping estimate.

Outlays for various energy programs are expected to be almost $1 billion above previous estimates. Receipts from the sale of power by the Bonneville Power Administration and from the sale of oil from the naval petroleum reserve (NPR) are now expected to be about $300 million lower than previously estimated, in part because the sale price of NPR oil in exchange for oil for the strategic petroleum reserve has been lower than assumed for the second resolution. Uranium enrichment outlays also are expected to be about $200 million higher because receipts from uranium enrichment activities are now expected to be lower, and spending on constructing the gas centrifuge plant is proceeding more quickly than originally estimated. Strategic petroleum reserve outlays are also expected to be about $300 million higher under the Administration's fill schedule than previously estimated.

The fall 1980 school enrollment by veterans was much higher than expected, which will raise the estimated costs of fiscal year 1981 readjustment benefits by about $500 million.

Proposed 1981 Supplemental Appropriations, Rescissions, and Other Spending Initiatives

The Carter Administration's 1982 budget includes proposals for 1981 supplemental appropriations totalling $15.7 billion in net new budget authority. Over half of this amount ($8.9 billion) is for entitlement programs and other mandatory items subject to further appropriation action. The major items included in this category are proposed supplementals for the cost of the October 1, 1980 federal payraise ($6.2 billion) and for the October 1980 cost-of-living adjustment for veterans' compensation benefits ($1.0 billion). Most of this amount was anticipated in the CBO budget estimates shown in Table 14.

Under existing legislation, the 1982 budget proposes supplementals of $1.9 billion for the Defense Department, primarily for higher fuel costs and increased costs related to military personnel and readiness initiatives. The budget also includes supplement requests of $0.8 billion for student financial assistance $0.8 billion for SBA disaster loans; and $2.5 billion for various other programs.

The Carter Administration proposes a supplemental appropriation of $1.4 billion for the food stamp program to pay the full estimated program costs. This will require new authorizing legislation to lift the current ceiling of $9.7 billion for 1981. Authorizing legislation will also be required for the proposed $1.1 billion contribution to the International Development Association.

President Carter also submitted $1.3 billion in rescission proposals that would reduce 1981 outlays by about $600 million. The rescission proposals are largely for various health and education programs, and a $250 million rescission in the 1981 payment to the Postal Service.

FISCAL YEAR 1982 ESTIMATES AND PROPOSALS

The Carter Administration budget for 1982 proposes to hold total spending close to the 1981 levels after adjustments for expected inflation, population growth, and other increased costs resulting from previous policy decisions. After adjusting the Administration's spending estimates for differences in economic assumptions and estimating methods, the President's proposed 1982 outlays would be about $3 billion above CBO's baseline projections of current law spending policies.

The major spending initiative in President Carter's budget for 1982 is increased spending authority for national defense programs. The budget proposes new budget authority of $200 billion for the national defense function, which CBO estimates would represent real growth of about 4 percent above 1981 levels. The proposed real growth for defense operations, construction, and research masks a significant real decline in the number of major weapons to be procured. Fewer aircraft, ships, and tanks would be purchased at significantly higher costs per unit in 1982 than previously planned.

CBO estimates that the 1982 defense purchases are underfunded by over $5 billion in President Carter's budget. As a result of higher inflation assumptions for defense purchases than used by the Carter Administration, CBO estimates that an additional $2 billion in new budget authority will be required for projected fuel consumption, $2 billion for full funding of proposed weapon purchases, and $1 billion for defense supplies and other purchases. Further details on CBO's analysis of the proposed defense budget are provided in Chapter V.

New Authorizing Legislation

A limited number of spending proposals in the Carter Administration 1982 budget would require new authorizing legislation. The major proposals include the following items.

Refundable Investment Tax Credit. The Carter Administration proposes the enactment of a refundable investment tax credit to provide investment incentives to firms that have little or no earnings, and to assist new firms and those experiencing structural adjustment problems. Under the Administration's proposal, up to 30 percent of the earned but unused credit for investments placed in service after December 31, 1980, would be refundable. This proposal is estimated to have relatively little effect on receipts, but would increase outlays by $2.3 billion in 1982.

Refundable Social Security Tax Credit. The Carter budget also proposes an income tax credit equal to 8 percent of paid Social Security taxes that would be refundable to state and local governments, nonprofit organizations, and businesses, but not to individuals. Assuming an effective date of January 1, 1982, this proposal is estimated to increase outlays by $1.9 billion in fiscal year 1982. It would also reduce receipts by an estimated $7.5 billion.

Youth Education and Training. The Carter Administration renews its proposal for a major increase in spending by the Departments of Labor and Education to provide basic education and training for educationally disadvantaged, particularly minority youth, who are poorly prepared for employment. The 1982 budget contains new budget authority of $2.0 billion and $925 million in estimated outlays for these programs.

Low-Income Energy Assistance. The Carter budget contains an extension of the energy assistance program to moderate the impact of rising energy costs on low-income families. The Administration proposes that the funding for this program continue at the 1981 level of $1.85 billion.

Veterans' Benefits. The 1982 Carter budget proposes a 12.3 percent cost-of-living increase for veterans' compensation benefits, effective in October 1981. These inflation adjustments are not automatic under current law as they are for most disability benefit programs. The last cost-of-living adjustment for veterans' compensation was effective in October 1980 and increased benefits by 14.3 percent for veterans rated 50 percent disabled or more, and 13 percent for other disabled veterans. No cost-of-living adjustment for veterans readjustment benefits is recommended in the Carter budget for 1982. Last year, the Administration proposed and the Congress enacted a 10 percent increase in GI bill education benefits to be effective January 1, 1981.

Social Security Financing. President Carter again proposes that the three major Social Security trust funds be authorized to borrow from each other when needed to assure the timely payment of benefits. The largest of the three trust funds for old age and survivors insurance is projected to have a cash flow problem in 1982, and to be totally depleted in 1983 under current law. CBO estimates that interfund borrowing will be sufficient to solve the financing problems of Social Security for only the next two to three years. Some additional action will have to be taken before the end of fiscal year 1984 to provide additional funds to the trust funds or to curtail projected costs, or both. 1/

Proposed Legislative Savings and Budget Reductions

The Carter Administration budget also proposes a number of reductions in federal spending programs for 1982, many of which would require changes in existing law. The most prominent of the legislative savings proposals 2/ are federal employee compensation reform and changes in the indexing formulas for selected benefit programs.

The federal employee compensation reform proposals have been made previously by the Carter Administration but have not been acted upon by the Congress. They would broaden the principal of comparability to take into account both pay and benefits instead of only pay, and to include data from state and local governments as well as data from private industry; they would also modify the federal wage-board system for blue-collar workers. Comparability, as currently defined, would require an October 1981 pay increase estimated at 13.5 percent. Under the proposed changes, the comparability increases would be an estimated 9.1 percent for military employees and 8.6 percent for civilian employees. The budget estimates that the pay reform proposals would save $3.5 billion from the projected current law comparability levels in 1982 (see Table 16).

1/ For further details on CBO's estimates and options for solving this financing problem, see Congressional Budget Office, Financing Social Security: Issues and Options for the Short Term, (forthcoming).

2/ Legislative savings is a term denoting changes to existing law to achieve reductions in otherwise mandated spending.

TABLE 16. ESTIMATED OUTLAY SAVINGS FROM CARTER ADMINISTRATION LEGISLATIVE PROPOSALS (By fiscal year, in millions of dollars)

Proposal	1981	1982	1983	1984
Federal Compensation Reform				
Department of Defense	--	-2,275	-2,950	-3,267
Civilian agencies	--	-1,219	-1,386	-1,529
Subtotal	--	-3,494	-4,336	-4,796
Change in Indexing Formulas				
Shift to annual indexing of federal personnel retirement	-97	-1,132	-979	-1,010
Shift to annual indexing for dairy price supports	-138	-86	-86	-86
Permanently shift to annual indexing for child nutrition programs	--	-102	-87	-74
Keep food stamps indexed to actual, not projected, costs	--	-419	-647	-497
Subtotal	-235	-1,739	-1,799	-1,667
Unemployment Benefit Programs				
Change unemployment insurance extended benefit trigger calculation	--	-2,088	-405	-424
Eliminate mandatory coverage for public service employment workers	--	-122	-225	-210
Subtotal	--	-2,210	-630	-634
Other Proposals				
Eliminate bonus to hospitals for provision of routine nursing services to Medicare beneficiaries	-35	-250	-285	-350
Repeal Medicare/Medicaid expansions included in the Omnibus Reconciliation Act	-55	-228	-254	-286
Other health program savings proposals	-25	-205	-162	-183
Target child nutrition subsidies to the most needy	--	-327	-358	-382
Reform and simplify AFDC program and improve the child support enforcement program	--	-531	-543	-557
Other income security program proposals	--	-122	-165	-235
Eliminate GI bill benefits for correspondence courses and general flight training and other savings in veterans' benefits	--	-79	-73	-67
Increase stockpile sales	-210	-210	-217	-430
Other savings proposals	-15	-55	-57	-65
Subtotal	-340	-2,007	-2,114	-2,555
Total	-575	-9,450	-8,879	-9,652

Source: The Budget of the United States Government, Fiscal Year 1982, p. 13. Many of these estimates are sensitive to changes in economic assumptions and will be reestimated by CBO.

The Carter Administration proposes a shift to annual cost-of-living increases for all indexed federal programs that are currently adjusted more than once a year. Under this proposal, the September increase for federal employee retirement programs would be eliminated for an estimated saving of $1.1 billion in 1982. Annual adjustments for dairy price supports and child nutrition programs would save an additional $0.2 billion in 1982. A change is also proposed in the way food stamp benefits are adjusted for inflation that would save about $400 million in 1982 (see Table 16).

President Carter also proposes legislation to change the trigger rate calculation for the unemployment insurance extended benefit program to exclude extended benefit claimants. The Carter Administration attempted to make such a change through administrative action, but this was not upheld in the courts. The amount that would be saved by the proposed legislation is very sensitive to the assumed unemployment rate. The 1982 budget estimates that this would save $2.1 billion in 1982, but an increase of only one quarter of 1 percent in the assumed unemployment rate would eliminate the savings. Under CBO's assumptions, the estimated savings would be only $1.4 billion.

Other legislative savings proposals, totaling another $2 billion in estimated outlay reductions, include a number of proposals previously made by the Carter Administration but not accepted by the Congress. These include eliminating bonus payments to hospitals for the provision of routine nursing services to Medicare beneficiaries, targeting child nutrition subsidies to the most needy, and eliminating GI bill benefits for correspondence courses and general flight training. The Carter Administration also proposes legislation to increase the interest rate for water and waste disposal system loans from the present 5 percent statutory ceiling to the average level on municipal bonds sold for the same purpose.

The most notable omission from the Administration's previous cost savings proposals is hospital cost containment legislation, which was rejected by the 96th Congress. Instead, the 1982 budget assumes voluntary efforts and various administrative approaches to hold down federal health care costs.

The Carter Administration budget proposes a number of outlay reductions to be achieved through the appropriations process and administrative action in addition to the legislative savings proposals shown in Table 16. Continuing a long-standing tradition, the 1982 budget proposes a reduction in impact aid payments to schools in federally affected areas for a savings of over $400 million in outlays from the estimated current service levels. The Administration proposes several reforms in the student loan insurance program through appropriation language to save an estimated $878 million in 1982.

In addition to a proposed $250 million rescission in 1981 for payment to the Postal Service, the Carter budget proposes to reduce the 1982 payment for public service subsidies by $394 million. The Carter 1982 budget also proposes a 5.5 percent limit on the federal civilian employee payraise for October 1, 1981, compared to 8.6 percent estimated under the Administration's proposed federal compensation reforms. The 5.5 percent outlays limit is estimated to provide $1.3 billion in outlays in 1982. The details on these and other proposals are discussed in Chapter V.

CBO Baseline Projections

In analyzing the President's spending proposals for 1982, it is useful to compare the budget to projections of federal spending if the policies embodied in current law were simply continued and discretionary adjustments were made for expected inflation. These projections serve as a useful baseline for analyzing the effects of policy changes that are proposed by the President.

CBO's preliminary baseline projections for 1982 are based on action completed to date by the Congress on the 1981 budget, plus anticipated supplementals for certain entitlements such as veterans' compensation and readjustment benefits, and the federal payraise that became effective on October 1, 1980. The baseline projections also include the 1982 effects of most of the preliminary CBO spending reestimates for 1981, and assume that the Congress will lift or remove the 1981 authorization ceiling for the food stamp program, as well as approve the supplemental request for the Small Business Administration disaster loans. The projections do not include any other discretionary supplementals or rescissions for 1981 that are proposed by President Carter for programs such as student and financial assistance and urban mass transportation. The 1981 base for the CBO projections total $718 billion in budget authority and $660 billion in outlays.

Under current law policies, spending adjusted for inflation is projected to rise to $743 billion in 1982. About half of the projected $83 billion increase in estimated outlays can be attributed to cost-of-living adjustments and population growth for various benefit payment programs that are directly or indirectly indexed for inflation. These account for $40 billion, or 48 percent, of the total increase. Defense spending, other than for retirement pay and projected payraises, is estimated to increase by $10 billion in 1982 as a result of decisions made by the 96th Congress. Net interest costs are also projected to rise by about $10 billion in 1982. The remaining increase is almost entirely accounted for by discretionary inflation adjustments for defense and other federal programs, and projected payraises for federal civilian and military employees. These adjustments would add an estimated $21 billion in outlays in 1982. Comparisons between the President's request for 1982 and the CBO baseline projections are discussed in Chapter V.

CBO Preliminary Reestimates

CBO's preliminary review of the 1982 budget proposals suggests that outlays could be about $6 billion higher than projected by the Carter Administration, if all of the Administration's spending proposals were approved by the Congress. This would result in outlays of about $745 billion in 1982.

The economic assumptions used for the Carter budget and by CBO for its analysis are fairly similar, at least with respect to those economic factors that most affect spending estimates for 1982. The principal difference in the assumptions for 1982, as shown in Table __, are interest rates, which are very difficult to forecast under present monetary policy. CBO also assumes somewhat lower inflation in 1981 and, therefore, lower cost-of-living adjustments for indexed benefit programs. The most notable other difference for the budget estimates is that CBO assumes higher fuel price increases in 1982 for the budget estimates than for the Administration does. For example, the defense budget estimates are based on fuel price increases of only 9.7 percent between 1981 and 1982, while CBO assumes that fuel costs will increase by about 25 percent.

TABLE 17. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS FOR SPENDING ESTIMATES (By calendar year)

Major Economic Variables	1980	1981	1982
GNP Deflator, Fourth Quarter over Fourth Quarter (percent change)			
Administration	10.0	10.4	8.8
CBO	10.1	10.3	9.7
Consumer Price Index, Fourth Quarter over Fourth Quarter (percent change)			
Administration	12.8	12.6	9.6
CBO	12.6	10.0	9.7
Unemployment Rate, Annual Average			
Administration	7.2	7.8	7.5
CBO	7.2	7.8	7.4
Interest Rate, 91-day Treasury Bills, Annual Average			
Administration	11.5	13.5	11.0
CBO	11.5	11.8	12.2

CBO's upward reestimates of outlays of $3.3 billion, because of assumed higher interest rates and fuel prices in calendar year 1982, are partially offset by CBO's lower inflation assumption for 1981. This reduces projected 1982 payments for indexed benefits by about $2 billion from the level estimated by the Administration. Other estimating differences between the Administration and CBO amount to about $5 billion for 1982 and are concentrated largely in four program areas: defense, disaster loans, Medicare, and various income security programs (see Table 18).

CBO estimates that defense procurement outlays in 1982 could be over $1.5 billion above the level estimated by the Administration, based on recent spending patterns. CBO also estimates that net budget outlays for disaster loans will not occur as fast as assumed by the Carter Administration from its 1981 budget requests. This results in about $800 million lower outlays in 1981, and higher outlays of about $900 million in 1982 than assumed for the Carter budget.

TABLE 18. CBO PRELIMINARY REESTIMATES OF PRESIDENT CARTER'S SPENDING TOTALS FOR FISCAL YEAR 1982 (In billions of dollars)

Reestimates	Budget Authority	Outlays
Carter Administration Estimates	809.8	739.3
CBO Preliminary Reestimates		
Different economic assumptions		
Higher fuel prices	1.7	2.1
Higher interest rates	1.1	1.2
Lower inflation in 1981	-1.8	-2.2
Other differences	-1.0	-0.3
Other estimating differences		
Defense procurement	--	1.7
SBA disaster loans	--	0.9
Medicare	-0.4	1.4
Social Security, assistance payments, and other income security	1.1	1.6
All other, net	-1.1	-0.7
Subtotal, CBO preliminary reestimates	-0.5	5.7
Carter Budget Reestimates	809.4	745.0

CBO estimates that Medicare costs in 1982 will be about $1.4 billion higher than assumed by the Carter Administration. The higher estimate results from different assumptions about the effectiveness of the Administration's voluntary guidelines for hospital cost increases, projected utilization rates for hospital and other medical services, and the effectiveness of the professional standards review organizations.

Finally, CBO has a number of estimating differences for Social Security, assistance payments, and other income security programs that amount to about $1.6 billion in higher outlays. Most of the differences result from different assumptions about projected growth in program participants.

These spending reestimates are subject to change as CBO analyzes President Carter's budget in greater detail during the next few weeks, and discusses the reestimates with the Budget and Appropriations Committees. CBO is also preparing a new economic forecast for use by the Budget Committees in March as they formulate the first budget resolution for 1982. This could result in some new spending estimates if the new economic forecast differs substantially from the assumptions used for this analysis.

INDEXED BENEFIT PAYMENTS

Benefit payments for most of the federal retirement and disability programs are now automatically indexed to changes in the Consumer Price Index (CPI). For fiscal year 1982, the aggregate outlays for these indexed benefit programs under current law are estimated to be $213 billion, approximately 29 percent of total spending as estimated by CBO in its baseline projections. As shown in Table 19, federal outlays for indexed retirement and disability programs are expected to grow by $28 billion in 1981 and $26 billion in 1982.

Benefits for certain other entitlement programs, while not tied explicitly to the CPI, also increase directly as a result of inflation. These include the food stamp and child nutrition programs which are indexed to various food price indexes. Black lung benefits for disabled coal miners are also adjusted automatically each year by the amount of the October payraises for federal civilian employees. In addition, the benefit levels for unemployment insurance and aid to families with dependent children (AFDC) are periodically increased by most states for changes in the cost-of-living. Finally, the cost of providing benefits in the Medicare and Medicaid programs rises with inflation as well, since it is the level of services and not a fixed dollar amount that is guaranteed to eligible beneficiaries. Outlays for these programs in 1980 were $88 billion and accounted for 15 percent of total outlays. CBO estimates that outlays for these programs will rise to

$118 billion in 1982 under current law. Together with benefits that are tied directly to the CPI, payments for individuals that respond more-or-less automatically to inflation are estimated to account for about 45 percent of total budget outlays in fiscal year 1982 as projected by CBO.

TABLE 19. FEDERAL RETIREMENT AND DISABILITY PROGRAMS WITH BENEFITS INDEXED TO CHANGES IN THE CONSUMER PRICE INDEX (By fiscal year, outlays under current law in billions of dollars)

Program	Frequency of Adjustment	1980	CBO Estimates b/ 1981	1982
Social Security	Annual (July)	117.1	138.5	159.0
Civil Service Retirement	Semiannual (April, October)	14.7	17.3	19.7
Military Retirement	Semiannual (March, September)	11.9	13.8	15.4
Railroad Retirement	Annual (July)	4.7	5.3	6.1
Supplemental Security Income	Annual (July)	6.4	7.4	8.1
Veterans' Pensions	Annual (July)	3.5	3.8	4.1
Other a/		0.7	0.9	0.9
Total		159.2	187.0	213.4

a/ Includes Department of Labor special benefits (workman's compensation), Coast Guard retirement pay, Foreign Service retirement, Public Health Service officer's retirement, and contributions for annuity benefits for certain members of the Secret Service.

b/ CBO estimates include administrative and other program expenses not indexed to the CPI.

Concerns About Indexing

Automatic indexing has become a matter of particular concern recently, as the inflation rate has moved into double digits. Both the Congress and the public have called for a reduction in the growth of federal spending. The outlay increases that automatically follow double-digit inflation for some programs will probably result in real declines in other programs, or will continue to frustrate the achievement of a smaller federal sector.

An additional concern is that the automatic indexing of many federal programs may itself contribute to inflation. The direct and indirect indexing provisions that cover almost 90 percent of federal benefit payments for individuals may reinforce inflation and serve as an example to the private sector. Also, if the economy is operating at full capacity, the extra spending may either provide unnecessary extra fiscal stimulus or make attempts at fiscal restraint very difficult to implement. Finally, indexing may help create imbalances in the composition of federal spending by increasing transfer payments at the expense of purchases, investment, or research. In the long run, this may aggravate productivity and inflation problems.

Although automatic indexing has removed all flexibility in the timing and amount of cost-of-living adjustments, it may not have resulted in greater federal spending than otherwise would have occurred. For example, prior to the introduction of automatic indexing, Social Security benefits were adjusted through periodic legislation at a rate that exceeded the increases in the CPI. Since the start of automatic indexing in July 1975, no major Social Security increases have been approved beyond the cost-of-living adjustment. On the other hand, the automatic benefit increases for Social Security recently have been quite large--14.3 percent in 1980 and 9.9 percent in 1979. The President's budget estimates assume that the benefit increase for Social Security will be 12.3 percent in 1981 and 11.3 percent in 1982. It is possible that the Congress would not enact such large increases if they were not automatic.

Alternative Indexing Proposals

In recent years, the specific index used to calculate cost-of-living adjustments for Social Security and other programs has come under increasing scrutiny because of the manner in which the costs of shelter are treated. The index used is strongly affected by changes in housing prices and mortgage interest rates. The Carter Administration recommends that an alternative index be used that increases the weight given to rent and eliminates housing prices and mortgage interest. The Administration does not expect that substituting the alternative index would result in any budgetary costs or savings. While this may be true over the longer-run, it is possible that the use of an alternative index could result in budgetary costs or savings in any one year. For example, the alternative index recommended by the Carter Administration has been increasing at a slower rate than the CPI for urban wage earners and clerical workers. By the first quarter of 1981, the different growth rates from the first quarter of 1980 between the two indexes is projected at about 1.7 percentage points. As a result, using the substitute index recommended by the Carter Administration for the 1981 Social Security cost-of-living adjustment could result in savings of about $2 billion in fiscal year 1982.

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Other suggestions also have been made to modify the way federal benefits are indexed for inflation. One suggestion is to provide less than the full amount of the cost-of-living adjustment. For example, the benefit increases might be limited to 85 percent of the increase in the CPI, or some other amount less than 100 percent. This approach would be analogous to the Carter Administration proposal to limit federal employee payraises below the comparability levels. The approximate savings under this approach for the major indexed retirement and disability programs would be an estimated $3.6 billion in 1982, and could rise to as much as $20 billion in 1986. Capping the annual cost-of-living adjustments could be done on a discretionary basis, is easily understood, and spreads the reductions evenly across a broad population. On the other hand, it is an arbitrary process and, over sustained time periods, could lead to a serious erosion in real benefits.

Another suggestion is to substitute the use of a wage index for the annual cost-of-living adjustments when wages are rising more slowly than prices. During recent periods, wages have not grown as rapidly as prices. Fully indexing benefits in retirement and disability programs for price increases has meant that beneficiaries have gained relative to workers. Indexing to the lower of the increase in average hourly wages or prices would save an estimated $4.2 billion in fiscal year 1982, rising to a saving of $7.2 billion by 1986. This approach would assure that workers and benefit recipients receive similar increases during periods when prices are rising more rapidly than wages. On the other hand, this approach would permanently lower benefit levels and pressure could build to raise benefit levels beyond those automatically provided.

OFF-BUDGET OUTLAYS

The budget does not include a number of fiscal activities of the federal government that result in spending similar to budget outlays. The major exclusions are the outlays of off-budget federal entities that are federally owned and controlled, but whose transactions have been excluded from the budget totals under provisions of law. Their fiscal activities are not reflected in either budget outlays or the budget deficit; appropriation requests for their programs are not included in the totals of budget authority for the budget; and their outlays are not subject to the ceilings set by the Congressional budget resolutions. As discussed below, however, the outlays of the off-budget federal entities are added to the unified budget deficit to derive the total government deficit that has to be financed by borrowing from the public or by other means. When off-budget outlays are financed by Treasury borrowing, the additional debt is subject to the statutory debt limit.

The estimated outlays of the off-budget federal entities are shown in Table 20. Most off-budget outlays are accounted for by the Federal Financing Bank (FFB). The FFB itself does not operate any programs. Rather, it assists other government programs by purchasing loan assets from them, or making loans for which the agencies guarantee repayment.

TABLE 20. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

Off-Budget Federal Entity	Actual 1975	Actual 1980	Admin. Estimates 1981	Admin. Estimates 1982
Federal Financing Bank	6.4	14.5	23.1	18.2
Rural Electrification and Telephone Revolving Fund	0.5	-a/	0	0
Rural Telephone Bank	0.1	0.2	0.2	0.2
Postal Service Fund	1.1	-0.4	0.2	-0.1
U.S. Railway Association	a/	a/	-.3	a/
Synthetic Fuels Corporation	0	0	0	0
Total	8.1	14.2	23.2	18.3

a/ Less than $50 million.

Sales of loan assets to the FFB are treated in the unified budget as offsets to the outlays of the agency that sells them. This has the effect of shifting the budget impact of direct loans from on-budget agencies, such as the Farmers Home Administration, to off-budget outlays by the FFB. The Administration estimates that the FFB will make net purchases of $6.7 billion in loan assets in 1982, a decrease of $6.2 billion from the 1981 level, as shown in Table 21. The decrease is entirely due to lower sales of certificates of beneficial ownership (CBOs) by the Farmers Home Administration to the FFB, primarily from the agricultural credit insurance fund.

The FFB also functions as an off-budget lender for some agencies. If an agency issues to a private borrower a 100 percent guarantee of repayment of principal and interest, the borrower can obtain an off-budget direct loan from the FFB on the basis of the guarantee. The interest rate charged is only slightly above Treasury's own borrowing costs, so the borrower receives an indirect interest subsidy as well as the guarantee. Because guaranteed loans are not counted in the budget as budget authority or outlays, a nonbudgetary transaction by an on-budget agency can lead to off-budget direct loans. For fiscal year 1982, the Administration estimates that FFB outlays for direct loans net of repayments would total $11.5 billion. This represents an increase of $1.4 billion from 1981 and $4.7 billion from 1980. As shown in Table 21, the largest component of FFB direct loans are for loans guaranteed by the Rural Electrification Administration (REA). Including loan asset sales, the REA accounts for $5.8 billion, or 32 percent, of estimated FFB outlays in 1982.

TABLE 21. DISTRIBUTION OF FEDERAL FINANCING BANK (FFB) OUTLAYS (NET) (By fiscal year, in millions of dollars)

Description	1980 (Actual)	1981 (Estimate)	1982 (Estimate)
Purchases of Agency Loan Assets			
Farmers Home Administration	6,881	12,420	6,056
Rural Electrification Admin.	689	516	624
Other	2	26	33
Subtotal	7,572	12,962	6,713
Direct Loans (Purchase of Agency Guaranteed Loans)			
Rural Electrification Admin.	2,498	4,258	5,129
Foreign military sales credit	1,932	2,010	2,220
Student Loan Marketing Ass'n.	1,070	1,095	1,923
Low rent public housing	119	1,457	942
Other	1,173	1,289	1,279
Subtotal	6,792	10,109	11,493
Interest, Transfer of Surplus and Administrative Expenses	148	-6	-23
Total FFB Outlays	14,513	23,065	18,183

FEDERAL DEBT

President's Carter's 1982 budget estimates that the federal debt will grow by $143 billion during 1981 and 1982, and will exceed $1 trillion by the end of this period. During the past ten years, the federal debt has grown by $532 billion, from $383 billion in 1970 to $914 billion by the end of 1980. This represents an average annual growth of 9.1 percent, or somewhat less than the average growth in the GNP and in federal spending.

The Congress customarily has placed statutory limitations on federal debt, and estimates of federal debt are included in the Congressional budget resolutions. The current limitation on federal debt--$935.1 billion--was enacted on December 19, 1980 and expires on September 30, 1981. Federal debt subject to limit exceeded $930 billion at the end of December 1980, and is expected to reach the statutory ceiling by February 1981. The President's budget estimates that debt subject to limit will reach $987.3 billion by the end of fiscal year 1981, or $55.2 billion above the current limitation. For 1982, the budget projects another increase of $66.4 billion in federal debt subject to limit.

Four elements enter into the calculation of the amount by which the statutory debt limit must be changed: the unified budget deficit or surplus, the investment of trust fund surpluses in federal securities, the deficit of off-budget federal entities, and various means of financing other than borrowing. Table 22 shows the estimates for these elements underlying the appropriate public debt level projected by the Administration for 1981 and 1982. Even if the unified budget were balanced, the debt subject to limitation would increase because of the investment by trust fund surpluses in debt securities and the deficit of the off-budget entities. Shifting outlays off-budget by loan asset sales to FFB and using FFB to make off-budget loans guaranteed by federal agencies are financing activities that increase the federal debt subject to limit while decreasing the unified budget deficit.

TABLE 22. ESTIMATES OF THE LEVEL OF PUBLIC DEBT SUBJECT TO STATUTORY LIMIT (By fiscal year, in billions of dollars)

	(Actual) 1980	Administration Estimates 1981	Administration Estimates 1982
Increase in Debt Subject to Limit			
Unified budget deficit	59.6	55.2	27.5
Trust fund surplus	8.8	4.5	19.2
Deficit of off-budget federal entities	14.2	23.2	18.3
Means of financing (other than borrowing) and other adjustments	-1.5	-4.3	1.3
Total increase	81.1	78.5	66.4
Debt Subject to Limit, Beginning of Year	827.6	908.7	987.3
Debt Subject to Limit, End of Year	908.7	987.3	1,053.6

CHAPTER IV. THE CREDIT BUDGET

The credit budget, instituted in the 1981 budget, is an attempt to bring together and focus attention on new lending activity of the federal government. The credit budget records estimates by program of new direct loan obligations and new loan guarantee commitments. To control program levels, a series of requests for annually appropriated limitations on this new activity accompanies the credit budget.

As estimated in President Carter's 1982 budget, during 1981 new extensions of credit will rise sharply from \$131.2 billion to \$165.4 billion, or by 26 percent. They are expect to decrease in 1982, to \$152.6 billion, or by 8 percent (see Table 23).

TABLE 23. THE CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Unified budget	37.8	42.1	34.1
Off-budget	23.6	32.2	26.1
Total, direct loans	61.4	74.2	60.2
New Loan Guarantee Commitments			
Gross	134.2	164.3	166.7
Less secondary	-64.4	-73.2	-74.3
Total, primary loan guarantees	69.8	91.1	92.4
Total, credit budget	131.2	165.4	152.6

All components of the credit budget are expected to contribute to the dramatic increase between 1980 and 1981. A reduction in new direct loan obligations, both on- and off-budget, will account for the decrease in 1982, while new loan guarantee commitments are virtually unchanged.

Adjustment for Loan Asset Purchases. The large fluctuations in direct lending between 1980 and 1982 are not caused by changes in the amount of credit extended to the public. Rather, they result primarily from intergovernmental loan asset transactions, especially those between the Farmer's Home Administration (FmHA) and the off-budget Federal Financing Bank (FFB). These loan asset sales and repurchases between federal entities represent a financing mechanism for direct loans federal agencies have already extended to private borrowers. These transactions are counted twice in the President's credit budget: the direct loans FmHA makes to private borrowers are recorded as new on-budget lending, and the loan assets, composed of pools of those private loans are also recorded as new off-budget lending when the FFB purchases them. If an adjustment is made for this double counting, much of the variation in direct loan totals in the credit budget is eliminated (see Table 24).

TABLE 24. THE CREDIT BUDGET TOTALS, ADJUSTED FOR DOUBLE COUNTING IN DIRECT LOANS (By fiscal year, in billions of dollars)

Credit Activity	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations	61.4	74.2	60.2
Less New FFB Purchases of Loan Assets	-12.1	-16.6	-8.2
Total, direct loans, adjusted	49.3	57.6	52.0
New Loan Guarantee Commitments	69.8	91.1	92.4
Total, credit budget, adjusted	119.1	148.7	144.4

The adjusted credit budget figures are a more accurate depiction of credit extended by the federal government to nonfederal borrowers than those shown in the Administration's budget. CBO recommends that the adjusted figures be used as the basis for future Congressional action on the credit budget. Further tables in this chapter will be based, to the extent possible, on the adjusted figures.

A similar adjustment is made for budget outlays. Sales of loan assets by the Farmers Home Administration to the FFB are recorded as negative outlays, or offsetting receipts, in the unified budget, and as off-budget outlays by the FFB. 1/

1982 CREDIT PROGRAM PROPOSALS

The credit budget totals, even with the above adjustment, retain the pattern of rising in 1981 and falling in 1982. If this decrease is achieved in 1982, it will be a major departure from the steady upward movement in credit activity, which has grown about a third faster than outlays for direct spending during the past decade. If 1981 is an accurate indicator, however, the savings planned in advance in the budget may not materialize. As originally estimated, the fiscal year 1981 credit budget also showed restrained growth following a higher growth rate in the preceding year. By the time the second budget resolution was passed, the 1981 estimate had risen by $14.2 billion, and, in the 1982 budget it is another $9.1 billion higher, for a total increase of 16 percent over its original value. Though economic pressures in 1982 are not expected to be as severe as in 1981, it is likely that the 1982 credit budget also will exceed its current estimate.

In 1982, the Administration expects to achieve a $5.6 billion decrease in new direct loans obligations to nonfederal borrowers, primarily through reductions in the disaster loan programs of the Farmers Home Administration and the Small Business Administration (SBA) (see Table 25). The reduction reflects the transfer of agricultural economic emergency responsibility from FmHA to the Commodity Credit Corporation as well as low amounts estimated for natural disaster relief. The disaster estimates do not attempt to anticipate disaster needs accurately; they simply include a minimal level of new activity. Therefore, the 1982 direct loan total is a possible source of underestimate in 1982. The $1.5 billion decrease in Government National Mortgage Association (GNMA) mortgage purchase assistance activity in 1982 depends on adoption of a legislative proposal to convert this program from a loan to a cash subsidy mechanism. The proposal would simplify federal accounting and reduce loan outlays, though it would not affect the size or purpose of the GNMA tandem plan.

The Administration expects to hold the level of total loan guarantee commitments stable during 1982 because increases in housing programs are

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1/ For a more detailed discussion of these loan asset sales and the role of the FFB, see Congressional Budget Office, Loan Guarantees: Current Concerns and Alternatives for Control, A Compilation of Staff Working Papers (January 1979).

offset by decreases in energy and student loan programs. The alternate fuel production program is expected to make all its new commitments for guarantees in 1981, and none in 1982. The student loan insurance program is expected to drop in 1982 because of legislation proposed to end in-school interest subsidies and to institute a needs test for eligibility.

TABLE 25. MAJOR FEDERAL CREDIT PROGRAMS AND MAJOR ACTIVITY CHANGES BETWEEN FISCAL YEARS 1981 AND 1982 (In billions of dollars)

Program	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982	Change Between 1981 and 1982
New Direct Loan Obligations				
Commodity Credit Corporation	4.9	3.6	4.6	1.0
FmHA disaster loans	4.5	6.1	2.0	-4.1
GNMA mortgage purchase assistance	2.2	1.8	0.3	-1.5
Export-Import Bank	4.4	5.9	5.0	-0.9
National Credit Union Administration	0.3	2.2	3.7	1.5
SBA disaster loans	1.2	2.9	0.5	-2.4
Guaranteed loans purchased by the FFB				
Rural electrification	2.5	4.3	5.1	0.8
Tennessee Valley Authority	2.4	3.4	4.5	1.1
All other direct loans	26.8	27.4	26.3	-1.1
Total, direct loans adjusted a/	49.3	57.6	52.0	-5.6
New Loan Guarantee Commitments				
Student loan insurance	4.8	7.2	5.7	-1.5
Alternate fuels production	--	4.5	--	-4.5
Federal Housing Admin.	29.1	39.0	44.0	5.0
Low-rent public housing	17.0	18.4	20.1	1.7
Synthetic Fuels Corporation	--	1.5	2.0	.5
All other loan guarantees	7.2	20.5	15.2	0.1
Total, loan guarantees	69.8	91.1	92.4	1.3

a/ Adjusted to exclude double counting of loan assets sold to the FFB.

The complexity of issues involved in budgeting for loan programs has prompted the President to recommend the creation of a commission of financial experts to investigate federal credit. The commission would study budget treatment, program management, and special issues such as the role of the FFB.

CREDIT PROGRAM APPROPRIATION LIMITATIONS

Control of credit activities is achieved through annually appropriated limits on program levels for direct and guaranteed loan programs. For all but a few programs, the limitation request is the same as the estimated program level which is included in the credit budget totals. In the first and second budget resolutions for 1981, the Congress endorsed the credit control limits through sense-of-the-Congress language requesting that limitations be enacted in appropriations. In most cases, the Appropriations Committees acted to limit programs for which a limit was requested, although the committees often altered the size of the limit (see Table 26).

TABLE 26. CONGRESSIONAL ACTION ON LIMITATION REQUESTS FOR FISCAL YEAR 1981 (Amounts in billions of dollars)

	Presidential Request (July, 1981)	Congressional Action
Number of Programs Limited	52	38
Number of Programs Exempt	28	42
Amount of Limitation	91.8	68.5
Amount Exempt	54.5	96.7 a/

a/ Direct loan obligations and loan guarantee commitments in the second budget resolution, minus amount of limitation.

Limitations have not been requested for all programs in the credit budget. In both 1981 and 1982, the Administration exempted from the credit control limits programs for which it believed annual limitations were unenforceable or contrary to the nature of the program. In 1982, for example, limits were requested neither for the student loan insurance program, on the grounds that it may be considered an entitlement, nor for disaster loan programs which need flexibility to respond quickly and effectively in emergencies. As credit control limitations are still new, the Administration and the Congress have not yet thoroughly reviewed and agreed upon the criteria for exemption from annual limitations.

In his 1982 budget, President Carter proposed limitations on 45 percent of all direct loan obligations and 80 percent of all loan guarantee commitments. Of the total credit budget, limitations are proposed for 67 percent (see Table 27). The disparity between the proportions of direct and guaranteed lending that are subject to limitation results in part from the treatment of direct loans made off-budget by the FFB but guaranteed by on-budget agencies (65 percent of all off-budget direct loans). These loans are limited by controlling the new guarantee commitments of the originating agency, not the direct loans of the FFB.

TABLE 27. LIMITATIONS REQUESTS IN THE FISCAL YEAR 1982 BUDGET (In billions of dollars) a/

	Credit Budget Total	Administration Limitations Request	Percent Limited
Direct Loan Obligations, Adjusted	52.0	23.6	45
Loan Guarantee Commitments	92.4	73.8	80
Total, credit budget, adjusted	144.4	97.4	67

a/ Adjusted to exclude double counting of loan assets sold to the FFB.

THE 1981 CREDIT BUDGET

In its second budget resolution for fiscal year 1981, the Congress established targets on the aggregate amounts of new federal credit activity--$73.5 billion for direct loan obligations, $82.8 billion for primary loan guarantee commitments, and $53.0 billion for secondary loan guarantee commitments. The 1981 estimates in the President's 1982 budget exceed each of these aggregates, as Table 28 shows. As the credit targets are not binding, there is no sanction if they are exceeded, except when individual programs are subject to appropriated limits.

TABLE 28. THE CREDIT BUDGET TOTALS FOR 1981 (In billions of dollars)

	Second Budget Resolution	Administration's Latest Estimate	Difference
Direct Loan Obligations, Unadjusted	73.5	74.2	+0.7
Primary Loan Guarantee Commitments	82.8	91.1	+8.3
Secondary Loan Guarantee Commitments	53.0	73.2	+20.2

While the increase for direct lending is not large, loan guarantees are substantially above budget resolution levels. The growth in primary loan guarantees, that is, those guarantees newly extended on privately made loans, occurs in several programs, most notably the Federal Housing Administration's (FHA) mortgage insurance program and the Export-Import Bank. For the FHA program, which is under an appropriated limit of $32.4 billion for new 1981 guarantees, a $4.8 billion supplemental increase in the limitation is being requested. The Export-Import Bank is requesting a $1.0 billion supplemental increase in its limitation also.

Secondary loan guarantees consist largely of Government National Mortgage Association (GNMA) guarantees of securities backed by FHA and Veterans Administration insured mortgages. A $19 billion supplemental increase in the limitation for 1981 has been requested to allow the level of these guarantees to increase from $53 billion to $72 billion. Both the FHA and GNMA programs are expected to increase because of unusually heavy dependence on federally insured mortgages during periods of high interest rates and limited credit availability, such as are forecast for 1981.

THE CREDIT BUDGET IMPACT ON FEDERAL OUTLAYS

The unified budget records outlays for direct loans by on-budget agencies; it does not record off-budget loans and includes outlays for loan guarantees only in cases of default. The treatment of on-budget lending in the credit budget differs from that in the unified budget in two ways. First, the credit budget records direct lending in the form of new direct loan obligations--the point of obligation or commitment, when the federal government becomes bound to advance the funds. The unified budget records direct loan at the point when the funds are actually disbursed by the Treasury as outlays. Second, the credit budget lists new extensions of credit on a gross basis, while the unified budget deducts repayments, recording only net credit extended.

Net outlays for on-budget direct loans, the contribution of the credit budget to the unified budget total, are estimated to be $6.0 billion in 1982, less than one percent of all budget outlays (see Table 29). This represents the change in financial condition of the federal government because of on-budget lending. The $18.5 billion in net loan outlays by off-budget agencies (primarily by the FFB) does not appear in the unified budget totals but contributes to the public debt and the combined deficit as discussed in Chapter III. These outlays have the same effect on the government's balance sheet as do on-budget loans, but are hidden because of their off-budget status.

TABLE 29. NET LOAN OUTLAYS (By fiscal year, in billions of dollars)

	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982
On-Budget Direct Loans a/	8.8	3.4	6.0
Off-Budget Direct Loans b/	14.7	23.2	18.5
Total	23.5	26.6	24.5

a/ Contribution of credit budget to unified budget.

b/ Contribution of credit budget to public debt.

This chapter analyzes President Carter's spending proposals for fiscal year 1982 in each major budget functional category. The function classification is used as the basis for discussing national budget priorities in the deliberations by the Congress on the annual budget resolutions. The functional classifications presented in President Carter's 1982 budget have not changed significantly from those used for the 1981 budget. The surplus income of the Federal Financing Bank, an account that was formerly included in function 370 (Commerce and housing credit), is part of function 800 (General government) in the 1982 budget.

The Congressional Budget Office (CBO) estimates of the President's budget proposals for both fiscal years 1981 and 1982 are preliminary adjustments of budget authority and outlay estimates using CBO economic assumptions and alternative programmatic assumptions where relevant. These preliminary reestimates have not been reviewed by the Budget and Appropriations Committees and are subject to change. This review will take place in February after CBO completes its analysis of President Carter's 1982 budget estimates.

The CBO baseline projections of 1982 spending are described in Chapter III. CBO's baseline projections are not a forecast of spending for 1982. Rather, they are projections of spending if current laws were to remain unchanged and adjustments were made for expected inflation. These projections serve as a useful baseline for analyzing the effects of policy changes that are proposed by the President. These estimates are also preliminary and subject to change after CBO's February review of the Carter budget estimates and the completion of the CBO economic forecast for calendar years 1981 and 1982.

It should be noted that in the 1981 columns containing the President's latest request and the CBO estimate of the President's request in the following tables, the cost of 1981 supplemental appropriations for the civilian agencies' part of the October 1, 1980 payraise is shown in the allowances function rather than distributed by function and program as is done in the President's printed 1981 budget proposals. The cost of the civilian agencies' share of the anticipated federal employee payraise for October 1, 1981 is shown in the allowances function in all 1982 estimates.

NATIONAL DEFENSE (FUNCTION 050)

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

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	172.7	173.9	174.2	200.2	200.3	201.9
Outlays	159.05	161.1	160.1	183.6	184.4	187.1

a/ Preliminary, subject to change.

The President's request for 1982 budget authority exceeds his 1981 request by $26.4 billion. 1982 Administration outlay estimates exceed 1981 levels by $23.3 billion. The President's 1982 funding increase includes roughly $18 billion to cover inflationary growth in prices and pay, and about $8 billion of real growth (about 4 percent) for various defense programs.

The President's 1982 budget represents a change in policy relative to his 1981 request. The 1981 request contains about $9 billion real growth concentrated in investment programs, especially procurement of weapon systems. The $8 billion real growth contained in the 1982 request is more evenly distributed between operating and investment programs. The 1982 request implies about $0.6 billion real decline in the procurement program (that is, $4.7 billion short of the CBO baseline estimate), but it has about

$4.7 billion real growth in the other major investment areas: research and development, military construction, and atomic energy defense activities. Higher military end strength, a larger force structure, higher force operating levels, and other readiness initiatives cause the operating accounts to increase in real terms in 1982 by about $3 billion. The Administration estimates higher 1982 real growth in this area (about $5 billion) generally because its estimates of fuel price growth are much lower than CBO's.

The $0.6 billion real decline in procurement results primarily from reductions in the number of major weapon systems procured. In the President's budget fewer aircraft, ships, and tanks would be purchased at significantly higher costs per unit in 1982 than previously planned.

CBO estimates that the 1982 defense purchases are underfunded by $5.4 billion in President Carter's budget. As a result of higher inflation assumptions for defense purchases than used by the Carter Administration, CBO estimates that an additional $2 billion in new budget authority will be required for projected fuel consumption, $2 billion for full funding of proposed weapon purchases, and $1.4 billion for defense supplies and other purchases.

The following table compares Administration and CBO budget authority deflators.

Comparison of CBO and Administration Budget Authority Deflators: By Fiscal Year, In Percentage Change

	1981	1982	1983	1984	1985	1986
CBO Economic Assumptions a/						
Fuel	28.1	24.8	15.8	15.7	15.5	16.5
Procurement	10.4	10.3	9.8	9.2	8.7	8.6
Total Defense	12.9	10.6	9.8	9.5	9.2	9.0
President's Economic Assumptions						
Fuel	23.3	9.7	8.6	8.0	7.2	6.4
Procurement	8.6	8.0	7.5	6.9	6.5	6.4
Total Defense	11.7	8.9	8.6	7.6	7.0	6.6

a/ Based on CBO assumptions for all purchases except military and civilian pay, where the Administration payraises are used.

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The Administration estimates that its federal compensation reform proposals would save about $2.3 billion in the defense function. In fact, the budget already assumes greater savings (about $3.0 billion). This is because civilian payraises are capped at 5.5 percent, which is lower than the 8.6 percent projected under the reform proposals and the military payraise is funded at 9.1 percent, the same as projected under the reform. Enactment of this legislation would not reduce the budget authority request. Current law provides for so-called comparability payraises that would theoretically align federal government and private sector salaries, but it also permits the President to propose alternative payraises which has often been the case.

CBO estimates that comparability payraises under current law would be 14.6 percent for general schedule civilians (and, hence, military personnel) and 15.9 percent for wage board civilians. A payraise of 10.2 percent would hold federal employees even with CBO's estimated change in personal consumption prices. The costs to DoD of alternative payraise assumptions are:

- o President's Request - $3.8 billion
- o Comparability - $7.4 billion
- o Constant Real Personal Consumption - $5.2 billion.

The table on the next page summarizes the major defense programs, including real growth in budget authority and the sections following discuss each of the major programs in greater detail.

MILITARY PERSONNEL

The President's budget request for fiscal year 1982 contains $38.4 billion for military personnel, an increase of $1.7 billion above the President's latest fiscal year 1981 request of $36.7 billion. The President's 1982 request contains 1.3 percent real growth based on both the Administration's economic assumptions and CBO inflation rates.

The proposed increase of $1.7 billion in military personnel is distributed among five major categories: (1) increased average strengths (based on fiscal year averages) in the active and reserve forces (approximately $456 million); (2) increases associated with compensation legislation effective in fiscal year 1981 (approximately $484 million); (3) new initiatives consisting of permanent-change-of-station (PCS) policy changes and a

Summary of Major Programs--Function 050: By Fiscal Year, In Billions of Dollars

		1981 President's Latest Estimate a/	1982		
			CBO Baseline Projection b/	President's Budget Request	Real Growth b/ In BA c/
Military Personnel	BA	33.5	36.9	38.4	0.5
	O	33.5	36.7	38.3	
Retired Pay	BA	13.8	15.5	15.6	0.4
	O	13.8	15.5	15.6	
Operation & Maintenance	BA	52.9	61.1	61.5	1.8
	O	51.2	59.8	59.7	
Procurement	BA	45.1	53.8	49.1	-0.6
	O	35.4	41.7	40.1	
Research & Development	BA	16.1	18.1	19.8	2.3
	O	15.4	17.0	18.5	
Military Construction	BA	3.3	4.0	5.6	1.8
	O	2.5	2.3	2.9	
Family Housing	BA	2.1	2.1	2.2	-0.05
	O	1.9	1.8	2.0	
Atomic Energy Defense	BA	3.6	4.0	4.7	0.6
	O	3.6	4.0	4.5	
Other	BA	3.6	4.7	3.5	1.1
	O	3.8	4.7	2.9	
Total--Function 050	BA	173.9	200.2	200.3	8.0
	O	161.1	183.6	184.4	

a/ The 1981 pay supplemental has been taken out of the various accounts and consolidated in the "Other" category.

b/ Preliminary, subject to change.

c/ Real growth in the President's 1982 budget over 1981, based on CBO economic assumptions with President's payraise.

career basic allowance for subsistence proposal (approximately $77 million); (4) increases resulting from price growth in military personnel accounts (approximately $400 million); and (5) increases in other accounts (approximately $237 million). Each category is discussed below.

Active Forces

In fiscal year 1982, the average strength of the active forces would increase from 2,051,596 to 2,071,743, a change slightly larger than that of 1981. The changes by service are as follows: Army, 3,001; Navy, 11,200; Air Force, 6,212; and Marine Corps, -266. The budget contains $291 million to cover the growth in the active forces. This growth is due to current and planned force modernization and the introduction of new weapons systems, a proposed reduction in European tour lengths for unaccompanied first-term enlistees, a proposed extension of initial entry enlisted training from seven to eight weeks, and improved manning of existing forces.

Reserve Forces

The Department of Defense projects that the average strength of the reserve forces will increase from 870,159 to 908,500, a change somewhat smaller than that of 1981. The budget contains $165 million to fund this increase. The projected growth in the reserve forces is the result of planned efforts to overcome manning shortfalls and meet force structure requirements through improved recruiting and retention. This budget now counts more than 11,000 individual mobilization augmentees, personnel previously in the Individual Ready Reserve who will train for two weeks per year with the Selected Reserve.

Enacted Compensation Legislation

The President's request for 1982 contains an increase of approximately $484 million for benefits included in compensation legislation effective in fiscal year 1981. The increase in fiscal year 1982 is due to a change in the level of entitlements rather than programmatic changes, with one exception. For travel associated with permanent-change-of-station, the allowance increases from seven cents/mile and $35/day per diem to 18.5 cents/mile and $45/day per diem. The largest increases in this category are for the travel allowance ($254 million); sea pay and submarine pay ($54 million); the variable housing allowance ($25 million), which experienced much larger growth in fiscal year 1981; and enlistment and reenlistment bonuses ($98 million).

New Initiatives

The President's budget request contains three initiatives for fiscal year 1982. The first proposal reduces the length of overseas duty for first-term three-year enlistees on unaccompanied tours in Europe from three years to eighteen months. Although the proposal increases rotational costs, it is expected to decrease attrition rates and result in long-term savings. The increased cost for this proposal is $23 million. The second proposal revises current regulations to permit shipment of furniture to posts in Germany and Japan. An increase of approximately $19 million is included for this proposal. The third proposal permits personnel in the pay grades of E-5 and above (career personnel) to draw a cash basic allowance for subsistence (BAS) in place of subsistence in-kind. The increased cost of this proposal is $35 million.

Price Growth

Approximately $400 million is included in the President's 1982 request to cover price growth in the military personnel accounts. Of this amount, $125 million is for transportation rate increases, $57 million for clothing cost and item changes, and $217 million for increases in the costs of subsistence (food) and the movement of household goods.

Other Increases

The fiscal year 1982 request proposes increases for higher average salaries resulting from current increases in average grade and time in grade, current FICA rate and base changes, the proposed expansion of Reserve training programs, and the proposed payment of revenue from fines and forfeitures to the Soldiers' and Airmen's Home. These increases total $237 million.

RETIRED PAY

Retired pay includes the consolidated requirements of the military services for: (a) payments to retired officers and enlisted personnel of the Army, Navy, Marine Corps, and Air Force; (b) retainer pay of enlisted personnel of the Fleet Reserve of the Navy and Marine Corps; and (c) survivor benefits. The average strength of the retired pay population for fiscal year 1982 is projected to be 1,390,900, an increase of 44,300 above fiscal year 1981 estimates. The President's request contains $16.1 billion for retired pay ($15.6 billion, including the savings from the proposed legislation discussed below).

The President's budget for 1982 includes a proposal to limit CPI adjustments to retired pay to one per year instead of two. The proposal assumes that the September 1981 CPI adjustment will not be made. The Administration estimates annual savings of $85 million in fiscal year 1981 and $477 million in fiscal year 1982 from this proposal. CBO estimates that savings of $59 million in fiscal year 1981 and $357 million in fiscal year 1982 will result from enactment of the legislation.

The President's budget also assumes enactment of the Uniformed Services Retirement Benefits Act with an effective date of October 1, 1982. The new system would grant entitlements to members with less than twenty years of service, while offsetting reductions would occur in benefits after twenty years of service. The proposal is expected to result in greater annual outlays throughout this century; annual savings will begin and grow through the twenty-first century.

OPERATION AND MAINTENANCE

The President's request for operation and maintenance (O&M) proposes about $3.8 billion or 6.5 percent real growth based on Administration economic assumptions ($1.8 billion or three percent using CBO inflation rates).

Steaming hours of the Sixth Fleet and flying hours per Air Force pilot would increase in 1982. Proposed funding for Air Force flying hours increases by about $300 million in 1982 over a 1981 base that would be reduced by about $200 million because of projected reprogramming to make up spare parts shortages. Other significant increases would be:

- $700 million for Army prepositioning, force structure changes, and introduction of new weapon systems (e.g., XM-1 and Patriot).

- $500 million for real property maintenance.

- $600 million to support new ship deployments.

- $300-400 million for O&M funding of ship spare parts previously funded in Other Procurement, Navy.

Fuel price assumptions are the main source of divergence between CBO and Administration estimates of real growth in the O&M area. CBO assumes DoD fuel price increases of 25 percent between fiscal years 1981 and 1982 compared with the 9.7 percent assumed in the budget. Decontrol of domestic oil should cause price increases well above the Administration's estimate which appears low even if there were no decontrol.

The table below shows the DoD fuel requirements in terms of quantity and cost. Increased fuel consumption from higher activity levels consistent with a larger force, more unit training, and other readiness initiatives cause fuel requirements to increase.

Department of Defense Fuel Requirements and Budget: By Fiscal Year

	Actual	Estimates	
	1980	1981	1982
Requirements (in millions of barrels)	177	183	188
Requested Budget Authority (in billions of dollars)	7.2	9.2	10.2
CBO Reestimate of Budget Authority Request (in billions of dollars)	7.2	9.6	12.2
Additional Funding Requirement (in billions of dollars)	--	0.4	2.0

PROCUREMENT

The President's fiscal year 1982 procurement program has real growth of 1.2 percent based on Administration economic assumptions (-1.3 percent using CBO inflation rates). Four major features of 1982 procurement proposals are:

- o Substantial funding increases for acquisition of specific Rapid Deployment Force (RDF) related items.
- o Substantial funding increases to enhance readiness by building up ammunition and aircraft spare parts and equipment inventories.
- o Substantial cutbacks in the rate of acquisition of non-RDF major type type weapons systems.
- o Substantial increases in unit prices.

Rapid Deployment Force (RDF)

Mobility Forces. In the mobility area, the seabased RDF capability would be enhanced by:

- o Initiation of a program to modify the eight SL-7 fast logistics ships which are to be acquired in 1981. Two ships are planned for modification in 1982 for $216 million.
- o Acquisition and conversion of an underway replenishment ship at a cost of $20 million.
- o Conversion of the U.S.S. United States to a 2,000 bed hospital ship at a total cost of $380 million. Long lead funding in 1982 is $10 million.
- o Initiation of an eight ship program to construct maritime prepositioning ships (MPS). In 1982, $187 million is provided for the first ship.
- o Initiation of a program to convert four RO/RO ships to be used to preposition equipment for marine brigades. The 1982 program provides $94 million for the first ship.

These programs will provide an additional 22 support ships. However, no 1982 funding is proposed for an LSD-41 class landing craft for which the Congress provided long lead funding in 1981.

Marine Corps. The Marine Corps, the land forces element most closely identified with the RDF, would receive substantial funding increases. Marine Corps procurement would increase from $489 million in 1981 to $1,172 million in 1982. Items proposed include 72 light armored vehicles to provide more mobile ground based firepower for the Marine Corps, and ammunition, radios, artillery and light weapons presumably intended to be placed on MPS Ships discussed above and/or to offset items placed on ships already deployed at Diego Garcia.

Readiness Enhancement

As shown in the table at the top of the next page, proposed funding for readiness enhancing items would increase to $8.3 billion in 1982.

Comparison of 1981 and 1982 Readiness Programs: In Millions of Dollars

	1981	1982	Increase	Percent Change
Aircraft Spares and Support Equipment	4,256	6,000	1,744	41
Ammunition	1,565	2,267	702	45
Total	5,821	8,267	2,446	42

Cutback in Procurement of Major Items

Army Procurement. In the Army, every major procurement program shows a reduction in 1982 in the size of the buy when the 1982 budget is compared with the plan for 1982 submitted with the 1981 budget.

The first table on the next page shows substantial reductions in both 1982 and the 1982-1985 time period. The reductions from the planned program could be interpreted as a substantial change in earlier commitments to modernization of U.S. land forces in NATO. For example, the cumulative 1982-1985 reduction plus adjustments to prior year programs in XM-1 tanks and fighting vehicles is equal to the amount of equipment needed to modernize two U.S. armored divisions. It is significant that whilethe 1979-1985 program is reduced by 717 XM1 tanks, no further orders are placed for M60A3 tanks and the A1-A3 tank conversion program is ended.

Aircraft Procurement. The aircraft acquisition program in the 1982 budget follows a similar pattern, as seen in the second table on the next page.

In the 1982 budget, planned purchases of three types of aircraft (including the A-10, a NATO oriented anti-tank aircraft) are cancelled and acquisition levels for nine types of aircraft are reduced compared to the plan for 1982 submitted with the 1981 budget. The Navy, which reportedly requires 300 new aircraft per year to sustain the flying units, funds the procurement of 121 aircraft in 1982.

Comparison of 1981 and 1982 Major Army Programs: In Units Procured

	President's 1981 Program		President's 1982 Program		President's 1982-85 Program	
	Jan 1980	Jan 1981	Jan 1980	Jan 1981	Jan 1980	Jan 1981
Aircraft						
AH-64 Attack Helicopter	--	--	14	8	284	181
UH-60 Blackhawk Helicopter	80	80	96	78	231	305
CH47D Helicopter Modification	9	9	19	10	96	68
Tracked Fighting Vehicles						
XM1 Tank	569	360	720	569	3,322	2,877
Fighting Vehicle	400	300	600	404	3,229	1,727
Air Defense						
Roland	600	400	1,230	—	2,054	—
Divad Gun	12	—	98	12	510	114
Patriot	183	130	391	130	2,584	1,883
Other Missile Systems						
Hellfire	—	—	2,760	502	21,490	8,638
MLRS	2,340	2,340	2,496	2,496	107,916	90,432

Comparison of 1981 and 1982 Aircraft Programs: In Units Procured

	President's 1981 Program		President's 1982 Program		President's 1982-83 Program	
	Jan 1980	Jan 1981	Jan 1980	Jan 1981	Jan 1980	Jan 1981
Army	80	103	118	86	294	231
Navy/Marine Corps	104	188	179	121	488	296
Air Force	282	306	212	130	425	248
Total	466	597	509	337	1,167	775

Naval Forces. Naval Forces reflect a 26 percent reduction between the 1981 plan and 1982 budget, and a 25 percent reduction for the period 1982-1985.

Comparison of 1981 and 1982 Navy Ship Programs: In Units Procured

	President's 1981 Program		President's 1982 Program		President's 1982-85 Program	
	Jan 1980	Jan 1981	Jan 1980	Jan 1981	Jan 1980	Jan 1981
Trident Submarine	1	1	1	1	5	5
Attack Submarine	1	2	1	1	10	5
Guided Missile Cruiser	2	2	3	2	14	12
Guided Missile Destroyer	--	--	--	--	1	--
Guide Missile Frigate	4	6	4	1	11	1
Fleet Frigate (new design)	--	--	--	--	5	3
Amphibious Warfare Ship	1	1	--	--	2	--
Mine Counter Measures Ship	--	--	1	1	9	9
Fleet Oiler	--	--	--	1	4	5
ASW Surveillance Ship	5	5	4	4	4	10
Salvage Ship	1	1	2	2	3	4
Maritime Prepositioning Ship a/	2	--	3	1	12	6
Total	17	18	19	14	80	60

a/ Plans may not be comparable because of change in ship design.

The most significant aspect of these reductions is concentration of the reduction in combat ship classes. Four major combat ships are deleted in 1982 and 22 major combat ships in the 1982-1985 time frame.

Escalating Unit Prices

Aside from the number of weapons actually procured, another important aspect of the procurement strategy is the impact of the level of buys on the cost of the weapons. One way to access this impact in the 1982 budget is to compare the January 1980 and January 1981 DoD units cost and the level of procurement, and measure the total dollar value of these price changes (see the table on the next page).

Considering only the major systems in the table, at the 1982 unit prices predicted last year, the fiscal year 1982 budget could be reduced by $3.7 billion. Conversely, $3.7 billion worth of weapons had to be deleted from the fiscal year 1982 program to offset these unit price increases.

In many cases, the data indicates that the DoD strategy of small annual unit acquisitions only increases the price of the individual weapons procured. Other possible explanations are substantial real growth in the price of troubled individual weapons systems, poor cost estimates and/or poor estimates of inflation.

RESEARCH AND DEVELOPMENT

Overall, research and development (R&D) funds in 1982 reflect real growth over 1981 of 14.3 percent based on the Administration's economic assumptions (13.2 percent using CBO inflation rates). The R&D share of the Defense Budget continues to remain at its historical average of about 10 percent.

Strategic programs would increase by $900 million, due entirely to proposed funding increases for three missile systems. The MX ICBM development program increases from $1,500 million in 1981 to $2,400 million, an increase of $900 million. Total cost of the MX is expected to exceed $50 billion.

Trident II submarine launched ballistic missile funding would increase from $98 million in 1981 to $243 million in 1982 with a further projected increase to $354 million in 1983. These substantial increases are to accelerate Trident II development and should protect a 1989 Initial Operational Capability (IOC). Total cost of this development program alone could exceed $9 billion.

Proposed funding for the Low Altitude Area Defense System (LOADS), an anti-ballistic missile system, would be increased from

Comparison of 1981 and 1982 Unit Prices of Major Weapon Systems

	Change in 1982 Unit Price Jan 1980 Projections vs. Jan 1981 Budget (in percents)	Total Impact on 1982 Budget of Unit Price Change in 1982 Program (in millions of dollars)	Change in 1982 Units Ordered Jan 1980 Projection vs. Jan 1981 Budget (in percents) a/
Aircraft			
UH-60	33	94	-19
F-16	20	220	-20
EA-6B	52	47	-33
F-14A	9	69	N/C
F-18	44	569	-40
EC-2C	13	30	N/C
EC-130Q	26	16	N/C
P-3C	43	87	-50
AH64	67	137	-43
SH60B	174	377	-56
Missiles			
Patriot	154	295	-67
MLRS	23	34	N/C
Pershing II	19	31	N/C
Hellfire	322	72	-82
Phoenix	30	32	N/C
Harpoon	14	26	N/C
ALCM	27	139	-8
GLCM	39	88	N/C
Tracked Vehicles			
Fighting Vehicle	65	274	-23
XM-1 Tank	49	387	-21
Divad	95	48	-88
Ships			
SN688	20	105	N/C
CG47	18	323	-33
FFG-7	79	220	-75

a/ N/C signifies no change.

$71 million to $216 million in response to Congressional guidance to protect the option for an early prototype demonstration. Total cost of this bomber program could exceed $7 billion.

In 1981, the Congress directed DoD to initiate or substantially accelerate three strategic development programs: the Trident II and LOADS, both plus a new strategic bomber. At that time, the Congress provided $300 million in development funds and guidance to select an appropriate strategic bomber design with an IOC not later than 1987. Total cost of the program could exceed $20 billion. However, the President's budget proposes no funding for this program.

In tactical programs the Air Force CX Intertheater cargo transport system is substantially accelerated and receives $252 million in 1982, an increase of $217 million over 1981 funding. In 1983, funding is projected to reach $375 million with a total program cost that could exceed $12 billion.

The budget also includes $230.7 million to continue development of the AV8B aircraft and substantial increases in intelligence and communication programs and defense-wide support.

MILITARY CONSTRUCTION

The military construction budget authority request of $5.6 billion in fiscal year 1982 reflects a real increase of slightly over $1.8 billion. This increase translates into real growth of 55.6 percent based on the Administration's economic assumptions (48.4 percent using CBO assumed inflation rates).

A significant factor attributing to the military construction increase in fiscal year 1982 over fiscal year 1981 is the funding of the 1981 shortfall of $392 million. The primary cause of the shortfall was unexpectedly high costs of labor and materials.

The largest single program contributing to the construction increase in fiscal year 1982 is the MX Ballistic Missile system. Proposed MX-related construction of support facilities, land acquisition, and planning and design totals $521 million compared to $17 million in 1981.

Construction in the Indian Ocean/Persian Gulf region in support of the new Rapid Deployment Force is also a major component of the proposed increase in fiscal year 1982. Included in the $419 million for the RDF are facility upgrade requests of $51 million at Lajes AFB, Azores and $159 million at Diego Garcia.

Other major construction projects contributing to the fiscal year 1982 increase are related to the following systems: Air and Ground Launched Cruise Missile ($180 million), Trident Ballistic Missile Submarine ($106 million), NATO Infrastructure program ($390 million), and Patriot Air Defense Missile ($43 million).

The fiscal year 1982 budget continued to pursue the new approach of incremental funding of military construction appropriations for the Puget Sound Shipyard boiler plant construction project.

There is a real decline in family housing of 2.4 percent. This decrease can be attributed in part to a reduction in domestic leasing made possible by the Variable Housing Allowance effected in fiscal year 1981. Leases for recruiters and ROTC instructors living in areas where no bases exist are also reduced. The family housing program is also anticipating better exchange rates, especially in West Germany, reducing costs by $38 million in fiscal year 1982.

ATOMIC ENERGY DEFENSE ACTIVITIES

Atomic energy defense activities support nuclear weapons production including the Trident I ballistic missile, the Mark 12A warhead for the Minuteman III, the B61 nuclear bomb, the Army's Lance missile warhead, and the warheads for nuclear cruise missiles. In general, this account funds facility operation and maintenance, materials production, weapon system fabrication, naval reactor development, nuclear waste management, and other activities.

The 1982 request for atomic energy defense activities includes about $600 million or 15.7 percent real growth primarily for increased production of special nuclear materials and missile warheads.

INTERNATIONAL AFFAIRS (FUNCTION 150)

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

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	23.85	25.1	24.4	17.2	19.6	19.2
Outlays	10.5	11.3	11.2	11.3	12.2	11.9

a/ Preliminary, subject to change.

The 1982 budget requests $19.6 billion in budget authority for international affairs programs. This represents a $1.5 billion increase (8 percent) over the Administration's 1981 request, excluding both the $5.5 billion 1981 quota increase for the International Monetary Fund and a $1.5 billion accounting change for the Export-Import Bank in 1981. Based on CBO estimates, this increase is $1.8 billion (10 percent) and is large enough to pay for the costs in the function of expected inflationary price increase above 1981 levels.

This growth, however, is spread unevenly over the function. Military assistance programs would grow the most by 74 percent ($270 million). Funding for multilateral banks would increase by 52 percent ($830 million) primarily to cover the entire U.S. subscription to the General Capital Increase of the World Bank. The President proposes to increase bilateral programs by 40 percent ($684 million) to fulfill a U.S. commitment to meet the terms of the 1980 Venice summit agreement. The requested $490 million increase for the State Department and $78 million increase for migration and refugee assistance would provide real growth for these programs. Only one program, the Export-Import Bank, experiences a major program reduction in 1982 ($900 million).

Program initiatives in the 1982 budget include a new replenishment for the International Fund for Agricultural Development totalling $255 billion over a three year period, $165 million for the Sixth International Tin Agreement and $74 million for the new Common Fund for Commodities.

Guarantee activities in the international affairs area increase substantially from $10.6 billion in 1981 to $20.2 billion in 1982. This increase primarily reflects the $8.1 billion request for the guarantee portion of the World Bank General Capital Increase. Excluding the World Bank subscription, guarantee activities will increase by 16 percent in 1982.

The budget proposes approximately $1.2 billion in program supplementals for 1981. They include $1.1 billion for the International Development Association; $76 million for Public Law 480; $28 million to cover the cost of the 1980 Foreign Service Act and inflation overseas; $18 million for the African Development Bank; and approximately $12 million for the Information Media Guarantee Fund. In addition, the budget requests a $1 billion increase in the Export-Import program limitation in 1981 for the guarantee and insurance program. Fees on this program would reduce budget authority by $2 million. No outlay effect is anticipated.

SECURITY ASSISTANCE

The President is requesting $2,450 million for the economic support fund and peacekeeping operations. This is a $320 million, or 15 percent, increase over the levels provided in 1981. Israel and Egypt will receive $785 and $750 million, respectively; the same levels as in 1981. The increase is for an unallocated special requirements fund of $100 million, an additional $100 million for Turkey, and increased funding levels to the Indian Ocean region, Southern Africa, and the Eastern Carribbean.

MULTILATERAL DEVELOPMENT BANKS

Congress will be asked to act on several major authorizing bills for the Multilateral Development Banks. Authorization of $8.8 billion will be sought for the General Capital Increase of the World Bank, which is scheduled to begin in 1982. A $3.2 billion authorization request for the International Development Association and $360 million authorization request for the African Development Bank will be reinitiated because action was not completed on this legislation last session. Additional authorizing legislation is requested for the Inter-American Development Bank and the Asian Development Fund because the 1980 authorization for these institutions did not provide the entire U.S. share of the replenishments. (A replenishment is an international agreement to increase the financial resources of a bank in which each donor country contributes a percentage share of the increase.)

72-339 O - 81 - 7

The $2.4 billion budget request for the Multilateral Development Banks in 1982 provides a 52 percent nominal growth over the 1981 program level that primarily reflects the decision to request the entire $658 million appropriation for the new IBRD replenishment in one installment rather than in six equal annual installments. The appropriation is being requested in full to maintain the U.S. voting share in the Bank. Funding for the other banks is continued at approximately the 1981 level except for the Asian Development Bank in which no replenishment will be underway for the first time in seven years. The 1982 budget request includes approximately $280 million that was requested but unfunded in 1981.

Neither the 1981 nor 1982 budget request includes an amount for callable capital. (Callable capital serves as a guarantee of the institutions' borrowing in private markets and has never been drawn.) Prior to 1981, these subscriptions required appropriation in full. Although legislation to change this treatment was initiated last session but not passed, the President's budget assumes its enactment. In the absence of the authorizing legislation the budget request would increase by $1.1 billion in 1981 and by $1.4 billion in 1982.

Outlays increase from $949 million in 1981 to $1.2 billion in 1982. This includes a $60 million upward reestimate in outlays in each year to take into account the maintenance of value (MOV) payments to the World Bank. The MOV was appropriated in 1972 and 1973 to maintain the value of Bank holdings of U.S. dollars in terms of gold in the wake of the devaluation of the U.S. dollar. Efforts to hold down outlays in 1981 and 1982 will cause outlays to increase in later years.

BILATERAL DEVELOPMENT ASSISTANCE

The 1982 request of $2,400 million for bilateral assistance is an increase of $684 million, or 40 percent, over the President's estimate for fiscal year 1981. The largest increases are $637 million for functional development assistance that provides U.S. bilateral economic assistance to the developing countries and $59 million for the Sahel development program.

PUBLIC LAW 480

For fiscal year 1982, the President is requesting a program of $1,741 million to finance the export of 5.8 million metric tons of agricultural commodities. This is an increase of $26 million in program and 0.2 million metric tons of commodities over the 1981 level. Net of $478 million in receipts, the Public Law 480 request will require an appropriation of $1,263 million and outlays of $1,211 in 1982.

MIGRATION AND REFUGEE ASSISTANCE

Continued political and economic instability in many areas of the world has increased the flow of refugees into neighboring countries. The 1982 budget requests $586 million for 1982, or a 15 percent nominal increase over 1981. The bulk of the program increase has been targeted for refugees in Somalia and Pakistan. Increased fuel costs have increased the cost of transporting the 144 thousand Indochinese and the 43 thousand other refugees to the U.S. for resettlement in 1982. The 1982 budget request reduces the care and maintenance program for the Indochinese reflecting the decline in the number of people in the reprocessing centers. Funds for the resettlement of Soviet and Eastern European Jews have also declined reflecting the fall-off in emigration from the Soviet Union.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

The President is requesting $85 million in 1982 as the first of three installments totaling $255 million on a replenishment of the International Fund for Agricultural Development (IFAD). IFAD was created to involve OPEC countries in a multinational effort to increase world food production by focusing assistance on small and medium size farms in less developed countries by augmenting the lending of other multilateral institutions without creating a new large bureaucracy. In its operation through December 31, 1980, it had cumulative interest income of $119 million, paid operating expenses of $28 million, and disbursed $60 million on loans and grants for agricultural development.

FOREIGN MILITARY CREDIT SALES

No new country programs are requested for grant military assistance in 1982. However, the President is requesting a $735 million, or 24 percent, increase in credit sales to $3,781 million, double the credit sales financed in 1980. Consistent with changes contained in Public Law 96-533, only direct credits require appropriation. The President's request of $850 million in budget authority is composed of $500 million in grants to Israel and $350 million in direct credits at concessional terms for countries unable to afford the near market rates of guaranteed loans.

Guaranteed loans of $2,931 million are to be financed through the Federal Financing Bank. Net off-budget outlays of $2,180 are estimated.

Foreign Military Credit Sales Outlays: In Billions of Dollars

	1980	Administration Estimates 1981	1982
Off-Budget Outlays			
Foreign Military Credit Sales	1.9	2.0	2.2
Unified Budget Outlays	10.7	11.3	12.2
Total FMCS Outlays	12.7	13.3	14.4
Off-Budget Outlays as % of Total Outlays	15.2	15.1	15.4

Guaranteed loans are backed by a guarantee fund of over $1,100 million from prior years' appropriation. This fund makes payments on defaults and renegotiated guaranteed loans. Subsequent recoveries and repayments are covered into the fund. Net payments on defaults and renegotiated loans by the guarantee fund are estimated at nearly $100 million in 1981 and 1982.

THE STATE DEPARTMENT

The 1982 budget proposes a 32 percent nominal increase in funds for the State Department from $1,515 million in 1981 to $2,005 million in 1982. Growth areas are foreign buildings ($176 million), contributions to international organizations ($195 million), and salaries and expenses ($85 million).

THE EXPORT-IMPORT BANK

Although demand for Export-Import Bank financing continues to grow, the budget proposes absolute reductions in the Bank loan programs. The 1982 budget request for the direct loan program is $500 million below the $5.5 billion 1981 program limitation. The $400 million discount loan program is eliminated in the 1982 request. These two program cuts, and the one-time increase in budget authority of $1.5 billion for an accounting change in 1981 accounts for the proposed $2.4 billion reduction in 1982 Export-Import Bank funding to $4.7 billion.

Guarantee and insurance activities of the bank continue to grow in 1981 and 1982. A $1 billion supplemental is requested for these activities in 1981. The $9.4 billion program limitation, requested for 1982, represents an 11 percent nominal growth over the 1981 activity level. Guarantee and insurance activities are not included in budget totals although these programs are a contingent liability of the federal government. The past history of negligible defaults indicates the risk of significant losses to the U.S. from these programs is remote. In fact, since inception of the programs in the late forties, the guarantee insurance activities have netted over $70 million for the Bank.

Outlays increase only from $2.26 billion in 1981 to $2.3 billion in 1982. The rapid expansion in outlays experienced in 1979 and 1980 will be slowed if, as expected, the Bank provides financing for two new aircraft (the Boeing 757 and 767). The first deliveries on these aircraft are expected in late 1982 and early 1983. The bulk of the disbursements for these activities will take place as deliveries are made.

INTERNATIONAL COMMODITY AGREEMENTS

The President is requesting an appropriation of $239 million in fiscal year 1982 for contributions to international commodity agreements designed to reduce short term price fluctuations of certain raw materials. The request includes $165 million for the Sixth International Tin Agreement and $74 for the Common Fund for Commodities. Both require ratification by Congress. Outlays are estimated at $30 million in 1982 and $10 million in 1983.

The Common Fund would pool deposits of cash and callable guarantees from autonomous buffer stocks created by international commodity agreements with up to $400 million in direct contributions of cash and callable guarantees from member governments. At present, only the rubber buffer stock would be eligible to participate with possibly tin joining under a Sixth Agreement. The President is requesting separate contributions to both tin and rubber buffer stocks.

FOREIGN MILITARY SALES TRUST FUND

The President is estimating new sales of defense articles and services of $15.0 billion in fiscal years 1981 and 1982, roughly the same level as realized in 1980. Using historical obligation and outlay rates, CBO estimates budget authority of $12.6 billion, outlays of $10.8 billion, and receipts of $10.8 million in 1982, compared to the Administration's estimate of $13.1 billion in budget authority, $10.7 billion in outlays and $10.7 billion in receipts.

GENERAL SCIENCE, SPACE AND TECHNOLOGY (FUNCTION 250)

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

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	6.4	6.5	6.5	7.2	8.1	8.1
Outlays	6.1	6.2	6.2	7.0	7.6	7.4

a/ Preliminary, subject to change.

The President requests budget authority of $8.1 billion for fiscal year 1982 for general science, space, and technology and projects outlays of $7.6 billion for 1982. The request represents an increase of 24 percent in budget authority from levels appropriated in 1981 and is 12 percent above CBO's baseline projection. Assuming the President's budget authority for 1982, CBO estimates outlays at $7.4 billion. The estimate is based on CBO's spending assumptions developed from recent spending history.

The proposed budget for NSF is $280 million (26 percent) above the levels appropriated in 1981 and reflects about 18 percent real growth. Funding for NSF's research and related programs would increase about $250 million (25 percent). Existing math and physical sciences, engineering, industrial science and technology innovation, and the Ocean Margin Drilling programs would receive significant increases in 1982. In addition, NSF proposes a new $75 million program to fund the modernization of university research facilities and requests $9.8 million to begin the development of a new millimeter wave telescope that NSF projects will cost $29.3 million. NSF's science and education activities would receive an increase of 39 percent above 1981 levels, from $81 million in 1981 to $112 million in 1982. The bulk of this increase would fund a new $25 million program intended to enhance the engineering and computer science programs at the nation's colleges and universities.

General science activities of DOE would increase by $103 million (20 percent) in 1982. The 1982 funding level would finance continued upgrading and construction of facilities designed to enhance research capabilities in high energy and nuclear physics.

NASA has requested $6.1 billion for the civilian space program for 1982, a $1.2 billion or 24 percent increase from levels appropriated in 1981. The 1982 budget contains $3.8 billion for NASA's space flight program, 22 percent above the 1981 levels. Space flight consists largely of the Space Shuttle and related programs. The proposal reflects the continued development and testing of the space shuttle system on a schedule that will make it operational by late 1982. Production continues on the third and fourth orbiters and the Spacelab. Major increases are proposed in production ($205 million), shuttle support operations ($291 million), and development of shuttle capabilities ($65 million). The 1982 request also provides $25 million for initial funding of a fifth orbiter.

The increase in the NASA budget will also raise funding for space science and applications programs by $385 million (28 percent). The proposal is 16 percent above CBO's baseline projection for 1982. Included in the request is $40 million for the initiation of the Venus Orbiting Imaging Radar mission scheduled for 1986, (which NASA expects to cost between $550 and $650 million), and $20 million for initial studies of an Upper Atmospheric Research project. Total funding for other new projects proposed for 1982 is $16 million. Increases of $18 million for the International Solar Polar mission, $34 million for the Gamma Ray Observatory, $29 million for the National Oceanic Satellite System and $45 million for the Galileo mission are also being proposed for 1982.

Through the Federal Financing Bank, NASA is funding the Tracking Data Relay Satellite System consisting of six satellites being developed by the Space Communications Corporation. When the system becomes operational in late 1982, ground based tracking systems will be phased out. In 1982, NASA plans loan guarantees of $144 million for this project with loan commitments projected to total $883 million by fiscal year 1983. Repayments are scheduled to begin when the system becomes operational.

ENERGY (FUNCTION 270)

Function 270 encompasses the major nondefense energy programs of the federal government. These programs, primarily administered by the Department of Energy, include energy research and development, production, conservation, emergency preparedness, and regulation. Other agencies, including the Tennessee Valley Authority, the U.S. Geological Survey, the Department of Agriculture, and the Nuclear Regulatory Commission, also carry out energy-related activities that fall within this function.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	5.85	8.2	7.8	8.7	12.1	11.6
Outlays	7.8	8.7	8.3	11.2	12.0	12.0

a/ Preliminary, subject to change.

For fiscal year 1982, the President is requesting $12.1 billion in budget authority, an increase of 46 percent over the $8.2 billion currently estimated for fiscal year 1981. Similarly, outlays are projected to increase by 38 percent from $8.7 billion to $12.0 billion. The 1982 request is significantly above the CBO baseline projection for budget authority, but only 7 percent above baseline outlays.

New accounting procedures and a significant decrease in offsetting receipts mask the programmatic decisions that characterize the 1982 request. These changes in the budgetary treatment of contract and borrowing authority account for a net $0.9 billion of the $3.9 billion budget authority increase in 1982. The latest Administration request treats the authority to spend uranium enrichment receipts totaling $1.3 billion as budget authority in 1981 but not in 1982. In addition, the 1982 budget for the first time shows as budget authority the annual borrowing activity of the

Tennessee Valley Authority (TVA) and the Bonneville Power Administration (BPA), estimated to total $2.2 billion, even though large appropriations covering several years of borrowing authority were scored as budget authority in the year they were appropriated.

The other major factor, which increases both budget authority and outlays, is a net reduction in offsetting receipts from $3.2 billion in 1981 to $1.9 billion in 1982. The sharp drop in receipts results from the termination at the end of fiscal year 1981 of the oil entitlements system. Federal participation in this system is expected to provide over $1.8 billion in receipts in 1981, as the result of the acquisition of oil for the Strategic Petroleum Reserve. An anticipated increase of $0.2 billion from the sale of Naval Petroleum Reserve oil partially offsets the decline in entitlements benefits.

Excluding accounting changes and the sharp decrease in offsetting receipts, the President's 1982 request represents a 16 percent increase in energy spending authority (from $10.2 billion to $11.8 billion) and a 16 percent increase in outlays over 1981 (from $11.9 billion to $13.8 billion).

The major emphasis in the 1982 budget is on increased funding for construction of large fossil projects and a uranium enrichment facility and on accelerated filling of the Strategic Petroleum Reserve (SPR). The 1982 request provides $790 million, an increase of 87 percent, to fund construction of two coal liquefaction (solvent refined) projects and one low/medium-BTU gas demonstration plant. Similarly, total spending authority for the uranium enrichment program, including revenues, increases by 73 percent ($1.3 billion to $2.2 billion), primarily to accommodate construction of the gas centrifuge enrichment plant at Portsmouth, Ohio. Gross SPR budget authority (excluding entitlements receipts) rises by $567 million (17 percent) and outlays grow by $642 million (21 percent), reflecting both a rising world oil price and an accelerated fill schedule in 1982. Other increases occur in conservation and energy supply programs.

The President has proposed 1981 supplemental appropriations (excluding pay) totalling $113 million for gas rationing and Department of Energy administrative costs. Rescissions in 1981 for conservation and energy supply reduce budget authority by $102 million and outlays by $63 million in 1981 and $27 million in 1982.

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

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Request
Energy Supply	BA	5.9[a/]	5.1	5.3
	O	4.8	5.3	5.7
Power Marketing	BA	0.2	0.2	0.4[b/]
	O	0.2	0.2	0.1
Tennessee Valley Authority	BA	0.0	0.0	2.0[c/]
	O	2.0	2.0	2.0
Energy Conservation	BA	0.9	0.9	1.0[d/]
	O	0.8	1.0	1.1
Strategic Petroleum Reserve	BA	1.5	3.5	3.7
	O	1.2	3.8	3.4
Other Energy Programs	BA	1.2	1.2	1.3
	O	1.1	1.1	1.3
NPR Receipts	BA	-1.0	-1.6	-1.2
	O	-1.0	-1.6	-1.2
Other DOE Receipts	BA	-0.4	-0.5	-0.4
	O	-0.4	-0.5	-0.4
Total--Function 270	BA	8.2	8.7	12.1
	O	8.7	11.2	12.0

a/ Includes $1.3 billion accounting adjustment for uranium enrichment

b/ Includes $0.1 billion accounting adjustment for BPA

c/ Includes $2.0 billion accounting adjustment for TVA

d/ The President's budget authority includes a transfer of $125 million from the Energy Security Reserve for the Solar and Conservation Bank. CBO scorekeeping reports do not count this transfer as budget authority.

ENERGY SUPPLY

The 1982 request for the energy supply programs represents an increase of $0.8 billion (16 percent) in budget authority over the 1981 level, excluding the accounting changes for uranium enrichment, BPA, and TVA.

The major increases occur in ongoing programs for the construction of new energy facilities, including a uranium enrichment gas centrifuge plant ($387 million), and two synthetic fuel demonstration plants, SRC-I ($339 million) and the low/medium-BTU gas plant ($96 million).

The only initiatives proposed by the President are legislation to be enacted in 1981 for an away-from-reactor nuclear fuel storage facility ($0.3 billion) and appropriation language that allows termination in 1982 of the National Petroleum Reserve in Alaska (funded at $107 million in 1981). The President proposes to discontinue funding of the Clinch River Breeder Reactor (CRBR) in 1982. The Congress provided $30 million for this project through December 15, 1980, and extended funding at the fiscal year 1980 level through June 5, 1981. DOE is presently spending at the rate of $16 million per month on the CRBR project.

There are fundamental shifts in the energy portion of the budget away from energy research that results in near-term gains, into energy research that is geared towards long-term projects. The Administration has stated that the high price of energy is sufficient incentive to ensure that all worthwhile avenues to near-term energy gains will be adequately explored by private industry, while long-term projects still require major governmental support. For example, geothermal energy, an energy source already in use, shows a decrease in 1982 budget authority of $60 million, while funding for magnetic fusion research and development has increased by $112 million (28 percent). Fusion is not expected to be a practical energy source until sometime in the next century. Overall, requested 1982 funding for fossil fuels is also up, increasing by $441 million (39 percent), primarily for long-term synthetic fuel projects. Requested budget authority for nuclear fission (excluding the away-from-reactor nuclear fuel storage proposal), solar, and other renewable energy resources is roughly the same as in 1981.

Energy supply outlays are expected to increase by $767 million (11 percent) in 1982. Over half of the outlay growth is attributable to the major fossil energy construction programs. Other increases are expected to occur for non-fossil construction projects (up 18 percent) and for upgrading transmission lines to accommodate increased electricity use in the southwestern states (up 49 percent). Outlays for the proposed AFR storage program are projected to increase from -$100 million in 1981 to $200 million in 1982. As a result of the President's proposal to discontinue exploration in 1982, outlays for the National Petroleum Reserve decrease dramatically, from $222 million to $17 million. Bonneville Power Administration (BPA) outlays are also down by $206 million because of an anticipated increase in revenues from the sale of power. TVA outlays are expected to remain constant at $2.0 billion.

The President's request for energy supply includes 1981 rescissions of $54 million, resulting from proposals to cancel the high temperature reactor program ($26 million), and four small demonstration projects.

CONSERVATION

The proposed 1982 funding for Department of Energy conservation programs is $119 million (16 percent) above the current request for 1981, that incorporates a $48 million rescission in industrial and transportation programs. The 1982 request includes $102 million for the proposed Energy Management Partnership Act (EMPA), that would consolidate and expand existing state conservation programs currently funded at $68 million. Further, the President is requesting an $18 million (10 percent) increase in each of the two major conservation grant programs, weatherization and schools and hospitals.

Following an estimated 24 percent growth in outlays between 1980 and 1981, the 1982 budget projects a 32 percent increase in outlays (from $704 million to $931 million) over 1981 levels. These rapid increases reflect, in part, the lagged effect on outlays of rapid funding increases in previous years. Approximately 75 percent of this increase is attributable to the three major state and local programs: weatherization, schools and hospitals, and state and local conservation and emergency planning.

In addition, the 1982 request includes funding for the Solar and Conservation Bank, administered by the Department of Housing and Urban Development, slightly above the 1981 level. The Bank, which subsidizes loans for solar energy and conservation improvements through financial institutions, is currently in its initial phases. The Administration assumes full operation of the Bank by mid-1981 and outlays of $47 million in 1981 and $136 million in 1982.

STRATEGIC PETROLEUM RESERVE

The latest Administration budget reflects a major policy change in the rate of oil purchase in 1981 and 1982 for the Strategic Petroleum

Reserve (SPR). The President's new plan calls for the acquisition of an additional 40 million barrels of oil in 1981, bringing the average annual fill rate to approximately 200,000 barrels per day instead of the 100,000 barrels per day currently scheduled. During 1982 the request assumes purchase of 84 million barrels, or 230,000 barrels a day averaged for the year, bringing the total amount of oil in the Reserve by the end of fiscal year 1982 to 252 million barrels. The Administration plans to continue the Naval Petroleum Reserve oil exchange program, which is expected to provide 42 million barrels of oil in 1982, or half of the proposed purchase amount for SPR in that year.

The fiscal year 1982 budget authority request for SPR is $3,650 million, significantly higher than the $1.5 billion provided in 1981. In 1981, the President's new plan for accelerated oil purchase relies on an estimated $1.8 billion in receipts collected through the oil entitlements system as authorized by Title VIII of the Energy Security Act (Public Law 96-294). With the decontrol of domestic oil prices on September 30, 1981 and the associated termination of the entitlements system, the President estimates that only $248 million in entitlements receipts will be available for SPR in 1982. In addition to the loss of these offsetting receipts, the augmented fill rate and higher world oil prices (projected by the President to be approximately $37.85 per barrel in 1981 and $42.80 in 1982) combine to cause significant increases in budget authority and outlays in 1982.

SPR outlays, net of entitlements receipts, are expected to almost triple in 1982 to $3.4 billion. The President's estimates include $252 million in 1981 and $230 million in 1982 for facility development and program direction. Storage capacity for the SPR is scheduled to reach 272 million barrels by the end of calendar year 1982, with a 420 million barrel capacity targeted for early 1986.

A preliminary CBO estimate of the President's policy based on an average world oil price in 1982 25 percent higher than the President's assumption suggests that net outlays would be approximately $1.0 billion in 1981 and $4.2 billion in 1982. Higher SPR outlays could also occur in 1981, and to a smaller extent, in 1982, if oil prices are decontrolled earlier than assumed in the budget.

OTHER ENERGY PROGRAMS

The proposed budget includes a $113 million 1981 supplemental request, and a 12 percent increase in 1982 budget authority over the 1981 level for other energy programs. The 1982 request is 15 percent above CBO's baseline projection, and 24 percent above the current 1981 funding level.

The largest increase in 1982 funding is for DOE administrative costs, up $112 million, or 39 percent, over 1981 levels. Most of the increase is to accommodate the transfer of people from other areas of DOE (primarily the Economic Regulatory Administration) to activities funded by this account. Total full-time staff years remain constant between 1981 and 1982. The Nuclear Regulatory Commission budget increases by $53 million, or 12 percent, primarily for nuclear regulatory research, while the Energy Information Administration receives a 22 percent increase for enhancement of its data collection, analysis and dissemination capability.

The $113 million supplemental request for 1981 includes $72 million for the Economic Regulatory Administration to complete preimplementation of the standby gasoline rationing plan. The proposal also includes $41 million to replace certain receipts expected to be available to cover department administration costs. The loss of these receipts results from the cancellation of an overseas sale of nuclear fuel and an interruption in the sale of byproduct steam.

OFF-BUDGET SPENDING

In addition to these on-budget programs the federal government provides off-budget loans and loan guarantees to encourage the provision of electricity and telephone service in rural areas. The REA administers the largest such program, with direct loans expected to total $1.1 billion and loan guarantees $5.1 billion in 1982, the same as 1981 levels. REA's direct loans are sold to the Federal Financing Bank (FFB), while most of its guaranteed loans are converted to direct loans by the FFB. Although there is currently no limitation on REA loan guarantee obligations, the President has proposed appropriation language in 1982 to define parameters for REA loan guarantee activity.

Off-Budget Outlays: (In Billions of Dollars)

	Actual 1980	Administration Estimates 1981	1982
Off-Budget Outlays			
Rural Electrification Administration	3.2	4.8	5.8
Tennessee Valley Authority	0.7	0.3	0.3
Subtotal	3.9	5.1	6.0
Unified Budget Outlays	6.3	8.7	12.0
Total Outlays	10.2	13.8	18.0
Off-Budget Outlays as Percent of Total Outlays	38.0	36.6	33.4

The off-budget REA outlays (that appear in the budget as FFB outlays), as well as direct loans made by the FFB under guarantees by TVA, account for over one-third of the federal government's spending on energy programs. REA outlays, in particular, have grown rapidly, from $3.2 billion in 1980 to $4.8 billion in 1981. The President is projecting continued growth but at a slower rate, with outlays expected to reach $5.8 billion in 1982.

NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

This function includes most of the federal programs designed to protect, maintain, enhance, and use the natural resources in the public domain. These programs represent a major portion of the outlays of the Department of the Interior, the Army Corps of Engineers, and the Environmental Protection Agency, and a significant portion of the outlays of the Department of Agriculture. Several other agencies, including the Departments of State, Transportation, and Commerce perform activities that fall within this function.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	11.9	12.4	12.5	13.8	13.6	13.9
Outlays	13.1	13.8	14.1	14.1	14.0	14.4

a/ Preliminary, subject to change.

The President's fiscal year 1982 budget for natural resources and environment programs includes a net budget authority increase of $1.2 billion (9 percent), and a net outlay increase of $0.2 billion (1 percent) over the fiscal year 1981 level. Excluding offsetting receipts (primarily relating to the sale of timber and mineral leases), however, the President is proposing an increase over the 1981 estimate of $1.9 billion in budget authority (13 percent) and $1.0 billion in outlays (6 percent).

All of the program categories in this function are targeted for funding increases over the 1981 level with the largest increases for pollution control and abatement programs (up $0.6 billion or 13 percent) and water resources programs (up $0.5 billion or 11 percent). Additional large funding increases are for other natural resources programs (up $0.3 billion or 22 percent), recreational resources programs (up $0.3 billion or 20 percent), and conservation and land management programs (up $0.3 billion or 8 percent).

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

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Request
Offsetting Receipts	BA	-2.5	-2.7	-3.3
	O	-2.5	-2.7	-3.3
Pollution Control and Abatement	BA	4.7	5.2	5.3
	O	5.5	5.7	5.8
Water Resources	BA	4.1	4.5	4.5
	O	4.4	4.4	4.6
Other Natural Resources	BA	1.5	1.7	1.8
	O	1.5	1.7	1.8
Recreational Resources	BA	1.4	1.7	1.7
	O	1.6	1.7	1.7
Conservation and Land Management a/	BA	3.3	3.4	3.6
	O	3.3	3.3	3.5
Total--Function 300	BA	12.4	13.8	13.6
	O	13.8	14.1	14.0

a/ Excluding Forest Service receipts.

OFFSETTING RECEIPTS

The President estimates that offsetting receipts primarily relating to the sale of timber and coal and mineral leases will be $2.5 billion in 1981 and will grow by $786 million or 31 percent to $3.3 billion in 1982. This increase is partially because of the anticipated demand for timber as new housing starts increase and partially because of an expected increase in receipts from mineral leases as oil and gas prices rise, causing increased

72-339 O - 81 - 8

interest in oil and gas drilling on the public lands. The receipt projections represent a significant portion of the difference between the President's and CBO's budget authority and outlay estimates. CBO anticipates approximately $100 million less in receipts in fiscal year 1981 and approximately $300 million less in receipts in fiscal year 1982, because of different assumptions concerning the time lag between the demand for and actual receipts from the sale of timber, and the growth rate of receipts from oil and natural gas leases on the public lands.

POLLUTION CONTROL AND ABATEMENT

The $606 million proposed increase in funding for pollution control and abatement programs from $4.7 billion in 1981 to $5.3 billion in 1982, represents a 13 percent increase over the 1981 level and a 1 percent increase over CBO's baseline projection. Most of this increase is for programs in the Environmental Protection Agency (EPA). Two EPA programs, the Sewage Treatment Plant Construction grants and the Hazardous Substance Response Trust Fund (HSRTF, commonly known as the Superfund), account for $591 million of the total increase, with $395 million of this increase for the construction grant program. The 1982 request for EPA construction grants is 1.6 percent lower than CBO's baseline projection.

Authority to establish the HSRTF was granted in December, 1980. The fund will be used to clean up hazardous wastes and respond to emergencies and will be financed primarily through taxes on industries. The Administration proposes a $117 million funding level for the fund in 1981 including a proposed $11 million supplemental appropriation from the general fund, a proposed $78 million supplemental appropriation from tax receipts, and $27 million from abatement, control, and compliance funds. Budget authority of $285 million is proposed for the HSRTF in 1982, of which $35 million would be appropriated from the general fund and $250 million would come from the transfer of tax receipts.

WATER RESOURCES

The President's request for water resources programs of the Corps of Engineers, Soil Conservation Service (SCS), and Water and Power Resources Service (WPRS) exceeds the current 1981 request by $465 million or 11 percent. This is $103 million (2 percent) higher than the CBO baseline projection. The largest increases are for programs carried out by the Corps of Engineers (up $374 million) and WPRS (up $125 million) with the most significant increase for operation and maintenance work by both these agencies.

Although construction will continue on existing water resources projects, the 1982 request does not include funding for initiation of any new projects. As in the original 1981 budget, the President is seeking to postpone such projects until the Water Resources Council is reauthorized and can review proposed projects. The request for the Corps of Engineers construction program is $29 million or 2 percent below the CBO baseline projection while the request for the WPRS construction program is $24 million or 4 percent above this baseline.

OTHER NATURAL RESOURCES PROGRAMS

Proposed funding for other natural resources programs in the National Oceanic and Atmospheric Administration (NOAA), the Geological Survey, and the Bureau of Mines is $316 million (22 percent) higher than the 1981 level and 7 percent higher than CBO's baseline projection. A major portion ($208 million) of the increase from 1981 is targeted for NOAA's operations, research, and facilities. The 1982 NOAA budget request also includes $124 million proposed for later transmittal under proposed legislation which would enable NOAA to establish a land satellite system to provide information regarding agricultural crops, population growth, petroleum and mineral extraction, pollution, and other land-related issues. Most of this amount would be used to reimburse the National Aeronautics and Space Administration for procurement of the spacecraft. In addition, a rescission of $30.5 million in 1981 is proposed to reduce or eliminate spending for numerous low priority programs that were added in the 1981 appropriation above the President's original request.

RECREATIONAL RESOURCES

Requested budget authority for recreational resources in 1982 is $278 million (20 percent) higher than the 1981 request. A significant portion of this increase is attributable to the $55 million nominal increase in funding for the Heritage Conservation and Recreation Service's (HCRS) Urban Park and Recreation grants (from $20 million in 1981 to $75 million in 1982). The change in funds actually available for this program, however, is $10 million (from $65 million to $75 million), because in addition to $20 million in new budget authority for 1981, $45 million in funds deferred from 1980 (P.L. 96-304) were available in 1981.

Similarly, while the HCRS Land and Water Conservation Fund (LWCF) budget authority request has nominally increased 27 percent, $165 million of funds deferred from 1980 (P.L. 96-304) were available in 1981. Thus, the $112 million requested budget authority increase (to $520 million) would actually result in a decreased funding level relative to the total budget authority available in 1981 ($574 million). The 1982 budget request for LWCF is 14.5 percent lower than CBO's baseline projection.

Overall proposed funding for National Park Service (NPS) programs is $65 million (13 percent) higher in 1982 than 1981, and 4 percent higher than CBO's baseline projection. Of this increase, $47 million is for operation of the NPS and $18 million is for construction programs.

CONSERVATION AND LAND MANAGEMENT

The proposed 1982 funding for conservation and land management programs is $269 million or 8 percent above the current request for 1981, which includes a supplemental request of $153 million for fighting forest fires. A similar supplemental request is likely for 1982. If this 1981 supplemental is excluded, the President's request for conservation and land management programs becomes $422 million or 13 percent above the 1981 level, and $146 million or 4 percent above the CBO baseline projection. The largest increases are proposed for the Forest Service (FS)(up $262 million), the Office of Surface Mining Reclamation and Enforcement (OSM) (up $71 million), and the Bureau of Land Management (BLM) (up $68 million). These increases are primarily attributable to increases in timber sale preparation activity and needs for appropriated funds for forest road construction in the FS; final establishment of a new program for reclamation grants in the OSM; and increased leasing activity on the public lands in the BLM. The President's budget proposes funding for the Agricultural Conservation Program (ACP) at the 1981 level and elimination of funding in the Coastal Zone Management program (CZM) for energy impact formula grants.

This function includes programs that provide farm income security, as well as agriculture research and services. With the exception of two small Farm Credit Administration funds, all programs fall under the jurisdiction of the Department of Agriculture.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	5.35	5.6	5.6	5.2	5.6	5.6
Outlays	2.1	1.1	1.5	5.3	4.8	5.1

a/ Preliminary, subject to change.

The major program in this function is agricultural price supports and related activities, administered through the Commodity Credit Corporation (CCC). Price support activities are expected to constitute about 43 percent of total function 350 outlays in fiscal year 1982. Other accounts with major budgetary impact are the Agricultural Credit Insurance Fund (ACIF), the Federal Crop Insurance Fund (FCIC) and the Agricultural Stabilization and Conservation Service. Overall credit activity in the function is expected to include direct loans of $11 billion in fiscal year 1981 and $9.5 billion in fiscal year 1982, of which $7.4 billion respectively and $4.9 billion will be off-budget. Loan guarantees are expected to reach $2.4 billion in each fiscal year and will be funded by private lenders.

The President is requesting budget authority of $5.6 billion for this function in each of the fiscal years 1981 and 1982. A substantial portion of this budget authority ($3.3 billion in 1981, $2.3 billion in 1982) is for the CCC, to restore realized losses from previous years. Requested funding for other programs is rising from $2.3 billion in 1981 to $3.3 billion in 1982, an increase of 44 percent. Nearly $500 million above the 1981 appropriation is requested for the Agricultural Credit Insurance Fund, mostly for increased interest costs. Similarly, the President is requesting an additional $314 million for the Federal Crop Insurance Corporation. The proposed funding increase for agriculture research and services is approximately $200 million, over 11 percent above the 1981 level and 7 percent above the CBO baseline projection.

The large additional funding requests for the Federal Crop Insurance Corporation include a transfer of $150 million from CCC borrowing authority in 1981 and a request of $350 million for capital stock and $57 million for premium subsidies in 1982. In addition, $136 million is requested for 1982 for continued expansion of the crop insurance program into more counties. A 1981 supplemental appropriation for administration and operating expenses of $49 million, above the $29 million already provided, is requested to implement the new Federal Crop Insurance Act. Without the supplemental, the Administration estimates FCIC will not operate beyond April, 1981.

The largest increases proposed for agriculture research and services are agricultural research, up $56 million (9 percent above 1981) and the Animal Plant Health and Inspection Service, up $13 million (5 percent above 1981). In addition, the President is requesting a supplemental for 1981 and legislation in 1982 for additional cooperative research funding of $10 million in both 1981 and 1982.

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

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Request
CCC Price Supports	BA	3.3	2.6	2.3
	O	-0.2	2.7	2.1
Agriculture Credit Insurance Fund	BA	0.3	0.5	0.8
	O	-0.7	0.6	0.6
Federal Crop Insurance Corporation	BA	0.2	0.3	0.5
	O	0.3	0.2	0.2
Other Agriculture Programs	BA	1.8	1.9	1.9
	O	1.8	1.8	1.9
Total--Function 350	BA	5.6	5.2	5.6
		1.1	5.3	4.8

The $3.8 billion increase in total outlays projected by the President is largely attributable to a $2.3 billion increase in CCC expenditures and a $1.4 billion increase in ACIF outlays. FCIC outlays are expected to decline by $82 million in 1982 (reflecting an assumption of a more normal level of crop disasters), while outlays for all other agriculture programs are projected to rise by $160 million, or 9 percent above the estimated 1981 level.

The CCC estimate reflects an assumption of normal weather in 1982, after the increased commodity prices caused by the 1980 drought resulted in substantial loan repayments in 1981. While total CCC outlays are expected to increase substantially, direct storage facility loans are projected to decline by $60 million, and disaster payments by almost $400 million. The President's outlay estimate assumes that dairy prices will not be supported above 75 percent of parity during fiscal year 1982. This would represent a change from the current 80 percent level in CBO's base projection and accounts for an outlay reduction of approximately $300 million. CCC use of credit through direct loans is projected to increase by $1 billion, mostly for commodity loans. Loan guarantee levels are continued at $2 billion for export credit, but no request is made for the agricultural fuels pilot project, for which $34 million was authorized in 1981.

Congress will consider new farm legislation in this session, of which CCC programs will be the centerpiece. CBO estimates that continuation of current programs under new authority would result in CCC outlays of $2.7 billion in 1982. Substantial changes could occur in projected 1982 outlays, as a result of the farm legislation, as well as of weather and export conditions.

The ACIF outlay increase in 1982 reflects very large asset sales expected in 1981, which the President projects will reduce 1981 outlays by $1.5 billion. These sales are reflected in off-budget outlays of the Federal Financing Bank. Outlays for ACIF program operations, excluding asset transactions, are expected to increase by about $100 million in 1982.

The President's budget includes outlay reductions assuming implementation of proposed legislation. Authority to forego the April adjustment of dairy support prices, if enacted in time, will save $138 million in 1981 and $86 million in 1982 by Administration estimates. In addition, the proposed collection of user fees for the Agricultural Marketing Service's cotton and tobacco grading and classification program is estimated to reduce both budget authority and outlays $25 million in fiscal year 1982.

OFF-BUDGET SPENDING

A significant portion of federal spending for agriculture programs is off-budget, as a result of ACIF sales of assets to the Federal Financing Bank (FFB). Net ACIF outlays, both on and off-budget, are projected to decline by $3.2 billion from 1981 to 1982, more than offsetting the $2.4 billion increase in other agriculture spending (primarily CCC).

Two and one-half billion dollars of this decrease reflects the President's projection of reduced ACIF direct loans. A $2.2 billion decrease is estimated for disaster loans, and a $1.85 billion decrease for economic emergency loans will result from the expiration of authority at the end of fiscal year 1981. Partially offsetting these decreases is a proposed increase of $1.2 billion in farm operating and ownership loans, to a total of $3 billion in 1982. Loan guarantee authority in ACIF programs is estimated to increase from $336 million to $359 million.

Total Function 350 Outlays (In Billions of Dollars)

	Actual 1980	Administration Estimates 1981	1982
ACIF			
On-budget	0.5	-0.7	0.6
Off-budget	4.0	6.1	1.6
Net ACIF	4.5	5.4	2.2
CCC	2.7	-0.2	2.1
All Other Unified Budget	1.6	2.0	2.1
Total	8.7	7.2	6.4
Off-Budget Outlays as Percent of Total Outlays	45	85	25

Off-budget outlays in ACIF arise from the sale of assets from disbursements of loans to farmers offset by repayments of previous loans. These net outlays are therefore less than the level of off-budget credit activity in the fund. Particularly high outlays result in certain years (1981, for example) from high levels of natural disaster and economic emergency loans which depend on weather and economic conditions. In the past, both unified budget and off-budget outlay levels have also been affected by Administration decisions to hold the sale of assets to the Federal Financing Bank until a later year. The 1980 appropriations bill now requires that 75 percent of assets acquired through loan be sold to the FFB in that fiscal year.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

Most of the programs in this function are designed to ensure an adequate supply of funds to meet the nation's housing and credit needs. These programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA); the federal government's thrift deposit insurance programs; and the business loan programs of the Small Business Administration (SBA), the National Consumer Cooperative Bank (NCCB), and the Chrysler Guarantee Loan Program. The function also includes funding for the United States Postal Service, for parts of the Department of Commerce, and for a number of independent agencies. As part of the Administration's proposed economic revitalization program, this function would include payments for several business tax credits.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	5.25	6.9	6.9	7.4	10.7	10.4
Outlays	0.95	3.4	3.4	4.6	8.1	7.8

a/ Preliminary, subject to change.

For fiscal year 1982 the President has requested $10.7 billion in new budget authority, an increase of $3.8 billion or nearly 55 percent from the $6.9 billion currently estimated for 1981. Outlays are estimated to increase from $3.4 billion to $8.1 billion, or over 135 percent. The major activity responsible for this growth is the President's proposed tax credit to businesses for payments in excess of business tax liability. These payments are estimated to be $0.2 billion in 1981 and $3.5 billion in 1982. (If implemented, CBO estimates that $0.3 billion less would be required in 1982 because of different assumptions regarding wages and salaries as well as unemployment levels). These payments would provide a 30 percent tax credit for business investments and an 8 percent tax credit for social security payments when these credits exceed a business's tax liability. Other differences in budget authority and outlays are largely due to financial management decisions (primarily asset sales) by the Administration rather than real growth in program levels.

FARMERS HOME ADMINISTRATION

For fiscal year 1982, the Administration is proposing the use of about $2,218 million in budget authority for the various rural housing programs of the Farmers Home Administration (FmHA). Virtually all of this authority would be used to support the direct loan and other very-low-to-moderate-income housing activities financed from the Rural Housing Insurance Fund (RHIF). The FmHA estimates that the authority earmarked for the RHIF ($2,212 million) will be sufficient to allow the obligation of $4,371 million of new direct loans. In addition, $398 million is expected to be committed to provide rental assistance payments to low-income households living in FmHA financed rental units. The Administration is also proposing to use $100 million of RHIF authority to implement the homeownership assistance program (HOAP). HOAP has been authorized for several years but has yet to be funded by the Congress. Overall, FmHA expects to finance about 117,000 residential units in 1982, 113,000 of which would involve mortgages carrying subsidized interest rates. (The bulk of RHIF's new loans are written with interest rates of 2 to 3 percent per year). In addition to RHIF's direct loan assistance, the agency proposes rental assistance payments for about 14,000 units and HOAP payments for 830 households. Total loan levels proposed for 1982 are about 6 percent higher than for 1981. Units assisted, however, drop slightly, reflecting anticipated cost increases.

The RHIF generally finances a large portion of its new activity through the sale of loan assets. These loans are sold to the Federal Financing Bank (FFB)--an off-budget federal agency--in the form of certificates of beneficial ownership (CBO). Since the CBOs bear rates of interest approaching market rates and the underlying loan pools yield far less, annual appropriations are required to cover this interest differential. This appropriation request totals $654 million for 1982, up almost 30 percent from 1981 and more than double the 1980 level.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

The 1982 request for the Government National Mortgage Association (GNMA) proposes authority that, in GNMA's estimation, would be sufficient to support $2.0 billion of new mortgage loans. This is the same level currently estimated for 1981 (including a $200 million supplemental loan authority request). However, the mechanism by which GNMA proposes to provide this assistance would change. Currently, GNMA buys loans bearing below-market interest rates and resells them at whatever discount from face value is necessary to make the yield attractive to private investors. The value of these discounts represents the net cost to the government of this program. As is the case with the RHIF, these loan sales provide GNMA with a substantial portion of the budget resources necessary to support new activity. The proposed change would eliminate the purchase/sale tandem arrangement for most of GNMA's loan assistance activity. It would substitute, instead, direct, up-front grants of sufficient size to entice lenders to make below-market rate loans. The budget anticipates that $1.7 billion of loans will be assisted with the proposed grant program. GNMA estimates that $490 million in budget authority will be needed. The remaining $300 million of total loan assistance will be provided through the traditional tandem programs. A much smaller direct grant program was proposed last year on a demonstration basis by the administration but was rejected by the Congress.

Since loan asset sales offset both outlays and new budget authority requirements for GNMA's tandem programs, budget estimates for these programs are highly dependent upon sales assumptions. Because of the uncertain economic conditions that have prevailed over the past several years, these sales assumptions have rarely been accurate. The 1982 budget includes GNMA loan sales of $2.5 billion in 1982 and $2.0 billion in 1981. These levels are much higher than the $833 million actually sold in 1980 and probably should be viewed as optimistic. Since the proposed grant program would eliminate the purchase/sale tandem arrangement, the uncertainties in budget estimates associated with asset sales would be reduced.

Adoption of the new program would have an effect on direct federal credit activities by substituting grants for direct loans. Thus, GNMA's 1982 request for new direct loan authority of $300 million, down from $2.0 billion in 1981 does not reflect a program reduction, but rather the change in the method of providing assistance.

GNMA's budget for 1982 also includes a request for $72 billion in loan guarantee authority to support its mortgage-backed securities guarantee program. This is the same level currently requested for 1981. Guarantees of these securities are, in effect, secondary guarantees since the securities are backed by mortgage loans already guaranteed by federal agencies.

Summary of Major Programs--Function 370: In Billions of Dollars

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Request
Farmers Home Administration	BA	0.6	1.8	2.2
	O	-0.7	1.5	1.6
HUD - FHA	BA	0.3	0.3	0.3
	O	0.1	-0.1	-0.1
Housing for Elderly and Handicapped	BA	0.8	0.9	0.8
	O	0.8	0.8	0.8
GNMA	BA	1.4	0.5	0.5
	O	0.5	0.8	1.0
Thrift Insurance Activities	BA	0.2	---	0.3
	O	-0.8	-2.2	-1.9
Postal Service	BA	1.3	1.8	1.1
	O	1.3	1.8	1.1
Small Business Administration	BA	0.9	0.9	0.8
	O	0.8	0.9	0.9
Other Commerce and Regulatory Activities	BA	1.2	1.2	1.2
	O	1.2	1.2	1.2
Payments in Excess of Business Tax liabilities	BA	0.2	---	3.5
	O	0.2	---	3.5
Total--Function 370	BA	6.9	7.4	10.7
	O	3.4	4.6	8.1

FEDERAL HOUSING ADMINISTRATION

The 1982 budget authority request for the Federal Housing Administration's (FHA) loan insurance programs is about the same as that for 1981. Because of lower expected claims and increased income, however, outlays in 1982 are projected by FHA at -$104 million, down from 1981's level of $61 million. Loan guarantee authority of $44 billion is also requested for 1982, up from $39 billion in 1981 (including a proposed supplemental). FHA has also requested direct loan authority in such amounts as may be necessary for 1982. FHA's direct loan activity comprises payments for loan insurance claims and temporary assistance payments on behalf of certain insured borrowers. FHA estimates this activity to total about $250 million in 1982.

HOUSING FOR ELDERLY AND HANDICAPPED

Direct gross loan obligations of $851 million are proposed for 1982 to finance housing for elderly and handicapped persons under Section 202 of the Housing Act of 1959. When adjusted for estimated recoveries of unfunded prior obligations, this is the same loan level provided for 1981. Because of increasing costs, units assisted are projected to drop to 17,200 from 1981's 18,600.

THRIFT INSURANCE ACTIVITIES

No budget authority has been requested for 1982 to support the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC). Outlay estimates for 1982 make no provision for losses, although both the FSLIC and FDIC were required to purchase assets from member institutions in 1980 at levels above those projected in the President's 1981 budget.

In 1982 the President has requested a limitation on borrowing authority of $600 million for the Central Liquidity Facility, which is also the current limitation. It is expected that this funding would support an obligation level of $3.7 billion in 1982, as short term loans are rolled over.

POSTAL SERVICE

The President has requested a 1982 payment to the Postal Service of $1.1 billion, a reduction of $0.4 billion in the public service payment as provided in Public Law 91-375. This payment, scheduled to decline 10 percent annually through 1984 when it would level off at $460 million, has been eliminated entirely in the administration's projections for fiscal years 1983 through 1986. In addition, the President's budget proposes a rescission of $250 million from the 1981 appopriations level of $1,593. This appropriation exceeds the recommendation in the Omnibus Reconciliation Act by $0.4 billion. Furthermore, the Postal Service will likely request a 1981 supplemental as well as amend their 1982 budget submission when a final decision, expected around March 1981, is reached regarding proposed rate increases. The new rates will likely entitle the Postal Service to a larger payment for revenue forgone as a result of free or reduced rates as authorized by the Congress.

SMALL BUSINESS ADMINISTRATION

Budget authority requested for 1982 in the area of other advancement and regulation of commerce (excluding the proposed tax credit program and the Small Business Administration) is consistent with the current estimates of $1.2 billion in both budget authority and outlays. A supplemental of $24 million is requested in 1981 to cover additional data collection costs for the Bureau of the Census. While activites for the decennial census in 1982 will be slowing down, increases of over $20 million are requested to upgrade the computer facilities at the Bureau of the Census as well as the Bureau of Standards. Other smaller increases would promote industrial innovation, domestic productivity, and international trade.

The Administration has proposed restructing the business loan program of the Small Business Administration (SBA) in 1982 but would maintain the current loan program ceilings of $4.2 billion for guaranteed loans and $346 million for direct loans. Disbursements for guarantee claims is estimated to be over $480 million in 1982. Similar to the recommendation in the 1981 budget request, the President has proposed legislation which would allow targeting loans by recipient rather than by loan type in order to allow SBA more flexibility to use funds for priority markets or groups, including minorities and women. The proposed legislation would also eliminate the interest differential between direct and guarantee loans, which has created excessive demand for direct loans, while the guarantee loan ceiling has never been reached. The Congress, in authorizing activities for the SBA (Public Law 96-302), failed to adopt either of these proposals.

OTHER

Funding for the NCCB, whose authorization is scheduled to expire September 30, 1981, would increase by 11 percent over 1981 levels, although the ceiling on direct loans would be lowered from $169 million in 1981 to $114 million in 1982. The 1981 budget includes $56 million to purchase from banks existing loans with maturities of less than one year, which account for most of the higher level of activity in 1981.

The Chrysler Corporation Loan Guarantee Act of 1979 authorized the Secretary of the Treasury to guarantee up to $1.5 billion of Chrysler Corporation debt. The Administration assumes that the remaining $700 million in guarantee authority will be obligated during 1981, but has not projected any reserve for defaults through 1986.

OFF-BUDGET SPENDING

In the course of its activities, the Rural Housing Insurance Fund (RHIF) provides a large number of mortgage loans to rural residents. Virtually all of these loans are then sold to the FFB. These loan sales greatly reduce the impact of RHIF's programs on the federal budget. The 1982 budget projects net RHIF sales to the FFB at $3.4 billion, down from $5.3 billion in 1981.

It is estimated that the FFB will purchase approximately $0.3 billion SBA Investment Company loans in both 1981 and 1982. The Postal Service, an off-budget agency whose obligations are expected to exceed $24 billion by 1982, is supported primarily by revenues from the mailers, receipts from investments, and Congressional appropriations. The on-budget activities of the Postal Service reflect the Congressional appropriation for public service costs, revenue forgone and unfunded liabilities of the old Post Office Department. The off-budget outlay estimated in each fiscal year represents the net of revenues and expenditures for the entire Postal Service operations. In 1982 expenditures are expected to exceed revenues by approximately $0.1 billion.

Off-Budget Outlays: (In Billions of Dollars)

	Actual 1980	Administration Estimates 1981	1982
Off-Budget Outlays			
Rural housing insurance (FmHA)	1.9	5.3	3.4
Small Business Administration	0.1	0.3	0.3
Postal Service	-0.4	0.2	-0.1
Subtotal	1.6	5.9	3.7
Unified Budget Outlays	7.8	3.4	8.1
Total Outlays	9.4	9.3	11.7
Off-Budget Outlays as Percent of Total Outlays	17.1	63.4	31.3

72-339 O - 81 - 9

TRANSPORTATION (FUNCTION 400)

Function 400 includes surface, water and air transportation activities administered by the Department of Transportation, the Department of Commerce's Maritime Administration, the Panama Canal Commission and several independent agencies.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	21.3	26.1	26.1	23.1	25.5	25.5
Outlays	19.7	23.9	23.9	22.2	21.6	21.8

a/ Preliminary, subject to change.

The budget for this function includes six major policy proposals:

- Significant changes in the financing of air transportation activities. The President proposes to reduce the growing airport and airway trust fund surplus by using a greater amount of the fund for Federal Aviation Administration operating expenses. For equity purposes, he proposes to increase general aviation user taxes.

- An increase in federal excise taxes on gasoline and diesel fuel, from four cents to fourteen cents a gallon with two of the additional ten cents going to the highway trust fund (starting in fiscal year 1982). Combined with proposed increases in other taxes that support the trust fund, the President estimates that the new tax rates will raise an additional \$3.5 billion in fiscal year 1981 and will yield total revenues of \$14.6 billion in 1982, with \$3.4 billion of the additional revenues targeted for the highway trust fund.

- A $1.3 billion increase in the highway obligation ceiling in fiscal year 1982 to $10.05 billion and consolidation of the current 44 categorical highway programs into 9 new categories. The budget also includes $1.4 billion, all within the obligation limit, for projects under a new "4-R" program. The budget includes a fiscal year 1981 liquidating cash supplemental request of $1.25 billion to meet higher-than-anticipated outlays in the federal-aid highway program.

- An increase in federal funds for urban mass transportation, specifically for capital improvement grants. Proposed funding for buses is up 23 percent and grants for rail modernization, new starts and extensions is up 15 percent.

- No additional federal subsidy for Conrail in 1982, pending completion of studies examining alternatives to the current system.

- An increased operating subsidy for Amtrak but one that is less than the amount needed to maintain the current system.

Excluding two extraordinary, one-time payments ($2.32 billion for the Penn Central settlement and $0.4 billion for repayment of Panama Canal Commission tolls and revenues), the 1982 request represents a $2.1 billion budget authority increase (up 9 percent) and a $0.3 billion outlay increase (1.5 percent) over the latest 1981 request.

The 1982 budget authority increases are spread across several programs, with funding for highway programs up 14 percent (from $9.5 billion to $10.9 billion), mass transit budget authority up 5 percent (from $4.9 billion to $5.2 billion), Federal Aviation Administration funding up almost 11 percent (from $3.5 billion to $3.8 billion) and Coast Guard budget authority up 11 percent (from $2.0 billion to $2.2 billion). The budget proposes a 10 percent funding decrease for rail programs ($2.1 billion to $1.9 billion).

The President expects outlays to increase 1.4 percent, from $21.2 billion in 1981 to $21.5 billion in 1982, excluding the one-time payments for Penn Central and the Panama Canal Commission. He estimates virtually the same outlays in 1981 and 1982 for the Maritime Administration, the Panama Canal and several smaller programs, and small increases for mass transit (up 2.7 percent, from $3.7 billion to $3.8 billion). Estimated outlay increases for Federal Aviation Administration programs (up 13 percent, from $3.1 billion to $3.5 billion) and for the Coast Guard (up almost 11 percent, from $1.9 billion to $2.1 billion) are offset by projected decreases for highway programs (down approximately 2 percent, from $9.0 billion to $8.8 billion) and rail.

Off-budget credit programs supplying direct and guaranteed loans for transportation activities would increase their loan levels 42 percent under the President's budget. This $1.6 billion increment comes mostly in the ship financing program where the budget proposes to increase loan guarantees outstanding from $6.6 billion to $7.6 billion. This program guarantees construction loans and mortgages on U.S.-flag vessels built in the United States and has an overall program obligation limitation of $10 billion. The 1982 budget submission includes an additional $350 milion in aircraft purchase loan guarantees, of which at least $100 million is targeted for commuter carriers serving small communities. This raises the outstanding loan balance for this program to $1.1 billion. Rail projects would receive $320 million in loan guarantees, much of which would fund projects involving properties of the bankrupt Rock Island and Milwaukee Railroads.

HIGHWAYS

The President requests a 14 percent increase in budget authority for 1982 and asks for changes in the structure of both the federal highway programs themselves and the taxes that fund them. The major spending increase would come in the federal-aid highway program that supports interstate construction, the bridge replacement program, safety construction and rehabilitation activities. The budget would raise the federal-aid obligation ceiling from $8.75 billion to $10.05 billion, not including emergency relief programs. The President wants to add a fourth "R", reconstruction, to the current resurfacing, restoration and rehabilitation (3-R) program in order to give the states greater flexibility in handling their interstate highway problems. The budget also proposes funding the interstate transfer grant--highway program with $300 million in trust fund revenue. Interstate transfer grants for both highway and mass transit projects were funded previously with general funds under Urban Mass Transportation Administration (UMTA) authority.

Partly to support these new demands on the highway trust fund, the budget proposes to raise the federal excise tax for gasoline and diesel fuel from 4 cents to 14 cents per gallon, with the increase being added to the price of fuel at the pump. Two cents of the ten cent increase would go to the trust fund and the balance to the general fund. The President also proposes other excise tax changes (largely affecting trucks) to allocate costs among highway users in a more equitable manner.

The Administration expects highway outlays to decline by $0.2 billion, primarily because of reduced federal-aid highway program spending (dropping from $8.4 billion in 1981 to $8.2 billion in 1982). The lower estimate is attributed to the fact that federal-aid highway outlays are restricted by legislative action that reduced the fiscal 1980 obligation ceiling to $7.8 billion. CBO's preliminary estimate of 1982 highway outlays is $0.4 billion higher than the President's. While the obligation ceiling will restrain spending somewhat, two other factors lead to the higher CBO estimate: the obligation process has been running at a faster-than-anticipated rate this year and the rapid pace should continue through fiscal year 1982, and CBO expects many states to change their project mix to traditionally faster spending projects (safety and 4 "R" work).

RAILROADS

Amtrak and Conrail funding issues highlight the 1982 railroad budget. The President requests an additional $25 million for Amtrak operating subsidies in 1981 and proposes to give Amtrak $743 million in operating subsidies in 1982. Amtrak says that both the 1981 supplemental and the 1982 request are well below the amounts that Amtrak says are necessary to maintain current operations. The President indicates that Amtrak will have to adjust to these budgets by reducing service and cutting costs. The full request for Amtrak in 1982, including operating, capital and labor protection payments, is $993 million, 10 percent above the 1981 level.

Pending completion of studies covering alternatives to Conrail's current organization and route structure, the President requests no subsidy for Conrail in 1982. His $300 million supplemental request would raise the 1981 subsidy to $485 million. CBO estimates that the current system would require $560 million in federal funds in 1982. In an effort to reduce Conrail's costs, the budget contains $50 million for both 1981 and 1982 to induce retirements and resignations by Conrail employees that would result in permanent work-force reductions. Supplemental funds for 1981 ($60 million) have been requested in budget function 600 for unemployment and supplementary pay benefits to persons covered by Conrail's current labor protection agreements.

The budget contains $2.32 billion in 1981, $207 million of which requires a direct appropriation, for costs attributable to a property settlement between the government and the Penn Central Corporation, its subsidiaries and affiliates. With this settlement, the government assumes ownership of approximately 80 percent of the Conrail stock. Settlements with other railroads, expected to total less than $1 billion, are expected in 1981 or 1982. Completion of the Penn Central settlement reduces the United States Railway Association's (USRA) responsibilities significantly and the budget reflects this fact by lowering USRA's budget from $29 million in 1981 to $19 million in 1982.

The President requests substantial budget increases for two other major railroad programs: the railroad rehabilitation program and the northeast corridor improvement project (NECIP). The Congress appropriated $25 million for rail rehabilitation projects in 1981 and the budget asks for $50 million more in 1981 and for $100 million in 1982. NECIP funding would rise from 1981's $350 million to $488 million in 1982, leaving $207 million of the total $2.5 billion authorization for later appropriation. The Department of Transportation and the General Accounting Office indicate that NECIP plans have been trimmed considerably to fit the $2.5 billion ceiling, leaving out many projects contained in earlier plans. Future requests for funds to complete these improvements may come in Amtrak capital budget proposals. The President's expectations for completing currently planned projects, as indicated in his outlay estimates, appear optimistic. CBO estimates 1982 NECIP outlays of $360 million, compared with the budget's $465 million, and expects completion in fiscal year 1986 or later. The President projects completion in fiscal 1985.

Overall, the 1982 railroad budget is 10 percent below the 1981 spending level (excluding the $2.32 billion Penn Central settlement), principally because the President requests no operating or capital subsidy for Conrail.

MASS TRANSIT

The Administration requests a 5 percent budget increase for Urban Mass Transportation Administration (UMTA) programs in 1982 and a 1981 supplemental appropriation of $250 million for UMTA's interstate transfer grants program. This would allow overall transit funding to keep pace with inflation. However, all of the additional funding would go to capital grants while operating subsidies would be held at their fiscal 1981 levels. The President would increase the funding for bus purchases by 23 percent (from $930 million to $1.145 billion) and would add approximately $270 million more for discretionary capital grants funding.

AIR TRANSPORTATION

The Administration's Airport and Airway Improvement Act of 1979, introduced in the first session of the 96th Congress, forms the basis for this year's budget proposals for the Federal Aviation Administration (FAA). The budget would increase airport and airway trust fund contributions to FAA operations from 1981's $525 million to $1.45 billion in 1982, and would lower general fund contributions from $1.7 billion to $1.1 billion. The President would draw on the trust fund more in order to reduce the fund's large uncommitted surplus, estimated at $2.8 billion by the end of fiscal 1981. Overall, the 1982 budget request would raise FAA funding $400 million above the 1981 level, roughly 1 percent above the CBO baseline projection.

OTHER PROGRAMS

The Administration would raise the Coast Guard's 1982 budget more than $200 million, 11 percent above the 1981 request. $123 million of the increase would go for Coast Guard operations and $39 million for acquisition, construction and improvement activities. The Administration expects Coast Guard outlays to rise to $2.1 billion, 13 percent above the 1981 level.

The budget request for the Maritime Administration (MARAD) is also up, nearly $35 million over the 1981 request. The President wants to increase operating differential subsidies by $62 million and would offset this increase somewhat with a $28 million decrease in construction differential subsidies. The full budget authority request for MARAD exceeds CBO's baseline projection by approximately 1 percent, with outlays virtually the same at $640 million. The President would raise funding for the National Aeronautics and Space Administration's (NASA) aeronautic research programs 13 percent, $66 million above the 1981 budget.

Finally, the 1981 budget request includes a $350 million reimbursement from the Panama Canal Commission to the general fund to restore federal funds that covered Canal operations during the transition to the new operating structure. This is in addition to appropriated budget authority of $402 million. The Commission's fiscal 1982 outlays are estimated at approximately $430 million, with toll receipts of $440 million.

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

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Request
Highways	BA	9.5	8.3	10.9
	O	9.0	9.3	8.8
Mass Transit	BA	4.9	5.2	5.2
	O	3.7	3.8	3.8
Federal Aviation Administration	BA	3.5	3.8	3.8
	O	3.1	3.5	3.5
Maritime Administration	BA	0.5	0.5	0.5
	O	0.6	0.6	0.6
Coast Guard	BA	2.0	2.1	2.2
	O	1.9	2.0	2.1
Rail Programs	BA	2.1	2.3	1.9
	O	2.0	2.2	1.8
Penn Central Settlement	BA	2.3	---	---
	O	2.3	---	---
Panama Canal	BA	0.8	0.4	0.4
	O	0.8	0.4	0.4
Other Transportation	BA	0.4	0.4	0.5
	O	0.4	0.4	0.4
Total--Function 400	BA	26.1	23.1	25.5
	O	23.9	22.2	21.6

This function includes programs for community and regional development and disaster mitigation and relief administered by the Departments of Housing and Urban Development (HUD), Commerce, Interior, and Agriculture, as well as the Small Business Administration (SBA) and the Federal Emergency Management Agency (FEMA).

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	9.25	10.2	10.2	9.9	9.2	9.2
Outlays	10.45	11.1	11.2	10.6	9.1	10.3

a/ Preliminary, subject to change.

The President's fiscal year 1982 budget proposes a $1.0 billion decrease in budget authority and $2.0 billion decrease in outlays from his current request for fiscal year 1981. The proposed budget includes changes to urban and rural development programs that would increase budget authority by 10 percent and outlays 5 percent for these programs between 1981 and 1982. Funding for disaster assistance would be substantially reduced in 1982 to $739 million from $2,518 million in 1981. The 1981 request for disaster assistance also includes the only program supplemental proposed for fiscal year 1981, $780 million for Small Business Administration disaster loans for farmers affected by the 1980 drought.

The President's fiscal year 1982 request for this function nearly equals the administration's estimate of the level of funding needed to continue 1981 program levels into fiscal year 1982. However, the request does not provide enough funds for all programs to maintain 1981 program levels in 1982. The $9.2 billion requested for fiscal year 1982 is 11 percent less than the $10.3 billion estimated by CBO to be needed to maintain 1981 program levels in 1982.

The proposed budget for Community Development is 6 percent higher than 1981 appropriations and approximately equal to CBO's baseline estimate for fiscal year 1982. Funding requested by the President for area and regional development would result in an 9 percent increase in total funding for these programs in 1982 over funds appropriated in 1981, but proposed program changes in 1981 and 1982 would significantly reduce obligation levels for several programs in this subfunction. The funds requested for disaster assistance and insurance programs are substantially below the levels required in recent years for these programs. The $739 million requested for 1982 is less than 30 percent of the funds the administration expects to need in 1981 and only 50 percent of CBO's estimate of resources needed in 1982.

The President proposes no significant program initiatives for function 450 in the fiscal year 1982 budget. Most discretionary programs are held near or below fiscal year 1981 funding levels while a $177 million rescission for TVA and several program reforms are proposed to eliminate activities that the President argues are funded adequately elsewhere in the budget or are not appropriate activities for the federal government.

COMMUNITY DEVELOPMENT PROGRAMS

In fiscal year 1982 the President proposes to increase community development funding to $5.2 billion--$291 million or 6 percent more than the $4.9 billion appropriated for fiscal year 1981. This request is 3 percent less than the administration's estimate of funding needed to maintain 1981 program levels in 1982 and approximately equal to CBO's estimate of current policy funding for 1982, an estimate that includes the effect of existing authorization limits on several programs in this area. Virtually all of the $291 million increase is allotted to the Community Development Block Grant program (CDBG) where the President's request is $3.96 billion, or $265 million more than the amount appropriated for fiscal year 1981.

The proposed budget would hold urban development action grants (UDAG) and the rehabilitation loan program to their 1981 funding levels ($809 million in total for both programs in fiscal year 1982 versus $805 million in fiscal year 1981). Total funds requested for CDBGs, UDAGs and rehabilitation loans are 6 percent above actual 1981 appropriations. This increase compares with the 13 percent average annual growth for these programs between 1978 and 1980.

The funding requested for other community development programs, such as comprehensive planning, neighborhood self-help development, HUD research and technology and the Neighborhood Reinvestment Corporation, varies little from 1980 and 1981 levels. Overall, the President's community development request is approximately 7 percent below CBO's estimate of funding required to maintain these programs at their 1981 program levels.

AREA AND REGIONAL DEVELOPMENT

Although the President has requested a 9 percent increase in budget authority for area and regional development, the budget anticipates no real growth in program levels for any of the programs over which the administration has total control. (Area and Regional Development includes the budget accounts for American Indian Trust activities administered by the Department of the Interior. These accounts can vary substantially year-to-year but do not result in costs to the federal government over time).

The President has proposed four major changes to programs in this area that could reduce funding significantly for several programs. For fiscal year 1981, the President wants to rescind $177 million appropriated in fiscal year 1981 to the Tennessee Valley Authority to start a coal gasification demonstration project. The Administration asserts that this project would duplicate Department of Energy activities.

The President proposes to end federal support for the regional commissions created by Title V of the Public Works and Economic Development Act of 1965, as amended. The federal government now pays approximately half of the administrative costs of 8 existing commissions and provides planning and technical assistance grants to the commissions. Approximately $44 million was appropriated in fiscal year 1981 for these activities. The President argues that legitimate federal responsibilities in the area of multistate planning can be handled through existing programs administered by the Economic Development Administration (EDA) and other agencies. Funding for the Appalachian Regional Commission, created under separate authorizing legislation, would continue in fiscal year 1982 at approximately the same level as in 1981 under the President's proposed budget.

In addition to eliminating the two programs discussed above, the President proposes major changes to Farmers Home Administration (FmHA) rural assistance programs. Funding for rural water and water disposal systems grants and loans would be reduced significantly and loan terms changed. The President wants to replace the 5 percent interest ceiling on loans made by FmHA for rural water and waste systems with a rate that approximates the market rate for municipal bonds placed in the open market for similar projects. If enacted, this proposal would raise the effective rate on loans from 5 percent to between 9 and 13 percent in 1982, thus reducing the federal subsidy. The President has also requested that total funding for these two programs be reduced to $100 million in grants and $575 million in loans in fiscal year 1982, approximately 30 percent lower than program levels for fiscal year 1981 and the lowest since fiscal year 1975.

The FmHA's authority to guarantee rural business and industrial development loans would also be reduced under proposals included in the budget. The President has asked for $500 million in loan guarantee authority--32 percent less than fiscal year 1981 and 53 percent lower than guarantees issued in fiscal year 1980.

Along with these major program changes the President has again proposed to end federal funding for Rural Development Grants and Rural Fire Protection Grants and to eliminate direct federal lending by the Rural Communication Development Fund (RCDF), a fund that provides direct and guaranteed loans for rural community television antenna facilities. Proposals to eliminate the two small grant programs have been included in several budgets in recent years but have not been enacted. The President's proposed change to the RCDF would allow borrowers to compete for federally guaranteed loans under existing business and industrial development loan guarantee authority, but would eliminate the deeply subsidized direct lending now available for nonprofit facilities.

Most other area and regional development programs are funded at or near fiscal year 1981 levels, including activities of the Economic Development Administration. The Administration has not repeated earlier attempts to expand EDA program activity, but has asked for continuation of EDA funding in 1982 at the fiscal year 1981 level of $625 million.

DISASTER RELIEF AND INSURANCE

The $739 million requested for disaster relief and insurance is substantially less than the funds needed for these programs in recent years. 1980 appropriations for these programs reached $2.4 billion and the President has requested a total of $2.5 billion for fiscal year 1981. These programs have spent over $1.0 billion annually since fiscal year 1978.

The President bases his optimistic request for 1982 on the assumption that changes made to federal disaster loan programs will end Small Business Administration disaster loans to farm operators by the beginning of fiscal year 1982. Projected program levels for flood insurance, disaster relief and SBA disaster loans to homeowners and nonfarm businesses are also considerally lower than recent experience would suggest. Since fiscal year 1978 the President's budget request has underestimated actual funding requirements in this highly volatile program area by at least 50 percent.

CREDIT ACTIVITIES

As discussed above, the President's fiscal year 1982 budget proposes to reduce and restructure lending activities in function 450. Direct lending is projected to decrease from $3.3 billion in fiscal year 1980 to less than $2.0 billion in 1982. At the same time, loan guarantee levels are expected to remain constant at between $2.3 and $2.4 billion. These estimates assume enactment of program reforms within the FmHA and the ending of all SBA farm lending in fiscal year 1981. Neither is certain to occur.

OFF-BUDGET SPENDING

In addition to these credit activities, three programs in this function sell loan assets to the Federal Financing Bank (FFB) that they acquire through normal program activities. These sales are used to offset other program outlays and therefore act to understate total federal outlays for community and regional development programs by the value of assets sold. Off-budget outlays would add approximately $1.5 billion to unified budget outlays in both fiscal year 1981 and 1982. In fiscal year 1982 the FmHA's Rural Development Insurance Fund will sell $1.1 billion in loan-backed assets to the FFB; the Rural Telephone Bank will record net FFB sales of $168 million, and the Department of Housing and Urban Development will record net sales of $232 million in community development loans. The recent activity of these three programs is summarized below:

Off-Budget Outlays: (In Billions of Dollars)

	Actual 1980	Administration Estimates 1981	1982
Off-Budget Outlays			
Rural Development Insurance (FmHA)	1.0	1.0	1.1
Rural Telephone Bank	0.2	0.2	0.2
Community development loans	a/	0.2	0.2
Subtotal	1.2	1.4	1.5
Unified Budget Outlays	10.1	11.1	9.1
Total Outlays	11.3	12.5	10.5
Off-Budget Outlays As Percent of Total Outlays b/	12.8	15.3	15.1

a/ less than $50 million

b/ Excludes outlays impact of disaster programs on unified budget outlay totals to more clearly represent off-budget activity trend

In summary, the President's budget for fiscal year 1982 would allow many programs in the area of community and regional development to continue at or near current funding levels. Inflation and proposed program changes would reduce the real level of support for these programs, many of which provide capital assistance to private businesses. Development assistance for state and local governments would decline in real terms and direct lending would decline across all program areas. Finally, the incidence of disasters and the demand for federal assistance is optimistically expected to return to pre-1978 program levels.

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

This function provides federal funds for education, training and employment, and other social services. The new Department of Education administers 47 percent of the funds; another 33 percent support the training and employment programs in the Department of Labor. The remaining funds cover other social services programs primarily administered by the Department of Health and Human Services.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	31.6	31.8	31.9	37.7	36.3	36.4
Outlays	29.8	31.7	32.1	34.9	34.5	34.5

a/ Preliminary, subject to change.

Overall, the President has requested a $4.5 billion (14 percent) increase in budget authority for education, training, employment, and social services programs in 1982. The President's request proposes:

- o $1.4 billion for new initiatives including $1.15 billion for new youth education and training programs and $200 million in new tax credits for nonprofit institutions.

- o $2.5 billion for increases in current programs. This increase, in total, does not cover expected inflation in 1982 for all these programs. Programs such as elementary and secondary education, education for the handicapped, public service employment and head start are maintained in real dollar terms. Programs such as Pell grants, summer youth programs and rehabilitation services, however, receive increases that only partially compensate for expected inflation. Other programs such as college work study, employment and training programs and vocational education were held to 1981 levels. The impact aid program and the guaranteed student loan program are substantially cut back from 1981 levels.

- $600 million increase in the grants to states for social services. This is a one-time technical adjustment that does not impact on program levels.

The $2.8 billion increase in the Administration's 1982 outlay estimates is primarily due to the proposed increases in budget authority.

In 1981, the President also requests an $800 million supplemental appropriation to cover insufficient funds for Pell grants. It also proposes $300 million in rescissions of previously enacted budget authority for impact aid payments and several small discretionary grant programs. Finally, the budget recommends a legislative initiative to reduce the guaranteed student loan program beginning in July 1981.

EDUCATION

In fiscal year 1982, the Administration requests $17.2 billion in budget authority and $15.8 billion in outlays for education programs. This is an increase of $1.5 billion (9.6 percent) in budget authority and $900 million in outlays over the 1981 program level. Even with this increase, overall funding for education programs will not keep pace with inflation.

The proposed change in budget authority includes a $900 million increase to fund a new youth education program, a $66 million increase to raise the maximum Pell grant, and a $700 million increase to partially compensate for expected inflation. It also includes a $250 million decrease in impact aid. The 1982 budget authority for student loans is only $100 million higher than that in 1981, reflecting $900 million of proposed legislative savings.

CBO's 1981 estimates exceed Administration estimates by $100 million in both budget authority and outlays. CBO's 1982 budget authority estimates exceed the President's by $100 million. All of the differences reflect CBO's higher estimates of the guaranteed student loan volume earning in-school interest subsidies.

Education Estimates: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	14.3	15.7	15.8	19.3	17.2	17.3
Outlays	13.8	14.9	15.0	16.7	15.8	15.8

a/ Preliminary, subject to change.

The President's proposed $100 million increase in budget authority in the guaranteed student loan (GSL) program actually masks major reductions in the program. The Administration's proposal would target the GSL program on lower income students by limiting the amount of loans to the students' assessed financial need. It would further reduce the cost of the program by eliminating all in-school interest subsidies. In addition, interest on parent loans would be made comparable to that paid on small commercial bank loans. This will essentially eliminate any type of federal subsidy for those loans. Implementation is assumed to be July 1981, and accordingly, the President proposes a rescission of $78 million in 1981 budget authority. In 1982 savings of $900 million in budget authority and $800 million in outlays are estimated from these proposals.

The Administration's 1982 higher education request includes a $66 million increase in the funding for Pell grants, under the assumption that this would bring the maximum Pell grant up $50 to $1,800. CBO estimates that an additional $250 million in budget authority over the President's 1982 request is needed to fund that award level.

The President's 1982 budget proposes a $250 million reduction from the requested 1981 level for impact aid. The 1981 level includes a rescission of $150 million. The 1982 reduction combined with the 1981 proposed rescission eliminates impact aid payment for "3b" children and eliminates payments for all "3a" children except for those in highly impacted areas.

The funding request for the elementary and secondary education programs includes a major youth education and training initiative of $900 million in budget authority in 1982 and an additional $800 million in both

72-339 O - 81 - 10

1983 and 1984. This initiative, which was proposed in the 1981 budget, would provide supplementary basic education and vocational training grants to school districts with a high concentration of disadvantaged junior and senior high school students.

EMPLOYMENT, TRAINING AND SOCIAL SERVICES

In fiscal year 1982, the Administration requests a total of $19.2 billion (19 percent) in budget authority and $18.7 billion in outlays for employment, training, and social service programs. This is an increase of $3.1 billion in budget authority and a $1.9 billion increase in outlays above the 1981 request. The majority of the increase is to maintain some existing programs in real dollar terms while the remainder is to fund new initiatives.

The budget authority increase includes a $1 billion increase for public service employment in the CETA programs. It also includes a $500 million increase for three new legislative initiatives, one in youth employment, another in tax credits for nonprofit institutions and the third for a training program for displaced workers. The budget authority increase also includes a $600 million technical adjustment, a $100 million increase in the Title XX ceiling, and a $900 million increase to partially compensate for expected inflation.

The Administration's 1982 budget authority request is $800 million higher than CBO's baseline projection. Although the Administration has projected a slightly lower inflation rate, the President's budget includes three new legislative initiatives and a higher average public service job level.

Employment, Training and Social Services Estimates: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	16.3	16.1	16.1	18.4	19.2	19.2
Outlays	17.0	16.8	17.1	18.2	18.7	18.7

a/ Preliminary, subject to change.

The President's budget authority request for CETA and other labor programs in fiscal year 1982 is $1.8 billion above the 1981 level. The Administration requests an increase of $1 billion to fund 340,000 public service jobs in fiscal year 1982. The increase reflects a higher average job level and a legislated increase in the average wage for public service employment. Of the job level proposed in 1982, 240,000 jobs are for the structurally unemployed (Title IID) and 100,000 are countercyclical public service jobs (Title VI). The 1982 job level would be a 9 percent increase over the average of 312,000 jobs funded in 1981. Currently there are 310,000 jobs but the Administration plans to increase this level to 340,000 jobs by the end of fiscal year 1981.

The Administration's request also includes an increase of $300 million for new legislative initiatives. This includes $250 million for the employment and training portion of the new youth initiative and $50 million for a training program for displaced workers. In addition, the President's budget authority request includes an increase of $500 million to partially compensate for inflationary increases between 1981 and 1982. The Administration has included in the budget request $100 million in deferrals for 1981. The deferrals are for the summer youth program and the young adult conservation corps (YACC). The Administration plans to phase out YACC by the end of 1982.

The Administration's 1982 budget request for social services is $1.3 billion above the 1981 levels. The budget includes an increase of $200 million for a new proposed 8 percent social security tax credit to nonprofit institutions. There is a $600 million budget authority increase in 1982 in grants to states for social services (Title XX). This does not represent an increase in the program level but results from a $600 million reduction in 1981 budget authority to eliminate partial advance funding. There is also a $100 million increase in the Title XX ceiling to a $3.0 billion total for 1982.

CBO's 1981 outlay estimates exceed the President's estimates by $300 million because of projected higher spending in several social services programs due to 1980 shortfalls.

HEALTH (FUNCTION 550)

Spending in this function pays for health care, delivers health services, supports health research, trains health personnel, and promotes the health and safety of consumers and workers. Medicare and medicaid, programs that finance health care for individuals entitled to benefits, account for 87 percent of outlays in the health function in 1982, up from 77 percent a decade ago.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	68.55	71.8	71.0	83.2	86.1	84.9
Outlays	63.15	65.9	65.9	77.6	74.6	76.0

a/ Preliminary, subject to change.

The President requests $86.1 billion in budget authority and $74.6 billion in outlays for fiscal year 1982. Requested outlays are $8.7 billion higher than in 1981, a 13 percent increase. Health outlays are more than four times greater than a decade ago and account for about 10 percent of the President's 1982 budget. The steep rise in health spending is attributable to soaring medical care prices and to increasing demand for institutional health services as the population ages.

The President's budget includes both regulatory actions and legislative proposals intended to reduce spending for health programs. Regulatory actions are estimated by the President to save over $1 billion in 1981 and $2.2 billion in 1982. The principal regulatory actions are voluntary guidelines for increases in hospital expenditures, reduced reimbursements for hospital malpractice insurance, and improved performance by professional standards review organizations (PSROs).

As estimated by the President, proposed legislation would save a net of $130 million in 1981 and $710 million in 1982. The legislative package, however, includes both spending and savings proposals. The Administration's estimates of the savings proposals alone are $180 million and $990 million in 1981 and 1982, respectively. The proposed savings include rescissions of 1981 budget authority, repeal or modification of certain provisions of P.L. 96-499, the Omnibus Reconciliation Act of 1980, and elimination of the medicare routine nursing cost differential. Hospital cost containment legislation, proposed in the last three Carter budgets, is omitted. The main spending proposal is a child health assurance program costing $50 million in 1982 and over $1 billion by 1986. Although the President's budget mentions the high priority President Carter places on national health insurance, funding is not requested.

CBO's estimate of outlays for the President's 1982 request exceeds the Administration's estimate by $1.4 billion. Based on CBO estimates, health spending would rise 15 percent in 1982. The difference between CBO and Administration estimates consists of a $1.5 billion increase in outlays for medicare hospital insurance (HI) offset partly by small decreases in outlays for medicare supplementary medical insurance (SMI) and for medicaid. The HI increase, discussed in detail below, is explained largely by higher assumed use of hospital care and lower estimates of savings from the President's voluntary guidelines for hospital expenditures and from his proposed performance standards for PSROs.

MEDICARE

Medicare is a health insurance program for people 65 and older and for some people under 65 who are disabled. Medicare hospital insurance (HI) helps pay for inpatient hospital care, for care in a skilled nursing facility, and for home health care. About 95 percent of HI benefit payments go for hospital care. Medicare supplementary medical insurance (SMI) helps pay for physicians' services, outpatient hospital care, home health care, and certain other medical services. About 70 percent of SMI benefit payments go for physicians' services and about 20 percent for outpatient hospital care.

Medicare Outlay Estimates: In Millions of Dollars

	1981 Estimates			1982 Estimates		
	Pres. Latest Request	CBO a/ Est. of Budget Request	Difference	Pres. Budget Request	CBO a/ Est. of Budget Request	Difference
HI	26,950	27,380	430	31,600	33,140	1,540
SMI	12,980	12,670	-310	14,990	14,870	-120
Total	39,930	40,050	120	46,590	48,010	1,420

a/ Preliminary, subject to change.

The President's 1982 budget projects almost a 17 percent increase in medicare spending over 1981. Based on CBO's outlay estimates, however, that increase is nearly 20 percent. HI will grow 21 percent and SMI over 17 percent. Continuing steep rises in medical care prices drive those increases, although a growing covered population and increasing demand for hospital care as the population ages also push up costs. The increase in HI spending is boosted artificially by a one-time shift of $700 million in outlays from fiscal year 1981 to 1982 pursuant to a provision of the Reconciliation Act deferring for three weeks reimbursement of some hospitals by medicare. Without that deferral, HI outlays would rise just over 16 percent.

The President's budget assumes substantial savings in medicare from regulatory changes. Most of the assumed savings, however, are from actions taken in 1980, not from new initiatives. Such actions include reducing reimbursements for hospital malpractice insurance costs, with estimated savings of $360 million in 1981 and $540 million in 1982, and tightening of reasonable cost limits for hospitals and home health agencies, with estimated savings of $90 million and $130 million in 1981 and 1982, respectively.

The President's 1982 legislative package includes proposed increases of $190 million and proposed decreases of $630 million. The main spending proposals include increased payments for outpatient psychiatric services (rejected by the 96th Congress), coverage under HI without coinsurance of some services now covered under SMI with coinsurance, and changes in the way medicare pays health maintenance organizations. The main savings proposals are repeal of certain provisions of P.L. 96-499, the Reconciliation Act; and of P.L. 96-611, providing medicare coverage for pneumococcal pneumonia vaccine; and elimination of the routine nursing salary cost differential in determining payments to hospitals. A version of the latter proposal was dropped from the Reconciliation bill before final passage by the 96th Congress.

Differences between CBO and Administration Estimates of HI Outlays: In Millions of Dollars

	1981 Outlays	1982 Outlays
President's Budget Request	26,950	31,600
CBO Reestimates:		
Higher use	450	720
Voluntary revenue guidelines	280	830
P.L. 96-499 estimating differences	-300	-200
PSRO standards	--	190
Subtotal	430	1,540
CBO Estimate of Pres. Request a/	27,380	33,140

a/ Preliminary, subject to change.

As shown in the table above, CBO's estimates of HI outlays exceed the Administration's estimates by $430 million in 1981 and by $1,540 million in 1982. CBO's higher assumed growth in use of hospital services, based on the experience of hospitals in the last year, accounts for much of each increment. In addition, increases of $280 million in 1981 and $830 million in 1982 are attributable to differing expectations for the success of the President's proposed voluntary guidelines for hospital expenditures. The President assumes savings of those amounts as hospitals hold expenditure increases below limits of 14.0 percent and 12.9 percent set by the President for 1981 and 1982, respectively. In 1980, however, when the President's guideline was 13.5 percent, hospital expenditures rose 16.5 percent. CBO's estimates of HI spending assume that the hospital industry's own voluntary effort to control hospital costs will continue to be about as effective as it has been. CBO believes that the additional savings assumed by the President are unlikely to materialize. The President also assumes savings of $190 million in 1982 from a doubling of the effectiveness of PSROs in response to proposed performance standards. CBO expects instead that PSROs will be no more effective than in the past. Because of differences in estimates of the costs of the Reconciliation Act (P.L. 96-499), CBO's estimate of net savings in 1982 from the President's legislative proposals is $90 million lower than the President's estimate. Those differences also reduce CBO's estimates of HI outlays under current law.

MEDICAID

Medicaid pays for medical care for poor individuals who are aged, blind, or disabled, or members of families with dependent children. Recipients of aid to families with dependent children (AFDC) and most recipients of supplemental security income (SSI) automatically qualify for medicaid. Each state but Arizona operates its own medicaid program by rules that vary widely within broad federal limits. Medicaid is funded jointly by the federal government and the states, the federal share being about 56 percent. About 30 percent of medicaid benefit payments go for hospital care, and over 40 percent go for nursing home care. Medicaid pays nearly half the nation's bill for nursing home care.

Medicaid Outlay Estimates: In Millions of Dollars

1981 Estimates			1982 Estimates		
Pres. Latest Request	CBO a/ Est. of Budget Request	Difference	Pres. Budget Request	CBO a/ Est. of Budget Request	Difference
16,450	16,320	-130	18,120	18,090	-30

a/ Preliminary, subject to change.

Medicaid outlays rose over 12 percent in 1980 and are estimated to grow by almost 17 percent in 1981 and 11 percent in 1982. Continuing inflation of medical care prices, rising demand for nursing home care, and a growing covered population drive these increases. The larger population follows from renewed expansion of the AFDC caseload, a function of high unemployment. The bulge in the rate of increase in outlays in 1981 is attributable largely to the 6 percent increase in the AFDC caseload forecast by CBO.

The President's legislative package for medicaid consists of proposed increases of $80 million and proposed decreases of $170 million. Much of this legislation was proposed in the previous Congress and failed passage. Such proposals include the child health assurance program, a proposal to recover immediately upon disallowance payments to states for medicaid claims subsequently disallowed, and numerous management reforms. The only major new proposal would require that states provide case management services for medicaid eligibles with chronic mental illness.

CBO's estimates of medicaid spending do not differ significantly from the President's budget request. The estimates assume savings of $150 million in 1981 and $200 million in 1982 from improvements in financial management of the program and from the regulatory changes in medicare discussed earlier, which also reduce medicaid payments to hospitals. CBO's estimates of the President's legislative proposals are $70 million for proposed increases and $150 million for proposed decreases.

OTHER HEALTH PROGRAMS

Health programs other than medicare and medicaid include the Public Health Service programs in the Department of Health and Human Services as well as programs--mainly promoting consumer and occupational health and safety--in the Agriculture Department, the Labor Department, and other agencies. The President requests $10.4 billion in budget authority for these programs in fiscal year 1982 with estimated outlays of $9.9 billion. This is not quite an 8 percent increase over the funding level requested by the President for 1981, contrasted with the 17 percent increase in spending for the entitlement programs. Since 1972, spending for other health programs has increased 9 percent annually, just enough to offset price increases.

The President proposes rescinding about $330 million in budget authority for other health programs in 1981. About half that cut would come from health manpower training programs, in particular, from capitation and other grants to institutions. The President also requests supplemental appropriations for 1981 of $40 million for sanitation facilities for Indians and for anticipated defaults on loans to health maintenance organizations (HMOs).

For 1982 the President requests a 10 percent increase in funding for nonentitlement health services programs, an 8 percent increment for health research, a 21 percent reduction for training of health personnel, and a 6 percent boost for promoting the health and safety of consumers and workers. Substantial increases are proposed for a few selected programs, including the National Health Service Corps, the community health centers program, and alcohol and drug abuse services. Even with the large proposed increase in 1982, however, alcohol and drug abuse services would be funded below 1980 levels, as would prevention programs and the health planning program.

Several major health programs face reauthorization in 1981. They include most health manpower training programs (currently unauthorized), the HMO grant program, alcohol and drug abuse programs, the community and migrant health centers programs, and numerous preventive health programs.

INCOME SECURITY (FUNCTION 600)

Income security programs accounted for over 33 percent of total federal outlays in 1980. Under the President's 1982 budget request they will increase to over 34 percent in 1982. The function is dominated by social security, which accounted for over 60 percent of income security outlays in fiscal year 1980. Other major income security trust fund accounts include civil service retirement, unemployment insurance, railroad retirement and black lung. The remainder of the function provides cash and in-kind benefits, primarily to low income individuals, through a number of public assistance programs. These include: aid to families with dependent children, supplemental security income, food stamps, school lunch and other nutrition programs, housing assistance, low income energy assistance, and the refundable portion of the earned income credit.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	248.8	255.1	252.8	286.3	279.6	279.3
Outlays	225.55	231.6	231.9	259.5	255.0	254.9

a/ Preliminary, subject to change.

The President's outlay estimate for fiscal year 1982 is $255 billion, $23.4 billion above his 1981 estimate. This increase, mostly in mandatory entitlement programs, results primarily from the changes in economic conditions and eligible populations that strongly influence their patterns of growth. For example, benefit levels in social security, supplemental security income, civil service retirement, school lunch and food stamps are indexed to changes in specific consumer price indexes. Recent increases in prices have resulted, and will continue to result, in rapid increases in program expenditures. The anticipated July 1981 12 percent increase in social security benefits estimated as a result of recent increases in the Consumer Price Index will increase 1982 benefit payments by $16 billion. In addition, caseloads in unemployment insurance, food stamps, social security, and the unemployed father component of the aid to families with dependent children program are somewhat sensitive to unemployment and labor market conditions.

The rapid benefit increase in programs such as social security threatens the solvency of the current payment system. The President is proposing actions to deal with the projected cash flow problem in social security in 1982 and 1983. Proposals to lessen potential funding difficulties in railroad retirement are also included in this budget. Further, the President is proposing legislative changes in the major entitlement programs in the income security area that the Administration estimates would reduce spending by almost $4.6 billion in fiscal year 1982. The 1982 savings from these proposed reductions are listed in the table below.

ESTIMATED BUDGETARY EFFECTS OF LEGISLATIVE PROPOSALS IN INCOME SECURITY, BY PROGRAM, INCLUDED IN THE PRESIDENT'S BUDGET: FISCAL YEAR 1982, IN MILLIONS OF DOLLARS

Program	Budget Authority	Outlays
Social Security	247	-23
Railroad Retirement	118	-186
Civil Service Retirement	-698	-655
Unemployment Insurance	-1,957	-2,210
Food Stamps	-487	-482
Child Nutrition Programs	-453	-429
Supplemental Security Income	-45	-45
AFDC and Related Assistance	-531	-531
	-3,806	-4,561

The President's request also includes a proposed change from the current index used for the social security program. The current index is heavily influenced by house prices and home mortgage interest rate changes whereas the proposed index would be tied more closely to rental price changes. The Administration's budget estimates include no savings (or costs) related to this proposal.

The legislative proposals are discussed in detail in the individual program sections of this chapter. The amount of the savings in 1982 are highly dependent on the final enactment date of the legislation. The Administration's estimates assume enactment before the beginning of fiscal year 1982.

In 1982, CBO's estimates of outlays for the President's request are below Administration estimates by $100 million. This is the net of several large but offsetting differences. CBO outlay estimates for Old Age Survivors Insurance, Disability Insurance, Supplemental Security Income, Railroad Retirement, and Civil Service are below Administration estimates because of the lower cost-of-living increases included in the CBO economic assumptions. The cost-of-living increases assumed in July 1981 and July 1982 are 12.0 percent and 8.9 percent, respectively. This compares to the Administration's assumed 12.3 percent and 11.3 percent increases. These cost-of-living differences result in lowering estimated outlays by $1.7 billion. On the other hand, CBO has increased estimated outlays primarily for larger anticipated caseloads by $1.6 billion in social security and other entitlement programs. The net reestimate is, therefore, only $100 million.

The President's 1981 request includes supplemental appropriation funding requests for food stamps ($1.4 billion), low income housing ($100 million), and smaller requests for several other programs.

SOCIAL SECURITY

The budget contains two major legislative proposals affecting Social Security: allowing interfund borrowing between the three social security trust funds and basing the annual cost-of-living increase for benefits on an alternative price index. In addition, there are a number of minor legislative proposals, mostly of a technical nature.

The first of the major legislative proposals, inter-fund borrowing, in this budget has no cost implications to the federal government as a whole in 1982, but has important structural consequences for the Social Security trust funds. The largest of the three trust funds, Old Age and Survivors Insurance (OASI), is projected to have a cash flow problem in 1982, and to be totally depleted in 1983 under current law. The President is proposing that the OASI fund be allowed to borrow from the other two funds—Disability Insurance (DI) and Hospital Insurance (HI). A similar proposal was made in the 1981 budget. The extent of this borrowing would be determined by the

Trustees of the Social Security system. The Administration forecasts that borrowing only from the DI fund will be required in fiscal year 1982. CBO, under what is thought to be a minimal borrowing scenario, estimates that there will be need for some borrowing by the OASI fund from the HI fund in 1982 as well. The total transfer to OASI for 1982 from DI and HI could amount to more than $7 billion.

Beyond 1982, the Administration suggests that additional action be implemented to ensure the uninterrupted payment of benefits through the decade. The approaches suggested include provisions for general fund borrowing, financing a portion of HI from general funds and realigning part of the payroll tax rate from HI to OASI, and increasing the payroll tax rate. Benefit reductions are opposed by the Administration. These options are suggested because the interfund borrowing proposal alone is estimated to maintain the solvency of the OASI program for only the next two to three years. CBO concurs with this estimate; some additional action will have to be taken by the Congress before the end of fiscal year 1984 to ensure the continued timely payment of OASI benefits.

The other major legislative budget proposal would shift to another price index to adjust benefits for inflation in OASI and DI each July. Currently, the Consumer Price Index (CPI) is used for this purpose. Because it is thought that the CPI miscalculates housing costs, the Administration is proposing a modified index (CPI-X1) that uses a rental equivalent for housing costs commencing with the July 1982 benefit increase. If the shift to the CPI-X1 were made in July 1981, savings in fiscal year 1982 are estimated to be approximately $2 billion. For the last 11 months, the rate of increase in the CPI-X1 has been 1.7 percentage points below the CPI. This differential is expected to continue for the next several months. The difference could, however, reverse itself in 1982. It is extremely difficult to forecast the differences in these two indexes. If the rise in housing costs and mortgage interest rates decline over the next year, then the CPI could rise by less than the modified index. The Administration has not forecast any outlay impacts for moving to the modified index in July 1982.

The President also proposes a few minor legislative initiatives affecting OASI and DI expenditures that would save $23 million in 1982. The major savings provisions apply to the workers compensation offset for disability benefits. These proposals would alter the timing of these offsets--starting them sooner and extending them until a disabled worker reaches age 65. These provisions would result in $37 million in savings in 1982. Additional savings of $9 million would result from provisions to round benefits to the nearest dime and to reimburse SSA for certain administrative costs. These savings are offset by provisions which would have small costs in 1982.

There are also a few minor legislative initiatives affecting tax receipts in the budget. These proposals involve requiring employees to pay the full share of payroll taxes for employee's tips and requiring a flat 10 percent of compensation be withheld for services performed by independent contractors for social security purposes. They are expected to generate $241 million in revenues in 1982. An additional $6 million in added interest payments will accrue from the added trust fund balances resulting from these revenue and savings provisions.

The CBO estimate of total social security outlays in 1982 is $0.7 billion lower than the Administration's. If only CBO's assumed rates of inflation and unemployment were taken into account, then outlays would be reestimated downward by a total of $1.3 billion. Other estimating differences offset this reestimate by $0.6 billion. The other estimating difference results from a slightly higher estimate of the number of disabled and retired worker beneficiaries joining the rolls.

RAILROAD RETIREMENT

The President has again proposed legislation designed to improve the future financial solvency of the system. One proposal would remove the ceiling on earnings subject to railroad retirement taxes. The President's budget estimates that this will increase revenues by $268 million in 1982. Later Administration estimates revise this to $341 million. The President's budget also proposed legislation to limit the federal contribution for the windfall subsidy to $350 million. Finally, a number of proposed benefit changes would reduce outlays by $36 million in fiscal year 1982.

In the railroad retirement program, CBO's 1981 estimate of budget authority is $85 million less than the Administration's as a result of lower estimates of interest earnings and tax receipts, the latter resulting from lower projected estimated railroad employment. The same phenomena recur in 1982 but are offset by a higher CBO estimate of tax receipts under the Administration's proposed legislation. CBO anticipates that outlays in 1982 will exceed the President's request by about $195 million. This is the result of two factors. First, a recent appeals court decision required the Railroad Retirement Board to pay additional windfall benefits, some retroactively; these payments ($230 million) are not anticipated in the President's budget. Second, CBO economic assumptions result in a July 1981 increase that is $35 million less in the indexed portion of railroad retirement benefits than the Administration estimate.

CIVIL SERVICE RETIREMENT

Retirement and disability benefits for federal civilian workers are paid from the Civil Service Retirement and Disability trust fund. Under current law, these benefits are adjusted for cost-of-living increases twice each year--in April and October. The President proposes that these adjustments be made once each year in April. The October 1981 adjustment would be eliminated, and the April 1982 benefit increase would reflect a full year's rise in the cost-of-living. A similar proposal was included in the Carter Administration's March revisions for the 1981 budget.

CBO estimates that this proposal would save $442 million in budget authority and $452 million in outlays for 1982. These estimates are $257 million lower in budget authority and $182 million lower in outlays than the Administration's estimates. The reduced saving in outlays are due to CBO's lower assumed cost-of-living adjustment. The lower budget authority estimates results from the lower amortization payments of these cost-of-living adjustments.

For 1982, CBO's estimate of the budget authority under current law is a net $400 million lower than the Administration estimate. CBO's estimate is $880 million higher due to incorporating the effects of the President's proposed 5.5 percent 1982 payraise. The Administration budget does not include an allotment for this payraise in the Civil Service trust funds until the payraise is effective. CBO's estimates are lower by $190 million for lower earned interest on trust fund investments. A further $90 million reduction was made for CBO's lower covered payroll assumption. The remaining $200 million difference results from the lower amortization payment due to CBO's lower cost-of-living assumptions.

CBO's estimate of 1982 outlays under current law is below the Administration estimate by roughly $500 million. About $415 million of this is due to CBO's lower cost-of-living adjustments for beneficiaries, and the remainder is primarily for lower assumed annuitant retirement levels for 1982.

UNEMPLOYMENT INSURANCE

In fiscal year 1982, the President has proposed two legislative initiatives designed to curb costs in both the regular and extended benefit programs. One legislative proposal would redefine the insured unemployment rate (IUR), the statistic which triggers on the extended benefit program. Currently, the IUR is defined as the ratio of the number of persons presently claiming either state or extended benefits divided by the number of persons in covered employment in the first four of the last six completed calendar quarters. The President's proposed legislation seeks to alter the definition such that extended benefit claimants would not be counted among those receiving unemployment compensation. The Administration attempted to implement this legislation by regulation last year, but a federal court decision ruled that legislation was required.

If such legislation were implemented, it would lower program costs in two ways. First, it would reduce several states' IURs to levels beneath the prescribed state trigger standard and thereby eliminate extended benefits for those states. Second, it would, in some instances, lower the national IUR enough to turn off the national trigger, thereby doing away with extended benefits in those states with individual IURs below the state trigger standard. The Administration projects $2.1 billion in savings from this proposal in 1982. The savings are critically dependent upon the unemployment rate. Under CBO's preliminary working economic assumptions, the estimated savings are $1.4 billion.

A second legislative proposal would eliminate the requirement that former public service employees be eligible for state unemployment compensation benefits and would prohibit the use of federal public service employment funds to make such payments. Both CBO and the Administration estimate the outlay savings of such legislation to be $122 million in fiscal year 1982.

ASSISTANCE PAYMENTS

Legislation has been proposed in AFDC to establish a minimum amount that could be issued to a recipient ($10 per month); and to modify income tests by adjusting earning disregards and standardizing work expenses, revising treatment of the earned income tax credit, requiring monthly reporting of beneficiaries' earned income, and counting a portion of the income of a child's stepparent. In addition, legislation has been proposed to modify the child support enforcement program to include spousal support obligations, to charge a fee for child support enforcement applicants who are non-AFDC, and to have the federal government and the states share the cost of incentive payments to states and localities. Together these proposals are estimated by the Administration to save $541 million in 1982.

CBO's current law estimates of outlays for aid to families with dependent children (AFDC) exceed the Carter budget by $250 million in fiscal year 1981 and $550 million in fiscal year 1982. The differences result primarily from the larger number of recipients anticipated by CBO.

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Projections of the Number of AFDC Recipients (Average Monthly Number in Millions)

	Fiscal Year		
	1980 a/	1981	1982
President's Estimates	10.5	10.9	10.8
CBO Estimates	10.5	11.2	11.4

a/ Actual.

CBO projects that continued high levels of unemployment, anticipated by both CBO and the Carter Administration, will result in a growing number of AFDC recipients through fiscal year 1982.

FOOD STAMPS

The Administration is requesting a supplemental appropriation of approximately $1.4 billion for fiscal year 1981. CBO estimates indicate that a smaller supplemental ($1.1 billion) would be needed, based on CBO's economic assumptions and a CBO's estimate of the impact of the adjustment in income deductions that took place on January 1, 1981. Current appropriations in the program are capped by statutory language. Unless this authorization is raised, food stamps will run out of funds in August. Faced with a similar situation in 1979 and 1980, Congress raised the authorization level and provided supplemental appropriations to fully fund the program.

The Administration's fiscal year 1982 request assumes enactment of legislation that would repeal provisions in the Food Stamp Act Amendments of 1980. One provision would implement a more generous statutory formula for computing cost-of-living adjustments by projecting price changes for three additional months. Other provisions would liberalize both a dependent care and medical deduction for the elderly and disabled. The CBO reestimate of the Administration's request is approximately $490 million lower in budget authority and $390 million lower in outlays. The differences derive from technical estimating differences in modeling the annual deduction updates in the current law program.

CBO estimates participation will average about 22.7 million persons monthly and cost nearly $11.9 billion in fiscal year 1982 assuming the Administration's legislative proposals are enacted.

SUPPLEMENTAL SECURITY INCOME

The Administration has proposed legislation to end hold harmless payments. These payments were started with the SSI program in 1974 and are currently paid to only three states. The Administration argues that because SSI benefit levels have doubled as a result of cost-of-living adjustments, the payments are no longer necessary. Fiscal year 1982 savings from this proposal are estimated to be $45 million.

Relatively minor estimating differences exist on the current law SSI program. In 1982, CBO estimates are above the Administration's by $182 million in budget authority and $169 million in outlays.

CHILD NUTRITION

The President's 1982 budget proposes to permanently extend the one-time reconciliation provisions enacted in 1981. These provisions limited meal and special milk subsidies in 1981 and allowed for annual rather than semi-annual price indexing of these subsidies. In addition, the Administration proposes to reduce the income eligibility index for reduced price meals from 195 to 185 percent of poverty and exclude Title XX for-profit day care centers from participation in the federal feeding programs. The Administration estimates that these proposals will save $452 million in 1982.

In fiscal year 1981, CBO's estimates of the President's request for child nutrition programs are higher than the Administration by $113 million in budget authority and $100 million in outlays. The Department of Agriculture is currently considering a supplemental request of approximately this size, but the request has not been included in the budget.

LOW INCOME ENERGY ASSISTANCE

The fiscal year 1982 budget proposes to reauthorize the low income energy assistance program, which expires at the end of fiscal year 1981. Under this proposal, budget authority would remain at the fiscal year 1981 level of $1.85 billion. The President's request, which does not reflect projected energy price increases, is $447 million lower than the CBO current policy projection for fiscal year 1982.

HOUSING ASSISTANCE

The fiscal year 1982 budget proposal includes about $31.4 billion in net budget authority for low-income housing assistance. Most of this authority is intended for HUD's Section 8 and public housing programs. HUD estimates that this authority will be sufficient to subsidize an additional 260,000 low-income housing units. This is about the same number of additional units currently being estimated for 1981 and somewhat higher than the 206,000 units actually reserved in 1980.

The Administration's request assumes that half of the total units assisted with 1982 authority will be in already existing structures--up from the 45 percent currently estimated for 1981. This reflects last year's Congressional mandate to emphasize less costly existing housing in an effort to control program costs.

HUD is also proposing to continue financing a portion of its public housing activity through taxable rather than tax-exempt bonds. Because HUD pays the entire debt service on public housing bonds, its costs are somewhat higher under this arrangement because of the higher taxable interest payments. An appropriation of $1.1 billion is requested for 1982 to cover these higher financing costs. The taxable bonds will be sold to the Federal Financing Bank—an off-budget federal agency and the increase in financing costs will be reflected as a budget outlay. These additional outlays will, however, be offset by increased tax revenue.

In addition to paying the full development costs of public housing projects, the federal government subsidizes operating expenses. Chiefly because of rapidly increasing utility costs, the need for this operating subsidy has increased substantially. For fiscal year 1982, the Administration is requesting $1.265 billion up 18 percent from the $1.071 billion (including a proposed supplemental of $100 million) provided for 1981 and up 68 percent from the $755 million appropriated for 1980.

This function includes funding for a variety of benefits and services to veterans, their families and survivors. These benefits include compensation to veterans for service-incurred disabilities and to the survivors of veterans dying in service, income assistance for needy veterans disabled from causes not related to military service, educational benefits for recently discharged veterans, medical care for disabled and elderly veterans, and loan guarantees for veterans wishing to purchase homes. Nearly all the programs in function 700 are administered by the Veterans Administration (VA).

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	22.1	22.9	23.2	24.5	25.0	25.1
Outlays	21.7	22.3	22.8	24.1	24.5	24.6

a/ Preliminary, subject to change.

For fiscal year 1981, the President is requesting a supplemental appropriation of $1.3 billion. Of this amount, $1.0 billion is needed to cover the cost of the increase in compensation benefits effected by P.L. 96-385, $0.2 billion for the increase in readjustment benefits enacted by P.L. 96-466, and $0.1 billion for the increase in the special pay of VA physicians and dentists contained in P.L. 96-330.

The President's fiscal year 1982 budget requests an increase of $2.1 billion in budget authority and $2.2 billion in outlays from fiscal year 1981 levels. Of this increase, $1.0 billion in budget authority and outlays is requested to fund a 12.3 percent cost-of-living increase in the rates of disability compensation and dependency and indemnity compensation. The President is also requesting an additional $0.1 billion and $0.2 billion in budget authority and outlays, respectively, for construction and renovation of certain VA medical facilities. The bulk of the construction projects planned are outpatient and extended care facilities, which will help VA control acute care costs in the future. Normal increases for inflation and growth in patient-load, as well as the recently enacted increase in special pay for VA physicians and dentists, account for increases of $0.9 billion in budget authority and outlays in the other veterans' medical programs. Increasing costs from rising average benefit levels in the compensation and pensions programs, partially offset by declining costs in readjustment benefits from a decreasing number of trainees, account for the remaining $0.1 billion increase in 1982 budget authority and outlays.

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

Item	1981 BA	1981 Outlays	1982 BA	1982 Outlays
President's Budget	22.9	22.3	25.0	24.5
CBO Reestimates:				
Readjustment Benefits	0.3	0.3	0.1	0.1
Loan Guaranty Revolving Fund	0.0	0.2	0.0	*
CBO Estimate of Pres. Budget	23.2	22.8	25.1	24.6

* Less than $50 million.

The CBO estimate of the President's request is nearly $0.3 billion and $0.5 billion over the Administration's estimates of 1981 budget authority and outlays, respectively. In 1982 the CBO estimate exceeds the President's request by only $0.1 billion for both budget authority and outlays. The primary cause of the differences in both years is a substantially higher CBO estimate of GI Bill trainees.

Estimated Number of Veterans Training Under the GI Bill: In Thousands

	1980 a/	1981	1982
President's Estimate	1,017	769	577
CBO Estimate	1,017	895	650

a/ Actual.

Several factors contribute to CBO's higher estimate of trainees:

- o Extrapolations of actual fall 1980 enrollment figures project a much higher number of trainees than indicated by the Administration.
- o The phased-in 10 percent increase in GI Bill benefit levels enacted in 1980 should result in more trainees in the spring of 1981 and beyond than are included in the Administration's estimates.
- o Both the Administration and CBO are assuming increases in the unemployment rate in 1981. These higher unemployment rates are expected to increase school enrollments above the level otherwise anticipated as veterans substitute subsidized training for lost opportunities in the workforce.

With the differential in estimated trainees as the primary factor, CBO's estimate of outlays for readjustment benefits exceeds the Administration's estimate by $262 million in 1981 and by $121 million in 1982.

In addition, CBO estimates that outlays from the loan guaranty revolving fund in 1981 will be $197 million higher than the estimate in the President's budget. This reestimate results from a substantially lower CBO estimate of loan asset sales and a higher CBO estimate of discounts paid on such sales. In 1982, the CBO estimate of outlays from the fund is only $15 million above the Administration's estimate because of a higher CBO estimate of discounts on loan sales.

The President's 1982 budget includes several legislative proposals. A 12.3 percent cost-of-living increase is proposed in the rates of disability compensation and dependency and indemnity compensation. This level of increase is based on the President's assumption of the increase in the

Consumer Price Index (CPI) from the first calendar quarter of 1980 to the first quarter of 1981. CBO's economic assumptions indicate that the rise in the CPI over this time period will only be 12.0 percent. The CBO estimate of the President's request for 1982 reflects the CBO estimate of the President's proposal for a 12.3 percent increase. Should Congress choose to enact a 12.0 percent increase, however, 1982 budget authority would be reduced by an estimated $27 million and outlays by $25 million.

In addition to the compensation rate increase, the President is proposing legislation to eliminate flight and correspondence training and to extend by two years the delimiting period for certain educationally disadvantaged Vietnam veterans. A one-year extension in the post-Vietnam era veterans education program is also proposed. In the area of medical care for veterans, the President is proposing to eliminate Class II dental benefits and the payment for beneficiary travel in the case of veterans without service-connected disabilities. The net impact of the President's legislative proposals, excluding the compensation rate increase, is estimated to raise 1982 budget authority by $15 million but decrease outlays by $15 million.

Summary of Major Programs--Function 700: In Billions of Dollars

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Budget Request
Compensation	BA	8.6	9.5	9.7
	O	8.5	9.4	9.6
Pensions	BA	3.9	4.1	4.1
	O	3.8	4.1	4.1
Readjustment Benefits	BA	2.0	1.9	1.7
	O	2.1	1.9	1.7
Medical Care and All Other	BA	8.4	9.0	9.5
	O	7.9	8.7	9.1
Total Function 700	BA	22.9	24.5	25.0
	O	22.3	24.1	24.5

ADMINISTRATION OF JUSTICE (FUNCTION 750)

Function 750 includes the activities of the Judiciary , the Department of Justice, and the law enforcement activities of the Treasury Department.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	4.1	4.3	4.3	4.6	4.8	4.8
Outlays	4.45	4.6	4.6	4.6	4.9	4.8

a/ Preliminary, subject to change.

The President's 1982 budget authority request of $4.8 billion is $0.5 billion (13 percent) above his 1981 request, with projected outlays of $4.9 billion (up almost 6 percent). The President's latest 1981 budget request includes $72 million in program supplementals.

Approximately half ($260 million) of the increase between the President's 1981 and 1982 request is in the law enforcement area which would increase by 11 percent. This reflects real growth of about 4 percent. The Federal Bureau of Investigation (FBI) would receive $101 million of this increase. The increase in the FBI budget (up 16 percent) would fund an additional 115 positions and allow the expansion of data processing, telecommunications, and field support capabilities, and increase the FBI's efforts at combating white collar and organized crime. Increases of $21 million (10 percent) for the Drug Enforcement Agency (DEA), $38 million (8 percent) for the Customs Service, and $21 million (6 percent) for the Immigration and Naturalization Service (INS) are also being proposed for 1982.

The proposed funding level for federal litigative and judicial activities is 13 percent ($194 million) above the President's 1981 request. The increase would be 4 percent above CBO's baseline projection. Funding for activities of the Judiciary would increase by 17 percent ($109 million). This would finance the additional supporting personnel for the courts, staffing required under the Bankruptcy Reform Act, and for additional space and facilities. Funding for legal activities of the Department of Justice would rise by 18 percent ($20 million) and would increase the resources available for environmental, energy-related, and civil rights activities.

Federal correctional spending in 1982 would increase $35 million (10 percent), with new constructions proposed.

In the area of criminal justice assistance, the President proposes a $52 million (29 percent) increase from his 1981 request. The President's proposal, however, is 37 percent above CBO's baseline projection which is based on appropriations to date. Major increases include an additional $32 million (25 percent) for law enforcement assistance for juvenile justice programs and an increase of $18 million (39 percent) in research and statistics programs.

The President's latest 1981 budget request includes $72 million in program supplementals. Of this amount, $34 million will go to the FBI, INS, and DEA to cover unanticipated increases in fuel and services costs. The Secret Service would receive an additional $10.6 million to fund the costs associated with the transition of the Presidency. Also, $26 million is requested for research and statistics programs of the National Institute of Justice and Bureau of Justice Statistics. The supplemental would restore funding for research and statistics programs back to 1980 levels and would allow continued funding of current projects through 1981.

Responsibility for law enforcement assistance grants funded through the Federal Financing Bank was transferred to the Department of Education in 1980.

GENERAL GOVERNMENT (FUNCTION 800)

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

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	4.6	5.2	5.2	5.0	5.4	5.4
Outlays	4.4	5.0	5.0	4.8	5.2	5.2

a/ Preliminary, subject to change.

The President has requested $5.4 billion in budget authority for fiscal year 1982, a net increase of $254 million, or 4.9 percent, over his latest request for fiscal year 1981. Most of the increase is in the central fiscal operations area; the Administration's fiscal year 1982 request for this activity is $320 million, or 12.0 percent, higher than its most recent request for fiscal year 1981. The large increase in central fiscal operations programs is partially offset by net reductions in budget authority requested for some other general government programs. $278 million, or 86.9 percent of the increase in central fiscal operations, would be targeted to the Internal Revenue Service (IRS). The proposed 12.6 percent growth rate in the IRS's examinations and appeals and investigations and collections budgets reflects the additional effort required by the Crude Oil Windfall Profit Tax Act of 1980 and to implement the collection of taxes in the Northern Mariana Islands. Another reason for increases in the IRS accounts is the Administration's continuing effort to improve IRS's collections activities and compliance.

Summary of Major Programs--Function 800: In Billions of Dollars

		FY 1981	FY 1982	
		President's Latest Request	CBO Baseline Projection	President's Request
General Government, Offsetting Receipts	BA	-0.3	-0.1	-0.2
	O	-0.3	-0.1	-0.2
Legislative Functions	BA	1.1	1.1	1.2
	O	1.1	1.1	1.2
Executive Direction and Management	BA	0.1	0.1	0.1
	O	0.1	0.1	0.1
Central Fiscal Operations	BA	2.7	2.9	3.0
	O	2.7	2.9	3.0
General Property and Records Managements	BA	0.8	0.4	0.6
	O	0.5	0.4	0.5
Central Personnel Management	BA	0.2	0.2	0.2
	O	0.2	0.2	0.2
Other General Government	BA	0.6	0.4	0.6
	O	0.6	0.3	0.5
Total--Function 800	BA	5.2	5.0	5.4
	O	5.0	4.8	5.2

COMPARISON OF BASELINE WITH PRESIDENT'S REQUEST

The President's request for general property and records management programs and other general government programs is $324 million above CBO's baseline projection for fiscal year 1982. In the area of general property and records management, the Administration is requesting $121 million in budget authority for the federal buildings fund that is not reflected in CBO's baseline projection. In addition, the Administration is requesting $24 million more for the salaries and expense account for the general management and administration of the General Services Administration (GSA) than CBO's $120 million baseline projection for the same program.

The additional activity anticipated by the President in the claims, judgements, and relief acts account is a major reason for the difference in the other general government program area. The President's estimates of net budget authority needed for Indian claims is $126 million higher than the CBO projection. The remaining differences are distributed among many small accounts in the other general government category.

The differences between the Administration's estimates of general government offsetting receipts and the CBO baseline projections for both fiscal year 1981 and 1982 are almost entirely because of differences in the estimates of offsetting receipts to the General Services Administration for real and personal property activities. CBO's 1981 baseline is $135 million less than the President's; the 1982 baseline is $50 million less than the President's estimate.

GENERAL PROPERTY AND RECORDS MANAGEMENT

Budget authority for fiscal year 1982 is estimated to be more than $250 million less than in fiscal year 1981, a reduction of 29.9 percent, for general property and records management activities. The most significant factors contributing to this reduction involve the General Services Administration's general supply fund and federal building fund. A supplemental appropriation of $425.2 million has been requested for the general supply fund in fiscal year 1981. Most of this appropriation will be retained by GSA to cover obligations under provisions of the Anti-Deficiency Act; the balance is to finance the purchase of motorpool vehicles, to return retained earnings to the Treasury, and to pay back advances from customer agencies.

No additional budget authority is requested for the general supply fund in fiscal year 1982. The reduction in estimated budget authority between 1981 and 1982 for the fund is partially offset by an increase for the federal buildings fund. No need for budget authority is anticipated in fiscal year 1981 for the federal buildings fund; the Administration estimates $121 million in budget authority for 1982, however. This amount is intended to support the sale of obligations to the Treasury to finance the construction of a new federal building in Maryland. The total cost of this project and other new commitments for direct federally financed construction and acquisition of facilities is estimated at $196 million for fiscal year 1982, compared with $16 million for 1981.

OTHER GENERAL GOVERNMENT PROGRAMS

Budget authority for other general government programs included in this function is estimated to be 6.6 percent, or $39 million, less in fiscal year 1981 than in 1982. Payment of $112 million in Indian claims settlements is expected in fiscal year 1981. Most of this sum represents a one-time payment to settle the land claims of Indians in the states of Maine and Rhode Island. The balance is for the final $30 million payment into the Alaska Native Fund required by the Alaska Native Claims Settlement Act. The net decrease in the estimate for this group of programs is also affected by the President's increased estimate of offsetting receipts to these programs. Offsetting receipts are estimated to increase by $37 million; most of this increase is attributable to funds associated with Indian claims.

The estimated reductions are partially offset by anticipated increases in budget authority for other programs. The largest increase in this group of programs is estimated to be $75 million for claims, judgements, and relief acts. This increase reflects the increasing level of activity in this area. The 1982 estimate for the Administration of Territories reflects an increase of $27 million; a growth rate of 34.8 percent. Most of this increase is to provide incentive payments to Guam and the Virgin Islands, to encourage and assist them in the elimination of general fund deficits and the development of financial management systems.

The Legislative Branch estimate for fiscal year 1982 is $140 million higher than the 1981 estimate, an increase of more than 13 percent. The largest increases are for the General Accounting Office salaries and expense account and for the Architect of the Capitol to begin renovations of two Library of Congress buildings. The Administration's fiscal year 1982 estimates reflect growth of only 2.0 percent in the executive direction and management programs and of 4.5 percent in central personnel management programs.

The supplementals included in the President's request for fiscal year 1981 total $1.0 billion in budget authority and $0.7 billion in outlays. The largest of these is in the central personnel management program area for payment to the civil service retirement and disability fund. This supplemental will have no budget impact in this function, however, because it is offset by offsetting receipts to the Office of Personnel Management.

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

The general purpose fiscal assistance function includes general revenue sharing programs, broad-purposed shared revenues, and payments and loans to the District of Columbia.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	6.5	6.2	6.2	6.5	6.9	6.8
Outlays	7.05	6.9	6.8	6.4	6.9	6.8

a/ Preliminary, subject to change.

President Carter is requesting $6.9 billion in 1982 budget authority for this function. This represents an increase of $0.7 billion (11 percent) over his 1981 estimate. The major growth occurs as a result of the proposed refundable social security tax credit for state and local governments ($495 million) and additional funding for payments and loans to the District of Columbia ($116 million).

The social security tax credit is a portion of the President's proposed economic revitalization program. The tax credit would be available to all employers, but would be refundable to state and local governments, non-profit organizations, and businesses. Beginning in January 1982, state and local governments would be paid an amount equal to 8 percent of their social security taxes. The Administration projects that these payments would total over $800 million in 1983 and $1.1 billion by 1986.

The President is requesting $415 million in budget authority for the 1982 federal payment to the District of Columbia--a $55 million rise over 1981. This figure includes the federal contribution of $52 million for payments to District of Columbia retirement funds for police officers, firefighters, teachers, and judges. The budget also includes $194 million in budget authority for loans to the District of Columbia for capital outlays--a $63 million rise over the 1981 level. This represents more-than-doubled expenditures for the rapid rail transit system program, as well as an additional $58 million in other District projects. In total, the 1982 funding request for the District is 25 percent above the 1981 level, with outlays projected to increase by $138 million, or 29 percent.

The largest program in this function, general revenue sharing, shows no change between 1981 and 1982, with budget authority targeted at $4.6 billion in both years. The revenue sharing program has been reauthorized through 1983 with mandatory entitlements of $4.6 billion for local governments and authorization for discretionary appropriations for state governments ($2.3 billion annually in fiscal years 1982 and 1983). The President is requesting no revenue sharing funds for states in 1982. If such funding is provided, current law (Public Law 96-604) requires the states to relinquish categorical grant funds in an amount equal to their revenue sharing payments.

The 1982 funding request for the remainder of the function is 5.8 percent above the 1981 level. The largest increase is in the Bureau of Land Management, miscellaneous permanent appropriations, which is $122 million, or 27 percent, over the 1981 estimate. The Administration has requested no new funds for payments in lieu of taxes. This represents a decrease of $103 million--the largest reduction within the function.

INTEREST (FUNCTION 900)

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

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	71.9	80.4	80.9	94.1	89.9	91.9
Outlays	71.9	80.4	80.9	94.1	89.9	91.9

a/ Preliminary, subject to change.

The President estimates that interest payments on the public debt will grow from $94.1 billion in 1981 to $106.5 billion in 1982, with gross federal debt rising to $1,058 billion by the end of 1982. This growth in interest on the public debt is caused primarily by increases in the amount of debt outstanding, which is determined chiefly by the size of the on- and off-budget deficits. (President Carter is projecting an aggregate deficit of $78.4 billion in 1981 and $45.8 billion in 1982.) The Administration estimates are based on an assumption that interest rates will peak in the middle of fiscal year 1981, and then decline thereafter. Other interest is estimated to increase from a net receipt of $13.7 billion in 1981 to $16.6 billion in 1982, as a result of increased agency borrowing (primarily by the Federal Financing Bank) from the Treasury.

The CBO estimate of interest on the public debt for 1982 is $2.0 billion higher than that of the Administration, primarily because of different assumptions about the level of interest rates and the size of the

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debt. The CBO 91-day Treasury bill interest rate assumption is 40 basis points higher than that of the Administration for 1982 as a whole. In addition, the deficit projected by CBO is higher than that of the Administration in both 1981 and 1982.

ALLOWANCES (FUNCTION 920)

This function contains two parts: allowances for civilian agency payraises and contingencies for future unforeseen requirements.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	0.4	1.7	1.7	1.5	3.0	2.9
Outlays	0.45	1.7	1.7	1.4	1.9	1.9

a/ Preliminary, subject to change.

CIVILIAN AGENCY PAYRAISES

As defined by current law, the Administration estimate of comparability would require a 13.5 percent payraise for fiscal year 1982. As part of the Administration's effort to contain inflation, however, President Carter has proposed a 5.5 percent payraise for 1982. He has also cut back on the recommendation of the quadrennial Commission on Executive, Legislative, and Judicial Salaries by proposing a 16.8 percent payraise for top-level federal officials for the remainder of fiscal year 1981.

The President has also proposed legislation that would broaden the concept of comparability to include benefits as well as pay. It would add state and local government employee compensation to the private industry data now used to calculate compensation scales. These changes, and a number of other adjustments, are an attempt to improve federal comparability with nonfederal compensation. Under this legislative proposal, civilian comparability payraises would be 8.6 percent for fiscal year 1982. Compared to a full 13.5 percent comparability payraise, an estimate of 8.6 percent would reduce civilian agency federal pay by about $1.2 billion in

1982. The President's 5.5 percent payraise proposal would save an additional $0.8 billion.

For both 1981 and 1982, the Administration assumes that some of the payraise cost will be absorbed by civilian agencies from funds already appropriated. Based on the President's request, it appears that the nontrust fund programs of the civilian agencies are expected to absorb about 17 percent (or about $350 million) of the 9.1 percent October 1980 increase and about 33 percent (or about $450 million) of the 5.5 percent October 1981 payraise.

The CBO baseline projection assumes a 10.2 percent payraise and 35 percent absorption. This raise would reimburse federal workers for the loss in purchasing power during fiscal year 1981 but does not provide for full comparability. The President's 5.5 percent payraise proposal would reduce civilian agency pay by roughly $550 million relative to the CBO baseline projection.

The CBO estimate of the President's request differs from the President's request in 1982 as a result of the treatment of trust fund and revolving fund payraises. CBO carries payraises for civilian employees paid by these funds within the function containing each fund. The Administration includes payraises for all civilian employees in function 920. Thus, the CBO estimate of budget authority and outlays is lower by about $70 million in 1982.

CONTINGENCIES

The contingency allowance for possible future requirements totals $2 billion in budget authority and $1 billion in outlays in the President's 1982 budget. This request is not targeted for any specific needs or programs.

UNDISTRIBUTED OFFSETTING RECEIPTS (FUNCTION 950)

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

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	-25.8	-27.8	-28.2	-34.5	-31.9	-33.6
Outlays	-25.8	-27.8	-28.2	-34.5	-31.9	-33.6

a/ Preliminary, subject to change.

EMPLOYER SHARE/EMPLOYEE RETIREMENT

Employer share is the federal government's contribution to its employees' retirement plans. Most of these payments are made to the civil service retirement fund and the social security trust funds. This intragovernmental receipt grows each year as a result of federal payraises and increases in social security withholding rates and maximum taxable wage levels (effective both in 1981 and 1982). The President estimates that this receipt will total $6.6 billion in 1981 and $6.8 billion in 1982, compared to $5.8 billion in 1980. As a result of lower covered payroll assumptions, CBO estimates the 1981 receipts to be $0.3 billion less than the President's estimate. For fiscal year 1982, CBO estimates that net receipts will be $0.1 billion more than the Administration. CBO projects $0.4 billion more in receipts because of the inclusion of the President's 5.5 percent 1982 payraise, which the Administration does not include. This amount is offset by a $0.3 billion reduction as a result of CBO's lower covered payroll assumption.

INTEREST RECEIVED BY TRUST FUNDS

Interest received by trust funds is the income that trust funds earn on their investment in public debt securities. The size of this intragovernmental receipt primarily depends on the net trust fund surplus and on interest rates for public debt securities. President Carter is estimating receipts of $13.4 billion in 1981 and $15.2 billion in 1982. The largest 1982 increases are anticipated for the civil service retirement and disability trust fund ($1.4 billion) and the federal hospital insurance trust fund ($0.7 billion). The President's 1982 estimate includes $0.5 billion in receipts from proposed legislation, primarily from higher tax revenues in the highway and airport trust funds. CBO estimates that these receipts will total $13.7 billion in 1981 and $16.6 billion in 1982, assuming enactment of proposed legislation.

RENTS AND ROYALTIES ON THE OUTER CONTINENTAL SHELF

Receipts are derived from the sale of leases on Outer Continental Shelf (OCS) lands, from annual rental fees, and from royalties on oil and gas production from leased lands.

Cash bonuses represent the largest single component. The bonuses received from the lease sales are highly variable. They depend on the quality and quantity of acreage offered, as well as on subjective evaluations made by oil and gas exploration companies. Recent large increases in the world price of oil, high oil company profits (and liquid assets), and the instability of Middle East oil supplies have resulted in rapidly rising bonus bids.

For fiscal year 1981, the Administration is estimating receipts of $7.8 billion. The CBO estimate is $0.4 billion higher ($8.2 billion) because of differing estimates of the July 1981 Gulf of Mexico sale (Sale A66).

It should be noted that some uncertainty exists about whether receipts from Sale A62 (held on September 30, 1980) should be recorded in fiscal year 1980 or 1981. These receipts, totalling $561 million, were received on September 30th as deposits on bids, but final disposition of the bids did not occur until October. Although such deposits have traditionally been treated as receipts on the sale day, OMB has suggested that it may be appropriate to record them as 1981 receipts. As yet, neither the Administration nor CBO estimates for 1981 include these receipts.

The Administration is projecting a new high of $9.9 billion in fiscal year 1982 receipts. CBO estimates revenues to be $0.2 billion higher at $10.1 billion. The main difference in estimates is the higher receipts CBO projects for three Gulf of Mexicc lease sales scheduled in 1982.

APPENDIX

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