

**SECOND CONCURRENT RESOLUTION
ON THE BUDGET—FISCAL
YEAR 1980**

**REPORT
OF THE
COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES**

TO ACCOMPANY

H. Con. Res. 186

**REVISING THE CONGRESSIONAL BUDGET FOR THE UNITED
STATES GOVERNMENT FOR THE FISCAL YEAR 1980**

TOGETHER WITH

**SUPPLEMENTAL, ADDITIONAL, MINORITY, AND
ADDITIONAL MINORITY VIEWS**



**SEPTEMBER 14, 1979.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed**

U.S. GOVERNMENT PRINTING OFFICE

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96TH CONGRESS <i>1st Session</i>	}	HOUSE OF REPRESENTATIVES	}	REPORT No. 96-435
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SECOND CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1980

SEPTEMBER 14, 1979.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

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

R E P O R T

[To accompany H. Con. Res. 186]

I. PURPOSE OF THE RESOLUTION

The Congressional Budget Act provides for the consideration of at least two concurrent resolutions on the budget for each fiscal year. The first budget resolution, which is scheduled for adoption by mid-May, sets preliminary targets for overall spending (budget authority and outlays), revenues, and the public debt as well as budget authority and outlay targets for each of the 19 functional categories of the budget. The second budget resolution, scheduled for consideration by the Congress in September, sets binding ceilings on total spending (budget authority and outlays) and a floor for revenues. In addition, the Budget Act provides that the second budget resolution may contain language directing House and Senate committees to report legislation increasing or decreasing revenues or spending in accordance with the levels set forth in the budget resolution. Congress may not adjourn *sine die* until it has completed action on the second budget resolution and reconciliation legislation if any is required.

In preparing the Second Budget Resolution for Fiscal Year 1980, the Committee relied upon a substantial body of information updating the First Budget Resolution. On July 12, 1979, Congress received a Mid-Session Review of the 1980 Budget, containing revised estimates of spending and revenues as well as an undated economic forecast. On July 31, 1979, these estimates were revised to reflect new energy estimates. Subsequently, the Congressional Budget Office reviewed the OMB submission and presented its findings to the Committee. Pursuant to the Committee's invitation to comment on the Second Budget Resolution, a number of House committees have submitted their views on matters relating to the fiscal year 1980 budget.

The Committee heard testimony from administration economic and policy advisers, including Treasury Secretary W. Michael Blumenthal, Office of Management and Budget Director James T. McIntyre, Energy Secretary James R. Schlesinger, and Council of Economic Advisers Vice-Chairman Lyle E. Gramley. In addition, testimony was received from Congressional Budget Office Director Alice M. Rivlin, Federal Reserve Board Chairman Paul A. Volcker, Professor Walter W. Heller and Leif H. Olson, Chairman of the Economic Policy Committee of Citibank.

PROVISIONS OF LAW RELATING TO THE SECOND BUDGET RESOLUTION

Unlike the First Budget Resolution (H. Con. Res. 107), which established targets to guide subsequent congressional action on revenue, spending, and debt measures, this resolution establishes a floor on revenues and a ceiling on spending which shall be applicable to all subsequent revenue and spending legislation affecting fiscal year 1980. Once this resolution is adopted, neither House may take any action which would cause spending to exceed the budgeted level for budget authority and outlays, or reduce revenues below the level specified in

the resolution. Determinations of the House and Senate Budget Committees are the basis for concluding whether legislation would cause the appropriate levels of spending or revenues to be breached.

FLOOR PROCEDURES FOR THE SECOND BUDGET RESOLUTION

The Budget Act provides for special procedures for considering budget resolutions in the House of Representatives and the Senate. The House procedures include the following important elements:

(1) A budget resolution may be considered only after a 10-day layover period, which begins the day the report is available to Members.

(2) A budget resolution is highly privileged and may be brought to the floor without a rule providing for floor consideration.

(3) Ten hours are provided for general debate on a budget resolution, with amendments to be read under the 5-minute rule. Five hours are provided for debate on a conference report.

(4) It is not in order to recommit or reconsider a budget resolution or a conference report on a resolution. Motions to postpone or to proceed to other business and appeals from rulings of the Chair are to be decided without debate.

(5) After the Committee of the Whole has reported, the House may consider such technical amendments as are necessary to make a budget resolution mathematically consistent.

THE RECONCILIATION PROCESS

The reconciliation process has been utilized on only one budget resolution to date, the Second Budget Resolution for Fiscal Year 1976, which directed the Ways and Means and Finance Committees to submit legislation decreasing revenues by \$6.4 billion. This year the Senate Budget Committee has reported a resolution containing reconciliation language pertaining to expenditures. S. Con. Res. 36, the Second Budget Resolution for Fiscal Year 1980, directs seven committees to reduce spending by a total of \$3.15 billion in budget authority and \$4.0 billion in outlays.

Reconciliation language directs one or more committees of the Congress to submit legislation increasing or decreasing revenues, spending or the limit on the public debt. The purpose of the reconciliation process is to require committees to implement the decisions made in the second budget resolution. If the reconciliation directive involves more than one committee in each House, then all committees affected by the directive are to submit their recommendations to the Budget Committee which will assemble all the recommendations into one package for action by the full House or Senate.

Reconciliation language in a budget resolution deals only with total spending and not with any particular program or functional category. With respect to committees with jurisdiction over entitlement programs, the reconciliation process extends only to entitlement legislation which is to become effective during the upcoming fiscal year. Of course, language in the Committee report may amplify the

Committee's intent with respect to programs and functions affected by the reconciliation process.

In reporting the Second Budget Resolution for Fiscal Year 1980, the Budget Committee has *not* included reconciliation language. This position reflects the fact that House committees have, by and large, met the targets set in the First Budget Resolution and recognizes that there may be practical difficulties inherent in the reconciliation process.

ADDITIONAL MATTERS IN THE BUDGET RESOLUTION

Section 301(a)(6) of the Congressional Budget Act of 1974 provides that the first budget resolution for a particular fiscal year may include "such other matters relating to the budget as may be appropriate to carry out the purposes of this Act." Likewise, subsection (b)(2) provides that the resolution may also require "any other procedure which is considered appropriate to carry out the purposes of this Act."

In drafting the Budget Act, the conferees decided upon this language to provide a mechanism for including additional relevant matter in the budget resolution. However, legislative history is clear that the managers of the Budget Act intended that this apply "only to the specific procedures for the enactment of budget authority and spending authority legislation for the coming fiscal year and not to the jurisdiction of committees, the authorization of budget authority, or to permanent changes in congressional procedure."

Consistent with this mandate, the Committee included language in the First Budget Resolution for Fiscal Year 1980 (H. Con. Res. 107) with respect to off-budget Federal entities and legislative savings. The Committee interprets the Budget Act to permit inclusion of similar language in the second budget resolution to the extent that it revises or reaffirms the matters included in the first budget resolution.

Consequently, the Second Budget Resolution for Fiscal Year 1980 includes the following language with respect to off-budget Federal entities:

The Congress reaffirms its commitment to find a way to relate accurately the outlays of off-budget Federal entities to the budget. The Congress recognizes that by law the outlays of off-budget Federal entities are not reflected in the budget totals, and that in fiscal year 1980, off-budget outlays (and, hence, the off-budget deficit) are estimated to be \$16 billion.

In addition, the resolution contains the following language with respect to entitlement programs, a matter related to the issue of legislative savings addressed in the First Budget Resolution.

In 1980, each standing committee of the House of Representatives having jurisdiction over entitlement programs shall include in its March 15 report to the Budget Committee of the House of Representatives specific recommendations as to what changes, if any, would be appropriate in the funding mechanisms of such programs to enable Congress to exercise more fiscal control over expenditures mandated by these entitlements.

Within a reasonable period of time after March 15, 1980 the Budget Committee of the House of Representatives shall submit to the House such recommendations as it considers appropriate based on such reports.

Finally, the resolution contains projections of the budget aggregates for fiscal years 1981 and 1982. These projections extend the policy assumptions implicit in the recommendations for fiscal year 1980 into the next 2 fiscal years. Similar language was included in the First Budget Resolution.

COMMITTEE ACTION ON THE SECOND BUDGET RESOLUTION

The Committee considered the resolution in open executive session on September 10 and 11. The resolution was approved and ordered reported on September 11, 1979, by a recorded vote of 16-9.

II. OVERVIEW OF THE RESOLUTION

Inflation remains the greatest threat to the Nation's economic stability and well being.

To meet this threat, a restrained fiscal policy is needed. Yet, fiscal restraint must be carefully crafted and applied so that it avoids exacerbating the temporary downward fluctuation in the economy.

The Second Budget Resolution for Fiscal Year 1980 seeks to achieve this vital balance while building on the concept of spending restraint.

The very inflation that the Resolution seeks to curb and the economic downturn that has already begun, in part because of inflation, have driven outlays dictated by existing law beyond the targets of the First Resolution for fiscal year 1980. The economy alone accounts for more than \$7.4 billion in additional outlays from the First Resolution.

In May of this year, the Congress approved a fiscal policy designed to combat inflation. The judgment reflected in the First Budget Resolution was that neither draconian spending cuts that could plunge the Nation into deep and prolonged recession nor the high expenditure growth that has characterized recent years and further accelerated inflation was acceptable. At the same time, no dramatic or quick solution to inflation was promised.

The need for a restricted, but balanced, policy is now even more evident. Inflation has worsened and a business downturn has begun. Yet, there is demonstrated need for expenditures to insure moving toward energy self-sufficiency and necessary military strength.

The Second Budget Resolution for Fiscal Year 1980 addresses these needs and provides the balance called for.

When the First Resolution was adopted, OPEC had not imposed its most recent oil price increases. The economic assumptions of that Resolution were that the Consumer Price Index (CPI) would rise 8.4 percent in 1979 over 1978 and 7.8 percent next year over this year. Another measure of inflation, the Gross National Product (GNP) deflator was estimated to rise 8.1 percent in 1979 and 7.6 percent in 1980.

It now appears that the CPI average increase for this year over last will be 10.6 percent and the GNP deflator will be 9 percent. Next year the assumptions are for a rise in CPI over this year of 9.3 percent and 9 percent in the GNP deflator.

The economic assumptions of the First Resolution foresaw a downturn in business and rising unemployment—a natural outgrowth of high inflation and the accompanying erosion of consumer buying power.

The Second Resolution addresses the raging inflation and the human needs arising from inflation, higher oil prices and rising unemployment.

Overall, the recommendation represents the Committee's concern that the momentum of Federal spending be broken, but in a manner

that is not disruptive to important ongoing Federal programs. The Committee's recommendation achieves that goal. For the last 5 years Federal outlays have increased at a real rate of 3.4 percent. The recommendation breaks with this pattern and includes overall real growth of only 1.8 percent which is primarily for income security programs, defense, and energy. The rest of the discretionary spending in the budget shows no real growth. The Committee's spending recommendation declines as a percent of GNP from 21.6 percent in fiscal year 1979 to 21.5 percent in 1980 and declines even further in the projections of the Committee's recommendations to 19.5 percent by 1984.

Significant changes from the First Resolution are:

- Funding is provided for an energy program that will accommodate conservation, development of alternate sources of energy, relief for the poor from high fuel costs, and increased aid for mass transit.

- Money has been added to enable the military forces to meet the higher costs of fuel and supplies that are necessary to maintain approved levels of training and readiness.

- Additional funds are provided for assisting refugees.

- Provision is made for pay raises for federal employees and the military at the 7-percent level recommended by the President, but with an assumed absorption of 30 percent.

- Some additional funding is provided for targeted fiscal assistance to communities hardest hit by unemployment.

The cost of these policy changes is about \$6.7 billion for fiscal year 1980.

Estimating differences account for \$10 billion of the difference between the First and Second Budget Resolutions. About \$7.4 billion of this amount is due to changes in the economy such as an additional \$2.5 billion for interest, \$1.2 billion for unemployment compensation, \$1.7 billion for social security and \$700 million for food stamps. Other estimating differences account for about \$2.6 billion, a result caused in part by faster spend-outs as well as different levels of program participation and other assumptions.

Thus, outlays rise \$16.7 billion over those of the targets in the First Resolution.

Only a part of the increased outlays are covered by increased revenue estimates. Additionally, the House has passed an oil windfall profits tax which is expected to yield \$2.8 billion. The Committee also assumes \$2 billion in additional revenues can be obtained by administrative cash management that would speed up payments of withholding taxes from corporations to Treasury. Finally, the additional spending foreseen will partially feed back revenues to Treasury providing another \$1.5 billion over the targets of the First Resolution.

AGGREGATES OF THE SECOND RESOLUTION

[In billions]

Revenues	-----	\$519.5
Budget authority	-----	632.557
Outlays	-----	548.725
Deficit	-----	29.225

The Committee does not recommend reconciliation. In part this recognizes that appropriations and other spending bills approved by

the House have been generally consistent with the targets of the First Budget Resolution. Rather, the Committee continues to assume several legislative savings and to encourage the House to adopt them. In the absence of action on the legislative savings proposals during the fiscal year, outlays would rise some \$2.7 billion further.

Testimony received by the Committee was that additional spending or tax cuts at this time would exacerbate inflation.

In summary, the Second Budget Resolution proposes continued restraint. Its increases in spending over the targets of the First Resolution largely reflect the economic facts of life plus provision for the Nation's most pressing needs, especially in the energy field. The recent trend of growth in federal spending has been halted in nearly every discretionary program.

III. ECONOMIC OUTLOOK AND FISCAL POLICY

BACKGROUND AND SUMMARY

The report accompanying the First Budget Resolution described those factors which pushed the economy to a precarious balance between recession and rapidly rising inflation. Rising inflation during 1978 forced down the dollar in international markets eliciting a response from the administration and the Federal Reserve Board (Fed) which raised interest rates and contributed to high levels of consumer expenditures and debt. Inflation also provided a rationale for the substantial increases in OPEC price rises during 1979. These actions resulted in a higher rate of inflation.

Although many economic forecasters predicted a downturn in economic growth during 1979 as a result of higher inflation and declining real personal income, substantial growth during the last quarter of 1978 provided a short-lived confidence in the strength of the economy. This confidence was undermined by the barely positive rate of economic growth during the first 3 months of 1979 and the sharp downturn to negative rates in the second quarter.

Although current data provide no conclusive evidence whether this rapid decline in the economy will continue during the third quarter of this year, there is little expectation that any significant economic rebound will occur before the end of the year. It is this absence of a clear trend which has dictated the fiscal policy of the Committee.

Recognizing that significant economic stimulus could exacerbate present inflationary tendencies, the Committee has elected to defer any consideration of economic stimulus until evidence of the probable path of the economy is more clearly visible. Outlays which are not dictated by existing law have, therefore, been restrained, and new funds provided only in the areas of national defense, energy and in assistance to cities particularly hard pressed by high rates of unemployment.

CHART III-1

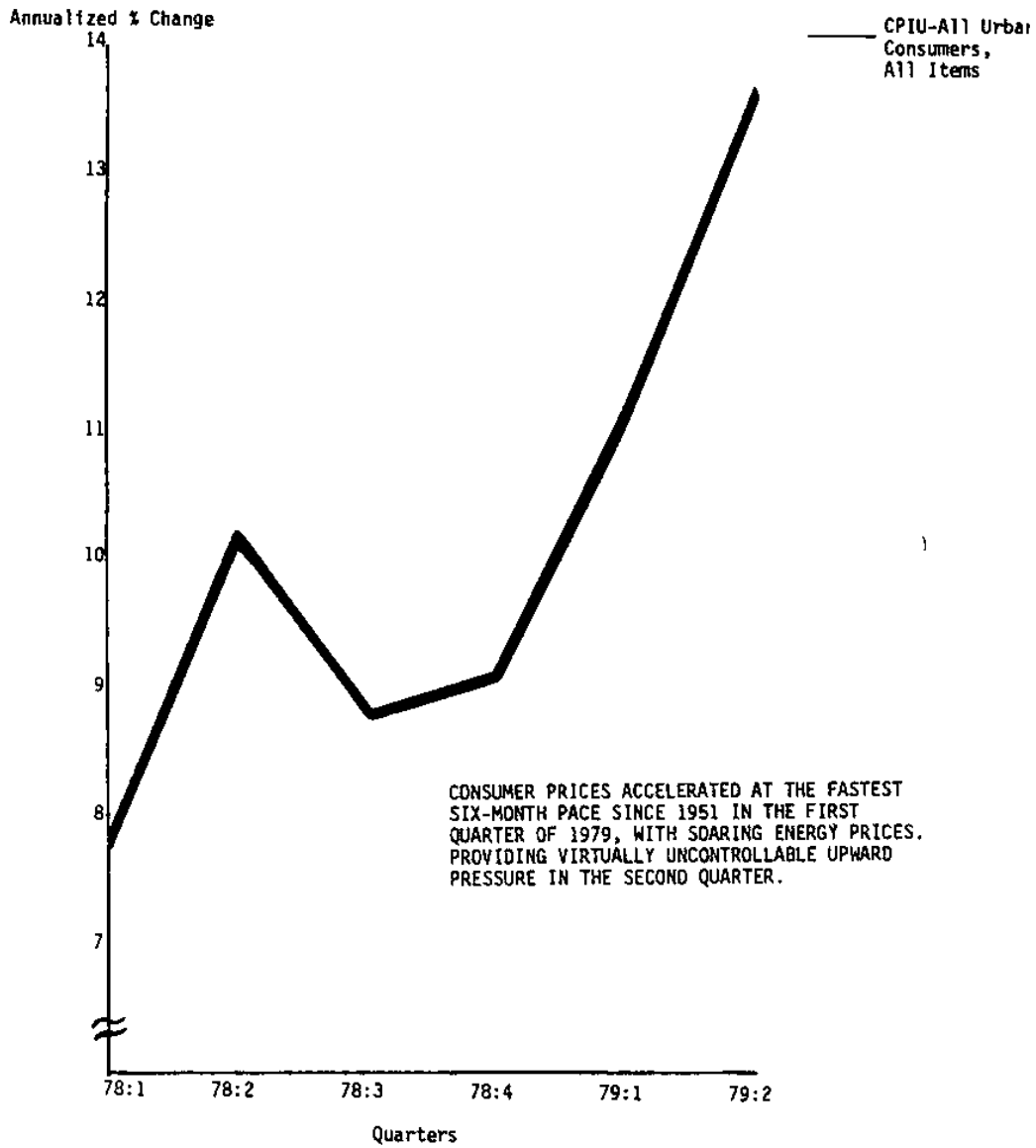
CONSUMER PRICE INDEX
(Inflation)

CHART III-2

UNEMPLOYMENT

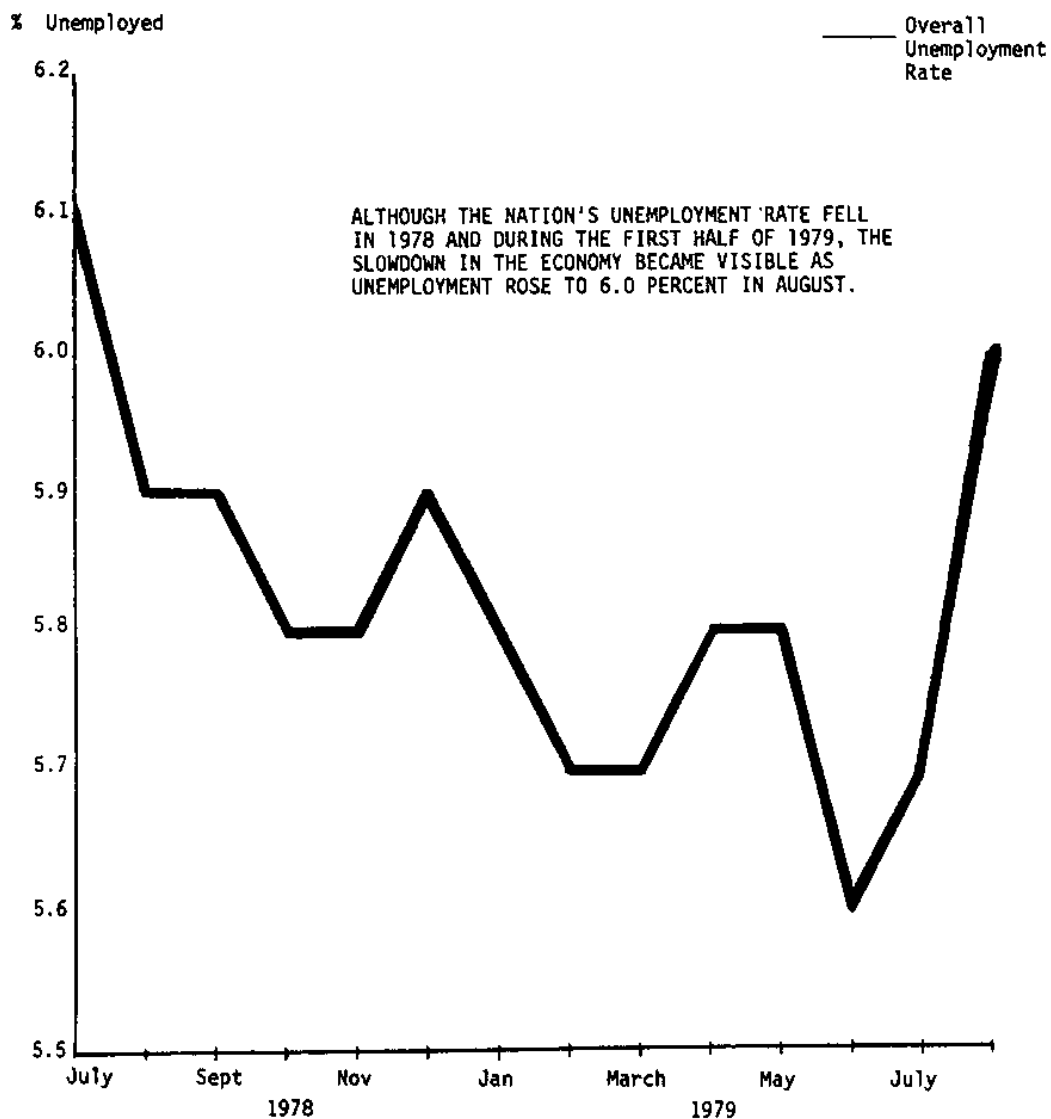


CHART III-3

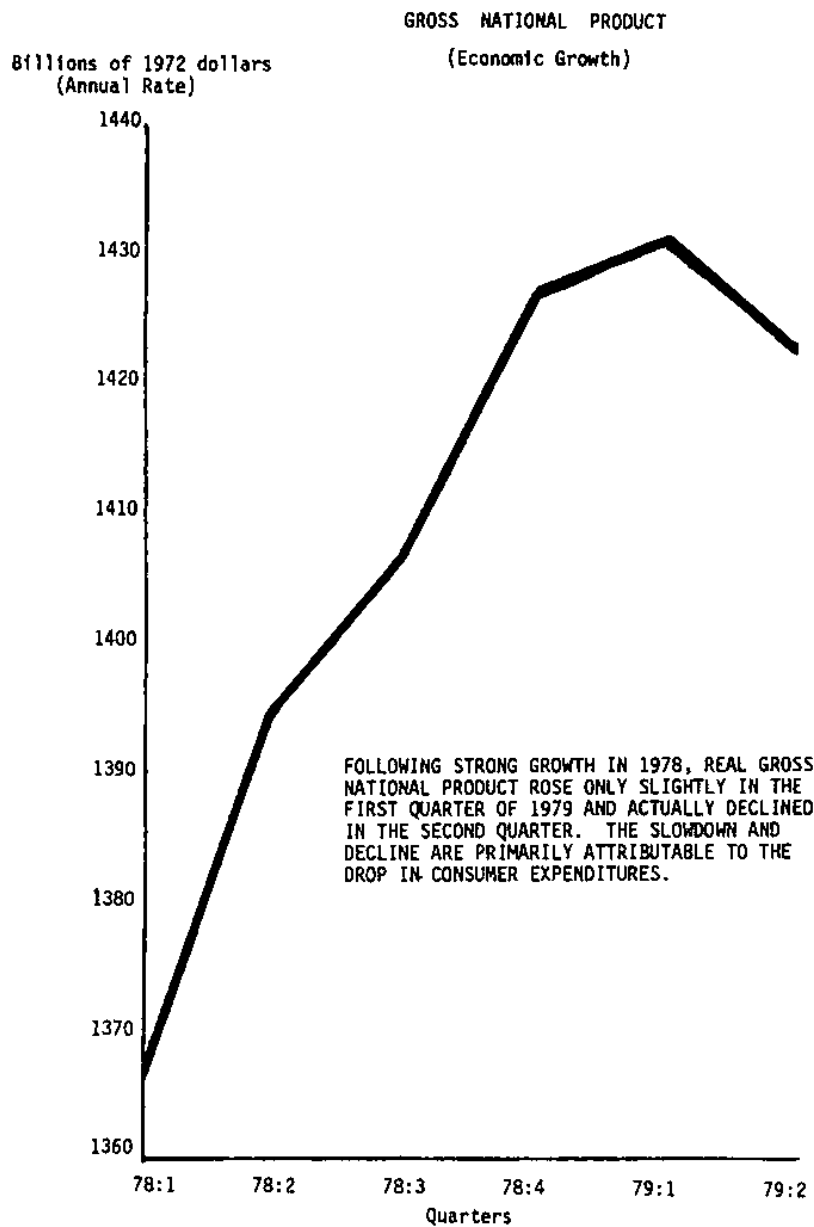
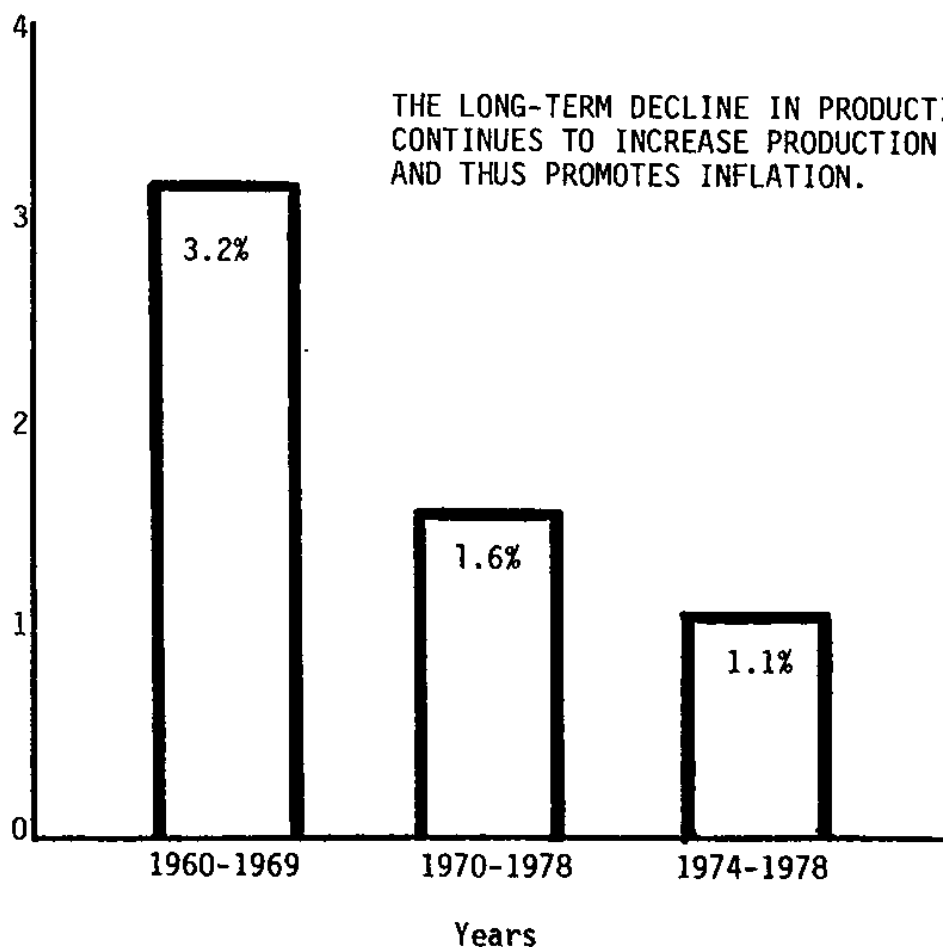


CHART III-4

PRODUCTIVITY

Growth in Output
per man-hour



THE CURRENT ECONOMIC SITUATION

INFLATION

Inflation remains the most visible national economic problem as it was during consideration of the First Budget Resolution last spring. The rate of inflation soared after the beginning of the year, and the Consumer Price Index has continued at double-digit rates, increasing at an annual rate of 13.2 percent for the first 6 months of 1979. Inflation will continue as a significant problem through and after the pending economic recession.

The causes of inflation are rooted in many sectors of the economy. In 1979, prices have increased extraordinarily for energy, food, housing and medical services. Next year pressure from energy prices will continue, and wages may become a principal factor in the price-wage spiral.

The broadest measure of inflation is the Gross National Product (GNP) implicit price deflator, an index of changes in the price of all goods and services counted in the GNP. On an annual basis the GNP deflator increased 9.3 percent in the 1st calendar quarter of 1979 and 9.2 percent in the 2nd quarter.

Price changes for items purchased by consumers are measured by the Consumer Price Index (CPI). On an annual basis the CPI increased 11.1 percent in the 1st quarter of 1979 and 13.6 percent in the 2nd quarter (without seasonal adjustments). Obviously, inflation will have to slow considerably in the second half of the year if the CPI is to remain below 11 percent for the calendar year.

The categories in which consumer expenditures rose most rapidly in the last 6 months are energy, housing and food. Expenditures on fuel and utilities have gone up more than 18 percent on an annual basis during this period. Gasoline prices jumped at an annual rate of more than 60 percent. Meat prices have increased over 20 percent on an annual basis. Home financing, taxes, and insurance costs rose at an annual rate of close to 25 percent.

CHANGES IN EMPLOYMENT AND UNEMPLOYMENT

Since 1975 the number of people employed has increased steadily and the unemployment rate has declined from nearly 9 percent to 5.6 percent in June 1979 and 5.7 percent in July, increasing to 6.0 percent in August. Total civilian employment has increased by more than 12 million workers since 1975, rising to 97.2 million in July 1979. However, a larger proportion of the population than ever before is available for work. Labor force participation as a percent of the population above 16 years of age increased from 61.8 percent in 1975 to the current 64 percent. Unemployment rates among all groups have declined, although the rates of unemployment among men, women, minorities, teenagers and other subgroups remain quite different.

The rapid growth of the labor force over the last few years is attributed to changes in the size and composition of the labor force. The post-World War II (WWII) baby boom accounted for much of the upsurge, as increasing numbers of young workers entered the labor force. The employment growth among adult women (aged 20 and

over) accounted for more than half of the total increase in 1978 employment, and the female labor force participation rate rose above 50 percent for the first time. The number of teenagers employed rose to over 8 million in July 1979, up from 7.6 million in 1977 and 6.1 million in 1970. Blacks and other racial minorities filled about one-third of the new jobs created in 1978.

The increase in employment and the slow decline in the unemployment rates in recent years are the product of the longest period of sustained economic growth since WWII. It now appears this increase has come to an end, and we have preliminary evidence of the effects of the economic decline on employment. Between March and July 1979, the total increase in new jobs was about 500,000. During the previous two quarters, the increase averaged nearly one million per quarter. Other indicators of a current slowdown include meager growth in industrial payrolls, higher unemployment rates in manufacturing, particularly in autos, a higher rate of layoffs and a drop in the numbers of hours worked.

A higher unemployment rate, however, does not emerge until the recession is well underway or until well after the slowdown has been registered by more sensitive indicators, such as real GNP and retail sales adjusted for inflation. Employers are slow to let their experienced workers go until a recession is almost certain. The unemployment rate which rose to 6.0 percent in August had been virtually unchanged for the last 12 months. That rate, however, can rise very rapidly. In the 1974-1975 recession, for instance, unemployment rose from 5.9 percent in October 1974 to 8.0 percent in January 1975.

ECONOMIC GROWTH

The rate of economic growth adjusted for inflation from April through June this year was the slowest in 4½ years as the GNP fell at an annual rate of 2.4 percent. This 2nd quarter decline continued the trend of decelerating growth rates as real GNP fell from a 5.6 percent increase in the last quarter of calendar 1978 to only 1.1 percent in the 1st quarter of 1979. The drop to a negative growth of 2.4 percent in the 2nd quarter of 1979 provided clear evidence of a weak economy on the edge of a recession.

The principal factor causing the decline is reduced consumer demand, particularly for durable goods such as autos. Business investment is lower than previously planned but continues at a positive rate. The international balance of payments has improved and government spending has increased slightly. Each of the consumption, investment, international and government sectors of the economy are analyzed in later sections of this chapter.

The significance of the decline in the rate of growth of GNP is that this is usually one of the first signs of an impending recession. The commonly acknowledged definition of a recession is a period of at least two quarters of negative real growth.

Since adoption of the First Budget Resolution, economic activity has continued to decline. The rate of decline was increased by the shortage of gasoline in late spring, but the downward direction in the economy was clear even before the appearance of gas lines.

PRODUCTIVITY

Declining productivity in the American economy has become a serious problem in the last few years of the economic expansion. This year the problem has become more acute as productivity actually declined and manifested itself in the rising costs of production which feed inflation. In recent months productivity fell dramatically as employers reduced production levels in reaction to slowed economic activity without laying off employees. This is normal in the early stages of a recession.

From 1950 to 1959, productivity of the private business sector grew at an annual average of 3.2 percent. From 1960 to 1969, the average dropped to 3.0 percent and from 1970 to 1978 the average annual increase fell to 1.6 percent. In the immediate past, from the last recession in 1974-75 to the end of the expansion in 1978, annual productivity increases averaged less than 1.1 percent. During the 1st quarter of 1979, productivity in the Nation's private business sector actually fell by 1.8 percent at a seasonally adjusted annual rate and by 3.3 percent in the 2nd quarter. This second quarter decline is the largest since the 6.9 percent plunge in the 1st quarter of 1974 at the beginning of the last recession.

Several factors have combined to aggravate declining productivity: entry of a large number of new and young workers in the work force, expansion of service-oriented production, expanded and more comprehensive government regulations, low levels of business investment in new plants and equipment, and declining research and development expenditures. Most of the "baby boom" children have entered the work force in the last 10 years, and because that age group has become a larger percentage of the work force and has less work experience, average output per hour of work has diminished. Larger numbers of women with less work experience joining the work force may contribute to declining productivity in the short-term as well.

CHART III-5

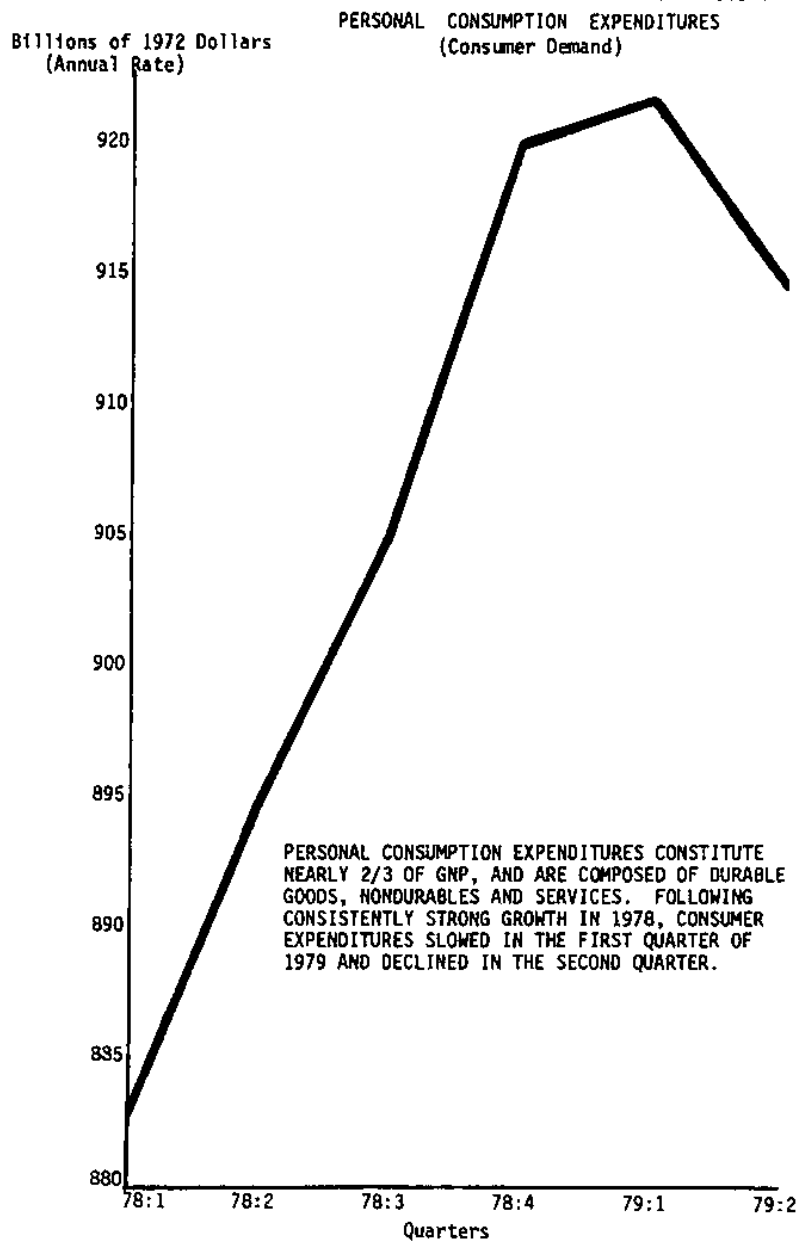


CHART III-6

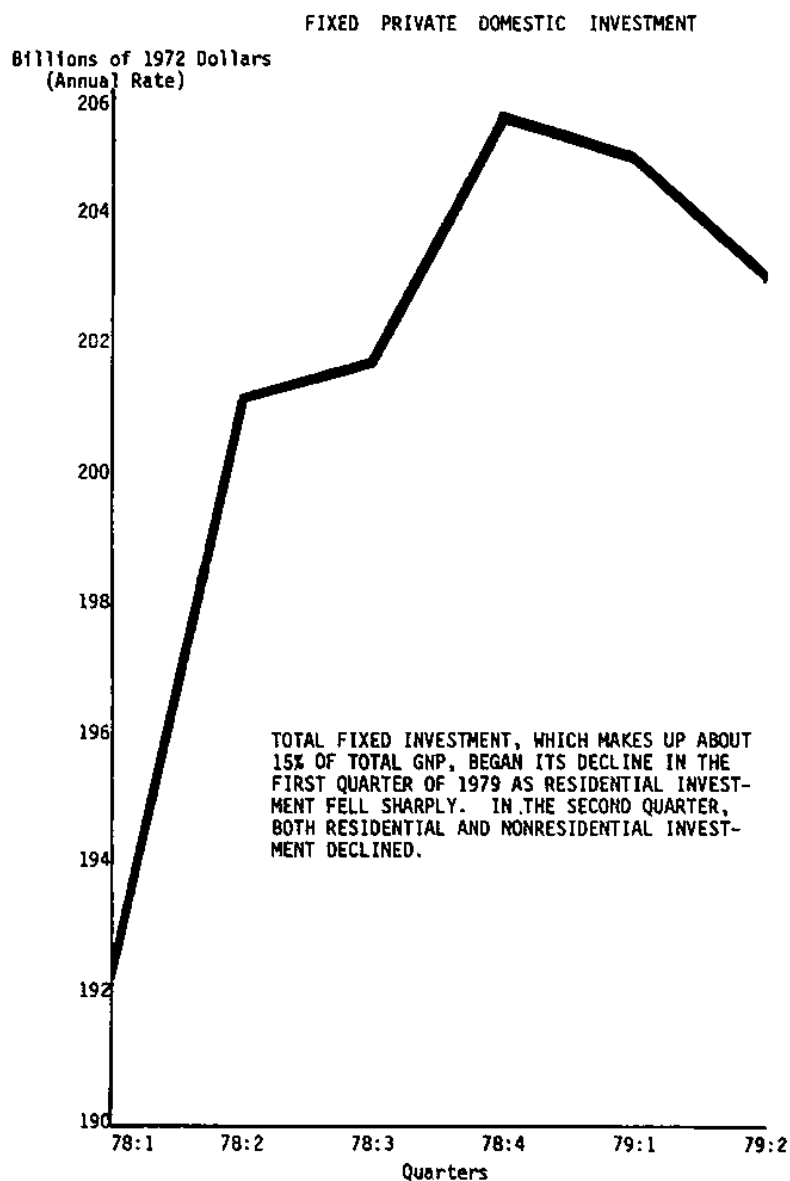


CHART III-7

NET EXPORTS OF GOODS AND SERVICES

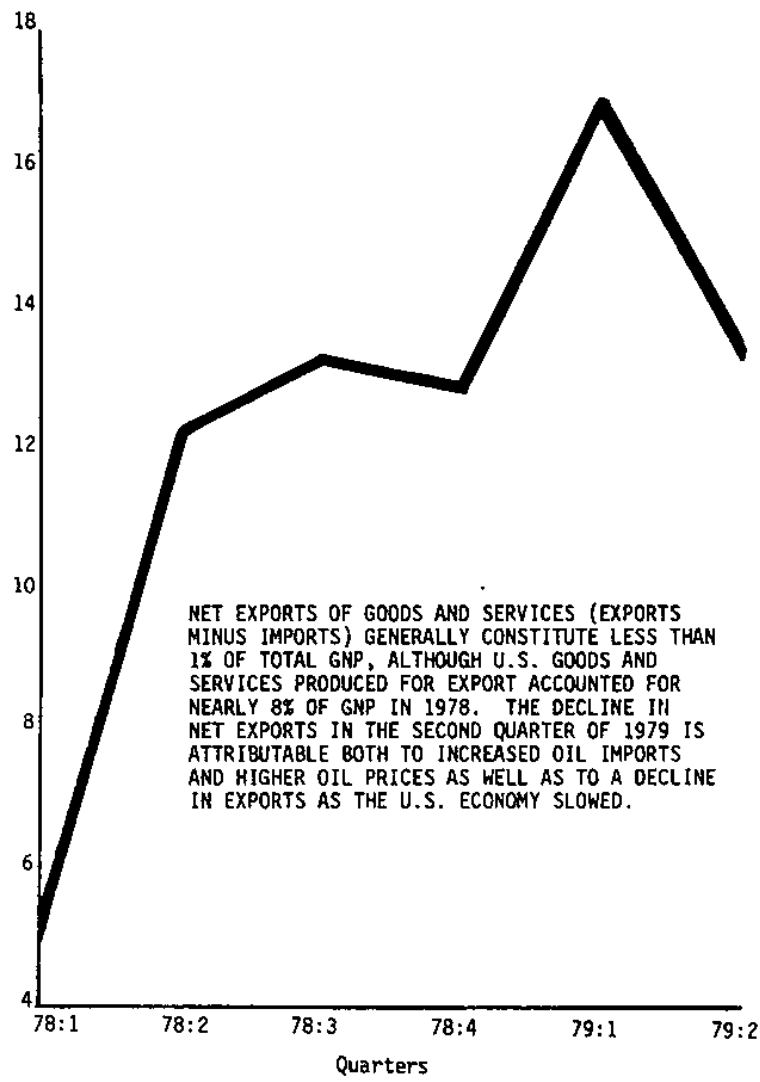
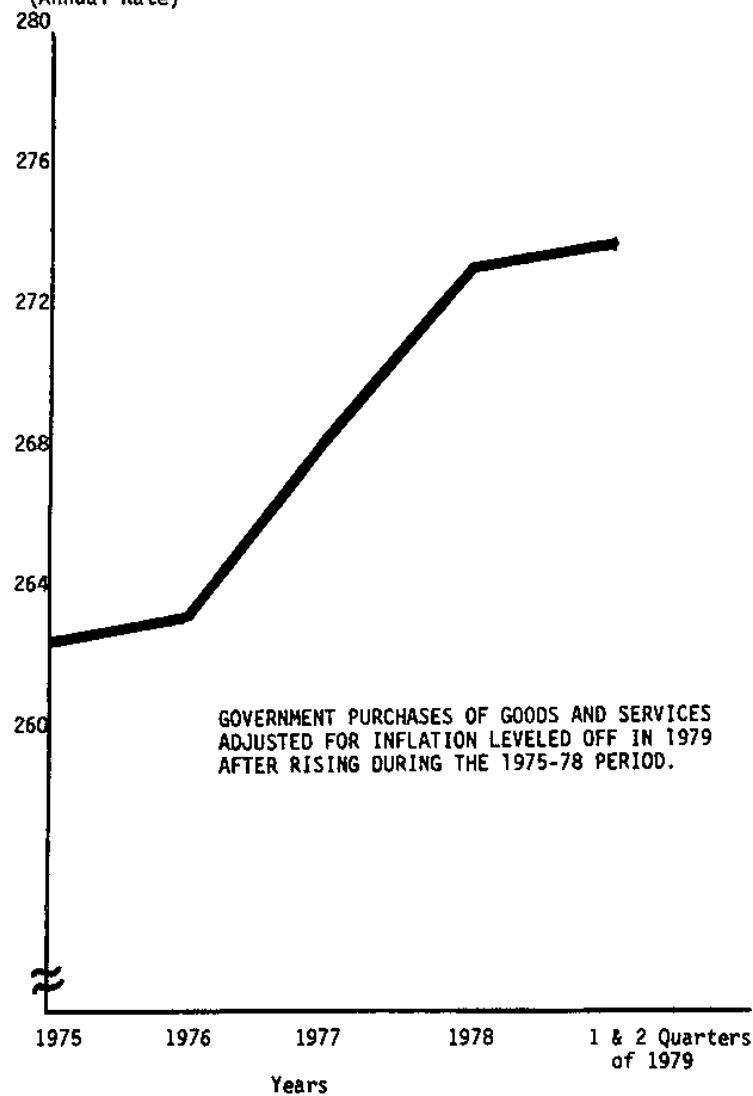
Billions of 1972 Dollars
(Annual Rate)

CHART III-8

GOVERNMENT PURCHASES OF GOODS AND SERVICES

Billions of 1972 Dollars
(Annual Rate)

CHANGES IN GNP SECTORS

CONSUMER DEMAND

Consumer spending provided the basic strength for the economic recovery from the 1973-75 recession. When adjusted for inflation consumer purchases declined at an annual rate of 3.1 percent in the second quarter of this year. Personal consumption expenditures account for nearly two-thirds of the GNP. Thus a decline in this category implies a significant slowing of the overall economy.

Personal consumption expenditures are divided into 3 major categories: durable goods, nondurables, and services. Spending for both durables, such as furniture, appliances and autos, as well as for nondurables, fell in the second quarter. On the other hand, consumer expenditures for services, which account for slightly less than one-half of all personal consumption expenditures, rose at an annual rate of almost 2.7 percent in the second quarter.

There are a number of reasons for the slacking off of consumer purchases of durables and nondurables. The rapid growth of incomes slowed toward the end of last year, and income adjusted for inflation was down 1.7 percent in the second quarter of 1979. Pervasive inflation, the threat of recession and stagnant personal income all apparently took their toll of consumer confidence. Although consumers had been willing to extend themselves to an unusual degree in the last quarter of 1978, dropping their savings to an historically low rate of 4.8 percent of disposable personal income, by the second quarter of 1979 the savings rate was back up to 5.4 percent. Consumers' debt burden is high, but increases in outstanding credit are proceeding at a slower pace since the beginning of the year, although still at an historically high rate of 18 percent.

The auto industry, which is always an early victim of falling consumer demand, has recently borne the additional weight of the rapid shift in demand from large to small vehicles. In addition to the glut of larger model cars and the consequent increase in inventories, sales of trucks, vans, and recreational vehicles have declined very substantially.

INVESTMENT

Business Fixed Investment.—Business fixed investment adjusted for inflation, which was running well ahead of the growth in total output in the first quarter, declined in the second quarter. Construction spending dropped in June and was down 4.5 percent from June 1978. Spending on producers' durable equipment, which had been a bright spot in the business sector, fell at an annualized rate of 5.2 percent in the second quarter. Fixed investment accounts for nearly 15 percent of the total GNP.

Housing.—Although housing starts in the second quarter were running a higher annual rate than in the first quarter, starts in the first five months were 12½ percent below the same period a year ago. While housing permits and sales of new homes have also been rising since earlier in the year, they too are significantly below the levels for comparable months in 1978. Prices have risen so rapidly (up 17 percent from April 1978 to April 1979) that despite the decline from the

previous year in the rate of new starts, inventories of completed units have been rising since January. However, the sustained high level of demand in housing has caused mortgage rates to continue to rise, increasing to $10\frac{3}{4}$ percent in July.

Changes in Business Inventories.—Our investment barometer meriting close scrutiny is inventories; business still remembers that an unintended build-up of inventories was partly responsible for the depth of the 1974–1975 recession. Real business inventories rose \$12.3 billion in the first quarter and \$16.8 billion in the second quarter in the face of declining final sales. Although the inventory-to-sales ratio was at a relatively low 1.40, the ratio has risen steadily in the last few months. The current ratio figure means there is a supply on hand equal to 1.4 months of average sales. Rising inventories imply reduced orders, as businessmen attempt to adjust to lower consumer demand, and can lead to reduced production and layoffs. Thus, large inventory build-ups in the early stages of an economic slowdown can lead to a deeper economic contraction later as businessmen react to reduce surplus stocks.

INTERNATIONAL TRENDS

The United States is part of an integrated world economy. We depend on the rest of the world for oil and a wide range of key primary products. Exports are equivalent to 8 percent of our Gross National Product (GNP).

Current international economic trends portend the value of the dollar may remain under pressure in the world money market at least through the 1980's. There is a lack of confidence abroad in both U.S. economic and energy policies. The United States rate of inflation has been higher than that of our major trading partners and foreign markets question our ability to bring it under control. They are not reassured by Americans' slow progress in reducing oil consumption. Gasoline prices in the United States are still less than half of what most Europeans are paying. The new European Monetary System, in operation since mid-March, makes it likely that an effort to halt a new run on the dollar would not receive the same support, especially from the Germans, which it had during the dollar crisis in the fall of 1978. In addition, the Saudis have expressed unwillingness to be the holder of last resort of a depreciating dollar, and there has been some talk of their demanding payment of oil bills in a basket of currencies.

FEDERAL GOVERNMENT POLICIES

CHANGES IN MONETARY POLICY

In addition to facing the difficult domestic dilemma of applying enough monetary restraint to check inflation without deepening the recession which many economists believe has already begun, the managers of our monetary policy also have to keep in mind the international implications of monetary policy.

Speculation against the dollar last fall forced it down to low levels. However, the dollar rescue package was a dramatic and successful effort to halt the slide in the dollar's value. The dollar gradually recovered some of its loss, and by early spring the Fed and the Treasury

were able to repay the entire \$6.5 billion worth of foreign currencies borrowed to support its status.

If the dollar declines in value, the climate for investment and growth is damaged. Although to an extent a cheaper dollar makes American goods more competitive abroad, it is also inflationary in that the absence of strong price competition causes both domestic and import price to rise. According to a rough rule of thumb, a 10 percent decline in the international value of the dollar may result in an increase of 1.5 percent in consumer prices.

A monetary policy that maintains high interest rates serves both to prevent overexpansion of the United States economy and redress an international current account deficit by making investment in this country attractive to foreigners. Nevertheless, raising the costs of domestic borrowing adds to the pressures of inflation.

In the last month or two the oil price rise and unexpectedly sharp increases in United States inflation raised doubts abroad about the dollar's stability. Another slide began. Moreover, speculation on the future direction of the United States economic policy may have aggravated the decline. In addition, there was a rapid expansion of the money supply. The Fed responded by raising the discount rate to 10 percent and then to 10½ percent. The prime rate has risen to approximately 13 percent, higher than it was at the beginning of the last recession.

Questions still remain. If the recession turns out to be deeper than anticipated, pressure to relax monetary policy will increase. At that time the Fed will have to decide if monetary policy should continue to address longer term international concerns or attempt to alleviate immediate domestic problems.

DOES THE DOWNTURN WARRANT POLICY ACTION NOW?

Although economic growth in the first quarter was anemic, and strongly negative during the second quarter, it is still too early to know how long or how deep the economic decline will be. Any stimulus package might worsen rather than alleviate present problems. Moreover, the uncertain position of the dollar in international money markets requires that any fiscal policy action be carefully structured to avoid worsening that situation. Finally, any immediate move to reduce taxes to provide stimulus to the economy might exacerbate the present double-digit inflation rates, and become entangled in the politics of the windfall profits tax.

The full array of data regarding changes in the GNP components during the third quarter of 1979 will be published during the last week of October. Although preliminary data on retail sales, housing starts, wages, etc. are available on a month by month basis, these series are not sufficiently complete or broad enough to provide the basis for definitive judgments on the health of the economy. It is therefore greatly preferable to defer any change in fiscal policies at least until after the release of the third quarter GNP figures.

If the decline then appears to give evidence of a need for a change in fiscal policy, there will be time to consider the proper alternatives, including a possible Third Budget Resolution.

COMMITTEE ACTION ON FISCAL POLICY

The Second Budget Resolution maintains the commitment to budget austerity. That posture is dictated by the belief that inflation, our most immediate economic problem, must be brought under control. Any consideration of fiscal stimulus must wait upon clear evidence that the current decline in the economy will endure. That evidence is not at hand, and action taken in anticipation of such data could worsen present double-digit inflation rates.

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The Committee has made adjustment for increases in outlays caused by more rapid inflation and for expected increases in unemployment. It has also provided funds to increase defense expenditures and to establish the foundation for greater energy self-sufficiency through conservation and the production of synthetic fuels. However, Committee has not made any other major policy alterations which would result in new expenditure programs and it has rejected any move at this time to reduce taxes.

The Resolution provides for expenditures totaling \$548.725 billion. Revenues in the Resolution total \$519.5 billion. The resulting deficit is \$29.225 billion. The forecast of economic growth, inflation, and unemployment assumes that monetary policy does not become more restrictive. The estimates are the same as the Congressional Budget Office and the Senate Budget Committee. This forecast compared to forecasts by the administration and by the major econometric models widely used in the United States is shown in the accompanying table.

COMPARISON OF ECONOMIC ASSUMPTIONS

	4th/4th (percent)			Yearly average (percent)		
	1978 (actual)	1979	1980	1978 (actual)	1979	1980
Change in real GNP	4.3			4.0		
First Concurrent Resolution (May 21)		A	NA		3.3	2.1
President's midsession review (July 12)	-0.5	2.0		1.7	1.0	
CBO (July 3)	-1.0	2.9		1.8	.9	
DRI (Aug. 21)	-1.1	2.0		1.5	.2	
Chase (Aug. 23)	-1.9	2.0		1.2	-.3	
Wharton (Aug. 27)	-1.3	2.9		1.4	.7	
Change in nominal GNP	13.0			11.6		
First Concurrent Resolution		NA	NA		12.1	9.7
President's midsession review	9.2	10.3		11.0	10.0	
CBO	8.2	11.9		10.9	10.1	
DRI	7.8	10.7		10.4	8.8	
Chase	6.5	9.7		10.0	7.3	
Wharton	7.6	11.2		10.3	9.2	
Unemployment rate	5.8			6.0		
First Concurrent Resolution		NA	NA		6.0	6.5
President's midsession review	6.6	6.9		6.1	6.8	
CBO	6.9	7.2		6.2	7.2	
DRI	6.3	7.3		5.9	7.1	
Chase	6.7	7.9		6.1	7.7	
Wharton	6.6	7.4		6.1	7.4	
Inflation-change in CPI	9.0			7.7		
First Concurrent Resolution		NA	NA		8.4	7.8
President's midsession review	10.6	8.3		10.6	8.6	
CBO	10.9	8.9		10.6	9.3	
DRI	11.8	8.5		10.9	9.6	
Chase	11.3	8.1		10.8	9.0	
Wharton	12.2	9.1		11.3	10.1	
Interest—91-day Treasury bill rate	8.6			7.7		
First Concurrent Resolution		NA	NA		9.2	7.7
President's midsession review	8.4	8.2		9.0	8.2	
CBO	8.30	8.84		9.05	8.44	
DRI	9.46	7.86		9.44	8.29	
Chase	9.04	7.92		9.33	7.74	
Wharton	9.39	8.56		9.47	8.79	

The following table provides the Committee's assumptions with respect to the major components of economic output in calendar years 1979 and 1980:

	Calendar years			
	1979		1980	
	Percent change 4th quarter/ 4th quarter	Percent change yearly average/ yearly average	Percent change 4th quarter/ 4th quarter	Percent change yearly average/ yearly average
GNP:				
Real (1972 dollars)-----	-1.0	1.8	2.9	0.9
Nominal (current dollars)-----	8.2	10.9	11.9	10.1
Inflation:				
GNP deflator-----	9.4	9.0	8.8	9.0
CPI (all urban consumers)-----	10.9	10.6	8.9	9.3
	4th quarter level	Yearly average	4th quarter level	Yearly average
Unemployment-----	6.9	6.2	7.2	7.2

Total output is expected to rise by 2.9 percent between the fourth quarter of 1979 and the fourth quarter of 1980. Unemployment is forecast to rise through the remainder of 1979 and early 1980. Unemployment in the fourth quarter of 1980 is forecast at 7.2 percent. Inflation is expected to decline from present levels during the remainder of 1979 and average 9.3 percent in 1980. Major components of income and output are shown in the Tables below:

MAJOR COMPONENTS OF OUTPUT

[In billions of dollars]

Components of output	Calendar year quarter		Rate of change (percent)
	1979 4th quarter	1980 4th quarter	
Current dollar GNP-----	\$2,397.0	\$2,683.0	11.9
Gross national product ¹ -----	1,400.0	1,440.0	2.9
Consumption ¹ -----	904.3	930.9	2.9
Business investment ¹ -----	148.0	149.3	.9
Residential construction ¹ -----	51.0	57.2	12.2
Change in inventories-----	3.5	8.5	(²)
Net exports ¹ -----	14.2	15.6	(²)
Federal purchases ¹ -----	100.6	98.7	-1.9
State and local purchases ¹ -----	178.5	179.8	.7
Capacity utilization (percent)-----	80.4	80.7	(²)

¹ Adjusted for inflation.

² Not applicable.

MAJOR COMPONENTS OF INCOME

[In billions of dollars]

Income components	Calendar year—	
	1979	1980
Current dollar GNP.....	2,336	2,571
Personal income.....	1,906	2,107
Wages and salaries.....	1,221	1,341
Corporate profits.....	224	239

IV. IMPACT OF THE ECONOMY ON THE BUDGET

Overall revenue and spending levels in the Federal budget are greatly affected by economic conditions. Revenues are affected by inflation, unemployment, and economic growth. Spending is affected by inflation, unemployment, and interest rates. In many cases the economic impacts of different economic measures are offsetting.

INFLATIONARY IMPACTS

In the second Budget Resolution higher inflation is directly responsible for approximately \$6.2 billion in increased revenues and \$3.2 billion in increased spending over the First Budget Resolution.

Inflationary increases in revenues occur because inflation raises personal income. The graduated income tax exaggerates the increase because higher income boosts taxpayers into higher tax brackets. Inflated prices of goods and services may or may not lead to higher corporate profits and higher taxes.

Inflationary increases in spending occur because the cost of government purchases grow, and many transfer programs with ties to the consumer price index automatically increase. More than 30 percent of the outlays in the President's 1980 Budget represent spending from programs tied *by law* to the cost-of-living. Social security is the largest program in this category accounting for an increase of \$1.7 billion since the First Budget Resolution. Food stamps, medicare-medicaid, and others increase as well.

A rule of thumb is that a one percentage point increase in inflation raises revenues by \$6 to \$9 billion, raises spending by \$3 to \$5 billion, and on balance reduces the deficit by approximately \$3 billion if all other economic measures remain unchanged, but high inflation inevitably dries up purchasing power and slows business activity. A one percentage point increase at higher levels of inflation raises spending relatively more than at lower levels.

UNEMPLOYMENT IMPACTS

In the Second Budget Resolution higher unemployment is responsible for approximately \$2.5 billion in reduced revenues and \$1.2 billion in increased spending compared to the First Budget Resolution.

Higher unemployment reduces revenues because unemployed people obviously do not pay taxes. Secondly, corporations normally lay off employees when profits are falling. The combined effect dramatically reduces tax collections.

Higher unemployment automatically increases spending *by law* in entitlement programs. For example, unemployment compensation outlays more than doubled between fiscal years 1974 and 1975 because of the recession. If the law were changed to lengthen the duration of benefits, spending would increase at an even greater rate.

A rule of thumb is that a one percentage point increase in unemployment reduces revenues by \$14 to \$16 billion, raises spending by \$3 to \$4 billion and in total raises the deficit by \$17 to \$20 billion if all other economic measurements remain unchanged. At higher unemployment levels a one percentage point increase raises the deficit relatively more.

ECONOMIC GROWTH ADJUSTED FOR INFLATION (REAL GROWTH)

Economic growth consists of inflation and changes in the constant dollar value of the Gross National Product (GNP) usually referred to as real growth. Since inflation was addressed earlier only real growth is covered here.

Real growth affects revenues and only coincidentally spending. Lower real growth leads to higher unemployment and lower tax collections. Consequently, the estimated revenue reduction for unemployment includes the reductions for real growth.

The effect of a one percentage point decline in real growth is roughly equivalent to the revenue change caused by a one percentage point change in inflation or approximately \$6 to \$8 billion if all other economic measurements remain unchanged. Depending on the state of the economy real growth may fall with increases in inflation. Consequently, they may offset each other.

INTEREST RATES

In the Second Budget Resolution higher interest rates are responsible for approximately \$2.5 billion more spending than in the First Budget Resolution. Revenues are not directly affected by interest rates except that higher rates indicate a strong economy, but higher rates may lead to future weakening in the economy. A strong economy produces higher revenues.

Higher interest rates cause higher spending because the government must pay more to service the national debt. Interest is counted in the interest function of the budget.

A rule of thumb, that varies considerably, is that a one percentage point increase in interest raises spending by \$1 to \$2 billion if all other economic measurements remain unchanged.

V. ENERGY, DEFENSE, AND OTHER MAJOR BUDGET PROPOSALS

A principal responsibility of the House Budget Committee is to establish national spending priorities that are responsive to current economic conditions as well as to national needs. Even within the context of restrained spending, certain new or existing programs must be accorded a very high priority. In our efforts to bring inflation under control, we cannot escape the responsibility of meeting compelling national needs.

It has become obvious to all Americans that we must develop a coherent long-term energy policy for our Nation. This Resolution provides spending authority commensurate with that objective.

Of equal importance is the readiness of our armed forces. The impact of higher fuel costs has placed a heavy burden on our military in terms of maintaining required levels in the operations of ships, aircraft and combat vehicles. This Resolution recognizes the need for specific increases in defense spending.

Similarly, we cannot ignore the critical needs of economically distressed cities and communities. Inflation and unemployment have made their problems extremely severe. The Committee recommends additional funds to help meet the needs of our cities and communities.

The slowing of the economy, coupled with high inflation, impacts on a number of human resource programs in terms of increased costs. The recommendations contained in this Resolution have made the necessary adjustments to account for the economic facts of life.

Energy

This Committee believes that the Congress must enact a strong energy program. The bleak history of energy mismanagement since the first shock wave of OPEC price increases in 1973, compounded by the recent revolution in Iran, have made it imperative that this Nation substantially reduce its dependence upon foreign oil as soon as possible. The United States' oil importing bill is over \$60 billion a year. Fifteen years ago we imported less than 20 percent of our oil. Today we import one-half of the oil we use. Moreover, this imported oil is concentrated in a handful of producing countries.

In order to accommodate the appropriate congressional response to national energy needs, this Committee recommends that \$17.6 billion in budget authority, with estimated outlays of \$2.6 billion, be provided for a package of new initiatives to meet the energy crisis. The Committee supports the President's program to reduce U.S. imports of foreign oil, to develop new synthetic fuels, to promote conservation, to improve our mass transit system, and to provide direct economic aid to poor families to help offset the impact of recent oil price increases. The Committee also assumes enactment of a windfall profits tax, as passed by the House, on the oil industry.

The Committee recommendations are designed to implement fully the objectives of the President's energy program. However, the Committee is highly cognizant of the Congress' special responsibility to control the level of expenditures. For this reason, the spending levels in fiscal year 1980 are to be construed as the major first step in the development of the President's energy program.

The House of Representatives has already taken a number of steps early on to meet the energy crisis. H.R. 3930, which amends the National Defense Production Act, provides for a new synthetic fuels initiative. This bill has already passed the House and is now under consideration in the Senate. The President's proposal for a windfall profits tax also has passed the House, and the revenues derived from this tax are to be used for implementing a national energy policy. The House Commerce and Interior Committees have reported out bills which would create a new Energy Mobilization Board. These and other actions taken by the House indicate the strong commitment the Members of the House have to develop a coherent energy policy.

This Committee does not specify amounts for each component of the energy initiatives Congress should take. However, its recommendations are based on the following assumptions:

First, approximately \$12 billion in budget authority can be used to fund the Energy Security Corporation proposed by the President. In fiscal year 1980, the Corporation will be able to contract with the private sector for the production of substantial quantities of synthetic fuels from coal and oil shale. The recommendation of the Committee also assumes that up to \$2 billion could be used to encourage commercial demonstrations of unconventional gas and oil technologies that offer significant promise in the immediate future. The Committee believes there is a need for a substantial commitment of Federal credit in order to provide the basis for long-term solutions to our energy problem.

Second, the recommendation assumes funding sufficient to accommodate the President's program for fuel assistance to low income families. This program is estimated to cost \$1.6 billion in budget authority and outlays in fiscal year 1980.

Third, the recommendation can accommodate a variety of mass transit and other transportation initiatives costing \$1.4 billion in budget authority and \$0.2 billion in outlays, as proposed by the President.

Fourth, the Committee's recommendation can accommodate an increase of \$1.7 billion in budget authority and an estimated \$0.5 billion in outlays for energy conservation and solar programs in addition to those recommended by the President. The Committee believes that we must begin to think of conservation as one of the more important steps that we can take to reduce oil imports.

The Committee believes that the recommendations will provide the flexibility for the Congress to develop an effective and meaningful energy policy.

NATIONAL DEFENSE

The Committee recommends \$138.2 billion in budget authority and \$128.6 billion in outlays for National Defense.

The Committee believes that the targets established for national defense in the First Budget Resolution provided for essential force levels,

as well as improved readiness and modernization. However, since those targets were established, inflation has accelerated faster than had been expected. Consequently, in the Second Budget Resolution, the Committee is recommending an increase to cover higher costs of maintaining the Nation's military readiness, particularly costs due to higher fuel prices. In the Committee's view this increase is necessary to maintain previously approved levels for operation of ships, aircraft and combat vehicles. The increase in outlays also will accommodate the fact that defense procurement funds, appropriated in prior years, will spend out much faster than was estimated in the spring. In total, the Committee recommendation provides increases of \$1.6 billion in budget authority and \$4.4 billion in outlays above the First Budget Resolution.

The Committee is aware that the President announced on September 10 that a budget amendment will be submitted which will substantially increase his budget request. However, few details of the new amendment are available at this time.

The following table compares the various elements :

[In millions of dollars]

	Budget authority	Outlays
President's budget (July 31 revision).....	138.5	126.8
President's amended request (Sept. 10).....	141.4	130.6
First Budget Resolution.....	136.6	124.2
Second Budget Resolution recommendation.....	138.2	128.6

The Committee realizes that the increase it is recommending will not provide all of the funds the President and others would like in the defense budget, but in the Committee's view the increase will continue to provide for a balanced defense effort in view of the stringent overall Federal budget situation.

The Committee's defense recommendation is less than the President's most recently revised request because the Defense Department is expected to absorb 30 percent of the pay raise and early indications are that the Defense Subcommittee of the House Appropriations Committee will make reductions in the amount of \$2.2 billion. Additionally, the Department has adequate reprogramming and transfer authority, and is in a better position to adjust its programs to accommodate funding limitations.

Finally, the Committee considered the question of growth in the defense budget. Since the fiscal year 1978 budget, one of the prime justifications for the defense budget has centered about a "three percent real increase for NATO."

In considering this approach, it should be noted that over fifty percent of the defense budget is for people-related costs . . . pay and retirement. There is no plan to increase the number of people in the military departments. Pay is capped below inflation rates and retirement pay is adjusted for cost-of-living increases. Across-the-board increases, therefore, provide significantly more than three percent in research, development and procurement.

The Committee considers that improvement in our forces will result from increases in the defense budget in the areas of readiness and modernization. This includes operations, maintenance, research, development, procurement and military construction. An increase of 3.2 percent in real terms over the fiscal year 1979 level is recommended for these areas. This increase will provide funds for all the new initiatives in the strategic area which the President has proposed for fiscal year 1980 funding.

If there are weaknesses in our force structure, then these specific weaknesses should be identified to the Congress. Funds required to correct these weaknesses should be specifically requested. In the Committee's view it is not good budgetary policy to simply add funds on a formula or arbitrary percentage increase.

JOBS PROGRAMS

Although the recommendations of the Committee proceed fundamentally from the recognition that inflation and its effects on the economy are the gravest problems facing the Nation, unemployment remains a serious national problem requiring attention. The recommendation for the Second Budget Resolution continues the policies underlying the First Budget Resolution with respect to programs under the Comprehensive Employment and Training Act (CETA). These programs are designed to attack problems of structural unemployment through training and related programs as well as providing public service employment.

The Committee continues to be concerned about the rate of unemployment and believes that under current economic conditions employment programs should be closely targeted to those persons who are most in need and least likely to find employment without assistance, especially members of minority groups, women, and young persons. The Committee believes that attacking unemployment with highly targeted employment and training programs can reduce joblessness without creating inflationary pressures in the labor market. Accordingly, the Committee recommendation includes funds sufficient to assure employment of 200,000 public service job enrollees under the CETA title VI countercyclical program at the end of fiscal year 1980 and 250,000 structurally unemployed under CETA title IID.

In total, the Committee recommends \$8.6 billion in budget authority for training and employment programs under CETA. Of this amount, \$3.6 billion will directly create jobs through public service employment. Of the remaining amount, \$2.1 billion would support youth unemployment programs, including one million summer youth jobs. An additional \$2.1 billion would provide training for the structurally unemployed and \$325 million would support the new private sector initiatives program which places persons in jobs in private business. The remainder would support programs designed to assist Indians, migrants, women, welfare recipients, and others who suffer disadvantages in the labor market.

ECONOMIC AND URBAN DEVELOPMENT PROGRAMS

In addition to funds for attacking unemployment problems through CETA and other job programs, the recommendations propose funding for economic and urban development programs designed to assist

municipalities and other governmental entities suffering fiscal distress because of high and rising local unemployment rates. Thus, the recommendations provide for funding an antirecession Targeted Fiscal Assistance program of \$550 million in fiscal year 1980. The Committee recommendation assumes enactment of a program similar to that proposed by the President and now under consideration by the Government Operations Committee that would provide (1) \$150 million for highly targeted fiscal assistance to municipalities in fiscal distress because of high local unemployment, plus (2) \$400 million for general fiscal assistance to eligible State and local governments when national unemployment rates are 6.5 percent or higher.

In total the recommended resolution provides \$11.2 billion in outlays for economic and urban development programs. This is an increase of \$1.0 billion or almost 10 percent above assistance provided in fiscal year 1979 outlays for these programs. (Additional details on economic and urban development programs are shown in Appendix G, Federal Aid to States and Local Governments.)

These programs are intended to aid communities in developing both their physical and economic and employment bases. In particular, local governments are faced with problems of physical deterioration of infrastructure such as water and sewer systems, streets and roads, loss of population and of employment opportunities, and declining tax bases. These problems rise at the same time as there are increasing demands for public services. This dilemma is further complicated and exacerbated by growing demands for tax reductions. Other localities, primarily in rural areas, also require aid to develop or improve the basic infrastructure needed to stimulate and attract businesses and industry.

Major assistance for these purposes is recommended in the Resolution under the Community Development Block Grants and Urban Development Grant programs, \$3,620 million in outlays; the Urban Mass Transportation program, \$2,575 million in outlays; and Economic Development Assistant programs, \$420 million in outlays.

INCOME SECURITY

The Committee recommends outlays of \$188.8 billion for Income Security programs, which provide cash and in-kind benefits to people who need permanent or temporary income assistance. This recommendation is \$5.5 billion above the level in the First Budget Resolution and is a larger absolute increase between the First and Second Resolution than is recommended for any of the other 18 functional areas of the budget.

The primary reason for increased spending is the impact of higher prices and unemployment on programs which provide benefits to the aged, disabled, poor and unemployed. Because unemployment and inflation rates are currently projected to be higher than was assumed at the time of the First Budget Resolution, the Committee recommends outlay increases totalling \$4.2 billion in programs directly affected by economic conditions, such as social security and retirement programs, unemployment compensation, and the Food Stamp program. Spending estimates in those programs are particularly sensitive to change in economic assumptions. The most obvious example is the

Unemployment Compensation program in which the number of beneficiaries is determined by the unemployment rate. The outlay estimates for this program increase by \$1.3 billion between the First and Second Budget Resolution because the unemployment rate is anticipated to be 7.2 percent rather than 6.5 percent. Social Security benefits are tied to the Consumer Price Index and the number of beneficiaries, particularly in the Disability Insurance program, is affected by the unemployment rate. The First Budget Resolution included about \$10 billion in outlays to finance the impact in fiscal year 1980 of the 9.9 percent benefit increase which recipients received in July 1979. The First Budget Resolution had assumed that the benefit increase which recipients will receive in July 1980 will be 8.1 percent. The current estimate is that this increase will be 10.3 percent. The full-year cost of the difference between these projected increases will be more than \$2 billion.

To provide immediate funds to cushion the impact of higher heating costs on the poor while the Congress considers more comprehensive remedies, the Committee recommends an increase in outlays of \$239 million for the Crisis Intervention program administered by the Community Services Administration. This increase was included in the conference agreement on the Labor-HEW appropriations bill for fiscal year 1980 (H.R. 4389). (Low-income assistance is also discussed in an earlier section on energy.)

The recommendations include an adjustment in the legislative savings target for this function, which lowers the anticipated outlay savings from \$1,135 million assumed in the First Budget Resolution to a current recommendation of \$725 million. This adjustment reflects the delays in congressional action on many of the savings proposals in the Resolution.

The recommendation also includes an increase of \$623 million in outlays for the special benefits for disabled coal miners program, for which \$1,320 million was included in the First Budget Resolution. This increase, which is included in the current OMB estimates, reflects a higher-than-anticipated caseload in this program following implementation of the Black Lung Amendments of 1976.

TRANSPORTATION

The Committee recommendation continues to recognize the urgency of our transportation problems and the need to finance the national transportation policy of providing for a balanced transportation system that emphasizes inherent efficiencies in each transportation mode (highway, rail, air, mass transportation, etc.) while providing appropriate passenger and freight transportation alternatives.

For highway programs, the recommendation of \$7.9 billion in outlays reflects not only the enacted trust fund program level but also assumes funding of a small number of categorical programs through amendment of the reported Transportation appropriation bill. The recommendation reflects a selective balance in highway programs that assumes program growth in construction and safety programs while reducing the overall number and scope of categorical programs as recommended by the President.

For mass transportation programs, the recommendation of \$2.8 billion in outlays assumes amendment of the reported Transportation

Appropriations bill to provide funding of capital construction programs at the full authorized amount. Full capital program funding is also recommended by the President in his transportation energy initiative to allow for comprehensive review of the total program. The Committee recommendation assumes the President's proposal for a 10-year, \$16.5 billion transportation energy initiative but does not necessarily adopt specific program recommendations of the President. For example, the Committee recommendation assumes sufficient flexibility in overall transportation energy initiative funding levels to provide for increases in operating subsidies.

For rail programs, the Committee recommendation of \$2.1 billion in outlays reflects congressional action which is expected to more than halve the 43 percent AMTRAK route-service reductions recommended by the President in January. The recommended rail funding continues significant assistance to ConRail and continued effort in the Northeast Corridor Project. The recommendation assumes continued funding of existing rail assistance programs. The recommendation also provides an additional new \$100 million in budget authority and outlays for rail assistance in recognition of the increasing need of financially troubled railroads such as the Milwaukee Road and the Rock Island Line.

In the air and water modes, the Committee recommendation of \$3.0 billion air program outlays and \$2.0 billion water program outlays provides funding sufficient to provide for current agency goals and national policies. The Committee recommendation anticipates changes in air programs in fiscal year 1981 as a result of comprehensive review and reauthorization of air trust fund programs. In addition, the Committee anticipates future program changes in maritime subsidy programs which could result in out-year legislative savings.

VETERANS BENEFITS AND SERVICES

The Second Budget Resolution includes \$21.6 billion in budget authority and \$20.9 billion in outlays for veterans benefits and services. A major change from the First Resolution is the addition of \$0.2 billion in budget authority and outlays to accommodate increases in compensation for service-connected disabled veterans and their survivors. The First Resolution assumed an 8.3 percent compensation increase, which is reflected in the House-passed bill, H.R. 2282. However, because of the Committee's concern that the Nation's veterans, especially those with service-connected disabilities, not be adversely affected by the high inflation rate, it now recommends a 10.9 percent adjustment. This increase is based on CBO's latest projection of the change in the Consumer Price Index between October 1978 and October 1979.

On the other hand, the Second Resolution assumes \$57 million in savings from the President's proposal to require reimbursement from insurance carriers, employers, and other non-Federal sources for the cost of VA medical care and treatment of veterans with non-service-connected conditions. This is \$108 million less than the savings assumed in the First Resolution due to a later assumed implementation date of the third-party reimbursement proposal. Other medical benefit reforms, which have been passed by the Senate, are assumed to yield \$35 million in savings in fiscal year 1980, compared with \$97 million assumed in the First Resolution.

HEALTH

The Committee recommendation for health programs is \$58.8 billion in budget authority and \$54.7 billion in outlays. This amount exceeds the First Budget Resolution by \$0.7 billion in budget authority and \$1.1 billion in outlays. The increase primarily reflects changes in the requirements for the major health financing programs, Medicaid and Medicare.

Both the utilization rate and the cost of services are expected to increase in the Medicaid program. These changes reflect the impact of inflation, higher unemployment and increased use of services, especially by aged and disabled persons. In addition, services to children and pregnant women will be improved through the Child Health Assurance Program (CHAP). In part, the additional program costs will be offset by administrative and legislative reforms, including hospital cost containment, which will improve operations and lower costs.

The Committee recommendation also assumes that Medicare costs will increase compared to the First Budget Resolution. This change is largely the result of lower estimated savings from hospital cost containment. The Committee recommendation continues to assume that cost containment will be enacted; however, as a result of increased inflation, the allowable revenue ceiling under mandatory controls will be higher than previously anticipated. Therefore, the expected savings have been reduced. The recommendation assumes that other cost savings reforms also will be enacted for the Medicare program. These include changes to require accident insurance policies to pay their appropriate costs for Medicare beneficiaries involved in accidents. In addition, expanded coverage for home health services and improved benefits to disabled recipients are assumed.

The Committee assumes that administration efforts to reduce fraud, waste and abuse in both the Medicaid and Medicare programs will result in additional savings totalling over \$1.2 billion.

EDUCATION

The Committee recommends \$15.1 billion in budget authority and \$14.4 billion in outlays to fund all education programs, including general education aids and support activities. The recommendation assumes that \$2.8 billion will be made available for the 1980-81 Basic Educational Opportunity Grants program to assure full implementation of provisions contained in the Middle Income Student Assistance Act. The recommendation also includes \$200 million in budget authority to fund the new Title I Concentration Grants program. These funds, together with \$150 million available from fiscal year 1979 supplemental appropriations, could serve more than 500,000 educationally disadvantaged students attending schools in areas of concentrated poverty.

REFUGEE ASSISTANCE

On June 28, at the Tokyo economic summit conference, in recognition of the critical refugee situation in Southeast Asia the President

announced that the United States would increase the rate of resettlement of Indochinese refugees from 7,000 to 14,000 refugees per month. Shortly thereafter, at a special United Nations Conference on refugees in Geneva, Vice President Mondale announced a decision to increase our contributions for the cost of care for the increasing numbers of refugees in camps in Southeast Asia, to provide for the establishment of additional refugee processing centers, and to use U.S. Navy resources for the rescue of refugees in distress at sea.

During floor consideration of H.R. 4473, the Foreign Assistance Appropriation Bill for 1980, the House endorsed the increased Refugee Assistance program by approving a budget amendment to provide the necessary funding for the President's program.

The recommendation for the Second Budget Resolution recognizes the crucial nature of the refugee situation and assumes full funding for the President's program in Southeast Asia and for the resettlement of refugees in the United States. Funds are also provided for full Federal financing of authorized cash and medical assistance for refugees for the first four years after their arrival in the United States, as recommended by the House Judiciary Subcommittee on Immigration, Refugees, and International Law in approving an extension of the Indochinese Refugee program (H.R. 2816).

To provide for these refugee programs in fiscal year 1980, the recommendation for the Second Budget Resolution includes \$1,026 in budget authority and \$769 million in outlays.

VI. REVENUES

The Resolution recommends a revenue level of \$519.5 billion in fiscal year 1980, \$10.5 billion above the target of \$509.0 billion set in the First Budget Resolution. This recommendation is based on the following assumptions:

REVENUE CHANGES

[In billions of dollars]

	Fiscal year 1980
Estimate in First Resolution.....	509.0
Changes:	
Technical reestimates:	
Changed economic assumptions including higher oil prices.....	+3.7
Feedback from higher outlays.....	+1.5
Legislation enacted this session: Multilateral trade agreement.....	-.1
Legislation passed by House: Windfall profits tax (H.R. 3919).....	+2.8
Legislation reported by committees:	
Mortgage subsidy bonds (H.R. 3712).....	+.1
Oil Pollution Liability and Compensation Act (H.R. 85).....	+.2
Other assumed changes:	
Cash management.....	+2.0
Foreign tax credit.....	+.5
Energy tax credits.....	-.2
Miscellaneous tax and tariff reductions.....	-.1
Subtotal, changes.....	+10.5
Estimate for Second Resolution.....	519.5

- Technical reestimates* result from changes in economic assumptions and feedback from increased outlays. The changes in economic assumptions add \$3.7 billion mainly as a result of higher oil prices and higher inflation. In addition revenues are increased by \$1.5 billion as a result of reflows from increases in fiscal year 1980 outlays over current policy. The additional outlays occur in defense, energy initiatives, the higher 7 percent pay raise and other factors. Pay for government employees, for example, was raised from 5.5 percent to 7.0 percent adding \$0.7 billion in fiscal year 1980 outlays, but raising in turn individual income taxes by about \$0.2 billion.
- Legislation enacted this session*, including the multilateral trade agreements, will lower revenues by \$0.1 billion.
- Legislation passed by the House* consists mainly of the windfall profits tax which would add an estimated \$2.8 billion in revenues. This estimate is based on the House-passed version of the bill.
- Legislation reported by committees* adds a total of \$0.3 billion to revenues. This includes legislation on mortgage subsidy bonds and the Oil Pollution Liability and Compensation Act.

The Mortgage Subsidy Bond Tax Act of 1979 as reported out of the Ways and Means Committee limits the future use of tax exempt bonds to veterans and people with low and moderate incomes. The Budget Committee recommendation does not allow for an interest tax exemption.

—*Other assumed changes* which add \$2.2 billion to revenues for cash management initiatives and other proposed legislation.

The Committee believes the administration could speed up the administrative cash management changes that it planned for 1981 to increase revenues in 1980. The administrative proposals include an increase in the frequency of employers deposits of withheld taxes. For example, large employers would be required to deposit withheld taxes twice a week instead of once a week. This proposal could be implemented by July 1980 which would raise fiscal year 1980 revenues by an estimated \$1.7 billion.

The Committee also believes the Ways and Means Committee could report the legislative cash management changes proposed by the administration for 1981 in time to impact on revenues in 1980. Legislative cash management proposals include changes in corporate estimated tax payments. The level of estimated tax payments would be raised from the general requirement of 80 percent of corporate income tax liability to 85 percent in each quarter. The total added revenues for both administrative and legislative cash management changes is estimated to be at least \$2.0 billion.

An increase of \$0.5 billion in revenues is assumed for legislation limiting the foreign tax credit taken by U.S. multinational oil companies. Legislation to accomplish this has been proposed by the administration. Among other things, the proposed changes would prevent the shifting of excess tax credits between oil income from different countries and also between oil extraction income and other oil related income such as shipping or refineries.

A loss of \$0.2 billion would result from the energy tax credits proposed by the administration. The proposal provides credits for solar energy users, woodburning stoves, unconventional gas, shale oil and gasohol.

Finally, miscellaneous tax and tariff reductions of \$0.1 billion are assumed to allow the Ways and Means Committee flexibility for unexpected revenue and tariff bills.

The estimate of receipts by source that result from the Committee's recommendations are presented below :

BUDGET RECEIPTS BY SOURCE

In billions of dollars[

	<i>Fiscal year 1980 revenues</i>
Individual income taxes.....	237.8
Corporation income taxes.....	71.7
Social insurance taxes and contributions.....	161.3
Excise taxes.....	19.2
Estate and gift taxes.....	5.7
Customs duties.....	8.7
Miscellaneous receipts.....	9.9
Unallocated receipts from assumed legislation.....	5.3
Total revenues.....	519.5

VII. THE DEFICIT AND THE DEBT

Deficit.—The Resolution projects a budget deficit just under \$30 billion—specifically \$29.2 billion—an increase from the First Budget Resolution primarily because of changes in economic assumptions and policy. The deficit in the First Resolution was estimated at \$23.0 billion. Revenue estimates were revised upward by \$10.5 billion because of changed economic conditions, higher oil prices and new proposed legislation. The outlay differences of \$16.7 billion were due to higher estimates, mostly caused by a downturn in the economy and to several policy initiatives. (Details of these changes are discussed elsewhere in the report.)

The Committee has managed to keep the deficit below \$30 billion despite a weakening economy and the shocks provided by the OPEC prices rises in late June and an unexpectedly high rate of inflation.

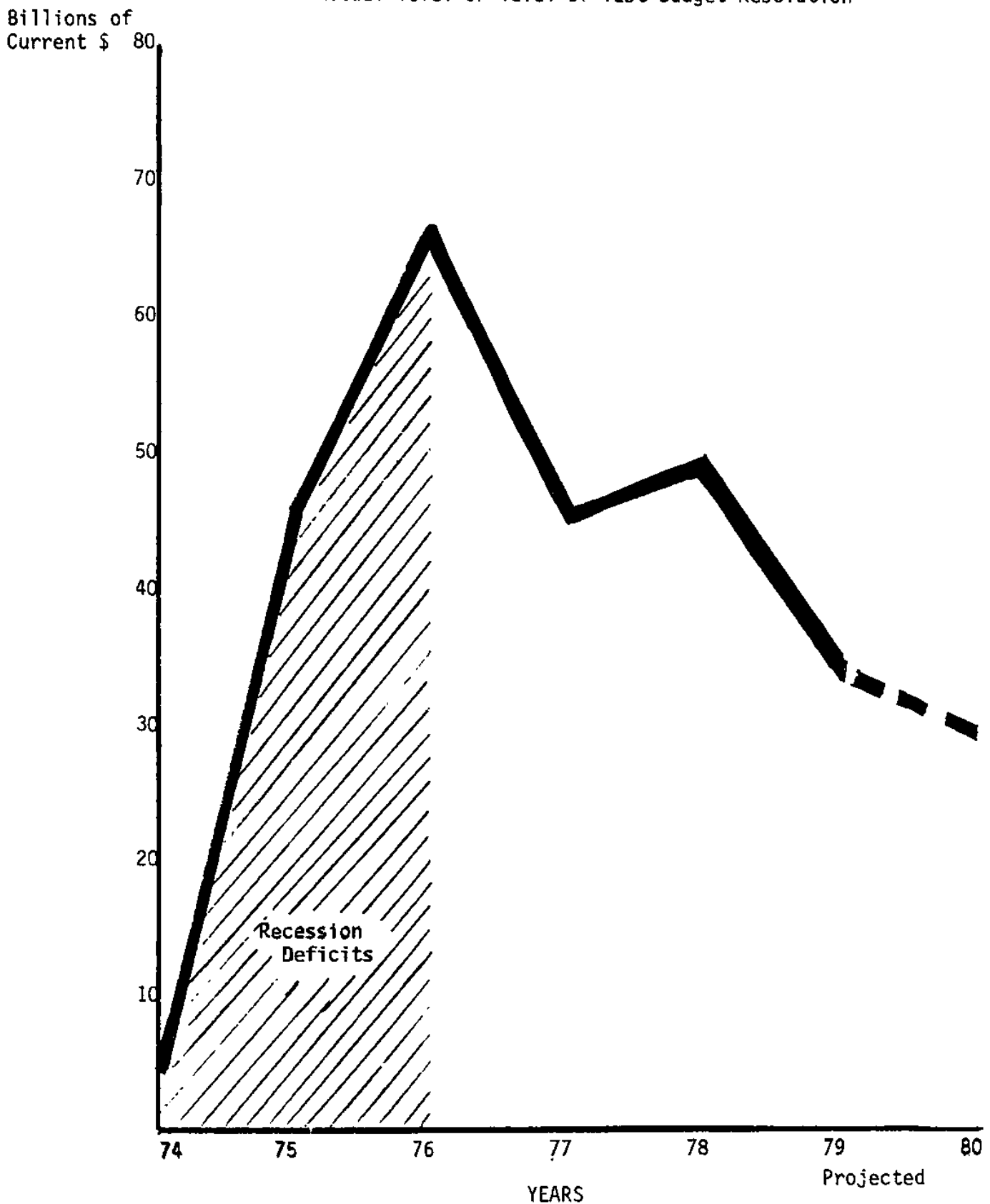
The downward trend of the deficit as a share of GNP for fiscal years 1979 and 1980 is shown in the following chart.

(Chart VII-I.)

FISCAL YEAR DEFICIT

Chart VII-1

Actual level or level of last Budget Resolution

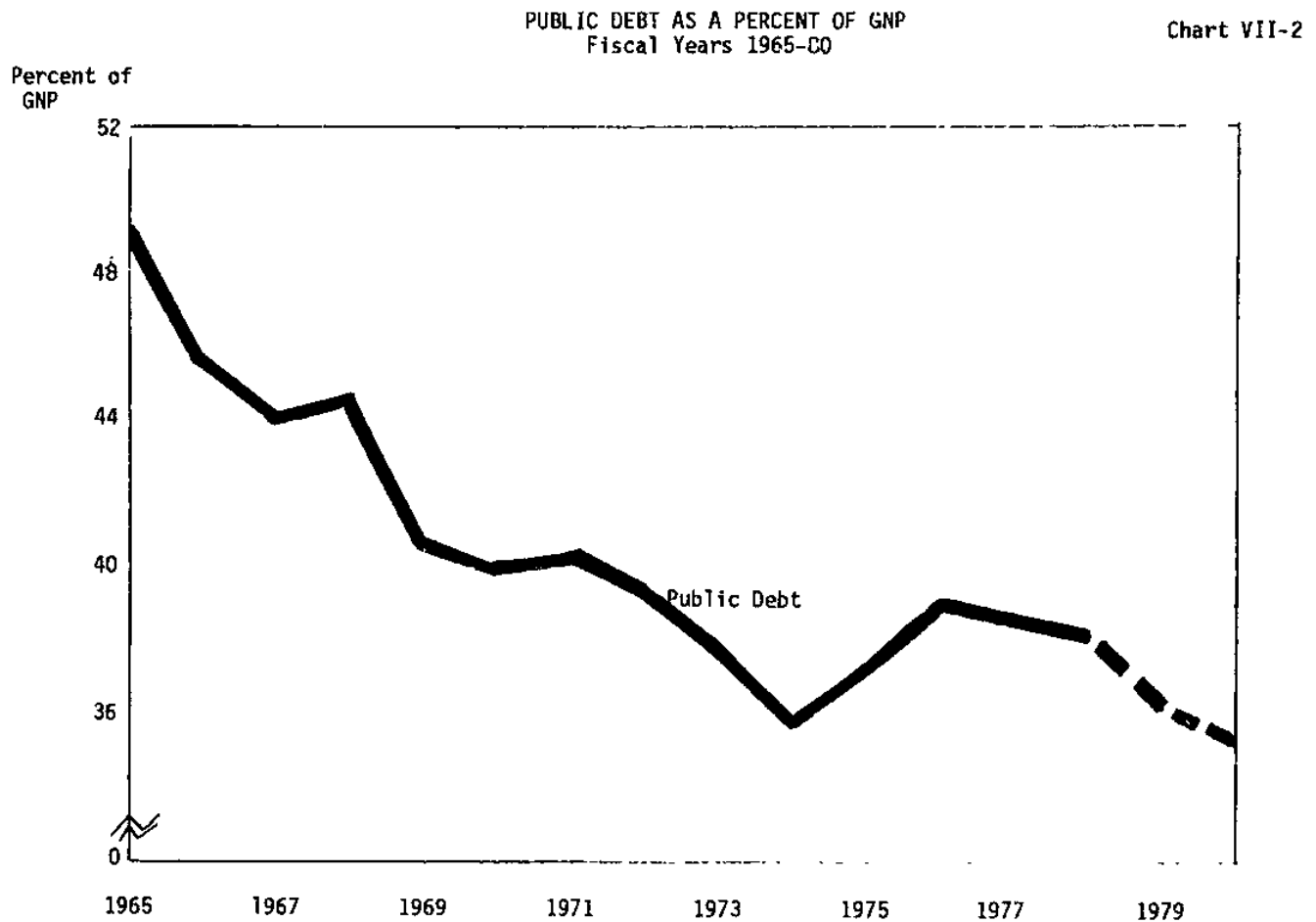


Debt.—The Committee recommends a public debt level for the end of fiscal year 1980 of \$886.1 billion, calculated as follows:

Fiscal year 1980 debt:		Billions
Debt Sept. 30, 1979 (estimated)	-----	\$830.0
Fiscal year 1980 deficit	-----	29.2
Trust funds surplus fiscal year 1980	-----	12.9
Off-budget outlays fiscal year 1980	-----	16.0
Change in cash balances and other adjustments	-----	-----
Total	-----	886.1

The recommended increase in the public debt limit is \$56.1 billion to cover the period from September 30, 1979 to September 30, 1980. Interest on the public debt is estimated at \$67.5 billion. The public debt as a percent of gross national product has fallen from 49.2 percent in 1965 to 35.4 percent in 1980.

(Chart VII-2.)



VIII. MULTIYEAR BUDGET OUTLOOK

A. NEED FOR MULTI-YEAR VIEW IN FEDERAL BUDGETING

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

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

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

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

The Budget Committee each year addresses the uncontrollable programs with its proposals for legislative reform. Congress can always change the laws mandating this spending if it chooses to. For instance, Congress could modify social security provisions or medicare provisions. In addition, although such an effort would be circumscribed by many practical limitations, Congress could decrease outlays by altering prior-year contracts.

The Second Budget Resolution for Fiscal Year 1980 assumes \$2.7 billion in outlay savings in such areas as wage board salary reform,

annualizing cost-of-living increases for Federal retirees, hospital cost containment, medicare and medicaid program reform, AFDC and SSI reforms and veterans health benefit reforms. A more complete discussion of the legislative savings recommended by the committee is contained in Part IX and Appendix F of this report. In order to achieve these savings, the committees of jurisdiction must initiate changes to laws now in effect. The Budget Committee realizes that this is no easy task. In fiscal year 1979 the Committee recommended about \$2.5 billion in legislative savings but less than \$100 million was eventually achieved.

Because of the difficulty and the time required in confronting uncontrollable outlays, Congress often implements national priorities by addressing itself to the one-quarter of the budget which is defined as controllable. This 25 percent of the budget, however, should not imply as simple a decision by Congress as the word controllable might suggest. For instance, 52 percent of this controllable amount is for the defense budget, which is largely composed of salaries and operating expenses and which is politically difficult to reduce. In addition, a large share of the controllables is for continuing expenses of the government. Substantial and precipitous reductions in this area could result in the termination of major agencies.

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

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

B. EVOLUTION OF A MULTI-YEAR SYSTEM

1. *The Annual Federal Budget*

The President annually proposes his budget and the Congress annually appropriate funds. In addition, over the last few decades Congress has moved significantly toward annual authorizations, that is annual laws which authorize the appropriation of funds. To illustrate, annual authorizations numbered 22 in the 91st Congress but 77 in the 95th Congress. Therefore, a substantial share of the proposals in the President's budget are subject to both authorizing and appropriations review on an annual basis.

2. *Multi-Year: Budgets, Plans and Projections*

Consideration of multi-year approaches has developed gradually. Section 502(c) of the Congressional Budget Act required a study of multi-year budgeting. Multi-year budgeting, which entails the enact-

ment of multi-year appropriation bills, should be carefully distinguished from multi-year planning, in which single-year budget decisions are made in the context of a multi-year plan. Still further, both of these approaches must be distinguished from projections of the budget year, which are future-year estimates of the resources required if existing programs were continued. Neither multi-year plans nor projections are intended to be precise forecasts or detailed final recommendations.

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

3. Approaches to a Multi-Year System

a. President

The Executive first included multi-year numbers in the budget in the broadest sense in the 1961 budget in which a projection of aggregate numbers was included for fiscal year 1970. However, no year-by-year analysis or detailed discussions of the assumptions which led to the aggregate numbers was included in the presentation. The next advance took place in 1971 when the Executive budget include a five-year projection of aggregates. By 1975 a brief section on long-range estimates with explanatory tables was included in the budget, with major agency and functional projections for one year beyond the budget year. These were, however, still considered projections until the fiscal year 1979 budget was presented. In that budget the planning process began. Planning targets for two years beyond the budget year were included along with extrapolations of these planning targets for two additional years. Although the bulk of these outyear numbers were still projections, this effort did include a few major planning decisions and, within the Executive Branch a greatly increased emphasis on outyears.

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

b. The Senate

The Senate Budget Committee began focusing on five-year budget figures in the First Budget Resolution for Fiscal Year 1978. The Committee addressed five-year projections of current policy and current law for each function. (A current policy projection expands a base to

take account of inflation on all Federal programs plus growth resulting from any increase in mandated caseloads or spending from existing contracts. A current law projection differs only in that, if a program is not indexed by law, no inflation adjustment is included.) However, the Committee did not vote on these numbers and the Committee report did not emphasize them.

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

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

c. The House

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

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

In the Second Budget Resolution recommended for fiscal year 1980, the Committee has included current policy projections of the budget aggregates for fiscal years 1981 and 1982. These figures represent projections of the recommendations contained in the Second Budget Resolution and are not policy recommendations for the out years. Except for inflation adjustments, outlays from budget authority provided in prior years and mandatory program increases, no growth is projected.

4. The Future of Multi-Year Systems

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

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

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

C. ECONOMIC ASSUMPTIONS

1. Tenuous Nature of Assumptions About Performance of the Economy

The multi-year projections contained in this document are based on the policy recommendations of the proposed Second Budget Resolution for Fiscal Year 1980 and the House Budget Committee's economic assumptions which apply to the 1980-1984 period.

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

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

the inability of contemporary economic theory to handle adequately the after-effects of sudden heavy strains on the economy.

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

2. Interaction Between the Budget and the Economy

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

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

Inflation may also be created by shocks resulting from circumstances outside our own economy. The United States economy has not been running at high employment during most of the 1970's and, therefore, excess demand has not been the main source of the price rises. While the decade of the 1960's was relatively free of outside sources of price increases, the present decade has faced a series of these jolts: the OPEC price hikes, the changes in world food conditions that affect domestic food prices and the decline in confidence in the dollar requiring monetary policies that have boosted domestic inflation. Payroll tax and minimum wage increases and many new governmental health, safety and environmental regulations have also increased business costs. These costs have been passed through to consumers. Employees have sought rising wages to keep up with the rising prices of food, fuel, and other necessities and choices in the market. In general, wages in the last 10 years have barely kept pace with the upward movement in the cost of living. However, pressure has been building for compensatory wage increases that it will be difficult to deny in the immediate future. Upward wage adjustment will feed into the costs of doing business and lead to further price increases. The wage price spiral becomes obstinate, and policymakers have not found satisfactory methods for interrupt-

ing the cycle. It is unlikely that the 5 year projections contained herein will be realized unless we can conquer this inflationary spiral.

3. Multi-Year Assumptions

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

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

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

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

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

The projections of the economy for the next 5 years are as follows:

	Calendar year average (percent)				
	1980	1981	1982	1983	1984
Growth in GNP:					
Current dollars.....	10.1	12.3	12.1	11.4	11.1
1972 constant dollars.....	.9	3.5	4.0	4.0	4.0
Inflation:					
CPI (percent).....	9.3	8.6	7.8	7.1	6.8
GNP deflator (percent).....	9.0	8.5	7.8	7.1	6.9
Unemployment rate (percent).....	7.2	7.1	6.9	6.6	6.3

D. OVERVIEW

1. *Current Policy Revenues*

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

REVENUE ESTIMATES, FISCAL YEAR 1980-84

[In billions of dollars]

	Fiscal year—				
	1980	1981	1982	1983	1984
Base line projection.....	512.7	593.3	689.3	785.0	890.8
Assumed changes:					
Windfall profits tax.....	+2.8	+7.7	+11.5	+11.0	+11.0
Other current house status items.....	+1.1				
Foreign tax credit.....	+5.5	+4.4	+4.4	+4.4	+4.4
Reform of tax exempt bonds.....	+2.2	+7.7	+2.2	+4.6	+8.2
Energy tax credits.....	-.2	-.6	-.8	-1.1	-1.4
Cash management.....	+2.0	+1.7	-.1	+2.2	
Feedback from outlay increases.....	+1.5	+2.5	+2.0	+1.0	-.2
Miscellaneous.....	-.1				
Total recommendation.....	519.5	605.7	704.5	801.1	909.2

By fiscal year 1984 total revenues are projected to rise to \$909.2 billion. This would raise revenues to an unprecedented 23.3 percent of GNP (nominal GNP=\$3,901.4 billion) compared to 20.6 percent in fiscal year 1980. However, the increase is mainly the result of inflation pushing people into higher tax brackets. These increases are likely to be offset by future tax cuts; the projection assumes no general tax cuts during the next five years because they are not assumed in current policy.

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

On foreign tax credits, the recommendation assumes some tightening up of the credit as included in the Chairman's Recommendations.

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

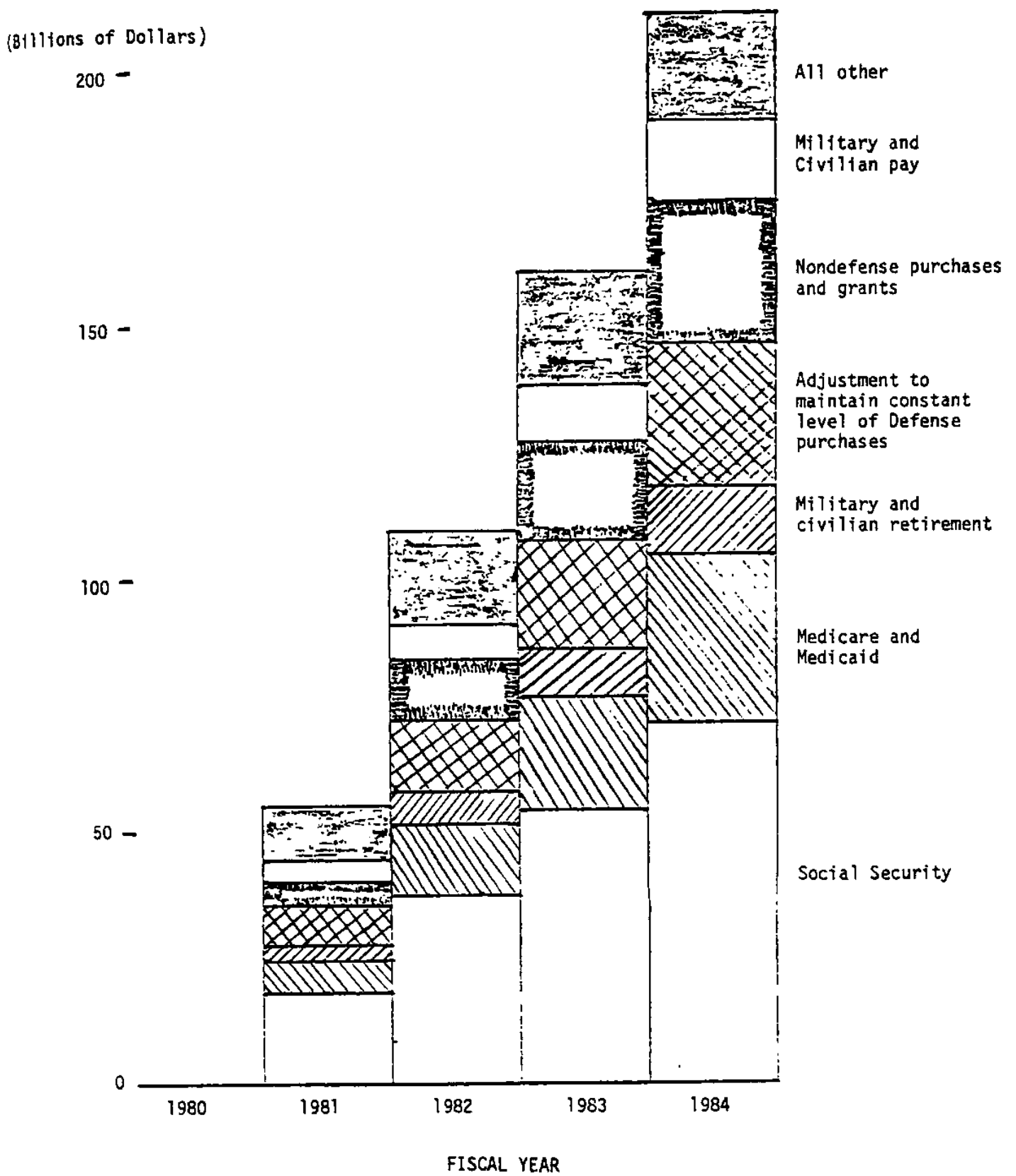
2. *Current Policy Projections, 1980-84*

[In billions of dollars]

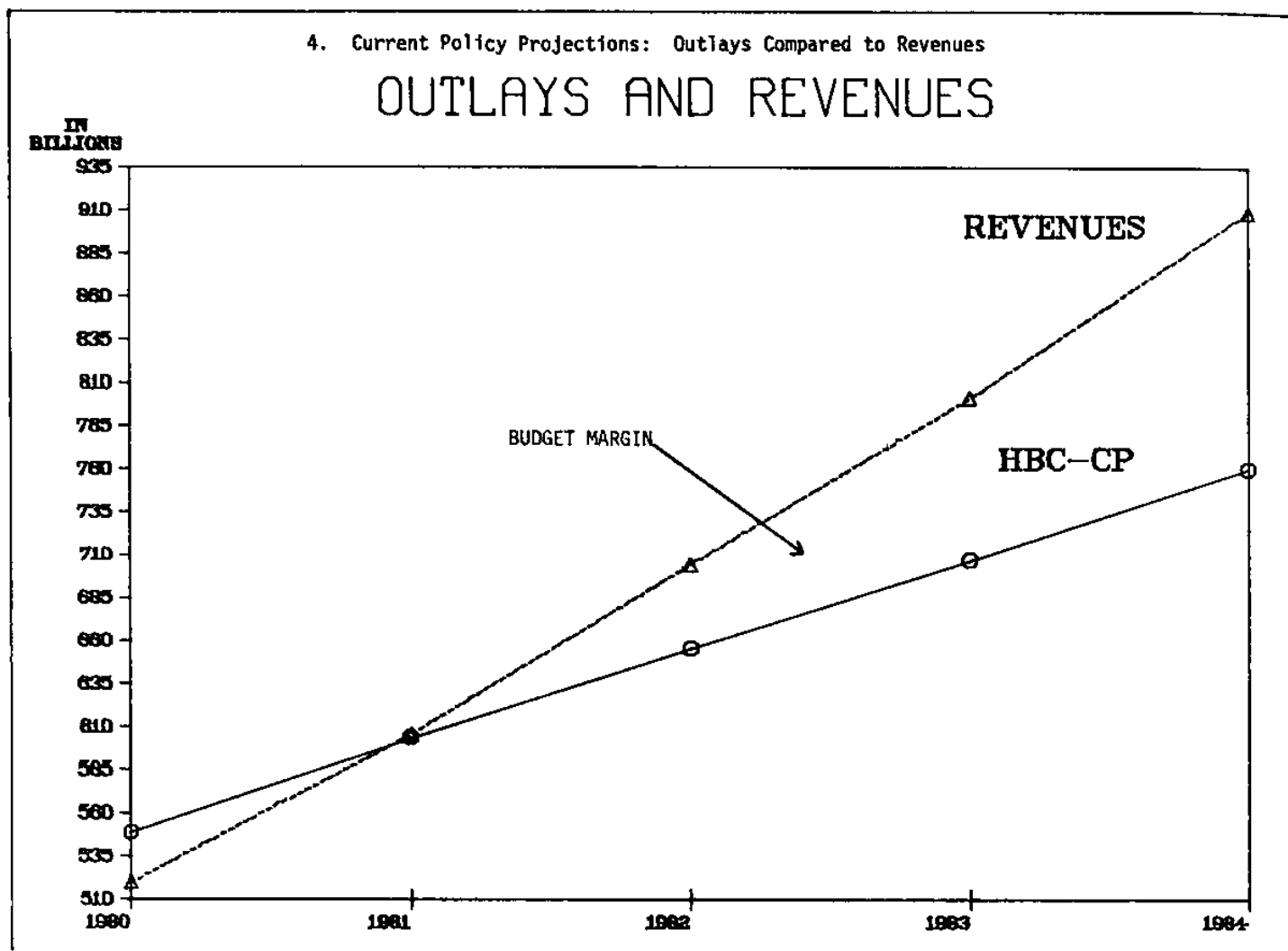
	Second Budget Resolu- tion 1980	1981	1982	1983	1984
Budget authority.....	632.6	666.9	728.9	787.4	845.3
Outlays.....	548.7	604.0	655.8	707.4	760.5
Revenues.....	519.5	605.7	704.5	801.1	909.2
Margin.....	-29.2	+1.7	+48.7	+93.7	+148.7

Note: HBC Current policy outlay projections are based on the following: (a) the projections assume no policy changes in the out-years; (b) all programs are adjusted for inflation consistent with the economic assumptions for the out-years; (c) except for mandatory increases in entitlement programs and outlays from budget authority enacted in prior years, no real growth is assumed.

3. Components of Outyear Growth of Current Policy Outlays



4. Current Policy Projections: Outlays Compared to Revenues



5. The Budget Margin, 1980-1984

As the table above indicates, a comparison of current policy revenues and outlays results in a budget surplus which begins in fiscal year 1981. However, the projected surplus for fiscal year 1981, \$1.7 billion, is so small that minor fluctuations or outlay longfalls could produce a deficit in that year, under current policy. It should be repeated that the fiscal year 1981 surplus is not a prediction by the Budget Committee; it is merely an extrapolation of current policies and economic trends. The projected surplus would increase to almost \$150 billion by fiscal year 1984.

a. Parameters for Policy Choices

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

It is probable that all or some of these potential contingencies will, in fact, occur in the period 1981-84. Yet to say that these projections have honest shortcomings is not to say that these projections do not have an intrinsic usefulness.

These projections provide a useful picture of the level of Federal revenues and outlays for the outyears if current policy were to be continued for the next five years. The projections indicate the overall latitude which the Congress may have, for example, to consider major tax

cuts, or implement new initiatives, or provide real growth for high priority activities, or balance the budget. In other words, the projections indicate the parameters for the policy choices which will confront Congress over the next five years. For example, if the budget margin of \$48.7 billion projected for fiscal year 1982, in fact is achieved, then the margin could be used for a tax cut or additional spending. Such planning is critical in light of a number of spending contingencies which are looming in the distance. For example, the President has recommended a ten-year energy initiative which will cost well over \$100 billion. If real growth rates of 3 percent to 5 percent in outlays are to be provided for defense programs over the next four years, some \$15.6 billion to \$26.8 billion would have to be allocated above current policy projections in 1984. Also the national health insurance programs now being discussed have costs ranging from \$7 billion to \$40 billion per year. The cost of containment and cleanup of chemical waste dump sites could run between \$26 billion and \$44 billion. In the section that follows, major outyear issues will be summarized function by function. Some of the major contingencies are mentioned here simply to show the magnitude of a few of these contingencies as they relate to estimated budget margins. It is unlikely that even the most optimistic projections of surplus would accommodate all of the major spending contingencies which will confront the Congress over the next five years. Difficult choices will remain.

b. Summary of Major Spending Contingencies by Budget Function

FUNCTION 050: NATIONAL DEFENSE

● *Real growth.*—The overriding issue in the National Defense function continues to be the rate of real growth. A 3 percent real increase in budget authority would increase the Defense budget from \$138.2 billion in fiscal year 1980 to \$205.4 billion in fiscal year 1984. A 5 percent increase in budget authority would require an increase to \$221.9 billion by fiscal year 1984. In other words, if 3 percent to 5 percent real growth in National Defense is to be sustained, an additional \$53 billion to \$90 billion above current policy over the next 4 years will have to be allocated to defense.

● *Procurement.*—The President's budget includes major new initiatives for strategic forces which result in significant increases in future years. For example, a new land-based intercontinental ballistic missile system (MX) is proposed to complete engineering development and enter into production. The fiscal year 1980 budget includes \$670 million for this system while total costs of the system have been estimated at \$33 billion. The budget includes funds to begin an extensive modification program for B-52 bombers. Air and ground launched cruise missile programs are entering into production. Procurement of TRIDENT submarines and missiles continues and funding is included to develop a new larger TRIDENT missile.

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

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

FUNCTION 150: INTERNATIONAL AFFAIRS

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

FUNCTION 250: GENERAL SCIENCE, SPACE AND TECHNOLOGY

● *Civilian space program.*—Further delays in the space shuttle development and procurement phases beyond the current planning milestones could necessitate additional outlays of from \$300 to \$600 million in the period 1981–1983. Second, if in 1981 Congress decides to proceed with the procurement of a fifth shuttle orbiter, additional outlays of approximately \$100 million in 1981 and \$200 million in each year 1982–84 would be necessary. Third, outlays will increase if new mission starts are approved to take full advantage of the unique capabilities of the space shuttle.

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

FUNCTION 270: ENERGY

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

1980. These expenditures are to be financed through a proposed wind-fall profits tax on oil companies and are contingent on enactment of such a tax.

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

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

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

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

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

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

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

FUNCTION 350: AGRICULTURE

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

FUNCTION 370: COMMERCE AND HOUSING CREDIT

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

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

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

FUNCTION 400: TRANSPORTATION

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

● *Mass transportation programs.*—The major issue involves the President's proposed \$16.5 billion, 10-year transportation related energy initiative. Of the \$16.5 billion, \$13 billion is for public transportation capital programs and is projected by the President to result in an all-funds mass transportation program of \$50 billion for the 1980's versus \$15 billion in the 1970's. The main issues are likely to be (1) if the Congress enacts the program, at what funding level will the program be authorized and will the Congress make enactment totally dependent on the windfall profits tax being enacted, as assumed by the President, and (2) will the Congress include a new operating subsidy which is not part of the President's proposal? It is likely to be argued that localities cannot provide significantly expanded operations with increased Federal capital monies if an additional operating subsidy is not provided.

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

(a) *Freight issues.* The President purposes deregulation of the rail freight industry which should significantly reduce Federal subsidy requirements. The President's rail legislation initiative would provide as much as \$1.2 billion in transition aid over the next few years as railroads adjust to a deregulated environment. If deregulation is not

legislated by the Congress, Federal rail freight subsidies could be many times the \$1.2 billion transition amount and could be required in perpetuity or result in the nationalization of the railroads. The freight issue is illustrated by the Consolidated Rail Corporation (ConRail) which has been authorized to receive \$3.3 billion in Federal subsidy in two succeeding authorizations. ConRail projects the need for additional Federal aid beyond the \$3.3 billion if deregulation is not legislated by the Congress.

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

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

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

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

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

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

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

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

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

FUNCTION 550: HEALTH

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

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

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

FUNCTION 600: INCOME SECURITY

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

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

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

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

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

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

passed by the House would reduce outlays by \$1.2 billion in fiscal year 1984.

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

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

FUNCTION 700: VETERANS BENEFITS AND SERVICES

● *The aging veteran.*—The next 5 years will mark the beginning of significant increases in expenditures for veterans pensions and medical care as a result of the aging of World War II and Korean conflict veterans. For example, veterans pension and compensation caseloads are expected to rise by more than 250,000 between fiscal year 1980 and fiscal year 1984. Program costs will increase from almost \$12 billion in fiscal year 1980 to about \$16 billion in fiscal year 1984, or 35 percent, as a result of inflation and rising caseloads. In addition to income security, the major long-range issue will be how best to meet the health care needs of an aging veteran population. By 1990 more than half of U.S. males over 65 years of age will be veterans. Between 1980 and the year 2000, the number of veterans age 65 and over will double, jumping from 2.2 million to 4.4 million. These statistics emphasize the need for long-range planning in this area. The immediate future will include funding for geriatric research and pilot projects to serve aging veterans, as well as evaluations of the type of care and treatment that will best serve future needs. Such studies of long-range requirements will likely influence more immediate decisions, for example, as to whether nursing homes or acute care hospitals should be constructed, and in that way impact on short-range budgets

as well. While the dollar impact cannot be determined at this time, it is clear that the expanded and divergent health care requirements of the aged veteran population will require extensive and costly changes in both facilities and services.

FUNCTION 750: ADMINISTRATION OF JUSTICE

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

FUNCTION 800: GENERAL GOVERNMENT

- No major outyear budget issues.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

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

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

FUNCTION 900: INTEREST

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

FUNCTION 920: ALLOWANCES

- *Civilian-agency pay raises.*—Last year, the President's budget proposed a 5.5 percent "cap" on annual salary increases granted Federal employees pursuant to the Pay Comparability Act of 1970. This budget recommendation was followed by a formal Presidential

proposal which was accepted by Congress. For fiscal year 1980, the President has recommended a 7 percent increase. For the long run, the significant budget question will be whether arbitrary pay caps can continue to be imposed in the face of rising living costs and rising salary levels in the private sector. A subsidiary issue is the phenomenon of upper-pay-level compression resulting from the imposition of a ceiling of \$47,500 on the salaries paid under the General Schedule.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

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

E. INDICATORS OF OVERALL OUTYEAR SPENDING POLICY

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

COMPARISON OF AGGREGATES

	Fiscal year—				
	1980	1981	1982	1983	1984
House Current Policy (as included in HBC recommendation for Second Budget Resolution):					
Budget authority.....	636.6	666.9	728.9	786.4	845.3
Outlays.....	548.7	604.0	655.8	707.4	760.5
Revenues.....	519.5	605.7	704.5	801.1	909.2
Margin.....	-29.2	+1.7	+48.7	+93.7	+148.7
House current law:					
Budget authority.....	632.6	649.2	694.5	733.3	771.7
Outlays.....	548.7	596.6	636.9	675.1	712.5
Revenues.....	519.5	605.7	704.5	801.1	909.2
Margin.....	-29.2	+9.1	+67.6	+126.0	+196.7
Senate Budget Committee recommendation (as reported on August —):					
Budget authority.....	632.2	649.2	722.5	762.2	833.1
Outlays.....	542.7	588.6	632.8	676.9	719.9
Revenues.....	514.7	603.6	658.4	744.4	837.2
Margin.....	-28.0	+15.0	+25.6	+67.5	+117.3
President's midsession review ¹ (as revised on July 31, 1979):					
Budget authority.....	646.3	693.3	747.3	798.8	872.9
Outlays.....	543.3	599.1	645.7	718.0	769.0
Revenues.....	513.9	598.0	687.8	769.9	856.6
Margin.....	-29.4	-1.1	+42.1	+51.9	+87.6

¹ Using "alternative economic assumptions;" as later revised by OMB.

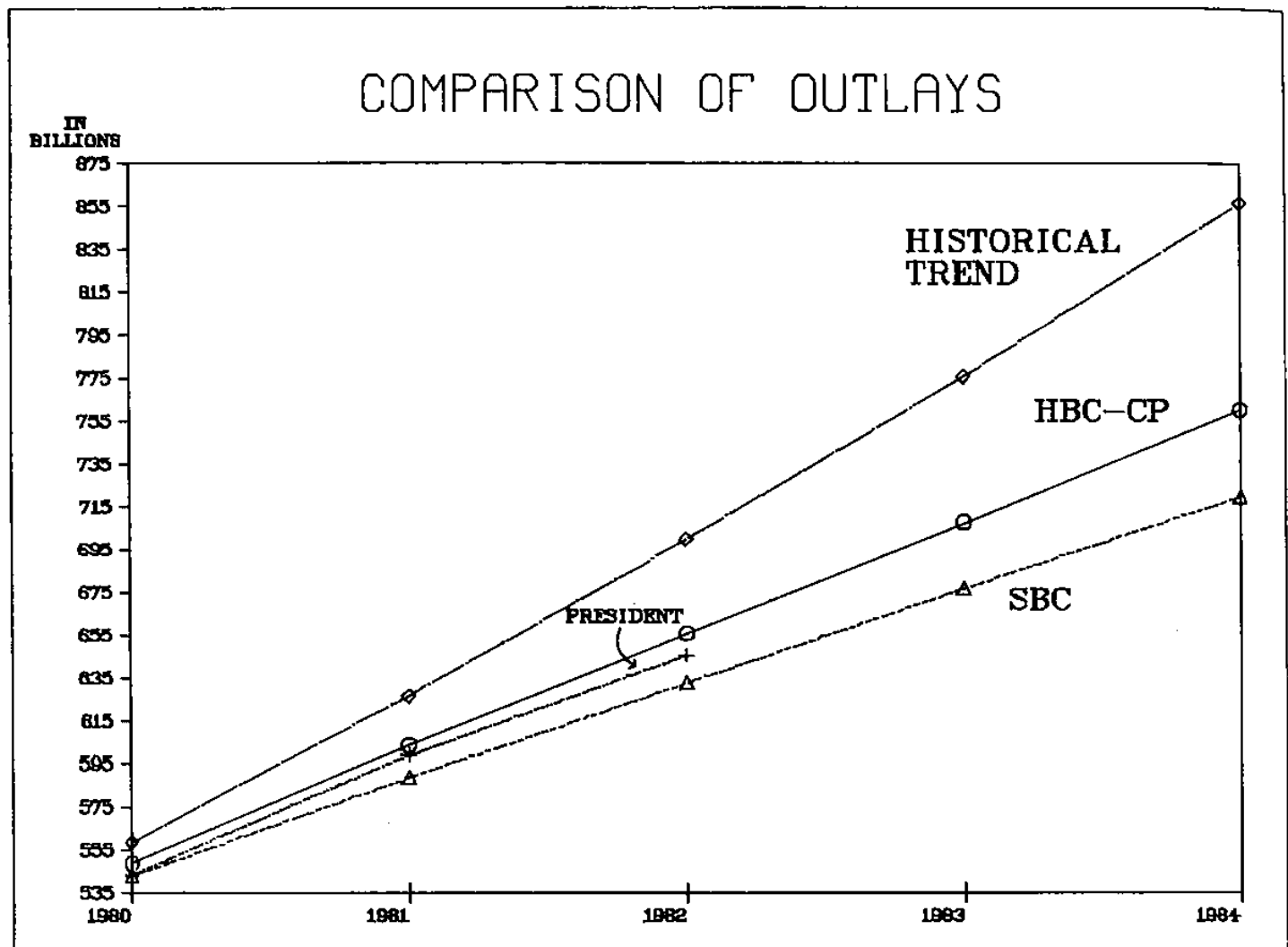


TABLE A.—PROJECTIONS AS A PERCENTAGE OF GNP

	1980	1981	1982	1983	1984
Past 5 years=22.1					
HBC.....	22.0	21.5	20.8	20.2	19.5
President.....	21.7	21.4	20.5	20.5	19.7
Senate.....	21.7	21.0	20.1	19.3	18.5

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

	1981	1982	1983	1984	Average annual percentage

TABLE B. PERCENT NOMINAL GROWTH OVER PREVIOUS YEAR

	1981	1982	1983	1984	Average annual percentage
Past 5 years=10.45					
HBC.....	10.08	8.57	7.86	7.52	8.50
President.....	10.26	7.79	11.19	7.10	8.72
Senate.....	8.46	7.51	6.97	6.35	7.32

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

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

TABLE C. PERCENT REAL GROWTH OVER PREVIOUS YEAR

	1981	1982	1983	1984	Average annual percentage
Past 5 years = 3.35					
HBC-----	1.36	0.55	.0.54	.0.61	0.76
President-----	1.52	—.18	3.65	.22	1.29
Senate-----	—.13	—.42	—.29	—.49	—.34

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

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

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

IX. LEGISLATIVE SAVINGS

About 54 percent of the budget recommended to the Congress by the Committee is mandated by entitlements and permanent appropriations enacted in past years. This relatively uncontrollable segment of the budget has accounted for 83 percent of the increase in total Federal outlays over the last decade. Furthermore, this segment of spending mandated by current law overwhelmingly dominates the real growth increase recommended by the Committee over fiscal year 1979. Except for defense and energy, the discretionary segment of the budget in fact shows no net real growth.

Prudent restraint in Federal expenditures with the ultimate goal of a balanced budget is a central objective of the Committee. It has therefore been imperative that the Committee address this largest and fastest growing sector of the budget. From its inception the Budget Committee has included a series of legislative reforms in its recommendations. These proposals to reduce spending through changes in legislation are specifically directed at the 54 percent of the budget outlays mandated by existing law. Failure to achieve the targeted savings for fiscal year 1980 means higher Federal outlays and deficits—higher by \$2.7 billion in fiscal year 1980.

TASK FORCE ON LEGISLATIVE SAVINGS

Because of the importance of legislative savings as a key budget contingency, the Budget Committee this year established a special Task Force on Legislative Savings. Hearings in June focused on the importance of savings and sought to identify possible new areas for consideration by the House committees with jurisdiction. In addition, a provision was added to the First Budget Resolution requiring committees to report by July 1, 1979 on new spending authority within their jurisdiction, including legislative savings.

As part of its efforts to educate Members of the importance of these savings, the Task Force periodically issues a newsletter reporting to Congress on the status of legislative savings, following both the administration proposals and congressional action and emphasizing savings of particular interest.

The Committee recognizes that legislative savings are difficult to achieve. In fiscal year 1979, the Budget Committee included about \$2.5 billion in legislative reforms but less than \$100 million were actually enacted into law.

This year the Committee in the First Budget Resolution assumed legislative savings of \$2,607 million in budget authority and \$4,271 million in outlays and deficit reduction.

This year there has been some success on legislative savings. The social security disability reform legislation passed the House, including a saving of \$17 million in fiscal year 1980 and an estimated \$1.1 billion by 1984; appropriations for impact aid reform and elimination of indexing of vocational rehabilitation State grants have been reduced,

legislation to cap social services training grants has passed the House; decreasing maritime operating differential subsidies which achieves savings in the outlays passed as an amendment to an authorization bill. Several other reforms have passed the Senate.

Yet there has also been congressional inaction on a number of assumed savings. As a result, the Committee has reduced the net amount of savings proposed in the Second Budget Resolution to \$1,239 million in budget authority and \$2,695 million in outlays. Three of the largest differences are in the areas of (1) general revenue sharing which was included in the First Budget Resolution as a saving of \$684 million in budget authority and \$674 million in outlays but is not assumed in the Second Budget Resolution due to House rejection of the savings proposal, (2) hospital cost containment which was assumed in the First Budget Resolution to save \$100 million in budget authority and \$1,400 million in outlays has been reduced to \$50 million in budget authority and \$640 million in outlays due to changed estimates of savings related to economic conditions and a later assumed implementation date, and (3) medicare and medicaid program reform which was assumed in the First Budget Resolution at \$404 million but has been increased in the Second Budget Resolution to \$965 million, reflecting enhanced prospects for action in this area.

The Committee believes that legislative savings are extremely important and that efforts to achieve them should continue. The legislative reforms proposed by the Committee in the Second Budget Resolution for Fiscal Year 1980 include the following areas and House committees:

- Wage board salary levels (Armed Services and Post Office and Civil Service Committees)
- Annualized cost-of-living increases for Federal retirees (Armed Services and Post Office and Civil Service Committees)
- Lower operating differential subsidies (Public Works and Transportation Committee)
- Eliminate indexing of vocational rehabilitation State grants (Education and Labor Committee)
- Cap Title XX grants for State and local training (Ways and Means Committee)
- Impact aid reform (Education and Labor Committee)
- Hospital cost containment and medicare and medicaid program reforms (Ways and Means and Interstate and Foreign Commerce Committees)
- Food Stamp reforms (Agriculture Committee)
- AFDC and SSI reforms (Ways and Means Committee)
- Child nutrition programs (Education and Labor Committee)
- Social security disability reform (Ways and Means Committee)
- Veterans health and other medical benefit reforms (Veterans Affairs Committee)

The Committee realizes that it is proposing an ambitious plan to the House but feels that restraint in Federal spending and ultimately a balanced Federal budget demand these efforts. With the continued assistance of the committees of the House, the Committee believes these goals can be achieved.

X. SPENDING BY FUNCTION FOR FISCAL YEAR 1980

FUNCTION 050: NATIONAL DEFENSE

The Committee recommendation provides \$138,156 million in budget authority and \$128,587 million in outlays compared to \$136,600 million in budget authority and \$124,200 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$1,556 million in budget authority and an increase of \$4,387 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	136.6	124.2
Second Budget Resolution recommendation.....	138.2	128.6
Difference over/under First Resolution.....	+1.6	+4.4
● Economic assumptions.....	+.2	+.2
Military Retired Pay—higher cost-of-living adjustments as a result of revised economic assumptions.		
● Other reestimates.....		+2.8
Reestimates of outlays based on analysis of recent spending patterns. Most of the change is in procurement outlays from prior years authority.		
● House action and inaction.....	-.2	+.1
Net result of House action on the spring supplemental, mili- tary construction appropriation, Department of Energy military activities appropriation, other defense-related appropriations, lower than anticipated stockpile sale authorization, and inaction on wage board reform.		
● Increased pay raise.....	+.2	+.2
The President has recommended that the October 1979 pay raise be 7 percent, as compared to 5.5 percent in the First Resolution. The Committee recommends 30 per- cent pay absorption compared to 20 percent assumed in the First Resolution.		
● Anticipated budget amendment.....	+1.4	+1.1
To fund increased cost of energy to maintain military readiness.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	-424	39,257
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	6,476	3,124
Current House status as of Aug. 2, 1979.....	6,052	42,381
Budget Committee assumptions on remaining items:		
1. Allowance for appropriation actions assumed in First Budget Resolution.....	+130,847	+85,249
This recommendation includes an allowance for the Defense appropriation bill, which is not yet reported, the spring supplemental, and appropriations for emergency preparedness activities which were not considered in the Treasury-Postal Service bill. The amounts included are those in the First Budget Resolution, adjusted for reestimates.		
2. Legislative savings.....	-143	-143
This recommendation assumes the legislative savings included in the First Budget Resolution for annualization of the cost-of-living adjustment and wage board reform. The savings associated with wage board reform are reduced to reflect a later assumed enactment date.		
3. Increased cost of military readiness.....	+1,400	+1,100
This recommendation assumes increased funding for fuel and related items to adjust for unanticipated price creases.		
Second Budget Resolution recommendation.....	138,156	128,587

For this function permanent appropriations and outlays from prior-year budget authority total -\$424 million in budget authority and \$39,257 million in outlays.

In this session of Congress the spring supplemental has been enacted with outlays in this function of \$482 million. In addition appropriations for Department of Energy military applications and civil defense have been agreed to in conference with budget authority of \$3,097 million and outlays of \$1,647 million. The House has passed appropriations for military construction and stockpile management and a bill authorizing the sale of tin from the strategic stockpile with budget authority of \$3,379 million and outlays of \$996 million.

Committee recommendations on the items which remain to be considered by the House are discussed below:

1. APPROPRIATION ACTIONS ASSUMED IN FIRST BUDGET RESOLUTION

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/under current House status
Budget authority.....	130,393	132,086	-----	130,847
New entitlement authority.....	(114)	-----	(16)	(114)
Outlays.....	118,249	120,705	36,002	85,249

COMMITTEE RECOMMENDATION

The Committee recommendation provides \$130,847 million in budget authority and \$85,249 million in outlays for appropriated items included in the First Budget Resolution and not yet acted upon by the House.

EXPLANATION OF COMMITTEE RECOMMENDATION

The First Resolution included funds for the Defense appropriation bill, spring supplemental appropriation for the October 1, 1979, pay raise, and emergency preparedness activities which were not considered in the Treasury-Postal Service bill.

The recommendation includes amounts as assumed in the First Resolution, adjusted for revised estimates for certain Department of Defense activities.

REESTIMATES

The First Resolution assumptions for these items were:

In millions of dollars	Budget authority	Outlays
Defense appropriation bill.....	128,395	116,288
Emergency preparedness.....	177	162
Spring supplemental.....	1,821	1,799
Total.....	130,393	118,249

The recommendation for the Defense appropriation bill reflects the latest Congressional Budget Office estimates for fiscal year 1980. Budget authority increases \$454 million as a result of higher anticipated cost-of-living adjustments for retired military personnel and a higher (7 percent) pay raise for military and civilian personnel. The Committee assumed that 30 percent of the cost of the pay raise could be absorbed. The outlay estimate increases \$3,282 million, primarily as a result of revised estimates of spending from prior-year balances. Increases also result from the estimated increases for retired pay and the 7 percent pay raise. The revised estimates of outlays are based on analysis of recent spending patterns.

2. LEGISLATIVE SAVINGS

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/under current House status
Budget authority.....	-126	-81		-143
New entitlement authority.....	(-126)	(-81)		(-143)
Outlays.....	-125	-80		-143

COMMITTEE RECOMMENDATIONS

The Committee recommendation assumes enactment of wage board reform and annualization of the cost-of-living adjustment for military retirees. Similar savings are reflected in the appropriate functions to

reflect these savings for wage board employees of civilian agencies and retired civilian personnel.

EXPLANATION OF COMMITTEE RECOMMENDATION

WAGE BOARD REFORM

The First Resolution assumed action this session to reform the system for determining compensation of wage board employees. This is the fourth year that the President has recommended substantive change in the wage board pay mechanism and the third year that the Budget Committee has assumed action on wage board pay in the Budget Resolution.

About 450,000 of the 2.8 million Federal civilian employees are compensated under the wage board system. About 350,000 wage board employees (80 percent) work for the Department of Defense.

Under current law, the mechanism for determining wage board pay conflicts with the principal of comparability with local prevailing pay rates. This occurs because of the following provisions:

- the use of wage data from other localities, as required by what is usually referred to as the Monroney amendment;
- the nationwide uniform percentage night shift differentials;
- the five-step rates at each pay grade and the concurrent establishment of the second step as the payline rate; and
- the limitation of the survey sample to private establishments.

The savings anticipated in the First Resolution assumed:

- repeal of the Monroney amendment;
- elimination of the uniform night shift differential;
- elimination of the legislated step system; and
- inclusion of State and local government in the wage survey.

The following table summarizes the estimated savings resulting from enactment of wage board reform. The savings anticipated in the First Resolution assumed enactment this session with an effective date of October 1, 1979. The current estimate of savings assumes enactment next session, effective April 1, 1980. The savings are lower in the current estimate as a result of estimating changes and a later effective date.

In millions of dollars	1980	1981	1982	1983	1984	Total
Department of Defense:						
Estimated in the First Resolution.....	-81	-128	-165	-195	-216	-785
Current estimate.....	-40	-82	-51	-63	-73	-309
Civilian agencies:						
Estimated in the First Resolution.....	-20	-32	-42	-48	-54	-196
Current estimate.....	-10	-21	-13	-16	-19	-79
Total:						
Estimated in the First Resolution.....	-101	-160	-207	-243	-270	-981
Current estimate.....	-50	-103	-64	-79	-92	-388

ANNUALIZATION OF COST-OF-LIVING ADJUSTMENT

The First Resolution assumed action this session to change the cost-of-living adjustment mechanism for retired Federal employees (including military retirees) to provide an annual adjustment to replace the current semi-annual adjustment. This change would provide pay adjustments for Federal retirees on the same basis as that used for 36 million social security annuitants.

Adoption of an annual cost-of-living adjustment for retired military personnel was estimated to save \$45 million in fiscal year 1980 based on the economic assumptions used for the First Resolution. As a result of higher than anticipated inflation, it is currently estimated that this change would save \$103 million in fiscal year 1980. Adoption of an annual cost-of-living adjustment for retired civilian personnel was estimated to save \$119 million in fiscal year 1980. As a result of changes in the estimating method used by CBO, the estimated savings have dropped to \$97 million, even though the economic assumptions anticipate higher inflation.

The cost savings assume that retired personnel would receive their regular cost-of-living adjustment in September 1979 (paid October 1 for civilians), but that the March 1980 adjustment would not be made. An adjustment would be made in June 1980 (paid July 1 for civilians) to provide for the change in the Consumer Price Index since the September 1979 adjustment.

Subsequently, adjustments would be made annually in June (July 1 for civilians).

The following table summarizes the estimated savings resulting from an annual cost-of-living adjustment for retired military and civilian employees.

In millions of dollars	1980	1981	1982	1983	1984	Total
050: Military:						
Estimated in the First Resolution.....	-45	-142	-158	-124	-124	-593
Current estimate.....	-103	-334	-324	-301	-307	-1,369
600: Civilian:						
Estimated in the First Resolution.....	-119	-547	-577	-624	-670	-2,537
Current estimate.....	-97	-445	-476	-488	-522	-2,028
Total:						
Estimated in the First Resolution.....	-164	-689	-735	-748	-794	-3,130
Current estimate.....	-200	-779	-800	-789	-829	-3,397

3. INCREASED COST OF MILITARY READINESS

In millions of dollars	First Budget resolution	President's mid-session review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....				1,400
Outlays.....				1,100

COMMITTEE RECOMMENDATION

The recommendation assumes increased funding will be required for significant and unanticipated price increases for fuel and related items to maintain military readiness.

EXPLANATION OF COMMITTEE RECOMMENDATION

Military readiness is extremely dependent on petroleum, oils and lubricants (POL). Training requirements necessary to maintain readiness, for instance, are based on certain levels of steaming hours, flying hours and combat vehicle maneuvers. The average cost per barrel of fuel has increased by 27 percent over the budgeted cost. The allowance recommended by the Committee for POL is intended to cover this recent sharp increase in energy costs. It is not intended to expand activity levels.

In making this recommendation, the Committee has taken cognizance of the President's request of September 10, 1979, which is \$3.2 billion in budget authority and \$2.0 billion in outlays above the amounts recommended by the Committee for Function 050 National Defense. The Committee's recommendation assumes there will be 30 percent absorption of the cost of the 7 percent pay raise. It also assumes that the changes made in mark-up by the Defense Subcommittee on Appropriations for improved management and efficiency will be reflected in the final appropriations. This would be a reduction of \$2.2 billion. Finally, it assumes that some of the increases requested can be funded through reprogramming or transfer from existing lower priority programs.

FUNCTION 150: INTERNATIONAL AFFAIRS

The Committee recommendation provides \$13,143 million in budget authority and \$8,772 million in outlays compared to \$12,600 million in budget authority and \$7,900 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$543 million in budget authority and an increase of \$872 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	12.6	7.9
Second Budget Resolution recommendation.....	13.1	8.8
Difference over/under First Budget Resolution.....	.5	.9
● Reestimates.....	.3	.2
Export-Import Bank loan commitments now being made will result in increased cash disbursements (outlays).....	(.....)	(.2)
Current projections of the Foreign Military Sales Trust Fund indicate increased contractual obligations for foreign customers in fiscal year 1980.....	(.3) (.....)	(.....)
● Foreign assistance programs.....	.1	.6
The assumed levels for foreign assistance incorporate the Appropriations Committee reductions of \$1.2 billion from the President's estimates for the foreign assistance appropriation bill for 1980. The recommendation further assumes: Full funding for the President's program to increase the admission into the United States of refugees from Southeast Asia; allowance for a disaster assistance program in the Caribbean area; and an allowance for a supplemental appropriation for the Public Law 480 food for peace program so that planned fiscal year 1980 food shipment levels may be sustained despite increased commodity prices.		
● State Department appropriations.....	.1	.1
The recommendation assumes that final action on State Department and related agencies appropriations will be at the levels included in the conference report on H.R. 4392, State-Justice appropriations bill for 1980.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year authority.....	2,206	2,589
Bills enacted into law, pending signature, conference agreements, and and passed or reported in the House.....	10,427	5,660
Current House status as of August 2, 1979.....	12,636	8,249
Budget Committee assumptions on remaining items:		
1. Allowance for budget amendments and pending supplementals.....	507	523
Second Budget Resolution recommendation.....	13,143	8,772

Of this total \$2,206 million in budget authority and \$2,589 million in outlays are the result of permanent appropriations or outlays from prior-year budget authority. In addition, \$10,427 million in budget authority and \$5,660 million in outlays are contained in bills which have been reported to or already passed the House. (Food for Peace, State Department and related agencies, and Foreign Assistance).

For items which were not included in bills reported in the House, the Committee recommendations are as follows:

1. ALLOWANCE FOR BUDGET AMENDMENTS AND PENDING SUPPLEMENTALS

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Refugee assistance:				
Budget authority.....	270	264	289	207
Outlays.....	279	258	262	173
Food for Peace:				
Budget authority.....	719	719	719	300
Outlays.....	948	993	1,007	350
Totals:				
Budget authority.....	989	983	1,008	507
Outlays.....	1,227	1,251	1,269	523

COMMITTEE RECOMMENDATION

The Committee recommendation would provide a total of \$1,515 million in budget authority and \$1,792 in outlays, an increase over the First Budget Resolution of \$507 million in budget authority and \$523 million in outlays for refugee assistance and Food for Peace programs.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Committee recommendation assumes increased funding for refugee assistance (\$207 million in budget authority and \$173 million in outlays) resulting from the President's decision to increase the admission into the United States of refugees from Southeast Asia. Additional funds for this purpose (\$454 million in budget authority and \$264 million in outlays) are in function 600 Income Security.

The Committee recommendation also assumes approval of supplemental appropriations for the Food for Peace program (\$300 million in budget authority and \$350 million in outlays) so that planned fiscal year 1980 food shipment levels can be maintained despite increased commodity prices.

FUNCTION 250: GENERAL SCIENCE, SPACE AND TECHNOLOGY

The Committee recommendation provides \$5,833 million in budget authority and \$5,662 million in outlays compared to \$5,700 million in budget authority and \$5,500 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$133 million in budget authority and an increase of \$162 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	5.7	5.5
Second Budget Resolution recommendation.....	5.8	5.7
Difference over/under First Resolution.....	+.1	+.2
● Allowance for NASA budget amendment.....	+.2	+.2
The change results from the assumption of higher budget authority and outlays to accommodate a NASA budget amendment which was submitted after adoption of the First Budget Resolution.		
● Other miscellaneous differences.....	-.1	(1)
This difference reflects miscellaneous program reductions in the energy and water development and HUD-Independent Agencies appropriation bills.		

1 Less than \$50 million.

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	4	1,461
Bills enacted into law, pending signature conference agreements, and passed or reported in the House.....	5,829	4,201
Current House status as of August 2, 1979.....	5,833	5,662
Budget Committee assumptions on remaining items: None.		
Second Budget Resolution recommendation.....	5,833	5,662

For this function permanent appropriations, offsetting receipts, and outlays from prior-year budget authority total \$4 million in budget authority and \$1,461 in outlays. In addition, there is a conference

agreement on the two regular appropriation bills affecting this function. These bills total \$5,829 million in budget authority and \$4,201 million in outlays. The Second Budget Resolution assumes that no further items requiring funding remain to be considered by the House for this functional category.

1. NASA BUDGET AMENDMENT

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	220		220	

COMMITTEE RECOMMENDATION

The Committee recommendation assumes favorable congressional action on a NASA budget amendment of \$220 million in budget authority and \$200 million in outlays.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation recognizes that the space shuttle is an integral part of the space program over the next two decades. It is also recognized that delays in this program, whether caused by technical problems or by funding constraints, can be costly in the long run. Therefore, the recommendation urges that every effort be made to resolve whatever technical problems are being encountered in this program and that reasonable funding be provided to support these efforts. It is noted that the fiscal year 1980 authorization and the appropriation bills in both the House and Senate accommodate this higher funding requirement.

FUNCTION 270: ENERGY

The Committee recommendation provides \$36,266 million in budget authority and \$8,801 million in outlays compared to \$18,800 million in budget authority and \$6,800 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$17,466 million in budget authority and an increase of \$2,001 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	18.8	6.8
Second Budget Resolution recommendation.....	36.3	8.8
Difference over/under First Resolution.....	+17.5	+2.0
● Reestimates.....	-.3	-.2
This change is primarily due to higher-than-anticipated oil production and prices for the sale of naval petroleum reserve oil which will increase receipts to the Treasury.		
● Strategic Petroleum Reserve.....	+1.0	-----
The First Budget Resolution assumed that \$1 billion in previously appropriated funds for this program would be rescinded. No rescission is now anticipated based on action by the House on the Interior appropriations bill.		
● New energy initiatives.....	+17.2	+2.3
This change assumes enactment and funding of new energy initiatives in response to the President's recent proposals. An additional \$0.4 billion in budget authority and \$0.3 billion in outlays associated with these initiatives is included in current House status for functions 400 and 600. Thus, the total assumed for new energy initiatives is \$17.5 billion in budget authority and \$2.6 billion in outlays.		
● Other net differences, primarily reduction in appropriation bills.....	-.4	-.1

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior year budget authority.....	-1,477	4,803
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	7,077	2,692
Current House status as of Aug. 2, 1979.....	5,601	7,495
Budget Committee assumptions on remaining items:		
1. Increase in TVA authority to borrow.....	15,000	-----
2. Strategic Petroleum Reserve program.....	-----	-1,000
3. New energy initiatives (increases to current House status) ..	+15,665	+2,306
Second Budget Resolution recommendation.....	36,266	8,801

For this function permanent appropriations, offsetting receipts, and outlays from prior year budget authority total —\$1,477 million in budget authority and \$4,803 million in outlays. There is also a conference agreement on two regular appropriations bills affecting this function. In addition, the House has passed three other appropriations bills totaling \$7,077 million in budget authority and \$2,692 million in outlays. The three remaining items to be considered for funding by the House are discussed below.

1. INCREASE IN TVA AUTHORITY TO BORROW

[Fiscal year 1980]

In millions of dollars	First budget resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	15,000	15,000	15,000	
Outlays.....				

COMMITTEE RECOMMENDATION

The Committee recommendation includes \$15 billion in budget authority to accommodate an increase in the ceiling on the Tennessee Valley Authority's (TVA) authority to borrow for the purpose of supporting its electric power program. This increase will bring the new ceiling on TVA's authority to borrow to \$30 billion.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation assumes enactment of the bill proposed by the President and which was assumed in the First Budget Resolution. As a consequence of the growth of the TVA power system, and the heavy capital intensiveness of electric power systems, it is necessary periodically to increase the ability of the TVA to borrow funds. It should be noted that TVA indebtedness is not backed with general governmental revenues, but rather solely backed by revenues of the TVA power program. The authority increase is estimated to be sufficient for TVA activities through fiscal year 1984. The last time Congress increased TVA's authority to borrow was in fiscal year 1976 when it was increased by \$10 billion.

The House Public Works Committee is expected to hold hearings on the bill and report it in September. The Senate passed a bill on June 20 which incorporated the President's request.

2. STRATEGIC PETROLEUM RESERVE PROGRAM

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	—992	8	8	
Outlays.....	961	2,654	1,961	—1,00

COMMITTEE RECOMMENDATION

The recommendation assumes a \$1 billion reduction in outlays for the Strategic Petroleum Reserve program (SPRO) from the levels anticipated by CBO; but it assumes no cut in already existing budget authority for the program, thus reflecting action already taken by the House of Representatives in the Interior appropriations bill. (H.R. 4930).

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation is consistent with the assumption made in the First Budget Resolution that outlays for the Strategic Petroleum Reserve program might run \$1 billion below those estimated by CBO, because of the real possibility that oil might not be available to the Reserve on reasonable terms, and its acquisition might unduly affect the supply of oil available to the U.S. market. However, the recommendation changes the First Resolution assumption regarding a \$1 billion reduction in budget authority for this program, reflecting the position adopted by the House in the Interior appropriations bill. The Committee believes that the sooner the oil for the Reserve can be acquired and stored, the better the position of the United States will be in terms of its ability to cope with any future oil shortages. Indeed, there already has been some evidence that extremely tight world oil market conditions might loosen significantly in the months ahead, and make it possible to proceed rapidly with the filling of the Reserve.

In making this recommendation, the Committee wishes to make it clear that its intent is to allow the program to proceed to obtain as much oil as can be stored, as soon as it can be acquired, and to ensure that preparation of storage sites for at least 750 million barrels of oil proceeds unfettered. If such a Reserve had been available early this year, it is very possible that the Iranian shutdown would have had no effect whatsoever on the American or world economy, if SPRO had been drawn down to make up for the lack of Iranian oil production. It is estimated that the Iranian shutdown caused a net loss of somewhere between 200 to 300 million barrels of oil to the world oil market and of somewhere near 100 million barrels to the U.S. market. The outlay reduction incorporated in the recommendation simply reflects the realistic possibility that it may not be feasible for SPRO to obtain as much oil as could be stored efficiently; it should not be construed as placing a limit on the program's maximum feasible progress. Similarly, it is the Committee's recommendation that any quotas on oil imports be flexible enough to allow for the maximum progress of this program, as well as for the continued growth of the U.S. economy.

3. NEW ENERGY INITIATIVES

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----		25,880	1,880	15,665
Outlays-----		2,258	270	2,306

COMMITTEE RECOMMENDATION

The Committee recommendation is strongly supportive of the President's new energy initiatives to reduce United States dependence on imported oil, and of his proposed synfuels program as one of its elements. Therefore, the recommendation assumes a total of \$17,545 million in budget authority and \$2,576 million in outlays to accommodate a package of new energy initiatives, of which \$1,880 million in budget authority and \$270 million in outlays have been acted on by the House, thus included in current House status. It also assumes enactment of the windfall profits tax, as passed by the House.

The Committee recommends that programs to be funded out of the proposed Energy Security Trust Fund be authorized and appropriated on a yearly basis, as part of the regular budget process. In particular, the intent is to discourage earmarking of anticipated receipts to the Fund for particular programs or activities.

Also, the Committee strongly supports passage of the House-passed windfall profits tax, and assumes that the spending programs in its recommendation will not be supported to their full extent if a substantially weakened tax is enacted.

Finally, if an Energy Security Corporation is approved by the House, the Committee recommends that: (1) financing for any such corporation be on-budget; (2) the Corporation should not be allowed to sell financial paper guaranteed by itself to the Federal Financing Bank, since this might provide it with an additional source of off-budget funds not subject to control by the Congress; and (3) any borrowing authority provided to such corporation not be used as a revolving fund so that the total obligations of the Corporation over its life will be effectively limited to the amount made available in an appropriations act.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Committee recommendation assumes a program total, but does not earmark funds among specific programs in various functions. However, in determining the program recommendation, the following assumptions were made relative to the President's recommendations. The recommendation assumes funding sufficient to accommodate the President's Low-Income Assistance, and Transportation programs. Although the President recommended that his mass transport initiatives go entirely toward capital funds, there is some flexibility in the Committee recommendation to accommodate some increases for operating subsidies.

The recommendation also can accommodate an increase of approximately \$1.7 billion in budget authority and \$0.5 billion in outlays, for energy conservation and solar programs above those recommended by the President. The recommendation reflects the belief that conservation programs, in particular, would provide a relatively inexpensive and quick way to help the United States reduce its imports of oil.

The recommendation also can accommodate \$12 billion in budget authority to fund the Energy Security Corporation proposed by the

President. The recommendation supports the President's import reduction goal of 4.5 million barrels a day by 1990 and his proposed synthetic fuels program as one of its elements. However, the recommendation differs from the President in that it recognizes that more funds probably could not be obligated in fiscal year 1980 by the Corporation, and thus would afford the Congress an opportunity to review in fiscal year 1981 the additional \$10 billion requested by the President. The recommendation would be sufficient for the Corporation in fiscal year 1980 to contract with the private sector for the production in the late 1980's of substantial amounts of synthetic fuels from coal and oil shale. It would also be sufficient to encourage up to \$2 billion for commercial demonstrations of unconventional gas and oil technologies which offer significant promise in the immediate future. This package would support a solid start toward a large synthetic fuels program in the private sector with an initial information-based orientation. It is a significant, and large commitment of Federal credit, designed to match the seriousness of our energy problems as outlined by the President.

The table below shows the relationships between the President's fiscal year 1980 recommendations, and the Committee's block recommendation. For a description of the President's energy program and other energy issues, see Appendix J of this report.

TABLE 1.—ENERGY PROGRAM RECOMMENDATION

[In millions of dollars]

	President's fiscal year 1980 recom- mendations		Recommendation	
	Budget authority	Outlays	Budget authority	Outlays
1. Energy Security Corporation.....	22,000	100	(1)	(1)
2. Energy Mobilization Board.....			(1)	(1)
3. Low-income assistance.....	1,600	1,600	(1)	(1)
4. Transportation.....	1,445	312	(1)	(1)
5. Utility oil reduction.....			(1)	(1)
6. Solar bank.....	35	35	(1)	(1)
7. Residential, commercial, and electric utility conservation.....	550	100	(1)	(1)
8. \$3 oil shale tax credit.....			(1)	(1)
9. 50¢/MCF credit for unconventional natural gas, and solar tax credits.....	(-246)	(-246)	(1)	(1)
10. Heavy oil.....			(1)	(1)
11. Regional strategic oil product reserve, and in- creased coal R. & D.....	250	111	(1)	(1)
12. Full funding for additional SRC (solvent refined coal) plant.....	(495)	(24)	(1)	(1)
Total:				
(1) Spending programs.....	25,880	2,258	17,545	2,576
(2) Tax expenditures.....	-246	-246	-246	-246
(3) Windfall profits tax.....	+2,907	+2,907	+2,822	+2,822
Net impact on the deficit [line 1, minus line 2, minus line 3].....		-403		

¹ Funding not earmarked by program.

Finally, the following table sets forth how the recommendation relates to items already in current House status:

	Budget authority	Outlays
Energy program recommendation.....	17,545	2,576
Adjustment for items already in current House status:		
1. Funding for Moorhead synfuels bill, already in Interior appropriation bill, and included in Function 270 current House status.....	-1,500	-10
2. Funding for low-income assistance program, crisis inter- vention component already in Labor-HEW appropriation bill, and included in Function 600 current House status..	-250	-250
3. Funding for transportation item already in Function 400 recommendation.....	-130	-10
Increases to current House status in Function 270 necessary to fund total new energy initiatives recommendation.....	+15,665	+2,306

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

The Committee recommendation provides \$12,525 million in budget authority and \$12,026 million in outlays compared to \$12,600 million in budget authority and \$11,700 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in a decrease of \$75 million in budget authority and an increase of \$326 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	12.6	11.7
Second Budget Resolution recommendation.....	12.5	12.0
Difference over/under First Resolution.....	-.1	-.3
● EPA construction grants.....	-.2	(1)
The HUD-Independent Agencies appropriation bill contains a \$400 million reduction in the First Budget Resolution for EPA water pollution control construction grants. Additional funding of \$250 million in budget authority is assumed for States which are moving faster toward meeting the goals of the Clean Water Act.		
● All other appropriation bills.....	(1)	+.2
Program actions taken in the appropriation bills resulted in a net reduction from the First Budget Resolution assumptions. However, additional undistributed reductions assumed in the First Budget Resolution were not achieved.		
● Miscellaneous.....	+.1	+.1
This increase over the First Budget Resolution is to provide funds for the Oil Pollution Liability and Compensation Act and the National Park Service fees bills which have received House action.		

(1) Less than \$50 million.

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	-1,663	5,313
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	13,789	6,563
Current House status as of Aug. 2, 1979.....	12,125	11,876
Budget Committee assumptions on remaining items:		
1. Supplemental appropriation for forest firefighting and emergency flood control.....	+150	+150
2. Additional funding for EPA water pollution control construction grants.....	+250	-----
Second Budget Resolution recommendation.....	12,525	12,026

For this function permanent appropriations, offsetting receipts, and outlays from prior-year budget authority total—\$1,663 million in budget authority and \$5,313 million in outlays. In addition, enactment, conference agreement, House passage or House reported action has occurred on six regular appropriation bills and two spending bills affecting this function. These bills total \$13,789 million in budget authority and \$6,563 million in outlays. The two remaining items to be considered for funding by the House are discussed below:

1. SUPPLEMENTAL APPROPRIATIONS FOR FOREST FIREFIGHTING AND FLOOD CONTROL

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	150	-----	-----	150
Outlays-----	150	-----	-----	150

COMMITTEE RECOMMENDATION

The Committee recommendation assumes two supplemental appropriations, one for \$100 million in budget authority and outlays for firefighting costs and one for \$50 million in budget authority and outlays for emergency flood control costs to bring the total funding for forest firefighting and flood control in line with the level assumed in the First Budget Resolution.

EXPLANATION OF COMMITTEE RECOMMENDATION

The President's budget request for fiscal year 1980, as in previous years, did not include the full-year costs associated with forest firefighting. It is estimated that about \$100 million in budget authority and outlays will be needed for this purpose. This estimate is based on a comparison of the total amounts funded in this activity for the past 5 years (which includes forest fire prevention) with the amounts already requested for fiscal year 1980. About two-thirds of the estimated \$100 million in budget authority and outlays is expected to be used in the Forest Service firefighting program and the bulk of the remaining amount in the Bureau of Land Management's firefighting program.

The Interior Department appropriation bill, which has passed the House, provided only the partial funding usually requested by the President for forest firefighting (mainly forest fire-pre-suppression). The report accompanying the bill stated that the amount provided is "an initial amount for fighting forest fires on or threatening National Forest System Lands".

The President's budget request also did not anticipate full-year costs for flood control which are usually required in the form of a spring supplemental. While the exact amount of funds that will be needed is very difficult to predict, a reasonable estimate based on historical levels is \$50 million as contained in the Committee recommendation.

2. ADDITIONAL FUNDING FOR EPA WATER POLLUTION CONTROL CONSTRUCTION GRANTS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority.....				250
Outlays.....				

COMMITTEE RECOMMENDATION

The Committee recommendation assumes an addition of \$250 million in budget authority in fiscal year 1980 for the EPA water pollution control construction grant program above the amount already provided in the House passed Interior appropriation bill. It is assumed that these additional funds will be provided for States which are moving faster toward meeting the goals of the Clean Water Act.

EXPLANATION OF COMMITTEE RECOMMENDATION

The House Subcommittee on Water Resources of the Committee on Public Works and Transportation held a hearing on July 10, 1979, on legislation to provide additional funding under the EPA construction grant program to those States which are moving faster toward meeting the goals of the Clean Water Act. The Budget Committee recommendation assumes that legislation with the intent of the legislation reviewed by that Subcommittee on this subject will be enacted and that a supplemental appropriation will be provided to fund it. While such funding would require fiscal year 1980 supplemental appropriations, it is assumed that in future fiscal years these additional monies will be planned for and provided in the regular appropriation bill.

FUNCTION 350: AGRICULTURE

The Committee recommendation provides \$4,983 million in budget authority and \$2,542 million in outlays compared to \$5,000 million in budget authority and \$5,400 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in a decrease of \$17 million in budget authority and a decrease of \$2,858 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	5.0	5.4
Second Budget Resolution recommendation.....	5.0	2.5
Difference over/under First Resolution.....		-2.9
● Reestimates.....		-3.0
This change reflects a downward reestimate of outlays for commodity support programs because of higher than anticipated market prices.		
● International emergency food reserve.....		+.1
Enactment and purchase of the reserve is not likely to occur in fiscal year 1979; thus, no associated outlay savings will be achieved in fiscal year 1980 as assumed in the First Budget Resolution.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	36	855
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	4,894	1,479
Current House status as of Aug. 2, 1979.....	4,930	2,334
Budget Committee assumptions on remaining items:		
1. Increase in short-term export credit.....		400
2. Expanded crop insurance legislation.....	53	
3. Commodity price support legislation.....		-242
Second Budget Resolution recommendation.....	4,983	2,542

For this function permanent appropriations, offsetting receipts, and outlays from prior-year budget authority total \$36 million in budget authority and \$855 million in outlays. In addition, the House has passed the one regular appropriation bill affecting this function. This

bill totals \$4,894 million in budget authority and \$1,479 million in outlays. The three items which remain to be considered for funding by the House and the one item within the discretionary authority of the Secretary of Agriculture are discussed below.

1. INCREASE IN SHORT-TERM EXPORT CREDIT

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----				
Outlays-----	1,200	800	800	400

COMMITTEE RECOMMENDATION

The Committee recommendation assumes that the level of short-term export credit extended to foreign countries for the purchase of U.S. agricultural commodities will be increased by \$400 million through administrative action of the Secretary of Agriculture. This assumption is consistent with the First Budget Resolution.

EXPLANATION OF COMMITTEE RECOMMENDATION

As pointed out in the First Budget Resolution, the exact level of short-term export credit is difficult to predict this far in advance; however, it is noted that:

(a) since 1975, the level of actual credit extended has increased each year;

(b) the gap between foreign production and consumption of wheat and coarse grains has been widening and U.S. exports of these grains are likely to continue to rise; and

(c) since 1976, actual credit extended has exceeded the original estimate by over 50 percent.

In addition, the requests by foreign countries for short-term export credit is currently running at the same or somewhat above the level requested in 1979. This is due to continued strong demand and a decline in cash sales because of higher prices for U.S. commodities. These observations suggest that the level of credit proposed in the President's January budget and July midsession review is low.

2. EXPANDED CROP INSURANCE LEGISLATION

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	53	53		53
Outlays-----	50	50		50

COMMITTEE RECOMMENDATION

The Committee recommendation assumes enactment of crop insurance legislation resulting in budget authority of \$53 million and outlays of \$50 million for initial implementation of the new program. This is consistent with the policy assumptions in the First Budget Resolution.

EXPLANATION OF COMMITTEE RECOMMENDATION

Expanded crop insurance legislation has been ordered reported in the House and passed by the Senate. The recommendation assumes that the current disaster payment program will be phased out as the new expanded insurance program is phased in.

3. COMMODITY PRICE SUPPORT LEGISLATION

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority-----				
Outlays-----			-242	-242

COMMITTEE RECOMMENDATION

The Committee recommendation makes no allowance for the Agricultural Adjustment Act of 1979 (H.R. 3398) and the cotton program and prevented planting amendments (H.R. 4195).

EXPLANATION OF COMMITTEE RECOMMENDATION

With respect to the Agricultural Adjustment Act of 1979 (H.R. 3398), the recommendation is influenced by the fact that farm prices have improved substantially over the last 2 years and the outlook is that these prices will continue to remain relatively high in the foreseeable future. Thus, there appears to be little or no need for additional price support legislation to insure that farmers receive an adequate price for their commodities. It is recognized that some farmers are still suffering from an economic situation that plagued most of the agricultural sector 2 years ago. However, it appears that efforts to deal with this problem would probably yield better long-term results if considered in the context of an overall review and reauthorization of the 1977 farm bill which expires at the end of the 1981 crop year.

With respect to H.R. 4195, the recommendation assumes that such legislation will not become law. Even if the legislation is successful in the Congress, it may be subject to veto by the President since the administration opposes all provisions of the legislation.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

The Committee recommendation provides \$6,778 million in budget authority and \$2,828 million in outlays compared to \$6,900 million in budget authority and \$3,200 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in a decrease of \$122 million in budget authority and a decrease of \$372 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	6.9	3.2
Second Budget Resolution recommendation.....	6.8	2.8
Difference over/under First Resolution.....	-.1	-.4
● Reestimates.....	+.1	-.4
This change reflects reestimates of budget authority and outlays in several accounts in this function that are sensitive to economic conditions or executive discretion. Lower outlays than expected in connection with acquisition of defaulted commercial bank assets account for -\$0.2 billion of the change.		
● Reductions by Congress.....	-.2	
This change reflects congressional action on appropriations at amounts less than anticipated in the First Budget Resolution, including the new homeownership assistance program of the Farmers Home Administration, postal subsidies, Census Bureau, and the housing for the elderly program of HUD.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior year budget authority.....	1,478	-121
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	5,220	2,881
Current House status as of Aug. 2, 1979.....	6,698	2,760
Budget Committee assumptions on remaining items:		
1. Appropriation bills.....	+80	+68
Second Budget Resolution recommendation.....	6,778	2,828

Permanent appropriations and outlays from prior-year budget authority total \$1,478 million in budget authority and -\$121 million in outlays. In addition, the House has passed appropriation bills totaling \$5,220 million in budget authority and \$2,881 million in outlays

which affect this function. Items which remain to be considered by the House are discussed below.

1. APPROPRIATION BILLS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	80	80	-----	+80
Outlays-----	68	68	-----	+68

COMMITTEE RECOMMENDATION

The Committee recommends inclusion of \$80 million in budget authority and \$68 million in outlays for anticipated final action on appropriations for fiscal year 1980.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation assumes enactment of appropriations for the Federal Trade Commission, following passage of authorizing legislation, and enactment of appropriations for the Copyright Office in the legislative branch appropriation bill.

FUNCTION 400: TRANSPORTATION

The Committee recommendation provides \$19,610 million in budget authority and \$18,651 million in outlays compared to \$19,450 million in budget authority and \$18,200 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$160 million in budget authority and an increase of \$451 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	19.45	18.2
Second Budget Resolution recommendation.....	19.6	18.7
Difference over/under First Resolution.....	+.15	+.5
<hr/>		
● Recission of \$0.7 billion in existing contract authority replaced by \$0.7 billion in direct new appropriation in the Transportation appropriations bill rather than the \$0.3 billion new authorization assumed in the First Resolution. The net effect is \$-0.4 billion of budget authority.....	-.4	
● Highway trust fund outlays are estimated upward due to higher obligation levels during fiscal year 1979.....		+.3
● The Northeast corridor rail project has encountered construction delays and has not achieved anticipated productivity goals.....		-.2
● The transportation appropriations bill made a number of miscellaneous program reductions of which the largest is the non-inclusion of the President's rail assistance legislative initiative. Outlays, however, were estimated upward on an overall basis.....	-.1	+.1
● Amendments to the transportation appropriations bill are anticipated for highway, mass transportation and the Amtrak programs.....	+.3	+.1
● The legislative saving in the House-passed maritime authorization will not directly affect the fiscal year 1980 budget.....	+.1	+.1
● No legislative action in the form of a recission bill has been proposed to reduce the highway trust fund program as assumed in the First Budget Resolution. Future rescission action is not anticipated.....	+.3	(1)
● The implementing legislation for the Panama Canal Treaty provided that operating expenses cannot exceed toll revenues. The recommendation assumes that proposed revenue increases will provide revenues equivalent to the total operating costs.....	(1)	(1)
● Financially troubled railroads such as the Milwaukee Road will require additional aid if current services are to be maintained.....	+.1	+.

¹ Less than \$50 million.

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior year budget authority.....	9,671	12,162
Bill enacted into law, pending signature, conference agreements, and passed or reported in the House.....	10,032	6,558
Current House status as of Aug. 2, 1979.....	19,703	18,720
Budget Committee assumptions on remaining items:		
1. Anticipated final action on appropriations bills.....	287	111
2. Panama Canal Commission legislation.....	-280	-280
3. Proposed maritime legislative savings.....		
4. Proposed air noise legislation.....	-200	
5. Emergency rail assistance.....	100	100
Second Budget Resolution recommendation.....	19,610	18,651

Permanent appropriations and outlays from prior-year budget authority total \$9,671 million in budget authority and \$12,162 million in outlays. The House-passed or reported appropriations bills, including the Transportation appropriations bill, provide \$10,032 million in budget authority and \$6,558 million in outlays. The five items which remain to be considered for funding by the House are discussed below:

1. ANTICIPATED FINAL ACTION ON APPROPRIATIONS BILLS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	90	4		+287
Outlays.....	90	4		+111

COMMITTEE RECOMMENDATION

The Committee recommendation assumes enactment of \$287 million in budget authority and \$111 million in outlays for proposed amendments to the Transportation appropriations bill for fiscal year 1980 together with a reestimate of Coast Guard retired fund payments.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Committee recommendation assumes enactment of a proposed combination highway and mass transportation amendment of \$243 million in budget authority and \$67 million in outlays and a proposed Amtrak amendment of \$40 million in budget authority and outlays in the Transportation appropriations bill for fiscal year 1980.

The First Budget Resolution assumed additional budget authority and outlays for mass transportation initiatives but did not assume additional funding for highways or Amtrak. The House appropriations bill is \$60 million above the President's January estimates for

the mass transportation program and \$90 million bellow First Resolution estimates. These amendments are, in part, a response to the changed energy supply situation.

In addition to the above amendments, a \$4 million reestimate is provided for the Coast Guard retirement fund, an entitlement program.

2. PANAMA CANAL COMMISSION LEGISLATION

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	-38	-----	280	-280
Outlays.....	-38	15	280	-280

COMMITTEE RECOMMENDATION

The Committee recommendation is the same as the First Budget Resolution assumption, and assumes establishment of the Panama Canal Commission as an appropriated-fund account. Operating expenses are estimated to be \$427 million with offsetting receipts of the same amount, resulting in a net budgetary effect of zero, a reduction of \$280 million from current House status.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Committee recommendation provides funding for the Panama Canal Commission as an appropriated-fund agency as reflected in H.R. 111, rather than as a wholly-owned Government corporation, as in Senate legislation. The recommendation also assumes that the appropriation for operating expenses, estimated at \$427 million in fiscal year 1980, will be totally offset by receipt of \$427 million of Canal revenues deposited with the United States Treasury. Revenues as estimated for the Second Budget Resolution are assumed to be equal to total operating expenses, whereas the First Budget Resolution assumed that total revenues would exceed total operating expenses by \$38 million. The revenue estimate is based on the assumption that a significant increase in rates of toll will be required to meet operating expenses, but that aggregate toll income will not result in a surplus.

3. PROPOSED MARITIME LEGISLATIVE SAVINGS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	-50	-----		
Outlays.....	-50	-----		

COMMITTEE RECOMMENDATION

The Committee recommendation assumes that legislative changes in the maritime operating-differential subsidy program will be instituted in fiscal year 1980 but will not have a budgetary impact until fiscal year 1981. The First Resolution had assumed fiscal year 1980 savings of \$50 million in budget authority and outlays.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Committee recommendation continues the First Budget Resolution assumption that legislative changes will be enacted in the maritime operating-differential subsidy program. The recommendation assumes enactment of House-passed legislation which provides (1) that construction-differential subsidy funds cannot be used for vessels which will have a subsidized manning level 50 percent above the minimum safe manning standards established by the Coast Guard, and (2) that vessels receiving operating differential subsidy payments will be allowed to withdraw from the program on an experimental basis if they meet certain criteria. The first amendment is expected to reduce manning of many vessels and thus may ultimately be reflected in reduced operating-differential subsidy. The second amendment, allowing experimental withdrawal from the operating-differential subsidy program, is expected to result in only marginal savings because of restrictive criteria, particularly a required pay-back of construction-differential subsidy.

4. PROPOSED AIR NOISE LEGISLATION

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....			200	-200
Outlays.....				

COMMITTEE RECOMMENDATION

The Committee recommendation assumes that air noise legislation will not be enacted for fiscal year 1980, but will be considered for fiscal year 1981 along with the President's comprehensive air trust fund proposals for that year.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Aviation Safety and Air Noise Reduction Act, as reported to the House, is a comprehensive bill dealing with critical problems of aircraft noise and aviation safety. The bill proposes to alleviate air noise problems through improved airport planning and development funded by direct spending authority from the airport and airways trust fund.

The President has proposed a broad, comprehensive 5-year, \$6.6-billion legislative initiative for the overall development and improvement of the national airport and airway system beginning in fiscal year 1981 which should include air noise initiatives, among other significant changes. Congress has not yet held hearings on the President's comprehensive air legislative package or the air noise initiative as part of that overall package.

5. EMERGENCY RAIL ASSISTANCE

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	250	250	-----	+100
Outlays-----	40	40	-----	+100

COMMITTEE RECOMMENDATION

The Committee recommendation assumes that an additional \$100 million in budget authority and outlays will be required to maintain services of fiscally-troubled railroads, such as the bankrupt Milwaukee Road. The recommendation assumes that minimum Federal assistance will be provided so that assisted railroads can reorganize and meet their own expenses from operating revenues.

EXPLANATION OF COMMITTEE RECOMMENDATION

The President proposed a \$250 million budget authority and \$40 million rail legislative initiative. The President's proposal is intended to replace some existing rail assistance programs and serve as an aid to railroads during the transition to a deregulated environment.

Of immediate concern is the issue of Federal assistance to the Milwaukee Road, which began bankruptcy proceedings in December of 1978. It is estimated that the proposed emergency rail assistance of \$100 million would include sufficient funds to allow the Milwaukee Road to continue operations while conducting a major reorganization of operations.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

The Committee recommendation provides \$8,991 million in budget authority and \$8,289 million in outlays compared to \$8,900 million in budget authority and \$8,100 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$91 million in budget authority and an increase of \$189 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution	8.9	8.1
Second Budget Resolution recommendation	9.0	8.3
Difference over/under First Resolution	+.1	+.2
● House-passed appropriation level for various area development programs	+.1	(1)
● Impact of 1979 supplementals		+.2

¹ Less than \$50 million.

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlay
Permanent appropriations, offsetting receipts nor requiring current action, and outlays from prior year budget authority	19	5,734
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House	7,192	2,241
Current House status as of Aug. 2, 1979	7,211	7,975
Budget Committee assumptions on remaining items:		
1. Economic development assistance programs	+1,183	+176
2. Disaster assistance programs	+597	+138
Second Budget Resolution recommendation	8,991	8,289

Permanent appropriations and outlays from prior year budget authority total \$19 million in budget authority and \$5,734 million in outlays. In addition, the House has passed the HUD-Independent Agencies appropriation bill and five other appropriation bills totaling \$7,192 million in budget authority and \$2,241 million in outlays which

affect this function. The two items which remain to be considered for funding by the House are discussed below :

1. ECONOMIC DEVELOPMENT ASSISTANCE PROGRAMS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	1,183	1,533	-----	+1,183
Outlays-----	602	704	426	+176

COMMITTEE RECOMMENDATION

The recommendation includes \$1,183 million in budget authority and \$602 million in outlays, an increase in outlays of \$176 million over current House status, for economic development assistance and certain other area development programs, the same level of funding assumed in the First Budget Resolution.

EXPLANATION OF COMMITTEE RECOMMENDATION

The First Budget Resolution included \$1,109 million in budget authority and \$533 million in outlays for EDA programs, and \$74 million in budget authority and \$69 million in outlays for Regional Action Planning Commissions. New authorizing legislation is required to extend existing programs and to initiate new area and regional development activities. The recommendation assumes enactment of additional authorizing legislation for both programs.

2. DISASTER ASSISTANCE PROGRAMS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	851	255	254	+597
Outlays-----	1,218	438	1,080	+138

COMMITTEE RECOMMENDATION

The recommendation provides \$851 million in budget authority and \$1,218 million in outlays for the Small Business Administration Disaster Loan program and funds appropriated to the President for disaster relief, increases of \$597 million in budget authority and \$138 million in outlays over current House status.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation provides funding for disaster programs at the levels assumed in the First Budget Resolution. The amounts exceed the amounts included in the House-passed State-Justice-Commerce and HUD-Independent Agencies appropriation bills by \$597 million in budget authority and \$138 million in outlays. These amounts represent the CBO estimate of fiscal year 1980 funding requirements based on actual program experience over the past 3 years. Amounts so far appropriated reflect continuation of the historical practice of providing a minimal appropriation at the beginning of the fiscal year and providing supplemental appropriations as necessary to meet developing program demands.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES

The Committee recommendation provides \$31,491 million in budget authority and \$31,471 million in outlays compared to \$30,850 million in budget authority and \$30,500 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in increases of \$641 million in budget authority and \$971 million in outlays above the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	30.85	30.5
Second Budget Resolution recommendation.....	31.5	31.5
Difference over/under First Budget Reslotuion.....	+.65	+1.0
● The recommendation accommodates removing the cap on the Federal special allowance to permit interest rates on guaranteed student loans to float with the 91-day Treasury bill rate.....	(1)	(1)
● The recommendation reflects higher estimates of outlays than assumed in the First Budget Resolution.....		+.5
● The recommendation reflects an anticipated supplemental for a higher than anticipated title XX Social Services ceiling for prior year claims under the title XX program.....	+.2	+.1
● The recommendation anticipates a supplemental appropriation to fully fund the Basic Educational Opportunity Grants Program.....	+.4	+.1
● The recommendation anticipates a supplemental appropriation to fund training and employment programs under the Comprehensive Employment and Training Act consistent with the policy assumptions of the First Budget Resolution.....	+.4	+.3
● The recommendation reflects lower appropriations for education, training and employment and social services programs than assumed in the First Budget Resolution.....	-.35	(1)

¹ Less than \$50 million.

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	911	14,905
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	28,166	15,324
Current House status as of Aug. 2, 1979.....	29,077	30,229
Budget Committee assumptions on remaining items:		
1. Funding for education programs.....	1,143	249
2. Funding for training and employment programs.....	471	351
3. Funding for social service programs.....	800	642
Second Budget Resolution recommendation.....	31,491	31,471

For this function, permanent appropriations and outlays from prior-year budget authority total \$911 million in budget authority and \$14,905 million in outlays. In addition Congress has agreed to funding levels in the Labor-HEW Appropriations bill and the House has passed other bills totalling \$28,166 million in budget authority and \$15,324 million in outlays which affect this function. Items which remain to be considered for funding by the House are discussed below.

1. LEVEL OF FUNDING FOR EDUCATION PROGRAMS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	14,997.	14,611	13,910	1,143
Outlays-----	13,965	13,434	14,174	249

COMMITTEE RECOMMENDATION

The Committee recommendation for education programs totals \$15,053 million in budget authority and \$14,423 million in outlays.

The recommended totals are \$1,143 million in budget authority and \$249 million in outlays above current House amounts and will accommodate supplemental funding, consistent with First Budget Resolution policy assumptions, for the Basic Educational Opportunity Grants programs (BEOGs) and for the ongoing programs of the Library of Congress funded in the Legislative Branch Appropriations bill. Also included is \$34 million in new entitlement authority to accommodate legislation revising the Guaranteed Student Loans program (GSLP).

EXPLANATION OF COMMITTEE RECOMMENDATION

The First Budget Resolution included the President's estimate of \$2,444 million to accommodate full funding of the Basic Educational Opportunity Grants (BEOGs) program in accordance with provisions contained in the Middle-Income Student Assistance Act (MISAA.) At the time, the Committee considered this target to be a preliminary estimate of the 1980 program requirements pending further estimates by the CBO on (1) the 1979 and 1980 rates of student participation for both the pre- and post-MISAA populations, and therefore (2) the amount of 1979 funds which would carryover into 1980 to offset new budget authority requirements.

Based on a CBO reanalysis and on recent reestimates of HEW, a supplemental appropriation for the BEOGs program will be necessary to maintain the full funding policy assumed in the First Budget Resolution. Estimates of the amount necessary vary, however, from \$266 million assumed by HEW to \$967 million assumed by CBO.

The Department of HEW estimates fiscal year 1980 program costs of \$2,541 million for BEOGs and CBO estimates costs of \$2,837 million. Both estimates assume program cost savings due to reduction

in fraud and abuse. The higher CBO costs assume that about 200,000 more students than estimated by HEW will be eligible for BEOGs awards in both 1979 and 1980. HEW's estimate for lower participation in 1979 reflects a more sizable amount of carryover funds for use in 1980 than assumed by CBO. The comparable figures are as follows:

FISCAL YEAR 1980 BUDGET ESTIMATES

[In millions of dollars]

	HEW	CBO
Fiscal year 1980 Labor-HEW appropriations.....	1,718	1,718
Carryover from 1979 (estimated).....	557	152
Subtotal.....	2,275	1,870
Total program requirements.....	2,541	2,837
Supplemental appropriation required.....	266	967

The Committee accepts the CBO student participation estimates and includes budget authority of \$967 million and outlays of \$100 million to accommodate an anticipated supplemental to fully fund the BEOGs programs.

In addition, the Committee recommendation includes \$34 million in budget authority and outlays to accommodate the provisions of P.L. 96-49, which removes the 5 percent per annum interest cap on the special allowance rate paid to holders of insured or guaranteed student loans. The 5 percent rate is paid in addition to the 7 percent rate paid by, or on behalf of, the student borrowers. The need to modify the existing program developed because the 5 percent per annum ceiling was reached in the third quarter of fiscal year 1979. Therefore, under the limitation provided in current law, fourth quarter payment rates to lenders would be depressed. P.L. 96-49 would correct the problem by permitting the special allowance to rise and fall with the 91-day Treasury bill rate.

The Committee recommendation also includes \$142 million in budget authority and \$115 million in outlays for the ongoing programs of the Library of Congress funded in the Legislative Branch Appropriation bill. These amounts are consistent with budget authority and outlays included in the First Budget Resolution.

2. LEVEL OF FUNDING FOR TRAINING, EMPLOYMENT AND OTHER LABOR DEPARTMENT PROGRAMS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/under current House status
Budget authority.....	10,289	11,044	10,166	471
Outlays.....	11,234	11,233	11,103.	351

COMMITTEE RECOMMENDATION

The Committee recommendation maintains the policy assumptions of the First Budget Resolution to provide 250,000 end-of-year jobs for the structurally unemployed under title IID of CETA and 200,000 end-of-year jobs in the CETA title VI countercyclical program. In addition, the Committee recommendation for training and employment programs includes the funds provided in the Labor-HEW conference agreement.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommended totals include increases of \$471 million in budget authority and \$351 million in outlays for training and employment programs above the current House amounts to accommodate anticipated supplementals for CETA titles IID and VI. The policy assumptions contained in the recommendation are consistent with the policy assumptions contained in both the First Budget Resolution and the Labor-HEW conference agreement: CETA-IID average and year end enrollments of 250,000 and a CETA VI end-of-year enrollment level of 200,000. While reaffirming the policy assumptions contained in both the First Budget Resolution and the Labor-HEW conference agreement, the Committee has found that the funds contained in the latter bill are insufficient to meet the policy objectives, and, thus, has assumed additional funding to increase the amounts necessary to meet these objectives.

In revising the amounts needed for these programs, the Committee, using data provided by CBO, assumed that (1) the program costs would increase by almost 5.2 percent over current levels, and (2) less money would be available in carryover from fiscal year 1979 than assumed in the Labor-HEW conference agreement.

3. LEVEL OF FUNDING FOR SOCIAL SERVICES PROGRAMS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	5,714	5,557	5,014	800
New entitlement authority.....	(756)	(-----)	(-----)	(-----)
Outlays.....	5,472	5,329	4,964	642

COMMITTEE RECOMMENDATION

The Committee recommendation maintains the policy assumptions of the First Budget Resolution. Funding is assumed for the House-passed bill, H.R. 3434, providing expanded child welfare services and an increase in the Title XX funding ceiling. The recommendation anticipates a supplemental appropriation to reimburse States for prior year social service claims. In addition, funding is assumed for the domestic programs of ACTION which require reauthorization.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommended totals include \$574 million in budget authority and outlays above the current House amounts to accommodate funding for the expansion of the Title XX Social Services and Title IV-B Child Welfare Services programs. These amounts are consistent with both the First Budget Resolution and H.R. 3434, the Social Services and Child Welfare Amendments of 1979, which passed the House on August 2. The supplemental appropriation assumed for ACTION, totaling \$84 million in budget authority and \$68 million in outlays, is consistent with both the First Budget Resolution and with H.R. 2859, Domestic Volunteer Service Act Amendments of 1979, which has been reported by the House Education and Labor Committee and on which floor action is pending. The Senate has passed a similar measure.

The administration's midsession review projects a supplemental request of \$142 million for prior year claims under the Social Services program. The increase is needed because HEW made payments to States in fiscal year 1979 for the costs of Title XX incurred by the States in years prior to fiscal year 1979 but not claimed until recently. The funds required for payment were derived by "borrowing" budget authority from fiscal year 1980 under authority provided in Appropriations Acts and will be replaced through a supplemental appropriation.

FISCAL YEAR 1980—COMPARISON OF ASSUMPTIONS IN FIRST AND SECOND BUDGET RESOLUTIONS

[In millions of dollars]

	President's midsession review	First Budget Resolution	Second Budget Resolution	Differences	
				Second Resolution to First	Second Resolution to President
Education:					
Budget authority.....	14,611	14,997	15,052	+55	+411
Outlays.....	13,434	13,965	14,423	+458	+989
Training and employment:					
Budget authority.....	11,044	10,289	10,637	+348	-407
Outlays.....	11,233	11,234	11,454	+220	+221
Social services:					
Budget authority.....	5,557	5,714	5,814	+100	+257
Outlays.....	5,329	5,472	5,606	+134	+277
Proposed legislation (H.R. 3434)					
Budget authority.....	(434)	(534)	(574)	(+40)	(+140)
Outlays.....	(434)	(534)	(574)	(+40)	(+140)
Across-the-board reduction (Fisher amendment):					
Budget authority.....		-138		+138	
Outlays.....		-159		+159	
Offsetting receipts:					
Budget authority.....	-12	-12	-12	0	0
Outlays.....	-12	-12	-12	0	0
Total:					
Budget authority.....	31,200	30,850	31,491	+641	+291
Outlays.....	29,986	30,500	31,471	+971	+1,485

FUNCTION 550: HEALTH

The Committee recommendation provides \$58,767 million in budget authority and \$54,715 million in outlays compared to \$58,100 million in budget authority and \$53,600 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in increases of \$667 million in budget authority and \$1,115 million in outlays above the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	58.1	53.6
Second Budget Resolution recommendation.....	58.8	54.7
Difference over/under First Resolution.....	+.7	+1.1
● Hospital cost containment and other reforms in medicare..... The budget authority reduction reflects the higher estimate of unemployment which will lower tax receipts into the Hospital Insurance Trust Fund. The outlay change results from the increased cost of physician and hospital services, decreased estimates of savings from mandatory hospital cost containment, revised estimates of savings due to late enactment or nonenactment of other reforms assumed in the First Budget Resolution. The increases are partially offset by additional savings resulting from changes recommended by the Senate Finance Committee, but which were not assumed in the First Budget Resolution.	-.1	+.7
● Cost savings and benefit improvements in medicare..... The decrease results from lower estimates of first-year cost of the Child Health Assurance program (CHAP). Additional outlay savings are projected as a result of enactment of cost savings measures, including a one-time outlay reduction resulting from a change in the method of making medicaid payments to States, approved by the Senate Finance Committee.	-.1	-.3
● Discretionary health programs—appropriation action..... The increase in budget authority reflects congressional action on health appropriations. The major portion of the outlay increases results from reestimates.		+.2
● Anticipated supplemental for medicaid..... The change reflects the higher cost of services due to medical price inflation and increased utilization by aged and disabled persons. The budget authority increase also incorporates the effect of replacing funds "borrowed" from fiscal year 1980 to meet fiscal year 1979 requirements resulting from higher utilization, medical prices and the Michel amendment.	+.9	+.5

[In millions of dollars]

Programs	1st Budget Resolution		2d budget resolution		Difference	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
Medicare—current law	35,745	33,842	35,618	34,012	—127	+170
Administrative savings		—386		—273		+113
Proposed legislation:						
Hospital cost containment		—1,300		—540		+760
Other savings		—266		—578		—312
Benefit improvements		+156		+171		+15
Subtotal (medicare)	35,745	32,046	35,618	32,792	—127	+746
Medicaid—current law	13,459	13,459	14,329	13,990	+870	+531
Administrative savings	—664	—907	—664	—907		
Proposed legislation:						
Hospital cost containment	—100	—100	—50	—80	+50	+20
Other savings	—138	—138	—229	—387	—91	—249
Child health assessment programs (CHAP)	+225	+225	+156	+156	—69	—69
Other benefit improvement	+87	+87	+50	+50	—37	—37
Subtotal (medicaid)	12,869	12,626	13,592	12,822	+723	+196
Discretionary health programs						
Authorized under current law			8,821	8,750		
Requiring reauthorization legislation and supplemental appropriations			+750	+365		
Subtotal (discretionary health program)	9,500	8,942	9,571	9,115	+71	+173
Offsetting receipts	—14	—14	—14	—14		
Total	58,100	53,600	58,767	54,715	+667	+1,115

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority-----	35,604	39,775
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House-----	21,438	15,089
Current House status as of Aug. 2, 1979-----	57,042	54,864
Budget Committee assumptions on remaining items:		
1. Hospital cost containment and other reforms in medicare-----		-962
2. Cost savings and benefit improvements in medicaid-----	-73	-261
3. Supplementals for unauthorized discretionary health programs-----	757	365
4. Medicaid supplemental-----	1,048	709
Second Budget Resolution recommendation-----	58,767	54,715

Permanent appropriations, offsetting receipts that do not require current action, and prior-year outlays for Function 550 total \$35,604 million in budget authority and \$39,775 million in outlays. In addition, the House has passed appropriations, including the Labor-HEW bill, which provide budget authority of \$21,438 million and outlays totaling \$15,089 million for this function. This includes \$10 million in fiscal year 1980 outlays that result from actions the Congress has taken on fiscal year 1979 rescission and supplemental requests. The items which remain to be considered for funding are discussed below.

1. HOSPITAL COST CONTAINMENT AND OTHER REFORMS IN MEDICARE

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/under current House status
Budget authority-----		1		
Outlays-----	1,410	-1,222	15	-962

COMMITTEE RECOMMENDATION

The recommendation assumes savings of \$962 million in outlays as a result of legislative changes, including hospital cost containment and other reforms. The savings projected are lower than were estimated in the First Budget Resolution. The reduction results from revised estimates of savings from hospital cost containment and later implementation dates for other reforms. The reductions in savings are partially offset by additional benefit expansions that are being considered by the Congress and that were not included in the First Budget Resolution.

EXPLANATION OF COMMITTEE RECOMMENDATION

The Voluntary Effort (VE) by the hospital industry has had some effect in moderating the rate of increase in hospital costs. The savings resulting from the effort are reflected in the medicare (and medicaid) current law estimates. However, based on CBO analysis, it appears that the VE target for 1979 will not be fully achieved. Therefore, the recommendation continues the assumption from the First Budget Resolution that mandatory cost controls for hospitals will be enacted. However, based on revised estimates from the administration, the recommendation assumes savings of \$540 million compared to \$1.3 billion which was projected in the First Budget Resolution. The decreased savings are based on the fact that the allowable ceiling for hospital increases will have to be raised as a result of higher inflation than previously anticipated. Many of the other savings reforms included in the First Budget Resolution will take effect later in the year than previously assumed or will not be enacted. Other changes have been approved by the Senate Finance Committee since the First Budget Resolution was passed and the recommendation assumes that an additional amount of savings equal to those reported by the Finance Committee in H.R. 934 will be achieved. This bill will revise Medicare reimbursements for routine nursing services and skilled nursing home care provided in hospitals; make medicare coverage secondary to accident policy coverage when elderly persons are involved in accidents; and require additional reviews by Professional Standards Review Organizations (PSRO) for preoperative hospital lengths of stay and testing.

The recommendation on benefits improvements is the same as the First Budget Resolution. Included are expanded benefits for disabled persons to encourage them to work when they are able to do so without losing needed health care coverage. Home health care benefits also are assumed to be expanded.

In addition, it is estimated that the administrative improvements, including revisions in reimbursements for malpractice coverage, will result in fiscal year 1980 savings of \$273 million. This is a reduction from the projection of \$386 million made in the First Budget Resolution.

2. COST SAVINGS AND BENEFIT IMPROVEMENTS IN MEDICAID

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority-----	74	-19	-----	-73
(<i>New entitlement authority</i>)----	(74)	(-19)	(-----)	(-73)
Outlays-----	74	-19	-----	-261

COMMITTEE RECOMMENDATION

The recommendation assumes that changes to the medicaid program will be enacted which will result in a net savings of \$73 million in budget authority and \$261 million in outlays. This increase over the First Budget Resolution results primarily from legislative savings that have been approved by the Senate Finance Committee and from a lower fiscal year 1980 implementation cost for the Child Health Assurance program (CHAP).

EXPLANATION OF COMMITTEE RECOMMENDATION

Consistent with the revised estimates by the administration, the savings from hospital cost containment legislation have been lowered to \$80 million from the earlier estimate of \$100 million. This is due to higher than previously expected inflation which will result in hospitals being allowed additional revenue increases to cover mandatory costs.

The recommendation continues to assume that CHAP and expanded services to pregnant women will be implemented during the last quarter of fiscal year 1980. However, based on the legislation developed by the Interstate and Foreign Commerce Committee, a lower first-year cost is projected by CBO than was assumed in the First Budget Resolution.

The Department of Health, Education, and Welfare is expected to comply with the congressional directive to reduce fraud, abuse and error in medicaid and other programs. Therefore, the recommendation continues the First Budget Resolution assumption regarding savings to be achieved through administrative actions.

The recommendation also assumes additional savings compared to the First Budget Resolution for legislative reforms other than mandatory hospital cost containment. This increase is based on the expected enactment of more extensive program reforms ordered reported by the Senate Finance Committee in H.R. 934. This bill will revise medicaid reimbursement for routine nursing care, skilled nursing home services provided in hospitals, and outpatient care. Additional PSRO reviews will be required for preoperative hospital stays and tests. In addition, the bill includes a provision to change the Medicaid procedures for making payments to States.

3. DISCRETIONARY HEALTH PROGRAMS—ANTICIPATED
SUPPLEMENTALS

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority.....	803	810	-----	750
(<i>New entitlement authority</i>).....	(---)	(7)	(---)	(---)
Outlays.....	375	382	-----	365

COMMITTEE RECOMMENDATION

The recommendation for discretionary health programs includes \$750 million in budget authority and \$365 million in outlays for supplemental appropriations primarily for programs which the Appro-

priations Committees have not considered because they lack legislative authorization.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation provides \$750 million in budget authority and \$365 million in outlays to continue the nurse training, health planning, alcoholism, drug abuse, mental health, emergency medical services, influenza immunizations, health education, and the National Health Service Corps programs whose authorizations either expired at the end of fiscal year 1979 or are less than the requested amounts. The recommendation assumes the authorizing legislation will be enacted and that funds will be appropriated to continue the programs.

4. ANTICIPATED SUPPLEMENTAL FOR MEDICAID

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority-----		980	-----	1,048
Outlays-----		602	-----	709

COMMITTEE RECOMMENDATION

The recommendation includes \$1,048 million in budget authority and \$709 million in outlays to meet higher utilization demand and cost requirements in the medicaid program.

EXPLANATION OF COMMITTEE RECOMMENDATION

Estimates by the Congressional Budget Office indicate that utilization of services, particularly by elderly or disabled persons, is higher than had been projected. In addition, inflationary increases above those previously assumed have resulted in higher service costs. The recommendation assumes that these additional 1980 requirements, totaling \$709 million in budget authority and outlays, will be provided in a supplemental.

The recommendation also assumes that an additional \$339 million in budget authority required to fully meet State entitlements in 1979 and "borrowed" from the fiscal year 1980 appropriation will be replaced through a supplemental appropriation in fiscal year 1980. These funds include \$66 million in budget authority required to comply with the Michel amendment.

FUNCTION 600: INCOME SECURITY

The Committee recommendation provides \$217,658 million in budget authority and \$188,795 million in outlays compared to \$214,800 million in budget authority and \$183,300 million in outlays in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$2,858 million in budget authority and \$5,495 million in outlays above the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	214.8	183.3
Second Budget Resolution recommendation.....	217.7	188.8
Difference over/under First Resolution.....	+2.9	+5.5
● Economic assumptions.....	+.4	+4.2
Higher projected unemployment and inflation rates increase costs in the Social Security, Unemployment Compensation, Food Stamp, and Civil Service Retirement programs.		
● Other reestimates.....	+.7	+.6
The increase reflects a higher than anticipated caseload in the Black Lung program and a revision in the methodology for estimating receipts into the civil service retirement trust fund.		
● Refugee assistance.....	+.3	+.1
The increase reflects the impact of the Presidential commitment to double the number of monthly admissions.		
● Legislative savings.....	+.3	+.4
Lower legislative savings are projected because of revised savings estimates and later implementation dates.		
● Subsidized housing.....	+.7	
House action on appropriations for subsidized housing increases budget authority requirements.		
● Michel amendment.....	+.1	
The failure to achieve the savings assumed in the Michel amendment to the Labor-HEW fiscal year 1979 appropriations necessitates a draw-down of fiscal year 1980 funds.		
● Fuel Assistance.....	+.2	+.2
The conference agreement on the Labor-HEW Appropriations for fiscal year 1980 increases funding for the crisis intervention program which provides assistance to low-income persons in meeting higher heating costs.		
● Civil Service Retirement system.....	+.2	
The President's proposed 7 percent pay raise changes receipts and budget authority to the civil service retirement system.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlay
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority-----	161,842	157,863
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House-----	52,739	28,430
Current House status as of Aug. 2, 1979-----	214,581	186,293
Budget Committee assumptions on remaining items:		
1. Legislative savings-----	-561	-658
2. Refugee assistance-----	454	264
3. Lifting of ceiling on appropriations for food stamps-----	2,026	1,925
4. Funding for entitlement legislation assumed in First Budget Resolution-----	326	326
5. Supplementals for mandatory programs-----	832	645
Second Budget Resolution recommendation-----	217,658	188,795

1. LEGISLATIVE SAVINGS

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/under current House status
Budget authority-----	-954	-931	-50	-581
(New entitlement authority)---	(-921)	(-931)	(---)	(-708)
Outlays-----	-1,135	-1,317	-67	-658

COMMITTEE RECOMMENDATION

The Committee recommendation assumes savings of \$611 million in budget authority and \$725 million in outlays from legislation designed to reform existing programs. These savings reflect the following assumptions:

- Outlay savings of \$97 million are assumed from the phase-in of annual cost-of-living increases for retired Federal employees.
- Savings of \$250 million in budget authority and outlays are assumed for food stamps, which is \$98 million higher than the administration's proposed savings that were assumed in the First Budget Resolution.
- Savings of \$215 million in budget authority and outlays are assumed in child nutrition programs, including the \$50 million reduction in funding for the Special Supplemental Food (WIC) program. The reduction was included in the Agriculture Appropriations bill (H.R. 4387), but unless subsequent legislation to reduce the entitlement level is enacted, a supplemental appropriation will be required. The lower estimate for savings reflects possible changes in specific proposals or later implementation dates.

- Savings of \$146 million in budget authority and outlays are assumed in cash assistance programs, which is half the target savings in the First Budget Resolution. The lower estimate for savings reflects a later enactment date and potential delays in subsequent implementation of the savings included in the welfare reform bill approved by the Public Assistance Subcommittee.
- Outlay savings of \$17 million in the Social Security Disability Insurance Trust Fund are assumed from the Social Security Disability Amendments of 1979 (H.R. 3236) which passed the House on September 6, 1969.

EXPLANATION OF COMMITTEE RECOMMENDATION

Civil Service Retirement

There has been no committee action to date on the legislative savings proposal to provide annual cost-of-living increases for retired Federal employees on the same basis as are provided to social security recipients. Under current law, retired Federal employees receive two increases a year. CBO has revised the savings estimate to \$97 million in outlays in fiscal year 1980 for retired Federal civilian employees. (Savings of \$103 million for retired military personnel is included in the Defense function.) The fiscal year 1980 savings would be achieved by making the increase scheduled for the spring of 1980 effective in June 1980; thus placing Federal retirement programs on the social security schedule for annual cost-of-living increases.

Food Stamps

The First Budget Resolution assumed \$152 million in legislative savings proposed by the President for State quality control and fiscal sanctions and benefit determinations based on past rather than anticipated income (retrospective accounting). The administration's proposals are included in the bill to remove the ceiling on appropriations for fiscal year 1980 (H.R. 4318), which has not yet been reported out of subcommittee. In its report on a bill (H.R. 4303) which repealed certain provisions of the 1977 Food Stamp Amendments as they pertained to the elderly, the Agriculture Committee committed itself to consider legislative savings proposals, including the administration's. The recommendation assumes that higher savings than the administration's proposals could be achieved through increased administrative reforms. As a result, the savings target is increased to \$250 million in budget authority and outlays.

Child Nutrition

The First Budget Resolution assumed legislative savings of \$509 million in budget authority and outlays from the following:

- A reduction of \$.11 a meal in the current \$.32 per meal subsidy for nonneedy children (defined as income above \$13,940 for a family of four). This would achieve savings in fiscal year 1980 of \$304 million in the School Lunch program.
- Elimination of the Special Milk program in institutions with other federally subsidized food programs. Fiscal year 1980 savings would be \$118 million.
- Elimination of private sponsors in the Summer Feeding program. Fiscal year 1980 savings would be \$37 million.

- A reduction of \$50 million in the entitlement level for the Special Supplemental Food (WIC) program as agreed to last year by the Chairmen of the Senate Agriculture Committee and the House Education and Labor Committee when WIC was converted from an authorization to an entitlement program.

The savings proposals in the First Budget Resolution were the same as the President's budget except that his budget would reduce the subsidy for nonneedy children by only \$0.05 and would reduce eligibility of certain needy children to receive free and reduced price meals. The total savings, however, would be similar.

The House-passed Agriculture appropriation bill (H.R. 4387) includes the \$50 million reduction in WIC and a Senate-passed bill (S. 292) changes the WIC entitlement level and achieves the proposed legislative savings in the Summer Feeding program.

Because the 1979-80 school year has already begun, achievement of full year savings from the proposed changes to the School Lunch and Special Milk program are not likely. As a result, the Committee recommendation assumes savings of \$215 million in budget authority and outlays to reflect less than full year implementation as well as possible modifications to the legislative savings assumptions which were included in the First Budget Resolution.

Cash Assistance

The Public Assistance Subcommittee on July 17, 1979, completed markup of the administration's welfare reform bill which contains most of the legislative savings proposals assumed in the First Budget Resolution. As a result of the subcommittee's action, CBO estimates the 6-month impact of the legislative savings items which would be effective in fiscal year 1980 to be \$172 million in budget authority and outlays. The Committee recommendation assumes that final legislative action and subsequent implementation would make achievement of full 6 months savings unlikely and therefore includes savings of \$146 million in budget authority and outlays, which is half of the target savings in the First Budget Resolution.

Social Security Disability

The House on September 6, 1979 approved a bill (H.R. 3236) which reduces Disability Insurance trust fund outlays in fiscal year 1980 by \$17 million. The initial savings is less than assumed in the First Budget Resolution because of a reestimate of the initial administrative costs associated with the bill. The total annual savings from this bill in fiscal year 1984 will be \$1.1 billion. Because no appropriation action would be required, the fiscal year 1980 budget impact of this bill is included in current House status. The SSI, AFDC, and Food Stamp program costs would be increased by \$23 million in fiscal year 1980 as a result of enactment of H.R. 3236. (See Committee recommendation No. 4 below.)

2. REFUGEE ASSISTANCE

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority.....	242	225	76	454
Outlays.....	292	269	138	264

COMMITTEE RECOMMENDATION

The Committee recommendation includes \$530 million in budget authority and \$402 million in outlays, which should accommodate the extension of Indochinese refugee assistance and the higher admission rate proposed by the President. The Committee recommendation assumes the admission of 168,000 Indochinese refugees and 45,000 refugees from the Soviet Union and other countries.

EXPLANATION OF RECOMMENDATION

The First Budget Resolution included \$242 million in budget authority and \$292 million in outlays for reimbursement to States for assistance provided to refugees from the Soviet Union, Cuba, and Southeast Asia to cover the costs of caring for about 124,000 refugees in fiscal year 1980. Because the authorization for Indochinese refugee assistance expires on September 30, 1979, and has not yet been renewed, the House Labor-HEW appropriation includes \$76 million in budget authority, the estimated requirement for assistance to Cuban and Soviet refugees only. Extension of the Indochinese refugee assistance authorization is included in H.R. 2816, which was reported from the House Judiciary Subcommittee on Immigration, Refugees, and International Law on August 2, 1979. The cost of this bill in fiscal year 1980 will be \$444 million in budget authority and \$256 million in outlays, assuming a total annual admission of 168,000 refugees. This level implements the President's commitment at the Tokyo summit conference to increase the monthly admission of refugees from 7,000 to 14,000. The recommendation includes the cost of this bill as well as estimated higher requirements under current authorizations of \$10 million in budget authority and \$8 million in outlays, primarily for Soviet refugees. Other spending recommendations for refugee assistance are discussed in the International Affairs section of the Committee report.

3. LIFTING OF CEILING ON APPROPRIATIONS FOR THE FOOD STAMP PROGRAM

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/under current House status
Budget authority-----	7,332	8,612	6,189	2,026
Outlays-----	7,263	8,556	6,263	1,925

COMMITTEE RECOMMENDATION

The Committee recommendation assumes budget authority of \$8,215 million and outlays of \$8,188 for the Food Stamp program, which is an increase of \$2,026 million in budget authority and \$1,925 million in outlays over the current House status and the appropriations ceiling, which was imposed by the Food Stamp Amendments of 1977.

EXPLANATION OF COMMITTEE RECOMMENDATION

The First Budget Resolution assumed that the ceiling on appropriations for the Food Stamp program would be lifted for both fiscal years 1979 and 1980. The First Budget Resolution assumed that the cost to raise the ceiling would be \$1,294 million in budget authority and \$1,193 million in outlays. Because of the projected increases in food costs, the current estimate is \$714 million in budget authority and outlays higher than the estimate in the First Budget Resolution.

The administration has transmitted legislation (H.R. 4318) which would remove the ceiling for fiscal year 1980. This legislation is also the vehicle for the administration's proposed legislative savings, which are assumed in the Committee recommendation. (See Committee recommendation No. 1 above.) The House Agriculture Committee has not yet held hearings on the administration's bill.

The House has passed H.R. 4303 which will increase program costs in fiscal year 1980 by \$41 million in budget authority and outlays. This bill would effectively repeal several provisions of the Food Stamp Amendments of 1977 as they apply to the elderly and disabled by permitting households containing a person age 60 or older or a recipient of Supplemental Security Income (SSI) benefits to deduct medical expenses which exceed \$35 a month, as well as shelter costs in excess of 50 percent of net income. This provision was included in P.L. 96-58, the Food Stamp Act amendment of 1979 signed by the President on August 14, 1979. This increase in cost is partially offset by savings of \$22.5 million from Senate provisions to tighten administrative controls which were also included in P.L. 96-58.

The Committee recommendation assumes an increase of \$2,026 million in budget authority and \$1,925 million in outlays over the current House status, which is attributable to the following:

[In millions of dollars]

	Budget authority	Outlays
● Assumption in First Budget Resolution that ceiling on appropriations would be lifted	1,294	1,193
● Impact of revised economic assumptions	714	714
● Impact of Food Stamp Act Amendment of 1979 (Public Law 96-58)	18	18
Total	2,026	1,925

4. FUNDING FOR ENTITLEMENT LEGISLATION ASSUMED IN FIRST BUDGET RESOLUTION

In millions of dollars	First Budget Resolution	President's mid-session review	Current House status	Recommendation, over/ under current House status
Budget authority	382	48	-----	326
(New Entitlement Authority) ..	(382)	(48) (-----)	-----	(56)
Outlays	382	48	-----	326

COMMITTEE RECOMMENDATION

The Committee recommendation includes an allowance of \$326 million in budget authority and outlays to finance entitlement legislation assumed in the First Budget Resolution, including the \$270 million for legislation which has already been reported or has passed the House and half of the cost of Ways and Means legislation which has yet to be reported. This recommendation parallels the recommended downward adjustment in target legislative savings for programs under the jurisdiction of the Committee on Ways and Means. (See Committee recommendation Number 1 above.)

EXPLANATION OF COMMITTEE RECOMMENDATION

The following table indicates the projected cost of bills which have passed the House.

BILL AND STATUS

[In millions of dollars]

	<i>Budget authority outlays</i>
Passed House:	
Trade adjustment assistance (H.R. 1543).....	177
SSI disability amendments (H.R. 3464).....	7
Disability insurance amendments (H.R. 3236): Impact on SSI, AFDC, and food stamp programs (trust fund impact of —\$17,000,000 in outlays is included in current House status).....	23
Social Services and Child Welfare Amendments of 1979 (H.R. 3434): Includes legislative savings of —\$1,000,000.....	63
Total.....	270

In its allocation of the First Budget Resolution, the Committee on Ways and Means indicates its intention to report the following:

[In millions of dollars]

	<i>New entitle- ment authority</i>
● Continue child support enforcement assistance to persons not receiving AFDC....	19
● Continuation of services program for disabled children receiving supplemental security income (SSI) benefits and other change to SSI recommended by the Committee on Ways and Means.....	93
Total.....	112

The child support enforcement provision is included in the welfare reform bill (H.R. 4904) approved by the Public Assistance Subcommittee. That bill also includes SSI provisions which are estimated by CBO to cost \$49 million in fiscal year 1980. The Committee recommendation assumes implementation delays similar to what is assumed for the legislative savings in cash assistance.

5. SUPPLEMENTALS FOR MANDATORY PROGRAMS

In millions of dollars	First Budget Resolution	President's midsession review	Current House status	Recommendation, over/ under current House status
Budget authority.....		475	-----	832
Outlay.....		475	-----	645

COMMITTEE RECOMMENDATION

The Committee recommendation assumes supplemental requirements of \$832 million in budget authority and \$645 million in outlays which are estimated to be needed above the levels in House-passed appropriations bills.

EXPLANATION OF COMMITTEE RECOMMENDATION

Supplemental appropriations are anticipated from the following requirements, none of which reflects a change in current law.

ANTICIPATED SUPPLEMENTAL

[In millions of dollars]

	Budget authority	Outlay
Black lung disability trust fund.....	463	46 ³
Impact of draw-down of fiscal year 1980 appropriation from Michel amendment to fiscal year 1979 appropriations.....	66	-----
Child nutrition programs.....	84	-----
Public assistance (AFDC).....	219	101
Pay supplemental for Federal employees whose pay is financed from social insurance trust funds.....		81
Total.....	832	645

These estimates do not differ substantially from the estimates in the First Budget Resolution with exception of the following:

- The increase for Black Lung Disability Trust Fund has occurred because of substantially higher than anticipated approval of claims resulting from the Black Lung Amendments of 1977.
- An increase of \$66 million in budget authority for Public Assistance reflects the projected draw-down of fiscal year 1980 appropriations to cover the shortfall resulting from the Michel Amendment to the fiscal year 1979 Labor-HEW appropriations.
- The supplementals for child nutrition, public assistance and pay reflect funding requirements assumed in the First Budget Resolution.

FUNCTION 600: INCOME SECURITY—FISCAL YEAR 1980

[In millions of dollars]

	Fiscal year 1980 First Resolution		Fiscal year 1980 President's budget revised mid-year update		Fiscal year 1980 House current status		Fiscal year 1980 committee recommendation	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
General retirement/disability:								
Social security	116,015	116,877	116,342	117,414	115,368	118,519	115,368	118,615
Proposed legislation		-62	2	-386				-17
Railroad retirement	4,189	4,616	4,316	4,622	4,161	4,656	4,161	4,657
Proposed legislation			211	-65				
Special benefits to disabled coal miners	1,426	1,320	1,934	1,933	1,473	1,481	1,935	1,943
Other	9	11	8	8	11	11	11	11
Subtotal: 601	(121,640)	(122,762)	(122,813)	(123,525)	(121,013)	(124,667)	(121,475)	(125,209)
Federal employee retirement	23,264	14,178	23,159	14,438	23,645	14,530	23,645	14,531
Proposed legislation	13	-110	14	24				-97
House passed legislation					23	12	23	12
Subtotal: 602	(23,277)	(14,068)	(23,172)	(14,461)	(23,668)	(14,542)	(23,668)	(14,446)
Unemployment insurance	15,565	13,979	16,160	14,160	15,882	15,279	15,881	15,279
Proposed legislation	177	177			-1		176	177
Subtotal: 603	(15,742)	(14,156)	(16,160)	(14,160)	(15,881)	(15,279)	(16,058)	(15,456)

Public assistance and other:

Cash assistance:

SSI.....	6,323	6,267	6,396	6,270	6,323	6,267	6,323	6,267
AFDC.....	7,298	7,180	7,080	6,961	7,072	7,079	7,357	7,180
Leg: Initiatives.....	158	158	48	48			126	126
Leg: Impact from social security.....							23	23
Leg: Savings.....	-293	-293	-273	-273			-146	-146

Subtotal: Cash assistance.....

Housing assistance.....

Food stamps.....

Leg: Removal of cap.....

Leg: Savings.....

Subtotal: Food stamps.....

School lunch: child nutrition.....

Proposed legislation.....

Refugee assistance.....

Proposed legislation.....

Proposed energy legislation.....

Earned income tax credit.....

Other.....

Subtotal: 604.....

Grand total.....

(13,486)	(13,312)	(13,251)	(13,006)	(13,395)	(13,346)	(13,683)	(13,450)
26,794	5,339	27,475	5,324	27,479	5,334	27,479	5,334
6,189	6,254	6,189	6,262	6,189	6,262	6,189	6,263
1,295	1,160	2,575	2,446			2,026	1,925
-152	-152	-152	-152			-250	-250
(7,332)	(7,262)	(8,612)	(8,556)	(6,189)	(6,262)	(7,965)	(7,938)
4,683	4,533	4,688	4,383	4,560	4,403	4,694	4,453
-509	-509	-380	-380			-215	-215
76	126	225	269	76	138	76	138
166	166					454	264
		1,600	1,600			(1,600)	¹ (1,600)
1,874	1,874	1,547	1,547	1,874	1,874	1,874	1,874
240	240	240	219	446	448	448	447
(54,142)	(32,343)	(57,257)	(34,524)	(54,019)	(31,805)	(56,458)	(33,683)
214,801	183,329	219,402	186,670	214,581	186,293	217,658	188,795

¹ Included in energy function 270.

FUNCTION 700: VETERANS BENEFITS AND SERVICES

The Committee recommendation provides \$21,607 million in budget authority and \$20,851 million in outlays compared to \$21,200 million in budget authority and \$20,600 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in increases in \$407 million in budget authority and \$251 million in outlays above the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	21.2	20.6
Second Budget Resolution recommendation.....	21.6	20.85
Difference over/under First Resolution.....	+ .4	+ .25
● A higher-cost-of-living increase in veterans and survivors compensation than assumed in the First Budget Resolution is expected.....	+ .2	+ .15
● The recommendation reflects lower readjustment benefit costs.....		— .1
● Savings from legislative reform proposals are reduced due to later implementation date and Senate action.....	+ .2	+ .2
● The recommendation reflects House-passed HUD-Independent Agencies appropriations.....	+ .1	(¹)

¹ Less than \$50 million

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	548	1,841
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	20,365	18,377
Current House status as of Aug. 2, 1979.....	20,913	20,217
Budget Committee assumptions on remaining items:		
1. Supplemental to fund new entitlements.....	786	726
2. Savings from legislative reform of veterans benefits.....	—92	—92
Second Budget Resolution recommendation.....	21,607	20,851

For this function permanent appropriations, offsetting receipts, and outlays from prior year budget authority total \$548 million in budget authority and \$1,841 million in outlays. In addition, the House has passed the HUD and Independent Agencies and the Labor-HEW appropriations bills containing \$20,365 million in budget authority

and \$18,377 million in outlays for this function. The two items which remain to be considered by the House are discussed below:

1. SUPPLEMENTAL TO FUND NEW ENTITLEMENTS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	629	600	-----	786
(New entitlement authority).....	(629)	(600)	(-----)	(41)
Outlays.....	583	553	-----	726

COMMITTEE RECOMMENDATION

The Committee recommends \$786 million in budget authority and \$726 million in outlays for supplemental appropriations to fund new veterans entitlement initiatives.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation accommodates a 10.9 percent cost-of-living increase in compensation payments for service-disabled veterans and their survivors. The Second Budget Resolution includes \$168 million more for the compensation cost-of-living increase than provided in the House-passed legislation (H.R. 2282) and the First Budget Resolution due to higher current projections of the change in the Consumer Price Index. This recommendation reflects the Committee's concern that the Nation's veterans, especially those with service-connected disabilities, not be adversely affected by the high inflation rate. In addition, the recommendation provides \$41 million in budget authority and outlays to fund vocational rehabilitation amendments and other minor initiatives anticipated by the Veterans' Affairs Committee.

2. SAVINGS FROM MEDICAL BENEFIT REFORMS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	-262	-152	-----	-92
Outlays.....	-262	-152	-----	-92

COMMITTEE RECOMMENDATION

The Committee recommends that the Second Budget Resolution assume \$92 million in savings from legislative reform of certain veterans programs.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation assumes \$57 million in savings resulting from legislation requiring reimbursement from insurance carriers, employers, and other non-Federal sources for the cost of medical care and treatment of insured veterans with non-service-connected conditions. The savings from this proposal have been reduced from \$165 million assumed in the First Budget Resolution to \$57 million based on a July, 1980 effective date.

The recommendation also includes \$35 million in savings from limitations on the eligibility of veterans without service-connected disabilities for dental treatment, travel reimbursement and over-the-counter outpatient drugs and supplies. The First Budget Resolution assumed \$97 million in savings from the elimination of certain of these benefits. However, the Second Budget Resolution savings assumptions are based on Senate-passed legislation, S. 1039, which contains provisions which restrict rather than eliminate these benefits.

FUNCTION 700: VETERANS BENEFITS AND SERVICES

COMPARISON OF ASSUMPTIONS IN FIRST AND SECOND BUDGET RESOLUTIONS, FISCAL YEAR 1980

[In millions of dollars]

	President's midsession review		First Budget Resolution		Second Budget Resolution		Second Resolution (+) Over, (-) Under First Resolution		Second Resolution (+) over, (-) under midsession review	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
Income security:										
Compensation and pensions	11,202	11,259	11,197	11,152	11,202	11,152	+5			-107
Proposed legislation: Compensation COLA	602	552	577	531	745	685	+168	+154	+143	+133
Other proposed legislation			+9	+9			-9	-9		
Insurance	550	316	551	315	551	311		-4	-1	-5
Subtotal	(12,355)	(12,127)	(12,334)	(12,007)	(12,498)	(12,148)	(+164)	(+141)	(+142)	(+21)
Education, training and rehabilitation:										
Readjustment benefits	2,291	2,246	2,227	2,193	2,279	2,115	+52	-78	-12	-131
Proposed legislation	-3	-3	+41	+41	+41	+41			+44	+44
Subtotal	(2,288)	(2,243)	(2,268)	(2,234)	(2,320)	(2,156)	(+52)	(-78)	(+32)	(-87)
Hospital and medical care:										
Medical care	5,659	5,657	5,888	5,750	5,684	5,670	-204	-80	+25	+13
Proposed legislation	-152	-152	-262	-262	-92	-92	+170	+170	+60	+60
Construction	395	328	247	311	390	318	+143	+7	-5	-10
Medical administration, research, other	173	222	186	242	179	231	-7	-11	+6	+9
Subtotal	(6,075)	(6,055)	(6,059)	(6,041)	(6,161)	(6,127)	(+102)	(+86)	(+86)	(+72)
Housing		-227		-215		-215				+12
Administrative costs and offsetting receipts	632	638	633	638	628	635	-5	-3	-4	-3
Across-the-board reduction (Fisher amendment)			-93	-105			+93	-105		
Function total	21,351	20,837	21,200	20,600	21,607	20,851	+407	+251	+256	+14

FUNCTION 750: ADMINISTRATION OF JUSTICE

The Committee recommendation provides \$4,269 million in budget authority and \$4,468 million in outlays compared to \$4,200 million in budget authority and \$4,400 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$69 million in budget authority and an increase of \$68 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	4.2	4.4
Second Budget Resolution recommendation.....	4.3	4.5
Difference over/under First Resolution.....	+.1	+.1
● Congressional action on appropriation levels for various Department of Justice accounts.....	+.1	+.1

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....		1,069
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	4,269	3,399
Current House status as of August 2, 1979.....	4,269	4,468
Budget Committee assumptions on remaining items: None.		
Second Budget Resolution recommendation.....	4,269	4,468

Permanent appropriations, offsetting receipts and outlays from prior-year budget authority total \$1,069 million in outlays. In addition, the House has passed the State-Justice-Commerce appropriation bill and four other appropriation bills totaling \$4,269 million in budget authority and \$3,399 million in outlays which affect this function. There are no items which remain to be considered for funding by the House.

FUNCTION 800: GENERAL GOVERNMENT

The Committee recommendation provides \$4,434 million in budget authority and \$4,301 million in outlays compared to \$4,400 million in budget authority and \$4,300 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$84 million in budget authority and an increase of \$1 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	4.4	4.3
Second Budget Resolution recommendation.....	4.5	4.3
Difference over/under First Resolution.....	+.1	
● Increased Appropriations for Territorial Affairs..... This change reflects higher appropriations for the Office of Territories than assumed in the First Budget Resolution.	+.1	

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior year budget authority.....	-60	306
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	3,524	3,118
Current House status as of Aug. 2, 1979.....	3,464	3,424
Budget Committee assumptions on remaining items:		
1. Appropriation bills.....	1,020	877
Second Budget Resolution recommendation.....	4,484	4,301

Permanent appropriations and outlays from prior year budget authority total \$60 million in budget authority and \$306 million in outlays. In addition, the House has passed regular appropriation bills totaling \$3,524 million in budget authority and \$3,118 million in outlays which affect this function. Remaining items to be considered by the House are discussed below.

1. APPROPRIATION BILLS

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	1,072	1,104	-----	+1,020
Outlays-----	944	979	-----	+877

COMMITTEE RECOMMENDATION

The Committee recommends inclusion of \$1,020 million in budget authority and \$877 million in outlays for the legislative branch appropriation bill and for expenses of the Federal Election Commission, not yet authorized.

EXPLANATION OF COMMITTEE RECOMMENDATION

The legislative branch appropriation bill for fiscal year 1980 failed passage when reported to the House earlier in the session. The amount recommended represents the amount included in the First Budget Resolution plus subsequent supplemental requests, less reductions anticipated during consideration of appropriations. Administrative expenses of the Federal Election Commission, stricken from the Treasury-Postal Service appropriation bill on a point of order during House consideration, are anticipated at the amount reported to the House.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

The Committee recommendation provides \$9,076 million in budget authority and \$9,075 million in outlays compared to \$8,100 million in budget authority and \$8,100 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$976 million in budget authority and an increase of \$975 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	8.1	8.1
Second Budget Resolution recommendation.....	9.1	9.1
Difference over/under First Resolution.....	+1.0	+1.0
● Antirecession Fiscal Assistance.....	+ .4	+ .4
● General Revenue Sharing.....	+ .7	+ .7
● D. C. Appropriation.....	- .1	- .1

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior year budget authority.....	8,031	8,071
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	443	404
Current House status as of Aug. 2, 1979.....	8,474	8,475
Budget Committee assumptions on remaining items:		
1. Antirecession fiscal assistance.....	+550	+550
2. General revenue sharing.....		
3. D.C. appropriation.....	+52	+50
Second Budget Resolution recommendation.....	9,076	9,075

Permanent appropriations, offsetting receipts and outlays from prior year budget authority total \$8,031 million in budget authority and \$8,071 million in outlays. In addition, the House has passed the District of Columbia appropriation bill and two other appropriation bills totaling \$443 million in budget authority and \$404 million in

outlays which affect this function. The three items which remain to be considered for funding by the House are discussed below:

1. ANTIRECESSION FISCAL ASSISTANCE

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 31, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	150	350	-----	550
Outlays-----	150	350	-----	550

COMMITTEE RECOMMENDATION

The Committee recommendation includes \$550 million in budget authority and outlays to allow initial funding for legislative initiatives designed to provide antirecession assistance to localities.

EXPLANATION OF COMMITTEE RECOMMENDATION

The First Budget Resolution provided \$150 million in budget authority and outlays to fund the President's proposed Targeted Fiscal Assistance program. Although hearings have been held on the proposal and the Government Operations Committee has the proposal under active consideration, the legislative outlook in the House is unclear. However, it appears that Congress will seriously consider enactment of some form of antirecession assistance to local governments undergoing fiscal stress. The Senate has passed S. 566, a 2-year antirecession authorization estimated to require \$780 million in fiscal year 1980.

The Committee recommendation provides \$550 million in budget authority and outlays to allow initial funding of a legislative initiative similar to the President's proposals, if enacted.

2. GENERAL REVENUE SHARING

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority-----	6,171	6,855	6,855	-----
Outlays-----	6,189	6,863	6,863	-----

COMMITTEE RECOMMENDATION

The Committee recommendation provides \$6,855 million in budget authority and \$6,863 million in outlays for the General Revenue Sharing program, which is current House status.

EXPLANATION OF COMMITTEE RECOMMENDATION

The First Budget Resolution assumed a legislative savings of \$684 million in budget authority and \$674 million in outlays through reduction of general revenue sharing payments to State governments. The conference report on the HUD-Independent Agencies Appropriation bill includes full funding of the revenue sharing program—\$6,855 million in budget authority. The Committee recommendation reflects congressional action.

3. DISTRICT OF COLUMBIA APPROPRIATION BILL

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	327	328	202	+52
Outlays.....	327	328	202	+50

COMMITTEE RECOMMENDATION

The Committee recommendation provides \$254 million in budget authority and \$252 million in outlays for the Federal payment to the District of Columbia, increases of \$52 million in budget authority and \$50 million in outlays above current House status.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation assumes that final congressional action on the D.C. appropriation will result in an increase of \$52 million over the current House level of \$202 million. The Senate-passed appropriation bill includes \$260 million in budget authority and outlays.

FUNCTION 900: INTEREST

The Committee recommendation provides \$58,038 million in budget authority and \$58,038 million in outlays compared to \$56,000 million in budget authority and \$56,000 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$2,038 million in budget authority and an increase of \$2,038 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	56.0	56.0
Second Budget Resolution recommendation.....	58.0	58.0
Difference over/under First Budget Resolution.....	+2.0	+2.0
● Interest on the Public Debt.....	+2.5	+2.5
The recommended change reflects current estimates of interest payments during fiscal year 1980 resulting from a general increase in rates of interest that Treasury must pay on refinancings of maturing debt and on new borrowings. The average short-term Treasury interest rate is assumed to be 8.4 percent during fiscal year 1980, compared to an assumed average rate of 7.6 percent employed in the First Budget Resolution.		
● Interest Paid to Treasury.....	-.5	-.5
This reflects higher anticipated payments of interest to Treasury by Government agencies including both on budget and off budget agencies. The increase results primarily from higher anticipated rates of interest on borrowings.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior year budget authority.....	58,049	58,049
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....	-11	-11
Current House status as of Aug. 2, 1979.....	58,038	58,038
Budget Committee assumptions on remaining items: None.		
Second Budget Resolution recommendation.....	58,038	58,038

Permanent appropriations and outlays from prior-year budget authority total \$58,049 million in budget authority and outlays. In addition, H.R. 3756 provides for \$2 million of interest forgiveness on loan repayments from Guam, and -\$13 million additional interest receipts would result from amendments to the cotton and prevented planting programs.

FUNCTION 920: ALLOWANCES

The Committee recommendation provides \$482 million in budget authority and \$453 million in outlays compared to -\$100 million in budget authority and -\$100 million in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$582 million in budget authority and an increase of \$553 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	•	Budget authority	Outlays
First Budget Resolution.....		-0.1	-0.1
Second Budget Resolution recommendation.....		.5	.5
Difference over/under First Resolution.....		+.6	+.6
<hr/>			
● Delayed Enactment of Wage Board Reform.....			
The recommendation assumes that reform of the wage board paysetting system will be delayed. The amount involved in this function is less than \$50 million.			
● Increased Pay Act Costs.....		+.1	+.1
The recommendation assumes funding of a civilian-agency pay increase averaging 7 percent, as formally proposed by the President on August 30, instead of 5.5 percent assumed in the First Budget Resolution. At the same time, the anticipated rate of absorption of increased costs has been increased to 30 percent from 20 percent assumed in the First Budget Resolution.			
● Distribution of Administrative Savings.....		+.5	+.5
The recommendation recognizes that administrative savings resulting from reductions in funds available for travel, film making, contractual services, overtime, and similar objects of expense have been made in regular appropriation bills and are now carried in appropriate functional categories.			

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlays
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....		
Bills enacted into law, pending signature, conference agreements and passed or reported in the House.....	-500	-500
Current House status as of Aug. 2, 1979.....	-500	-500
Budget Committee assumptions on remaining items:		
1. Civilian agency pay raises.....	+994	+964
2. Wage board reform.....	-12	-11
Second Budget Resolution recommendation.....	482	453

The Labor-HEW appropriation bill requires \$500 million in savings from elimination of fraud, abuse, waste, and mismanagement.

The items which remain to be considered by the House are discussed below.

1. CIVILIAN AGENCY PAY RAISES

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	878	950	-----	+994
Outlays.....	854	921	-----	+964

COMMITTEE RECOMMENDATION

The Committee recommends \$994 million in budget authority and \$964 million in outlays for civilian agency pay raises.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation assumes an average 7 percent Federal pay raise and absorption of 30 percent of gross pay-raise costs through Executive action and appropriations review of the spring supplemental.

2. WAGE BOARD REFORM

[Fiscal year 1980]

In millions of dollars	First Budget Resolution	President's midsession review July 12, 1979	Current House status	Recommendation, over/ under current House status
Budget authority.....	-24	-24	-----	-12
Outlays.....	-23	-23	-----	-11

COMMITTEE RECOMMENDATION

The Committee recommends inclusion of legislative savings of \$12 million in budget authority and \$11 million in outlays from wage board reform.

EXPLANATION OF COMMITTEE RECOMMENDATION

The recommendation anticipates enactment of legislation, as recommended by the President, to reform the system for establishing wage rates for blue-collar employees. The recommendation anticipates a 6-month effective period. A similar recommendation is made in connection with function 050, national defense.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

The Committee recommendation provides —\$19,600 million in budget authority and —\$19,600 million in outlays compared to —\$19,700 million in budget authority and —\$19,700 in outlays provided in the First Budget Resolution for Fiscal Year 1980. This recommendation results in an increase of \$100 million in budget authority and an increase of \$100 million in outlays from the First Budget Resolution.

MAJOR CHANGES FROM FIRST BUDGET RESOLUTION

In billions of dollars	Budget authority	Outlays
First Budget Resolution.....	—19.7	—19.7
Second Budget Resolution recommendation.....	—19.6	—19.6
Difference over/under First Resolution.....	+.1	+.1
● Interest Received by Trust Funds.....	— .4	— .4
This reflects higher offsetting receipts by Government trust funds as a result of higher interest rates on special issues of Treasury securities held by the trust funds. The figure represents an increase in interest receipts which is offset in this function to avoid double counting within the unified budget.		
● OCS Rents and Royalties.....	+.5	+.5
This reflects current estimates of amounts expected to be received in fiscal year 1980 from leasing of mineral-producing tracts on the Outer Continental Shelf. The figure represents a decrease in estimated receipts.		

SECOND BUDGET RESOLUTION RECOMMENDATION

In millions of dollars	Budget authority	Outlay
Permanent appropriations, offsetting receipts not requiring current action, and outlays from prior-year budget authority.....	—19,600	—19,600
Bills enacted into law, pending signature, conference agreements, and passed or reported in the House.....		
Current House status as of Aug. 2, 1979.....	—19,600	—19,600
Budget Committee assumptions on remaining items: None.		
Second Budget Resolution recommendation.....	—19,600	—19,600

Permanent appropriations and outlays from prior-year budget authority total —\$19,600 million in budget authority and outlays.

XI. APPENDICES

APPENDIX A

[H. Con. Res. 186, 96th Congress, 1st session]

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 14, 1979

Mr. GIAIMO, from the Committee on the Budget, reported the following concurrent resolution; which was referred to the Committee of the Whole House on the State of the Union

CONCURRENT RESOLUTION

Resolved by the House of Representatives (the Senate concurring), That the Congress hereby determines and declares, pursuant to section 310(a) of the Congressional Budget Act of 1974, that for the fiscal year beginning on October 1, 1979—

(1) the recommended level of Federal revenues is \$519,500,000,000, and the amount by which the aggregate level of Federal revenues should be increased is \$5,300,000,000;

(2) the appropriate level of total new budget authority is \$632,557,000,000;

(3) the appropriate level of budget outlays is \$548,725,000,000;

(4) the amount of the deficit in the budget which is appropriate in the light of economic conditions and all other relevant factors is \$29,225,000,000; and

(5) the appropriate level of the public debt is \$886,125,000,000, and the amount by which the statutory limit on such debt should accordingly be increased is \$56,125,000,000.

SEC. 2. The Congress reaffirms its commitment to find a way to relate accurately the outlays of off-budget Federal entities to the budget. The Congress recognizes that by law the outlays of off-budget Federal entities are not reflected in the budget totals, and that in fiscal year 1980, off-budget outlays (and, hence, the off-budget deficit) are estimated to be \$16 billion.

SEC. 3. Based on allocations of the appropriate level of total new budget authority and of total budget outlays as set forth in paragraphs (2) and (3) of the first section of this resolution, the Congress hereby determines and declares pursuant to section 310(a) of the Congressional Budget Act of 1974 that, for the fiscal year beginning on October 1, 1979, the appropriate level of new budget authority and the estimated budget outlays for each major functional category are as follows:

(1) National Defense (050):

(A) New budget authority, \$138,156,000,000;

(B) Outlays, \$128,587,000,000.

- (2) International Affairs (150) :
 - (A) New budget authority, \$13,143,000,000;
 - (B) Outlays \$8,772,000,000.
- (3) General Science, Space, and Technology (250) :
 - (A) New budget authority, \$5,833,000,000;
 - (B) Outlays, \$5,662,000,000.
- (4) Energy (270) :
 - (A) New budget authority, \$36,266,000,000;
 - (B) Outlays, \$8,801,000,000.
- (5) Natural Resources and Environment (300) :
 - (A) New budget authority, \$12,525,000,000;
 - (B) Outlays, \$12,026,000,000.
- (6) Agriculture (350) :
 - (A) New budget authority, \$4,983,000,000;
 - (B) Outlays, \$2,542,000,000.
- (7) Commerce and Housing Credit (370) :
 - (A) New budget authority, \$6,778,000,000;
 - (B) Outlays, \$2,828,000,000.
- (8) Transportation (400) :
 - (A) New budget authority, \$19,610,000,000;
 - (B) Outlays, \$18,651,000,000.
- (9) Community and Regional Development (450) :
 - (A) New budget authority, \$8,991,000,000;
 - (B) Outlays, \$8,289,000,000.
- (10) Education, Training, Employment and Social Services (500)
 - (A) New budget authority, \$31,491,000,000;
 - (B) Outlays, \$31,471,000,000.
- (11) Health (550) :
 - (A) New budget authority, \$58,767,000,000;
 - (B) Outlays, \$54,715,000,000.
- (12) Income Security (600) :
 - (A) New budget authority, \$217,658,000,000;
 - (B) Outlays, \$188,795,000,000.
- (13) Veterans Benefits and Services (700) :
 - (A) New budget authority, \$21,607,000,000;
 - (B) Outlays, \$20,851,000,000.
- (14) Administration of Justice (750) :
 - (A) New budget authority, \$4,269,000,000;
 - (B) Outlays, \$4,468,000,000.
- (15) General Government (800) :
 - (A) New budget authority, \$4,484,000,000;
 - (B) Outlays, \$4,301,000,000.
- (16) General Purpose Fiscal Assistance (850) :
 - (A) New budget authority, \$9,076,000,000;
 - (B) Outlays, \$9,075,000,000.

- (17) Interest (900) :
 - (A) New budget authority, \$58,038,000,000;
 - (B) Outlays, \$58,038,000,000.
- (18) Allowances (920) :
 - (A) New budget authority, \$482,000,000;
 - (B) Outlays, \$453,000,000.
- (19) Undistributed Offsetting Receipts (950) :
 - (A) New budget authority, -\$19,600,000,000;
 - (B) Outlays, -\$19,600,000,000.

SEC. 4. The Congress projects the following budget aggregates for fiscal years 1981-82, based on the policies assumed in sections one and three—

- (1) the level of Federal revenues is as follows:
 - Fiscal year 1981: \$605,700,000,000;
 - Fiscal year 1982: \$704,500,000,000.
- (2) the level of total new budget authority is as follows:
 - Fiscal year 1981: \$666,938,000,000;
 - Fiscal year 1982: \$728,866,000,000.
- (3) the level of total budget outlays is as follows:
 - Fiscal year 1981: \$604,027,000,000;
 - Fiscal year 1982: \$655,821,000,000.
- (4) the amount of surplus in the budget is as follows:
 - Fiscal year 1981: \$1,673,000,000;
 - Fiscal year 1982: \$48,679,000,000.
- (5) the level of the public debt is as follows:
 - Fiscal year 1981: \$916,225,000,000;
 - Fiscal year 1982: \$907,925,000,000.

SEC. 5. In 1980, each standing committee of the House of Representatives having jurisdiction over entitlement programs shall include a its March 15 report to the Budget Committee of the House of Representatives specific recommendations as to what changes, if any, would be appropriate in the funding mechanisms of such programs to enable Congress to exercise more fiscal control over expenditures mandated by these entitlements.

Within a reasonable period of time after March 15, 1980 the Budget Committee of the House of Representatives shall submit to the House such recommendations as it considers appropriate based on such reports.

APPENDIX B

COMPARISON TABLES FISCAL YEAR 1980—COMPARISON OF BUDGET AGGREGATES

[In millions of dollars]

Budget aggregates	Fiscal year 1978 actuals	Revised Second Budget Resolution fiscal year 1979	Fiscal year 1980				
			President's request		First Concurrent Resolution	House Budget recom- mendations	Senate Budget recom- mendations
			Jan. 22, 1979	July 12, 1979 ¹			
Revenues-----	402,000	461,000	502,553	513,900	509,000	519,500	514,700
Budget authority-----	501,500	559,200	615,526	644,872	604,400	632,557	632,200
Outlays-----	450,800	494,450	531,566	543,005	532,000	548,725	542,700
Deficit-----	48,800	33,450	29,013	29,105	23,000	29,225	28,000
Debt subject to limit-----	772,700	834,200	893,168	882,600	887,200	886,125	887,400

¹ This column reflects July 31 revision of President's midsession review originally submitted on July 12, 1979.

COMPARISON OF BUDGET AUTHORITY—FISCAL YEAR 1980

[In millions of dollars]

Function	Revised Second Budget Resolution, fiscal year 1979	President's request		First Concurrent Resolution	House current status	Recommen- dation
		Jan. 22, 1979	July 12, 1979 ¹			
050 National Defense.....	127,000	138,243	138,477	136,600	6,052	138,156
150 International affairs.....	11,400	13,655	14,266	12,600	12,636	13,143
250 General Science, Space, and Technology.....	5,400	5,651	5,871	5,700	5,833	5,833
270 Energy.....	7,600	19,482	42,804	18,800	5,601	36,266
300 Natural Resources and Environment.....	12,900	12,878	12,922	12,600	12,125	12,525
350 Agriculture.....	8,300	4,868	4,866	5,000	4,930	4,983
370 Commerce and Housing Credit.....	5,900	8,315	8,335	6,900	6,698	6,778
400 Transportation.....	19,100	19,101	19,879	19,450	19,703	19,610
450 Community and Regional Development.....	9,200	11,259	8,709	8,900	7,211	8,991
500 Education, Training, Employment, and Social Services.....	32,700	30,903	31,200	30,850	29,077	31,491
550 Health.....	53,000	57,627	58,882	58,100	57,042	58,767
600 Income Security.....	194,150	214,460	219,402	214,800	214,429	217,658
700 Veterans Benefits and Services.....	20,400	21,024	21,351	21,200	20,913	21,607
750 Administration of Justice.....	4,200	4,304	4,288	4,200	4,269	4,269
800 General Government.....	4,300	4,528	4,535	4,400	3,464	4,484
850 General Purpose Fiscal Assistance.....	8,650	8,804	9,010	8,100	8,474	9,076
900 Interest.....	52,400	57,021	57,806	56,000	58,038	58,038
920 Allowances.....	700	2,426	926	-100	-500	482
950 Undistributed Offsetting Receipts.....	-18,100	-19,021	-18,657	-19,700	-19,600	-19,600
Total.....	559,200	615,526	644,872	604,400	456,395	632,557

¹ This column reflects July 31 revision of President's midsession review originally submitted on July 12.

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

COMPARISON OF OUTLAYS—FISCAL YEAR 1980

[In millions of dollars]

Function	Revised Second Budget Resolution, fiscal year 1979	President's request		First Concurrent Resolution	House current status	Recommen- dation
		Jan. 22, 1979	July 12, 1979			
050 National Defense.....	114,400	125,830	126,756	124,200	42,381	128,587
150 International Affairs.....	7,500	8,213	8,980	7,900	8,249	8,772
250 General Science, Space, and Technology.....	5,200	5,457	5,656	5,500	5,662	5,662
270 Energy.....	7,400	7,878	8,690	6,800	7,495	8,801
300 Natural Resources and Environment.....	11,300	11,456	11,818	11,700	11,876	12,026
350 Agriculture.....	6,200	4,269	2,450	5,400	2,334	2,542
370 Commerce and Housing Credit.....	2,900	3,390	3,181	3,200	2,760	2,828
400 Transportation.....	17,000	17,609	18,281	18,200	18,720	18,651
450 Community and Regional Development.....	9,700	7,281	7,458	8,100	7,975	8,289
500 Education, Training, Employment, and Social Services.....	29,700	30,210	29,986	30,500	30,229	31,471
550 Health.....	49,700	53,379	54,392	53,600	54,884	54,715
600 Income Security.....	161,100	179,120	186,670	183,300	186,293	188,795
700 Veterans Benefits and Services.....	20,200	20,461	20,837	20,600	20,217	20,851
750 Administration of Justice.....	4,200	4,388	4,380	4,400	4,468	4,468
800 General Government.....	4,200	4,412	4,400	4,300	3,424	4,301
850 General Purpose Fiscal Assistance.....	8,750	8,814	9,020	8,100	8,475	9,075
900 Interest.....	52,400	57,022	57,807	56,000	58,038	58,038
920 Allowances.....	700	1,398	898	—100	—500	453
950 Undistributed Offsetting Receipts.....	—18,100	—19,021	—18,657	—19,700	—19,600	—19,600
Total.....	494,450	531,566	543,005	532,000	453,380	548,725

¹ This column reflects July 31 revision of President's midsession review originally submitted on July 12.

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

**FISCAL YEAR 1980—COMPARISON OF THE FIRST CONCURRENT RESOLUTION AND BUDGET
COMMITTEE RECOMMENDATION**

[In millions of dollars]

Function	First Concurrent Resolution		Recommendation		Difference recommendations over (+) under (—) resolution	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
050 National Defense.....	136,600	124,200	138,156	128,587	1,556	4,387
150 International Affairs.....	12,600	7,900	13,143	8,772	543	872
250 General Science, Space, and Technology.....	5,700	5,500	5,833	5,662	133	162
270 Energy.....	18,800	6,800	36,266	8,801	17,466	2,001
300 Natural Resources and Environment.....	12,600	11,700	12,525	12,026	—75	326
350 Agriculture.....	5,000	5,400	4,983	2,542	—17	—2,858
370 Commerce and Housing Credit.....	6,900	3,200	6,778	2,828	—122	—372
400 Transportation.....	19,450	18,200	19,610	18,651	160	451
450 Community and Regional Development.....	8,900	8,100	8,991	8,289	91	189
500 Education, Training, Employment, and Social Services.....	30,850	30,500	31,491	31,471	641	971
550 Health.....	58,100	53,600	58,767	54,715	667	1,115
600 Income Security.....	214,800	183,300	217,658	188,795	2,858	5,495
700 Veterans Benefits and Services.....	21,200	20,600	21,607	20,851	407	251
750 Administration of Justice.....	4,200	4,400	4,269	4,468	69	68
800 General Government.....	4,400	4,300	4,484	4,301	84	1
850 General Purpose Fiscal Assistance.....	8,100	8,100	9,076	9,075	976	975
900 Interest.....	56,000	56,000	58,038	58,038	2,038	2,038
920 Allowances.....	—100	—100	482	453	582	553
950 Undistributed Offsetting Receipts.....	—19,700	—19,700	—19,600	—19,600	100	100
Total.....	604,400	532,000	632,557	548,725	28,157	16,725

Note: Detail may not add due to rounding.

FISCAL YEAR 1980—COMPARISON OF PRESIDENT'S MIDSESSION REVIEW AND BUDGET COMMITTEE RECOMMENDATION

[In millions of dollars]

Function	President's request (July 12, 1979) ¹		Recommendation		Difference recommendations over(+) under(-) President	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
050 National Defense.....	138,477	126,756	138,156	128,587	-321	1,831
150 International Affairs.....	14,266	8,980	13,143	8,772	-1,123	-208
250 General, Science, Space, and Technology.....	5,871	5,656	5,833	5,662	-38	6
270 Energy.....	42,804	8,690	36,266	8,801	-6,538	111
300 Natural Resources and Environment.....	12,922	11,818	12,525	12,026	-397	208
350 Agriculture.....	4,866	2,450	4,983	2,542	117	92
370 Commerce and Housing Credit.....	8,335	3,181	6,778	2,828	-1,557	-353
400 Transportation.....	19,879	18,281	19,610	18,651	-269	370
450 Community and Regional Development.....	8,709	7,458	8,991	8,289	282	831
500 Education, Training, Employment, and Social Services.....	31,200	29,986	31,491	31,471	291	1,485
550 Health.....	58,882	54,392	58,767	54,715	-115	323
600 Income Security.....	219,402	186,670	217,658	188,795	-1,744	2,125
700 Veterans Benefits and Services.....	21,351	20,837	21,607	20,851	256	14
750 Administration of Justice.....	4,288	4,380	4,269	4,468	-19	-88
800 General Government.....	4,535	4,400	4,484	4,301	-57	-99
850 General Purpose Fiscal Assistance.....	9,010	9,020	9,076	9,075	66	55
900 Interest.....	57,806	57,807	58,038	58,038	232	231
920 Allowances.....	926	898	482	453	-444	-445
950 Undistributed Offsetting Receipts.....	-18,657	-18,657	-19,600	-19,600	-943	-943
Total.....	644,872	543,005	632,557	548,725	-12,315	5,720

¹ This column reflects July 31 revision of President's midsession review originally submitted on July 12.

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

FISCAL YEAR 1980—COMPARISON OF BUDGET COMMITTEE RECOMMENDATION AND HOUSE CURRENT STATUS

[In millions of dollars]

Function	Budget Committee recommendation		House current status (Aug. 2, 1979)		Difference, House current status over (+) under (—) recommendation	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
050 National Defense.....	138,156	128,587	6,052	42,381	—132,104	—86,206
150 International Affairs.....	13,143	8,772	12,636	8,249	—507	—523
250 General Science, Space, and Technology.....	5,833	5,662	5,833	5,662	0	0
270 Energy.....	36,266	8,801	5,601	7,495	—30,665	—1,306
300 Natural Resources and Environment.....	12,525	12,026	12,125	11,876	—400	—150
350 Agriculture.....	4,983	2,542	4,930	2,334	—53	—208
370 Commerce and Housing Credit.....	6,778	2,828	6,698	2,760	—80	—68
400 Transportation.....	19,610	18,651	19,703	18,720	93	69
450 Community and Regional Development.....	8,991	8,289	7,211	7,975	—1,780	—314
500 Education, Training, Employment, and Social Services.....	31,491	31,471	29,077	30,229	—2,414	—1,242
550 Health.....	58,767	54,715	57,042	54,884	—1,725	169
600 Income Security.....	217,658	188,795	214,429	186,293	—3,229	—2,502
700 Veterans Benefits and Services.....	21,607	20,851	20,913	20,217	—694	—634
750 Administration of Justice.....	4,269	4,468	4,269	4,468	0	0
800 General Government.....	4,484	4,301	3,464	3,424	—1,020	—877
850 General Purpose Fiscal Assistance.....	9,076	9,075	8,474	8,475	—602	—600
900 Interest.....	58,038	58,038	58,038	58,038	0	0
920 Allowances.....	482	453	—500	—500	—982	—953
950 Undistributed Offsetting Receipts.....	—19,600	—19,600	—19,600	—19,600	0	0
Total.....	632,557	548,725	456,395	453,380	—176,162	—95,345

Note: Detail may not add due to rounding.

HISTORICAL PERSPECTIVE ON FUNCTIONAL OUTLAYS

[In millions of dollars]

Function	Fiscal year—			Transition quarter	Fiscal year—		OMB estimate, 1979		Revised Second Reso- lution fiscal year 1979	OMB estimate, 1980		First Budget Reso- lution fiscal year 1980	Com- mittee recom- menda- tion
	1974	1975	1976		1977	1978	January	July		January	July		
050 National defense.....	77,781	85,552	89,430	22,307	97,501	105,186	11,4053	115,528	114,400	125,830	126,756	124,200	128,967
150 International affairs.....	5,618	6,922	5,552	2,193	4,813	5,922	7,312	7,304	7,500	8,213	8,980	7,900	8,772
250 General science, space and technology.....	3,977	3,989	4,370	1,161	4,677	4,742	5,226	5,070	5,200	5,457	5,656	5,500	5,662
270 Energy.....	837	2,170	3,127	794	4,172	5,861	8,630	7,133	7,400	7,878	8,690	6,800	8,801
300 Natural resources and environ- ment.....	5,670	7,335	8,124	2,532	10,000	10,925	11,207	11,628	11,300	11,456	11,818	11,700	12,026
350 Agriculture.....	2,227	1,659	2,504	581	5,532	7,731	6,224	6,672	6,200	4,269	2,450	5,400	2,542
370 Commerce and housing credit..	3,925	5,607	3,792	1,392	—44	3,325	2,968	2,752	2,900	3,390	3,181	3,200	2,828
400 Transportation.....	9,172	10,388	13,435	3,304	14,636	15,444	17,449	17,223	17,000	17,609	18,281	18,200	18,651
450 Community and regional development.....	4,080	3,689	4,709	1,340	6,286	11,000	9,063	9,882	9,700	7,281	7,458	8,100	8,289
500 Education, training employ- ment, and social services.....	12,344	15,870	18,737	5,162	20,985	26,463	30,656	29,969	29,700	30,210	29,986	30,500	31,616
550 Health.....	22,073	27,648	33,448	8,721	38,785	43,676	49,136	49,794	49,700	53,379	54,392	53,600	55,015
600 Income security.....	84,437	108,610	127,412	32,797	137,915	146,212	158,867	161,636	161,100	179,120	186,670	183,300	188,795
700 Veterans benefits and services..	13,386	16,597	18,432	3,962	18,038	18,974	20,329	20,282	20,200	20,461	20,837	20,600	20,851
750 Administration of justice.....	2,462	2,942	3,320	859	3,600	3,802	4,351	4,260	4,200	4,388	4,380	4,400	4,468
800 General government.....	3,296	3,182	3,006	883	3,374	3,777	4,413	4,320	4,200	4,412	4,400	4,300	4,401
850 General purpose fiscal assis- tance.....	6,890	7,187	7,235	2,092	9,499	9,601	8,936	8,706	8,750	8,814	9,020	8,100	9,075
900 Interest.....	28,032	30,911	34,511	7,216	38,009	43,966	52,766	52,982	52,400	57,022	57,807	56,000	58,038
920 Allowances.....									700	1,398	898	—100	573
950 Undistributed offsetting receipts	—16,651	—14,075	—14,704	—2,567	—15,053	—15,772	—18,670	—18,383	—18,100	—19,021	—18,657	—19,700	—19,600
Total.....	269,509	326,185	366,439	94,729	402,725	450,836	493,368	496,758	494,450	531,566	543,005	532,000	549,770

Note: Totals may not add to detail due to rounding.

HISTORICAL PERSPECTIVE ON FUNCTIONAL OUTLAYS AS A PERCENT OF TOTAL BUDGET OUTLAYS

[In millions of dollars]

Function	Fiscal year—			Transition quarter	Fiscal year—		OMB estimate, 1979		Revised Second Reso- lution fiscal year 1979	OMB estimate, 1980		First Budget Reso- lution fiscal year 1980	Com- mittee recom- menda- tion
	1974	1975	1976		1977	1978	January	July		January	July		
050 National defense.....	28.8	26.2	24.4	23.5	24.2	23.3	23.2	23.2	23.1	23.7	23.3	23.3	23.5
150 International affairs.....	2.1	2.1	1.5	2.3	1.2	1.3	1.5	1.5	1.5	1.5	1.7	1.5	1.6
250 General science, space, and technology.....	1.5	1.2	1.2	1.2	1.2	1.1	1.1	1.0	1.1	1.0	1.0	1.0	1.0
270 Energy.....	.3	.7	.9	.8	1.0	1.3	1.7	1.4	1.5	1.5	1.6	1.3	1.6
300 Natural resources and environ- ment.....	2.1	2.2	2.2	2.7	2.5	2.4	2.3	2.3	2.3	2.2	2.2	2.2	2.2
350 Agriculture.....	.8	.5	.7	.6	1.4	1.7	1.3	1.3	1.2	.8	.5	1.0	.5
370 Commerce and housing credit.....	1.5	1.7	1.0	1.5	-----	.7	.6	.5	.6	.6	.6	.6	.5
400 Transportation.....	3.4	3.2	3.7	3.5	3.6	3.4	3.5	3.5	3.4	3.3	3.4	3.4	3.4
450 Community and regional de- velopment.....	1.5	1.1	1.3	1.4	1.6	2.4	1.8	2.0	2.0	1.4	1.4	1.5	1.5
500 Education, training, employ- ment, and social services.....	4.6	4.9	5.1	5.4	5.2	5.9	6.2	6.0	6.0	5.7	5.5	5.7	5.7
550 Health.....	8.2	8.5	9.1	9.2	9.6	9.7	10.0	10.0	10.1	10.0	10.0	10.1	10.0
600 Income security.....	31.3	33.3	34.8	34.6	34.2	32.4	32.2	32.5	32.6	33.7	34.4	34.5	34.3
700 Veterans benefits and services.....	5.0	5.1	5.0	4.2	4.5	4.2	4.1	4.1	4.1	3.8	3.8	3.9	3.8
750 Administration of justice.....	.9	.9	.9	.9	.9	.8	.9	.9	.8	.8	.8	.8	.8
800 General government.....	1.2	1.0	.9	.9	.9	.8	.9	.9	.8	.8	.8	.8	.8
850 General purpose fiscal assist- ance.....	2.6	2.2	2.0	2.2	2.4	2.1	1.8	1.8	1.8	1.7	1.7	1.5	1.7
900 Interest.....	10.4	9.5	9.4	7.6	9.4	9.8	10.7	10.7	10.6	10.7	10.6	10.5	10.6
920 Allowances.....	-----	-----	-----	-----	-----	-----	-----	-----	.1	.3	.2	-----	.1
950 Undistributed offsetting re- ceipts.....	-6.2	-4.3	-4.0	-2.7	-3.7	-3.5	-3.8	-3.7	-3.7	-3.6	-3.4	-3.7	-3.6
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Totals may not add to detail due to rounding.

APPENDIX C

DESCRIPTION OF FUNCTIONS

Function 050: National Defense

- 051: Department of Defense—Military
- 053: Atomic Energy Defense Activities
- 054: Defense-Related Activities

DESCRIPTION OF FUNCTION

This function represents 23 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 60 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

Funds in this function are provided to develop, maintain, and equip the military forces of the United States, and to finance defense-related activities of the Department of Energy. Major areas of funding include pay and benefits to active military and civilian personnel; military retired pay; research, development and procurement of weapons systems and supporting equipment; military construction including family housing; and operations and maintenance of the defense establishment. Funding is also provided for the development and procurement of nuclear weapons and naval reactors.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Department of Defense—Military
Atomic Energy Defense Activities
Defense-Related Activities

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Defense
Department of Energy
(Nuclear Weapons and Naval Reactors)

Function 150: International Affairs

- 151: Foreign Economic and Financial Assistance
- 152: Military Assistance
- 153: Conduct of Foreign Affairs
- 154: Foreign Information and Exchange Activities
- 155: International Financial Programs

DESCRIPTION OF FUNCTION

This function represents 2 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 62 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

Funds in this function are provided to finance the foreign affairs establishment, including embassies and other diplomatic missions abroad; the sale of U.S. commodities under the food for peace programs; foreign assistance activities in the less developed countries; security supporting assistance in support of U.S. efforts to promote peace and stability, primarily in the Middle East and Africa; military assistance to allies and other friendly governments; foreign military sales made through the trust fund; U.S. contributions to international financial institutions; and Export-Import Bank activities.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Foreign Affairs
 Foreign Aid
 Food for Peace
 Security Assistance
 Foreign Military Sales
 Export Promotion
 U.S. Contributions to International Financial Institutions

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of State
 Department of Defense
 Department of Treasury
 Department of Agriculture
 Agency for International Development
 International Communication Agency
 Export-Import Bank

Function 250: General Science, Space and Technology

251: General Science and Basic Research
 253: Space Fight
 254: Space Science, Applications and Technology
 255: Supporting Space Activities

DESCRIPTION OF FUNCTION

This function represents 1 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 73 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

This function includes space research and technology, general science, and basic research not specifically covered by other functional

areas, and represents nearly 20 percent of the total Federal research and development outlays. The budgets for the National Science Foundation (NSF), certain research programs of the Department of Energy (DOE), a small Smithsonian Institution program, and the National Aeronautics and Space Administration (NASA) program (except for aeronautical programs) are within this category.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

General Science and Basic Research (not primarily associated with other functions)

Space Research, Technology and Applications

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Energy

National Science Foundation

National Aeronautics and Space Administration

Function 270: Energy

271: Energy Supply

272: Energy Conservation

274: Emergency Energy Preparedness

276: Energy Information, Policy and Regulation

DESCRIPTION OF FUNCTION

This function represents 2 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 57 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

This function represents a consolidation of nearly all Federal energy and energy-related programs. Outlays in recent years have risen substantially reflecting the national goal of increasing energy security.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Energy Supply

Energy Research, Development, and Demonstration

Energy Conservation

Strategic Petroleum Reserve

Nuclear Regulation

TVA Power Program

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Energy

Nuclear Regulatory Commission

Tennessee Valley Authority

Function 300: Natural Resources and Environment

- 301: Water Resources
- 302: Conservation and Land Management
- 303: Recreational Resources
- 304: Pollution Control and Abatement
- 306: Other Natural Resources

DESCRIPTION OF FUNCTION

This function represents 2 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 55 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

Programs in this function are primarily designed to develop, manage, and maintain the Nation's natural resources and environment. Over the last 5 years, outlays in this function have risen significantly, reflecting substantial spending for activities related to the national goal of enhancing the environment.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Natural Resources Management, Development and Conservation
 Water Resources Programs
 Management and Acquisition of Parks
 Sewage Treatment Plant Construction Grant Program
 Implementation of National Environmental Program
 Development, Regulation, and Conservation of Minerals
 Management and Preservation of the Public Lands

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of the Interior
 Department of Agriculture
 Department of Commerce
 Army Corps of Engineers
 Environmental Protection Agency

Function 350: Agriculture

- 351: Farm Income Stabilization
- 352: Agricultural Research and Services

DESCRIPTION OF FUNCTION

This function represents less than one-half of 1 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 51 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

Programs in this function are designed to assist food purchasers, provide market information and services, and support food research. Food producers are assisted through deficiency payments, disaster payments, product purchases, insurance, nonresource loans, and regular loans. Market Information and services include Department of Agriculture administration, animal disease prevention, distribution of market information, and numerous regulatory activities. Research provides for direct support of Federal biological research facilities, grants for state-supported facilities, and economic analysis.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Price Support and Related Programs (Commodity Credit Corporation)
 Federal Crop Insurance
 FMHA Farm Loans
 Research Programs
 Extension Programs
 Consumer Protection, Marketing and Regulatory Programs
 Economic Intelligence

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Agriculture

Function 370: Commerce and Housing Credit

371: Mortgage Credit and Thrift Insurance
 372: Postal Service
 374: Federal Financing Bank
 376: Other Advancement and Regulation of Commerce

DESCRIPTION OF FUNCTION

This function represents 1 percent of total outlays contained in the recommendation for fiscal year 1980. After making allowance for offsetting receipts and transactions in revolving funds, almost 104 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

This function, which is highly volatile from year to year because of changing economic conditions, provides for assistance through the Government's unsubsidized housing programs and other activities related to commerce and finance.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Mortgage Insurance Programs
 Secondary-market support for insured mortgages
 Rural Housing Programs
 Payments to the Postal Service
 Small Business Loan and Guarantee Assistance
 Thrift and Deposit Insurance
 Regulatory Agencies

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Housing and Urban Development : FHA and GNMA
 Department of Agriculture : FMHA
 Postal Service
 Small Business Administration
 Regulatory Commissions
 Federal Deposit Insurance Corporation and Similar Agencies

Function 400: Transportation

401 : Ground Transportation
 402 : Air Transportation
 403 : Water Transportation
 407 : Other Transportation

DESCRIPTION OF FUNCTION

This function represents 3 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 31 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

This function provides assistance for transportation activities including ground (highway, railroads, and mass transportation), air, and water transportation programs. The transportation activities include major grant-in-aid programs to support State and local activities.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Highway Construction and Safety
 Mass Transit
 Railroad Assistance
 Airways and Airports
 Maritime Subsidies
 Coast Guard

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Transportation
 Department of Commerce
 NASA : Aeronautical Research
 Interstate Commerce Commission
 Civil Aeronautics Board

Function 450: Community and Regional Development

451 : Community Development
 452 : Area and Regional Development
 453 : Disaster Relief and Insurance

DESCRIPTION OF FUNCTION

This function represents 2 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 22 percent of

the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

During the past 5 years, the function has ranged between 1 percent and 2 percent of the Federal budget. Community development block grants and local public works account for more than half of the outlays in this function. The balance is made up of a wide variety of small urban and rural development grant programs.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

- Urban Initiatives
- Community Development Block Grants
- Rural Water and Waste Disposal Grants
- Economic Development Assistance
- Local Public Works
- Appalachian Regional Programs
- Indian Programs
- Disaster Relief
- Flood Insurance

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

- Department of Housing and Urban Development
- Department of Agriculture: FMHA
- Department of Commerce: EDA
- Department of Interior: BIA
- Small Business Administration
- District of Columbia

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

- 501: Elementary, Secondary, and Vocational Education
- 502: Higher Education
- 503: Research and General Education Aids
- 504: Training and Employment Services
- 505: Other Labor Services
- 506: Social Services

DESCRIPTION OF FUNCTION

This function represents 6 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 38 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

This function includes programs designed to promote the general extension of knowledge and skills and to assist individuals to become self-supporting members of society: Child development, elementary, secondary, vocational, and higher education programs; employment and training and public service employment programs; and grants to States for general social services and rehabilitation services. Funds in this function may be made available as income support directly related to training or education; cash payments (scholarships, loans, or stipends) to persons to enable them to participate in education or

training programs; grants to States, local governments, Indian tribes, or public and private institutions to operate local educational, employment, training, or social service programs; and direct research and departmental management expenditures.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Financial Assistance for Elementary and Secondary Education (ESEA)
 Occupational, Vocational and Adult Education
 Higher Education Student Assistance
 Higher and Continuing Education
 Comprehensive Employment and Training Act (CETA) Program
 Grants to States for Social and Child Welfare Services
 Human Development Services

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Health, Education, and Welfare
 Department of Labor
 Department of the Interior
 Community Services Administration, ACTION, and Various Other
 Independent Agencies

Function 550: Health

551: Health Care Services
 552: Health Research
 553: Education and Training of Health Care Work Force
 554: Consumer and Occupational Health and Safety

DESCRIPTION OF FUNCTION

This function represents 10 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 9 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

The major purpose of programs in this function is to promote the physical and mental health of the population. Programs include financing of medical care for aged, poor, and disabled persons; provision of health care for certain population groups, such as American Indians and merchant seamen; and grants to States, localities, and community groups to support health services programs. The function also includes research into the causes and cure of disease; promotion of consumer and occupational health and safety; training support for health workers and researchers; construction of health training and health care facilities; and food, drug, and other product safety and inspection programs.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Health Insurance for the Aged and Disabled (Medicare)
 Grants to States for Medical Assistance Programs (Medicaid)
 National Institutes of Health

Alcoholism, drug abuse and mental health research, training and services

Health resources development

Health services to designated population groups

Disease prevention and control

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Health, Education and Welfare

Department of Labor

Civil Service Commission

Department of Agriculture: Food Safety and Quality Service

Function 600: Income Security

601: General Retirement and Disability Insurance

602: Federal Employee Retirement and Disability

603: Unemployment Compensation

604: Public Assistance and other Income Supplements

DESCRIPTION OF FUNCTION

This function represents 34 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 7 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

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

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Old-Age, Survivors and Disability Insurance

Railroad Retirement

Special Benefits for Disabled Coal Miners

Federal Employee Retirement and Disability

Unemployment Insurance

Supplemental Security Income (SSI)

Grants to States for Maintenance Payments (Primarily AFDC)

Housing Assistance

Food Stamps

Child Nutrition

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

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

Function 700: Veterans Benefits and Services

701: Income Security for Veterans
 702: Veterans Education, Training, and Rehabilitation
 703: Hospital and Medical Care for Veterans
 704: Veterans Housing
 705: Other Veterans Benefits and Services

DESCRIPTION OF FUNCTION

This function represents 4 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 31 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

Most programs in this function are administered by the Veterans Administration in support of former members of the armed services and their survivors and dependents. Over half of the outlays in this function are for income security programs: compensation, pensions, and life insurance. Nearly one-third of the outlays are targeted at hospital and medical care for veterans, and about one-tenth for veterans' education, training, and rehabilitation. Housing and other benefits comprise the remainder. Nearly the entire function requires current action by Congress, yet the bulk of these outlays are virtually uncontrollable because of the entitlement nature of the major programs.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Veterans Disability Compensation
 Veterans Pensions
 Veterans Education and Training (GI Bill)
 Veterans Hospital and Medical Care
 Veterans Guaranteed Housing Loans
 Veterans Life Insurance

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Veterans Administration

Function 750: Administration of Justice

751: Federal Law Enforcement Activities
 752: Federal Litigative and Judicial Activities
 753. Federal Correctional Activities
 754: Criminal Justice Assistance

DESCRIPTION OF FUNCTION

This function represents 1 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 74 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

Over 20 percent of the function is attributable to a single program—Law Enforcement Assistance in the Department of Justice. The balance of the function is made up of various activities in the Federal Government in the areas of law enforcement, prosecution, correctional activities, and the judiciary.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

- Federal Bureau of Investigation
- Drug Enforcement
- Immigration and Naturalization
- Legal Services
- Customs
- Prisons
- Courts
- Law Enforcement Assistance
- Juvenile Delinquency Prevention

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

- Department of Justice
- Department of Treasury
- Civil Rights Commission
- EEDC
- Legal Services Corporation

Function 800: General Government

- 801: Legislative Functions
- 802: Executive Direction and Management
- 803: Central Fiscal Operations
- 804: General Property and Records Management
- 805: Central Personnel Management
- 806: Other General Government

DESCRIPTION OF FUNCTION

This function represents 1 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 75 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

This function covers the general overhead costs of the Federal Government. By far the largest proportion of new budget authority and outlays are attributable to operations of the Treasury Department (including the Internal Revenue Service). The balance is distributed among a large number of relatively small accounts. The legislative branch typically accounts for about one-fifth of the net total.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Legislative Branch Activities
Federal Buildings Fund
Income-Tax Administration

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Congress and its Agencies
Department of the Treasury
General Services Administration
Civil Service Commission
Department of Interior, Office of Territories

Function 850: General Purpose Fiscal Assistance

851: General Revenue Sharing
852: Other General Purpose Fiscal Assistance

DESCRIPTION OF FUNCTION

This function represents 2 percent of total outlays contained in the recommendation for fiscal year 1980. Approximately 11 percent of the outlays in the recommendation for this function could be described as outlays which are relatively controllable by Congress under existing law for fiscal year 1980.

The General Revenue Sharing program accounts for nearly 76 percent of the function. The balance of the function is comprised of anti-recession assistance, payments and loans to the District of Columbia, along with the return of portions of certain taxes and other charges to States and local governments.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

General Revenue Sharing
Antirecession Assistance
New York City Seasonal Loan Program
District of Columbia Federal Payment
Payments in Lieu of Taxes

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of the Treasury
Department of the Interior

Function 900: Interest

901: Interest on the Public Debt
902: Other Interest

DESCRIPTION OF FUNCTION

This function represents 11 percent of total outlays contained in the recommendation for fiscal year 1980. This function is entirely uncontrollable.

This function is comprised almost exclusively of interest on the public debt, to which are added minor amounts of interest paid by the Federal Government (interest on income-tax refunds, for example) and from which are deducted offsetting receipts, such as interest paid by the Federal Financing Bank on behalf of its Treasury borrowings. The Treasury Department accordingly accounts for almost all of the transactions in this function. A substantial share of interest paid out by the Treasury under this function is recovered through trust fund receipts. In fiscal year 1978, for example, approximately 19 percent of gross interest payments were collected by Government trust funds. In addition, approximately 15 percent of interest payments are returned to the Federal budget on the receipt side through deposit of excess earnings of the Federal Reserve System.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Interest on the Public Debt
Interest on Income Tax Refunds

MAJOR FEDERAL DEPARTMENTS AND AGENCIES IN THIS FUNCTION

Department of Treasury

Function 920: Allowances

Allowances includes estimates for civilian agency pay increases and contingencies to cover anticipated expenditures not included in the accounts of any executive agency.

MAJOR FEDERAL PROGRAMS IN THIS FUNCTION

Civilian Agency Pay Raise
Contingencies for Other Requirements

Function 950: Undistributed Offsetting Receipts

951: Employer Share, Employee Retirement
952: Interest Received by Trust Funds
953: Rents and Royalties on the Outer Continental Shelf

DESCRIPTION OF FUNCTION

Undistributed offsetting receipts involve financial transactions that are deducted from budget authority and outlays of the Government as a whole. The three items in this function are the employer share of employee retirement programs, composed of payments by Federal agencies to employee retirement funds; receipts from rents and royalties from oil leases on the Outer Continental Shelf; and interest received by certain trust funds.

APPENDIX D

MULTI-YEAR BUDGET PROJECTIONS: REVENUES AND BUDGET FUNCTIONS

A. MULTI-YEAR OUTLOOK FOR REVENUES

1. *Controllability of Revenues*

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

Changes in the level of revenues can be affected by the Congress although certain kinds of tax revenues, those earmarked for specific uses such as highway and social security payments, are much less liable to change than revenue sources which are not allocated to specific uses. Receipts allocated to trust funds are approximately 31½ percent of total receipts in fiscal year 1980. The remaining 69 percent of total receipts are derived from individual and corporation income taxes and excise taxes, which are not tied to specific spending programs.

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

2. *Past 5-Year Revenue Trend*

REVENUES AS A PERCENT OF GNP

[In billions of dollars]

	Fiscal year—					
	1975	1976	1977	1978 (estimate)	1979 (estimate)	1980 (estimate)
Total revenues-----	281.0	300.0	357.8	402.0	466.4	519.5
Nominal GNP-----	1,457.3	1,621.7	1,834.0	2,043.4	2,290.7	2,499.7
Revenues as percent of GNP---	19.3	18.5	19.5	19.7	20.4	20.8

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

As a percent of total receipts, social insurance taxes and contributions doubled, rising from 15.9 percent of total receipts in fiscal year 1960 to an estimated 31.2 percent in fiscal year 1980. Corporation income taxes fell from 23.2 percent of total revenues in fiscal year 1960 to 13.7 percent in fiscal year 1980 and individual income taxes varied slightly from year to year but remained relatively constant; personal taxes were 44.0 percent of total receipts in 1960 and 45.9 percent in 1980.

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

3. Selected Major Budget Outyear Issues

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

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

In addition, tax increases resulting from inflation's pushing people into higher brackets—the bracket creep—is estimated to increase revenues by \$9.6 billion in fiscal year 1980.

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

4. Outyear Overview

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

REVENUES

[In billions of dollars]

	Fiscal year—				
	1980	1981	1982	1983	1984
HBC.....	519.5	605.7	704.5	801.1	909.2
SBC.....	514.7	603.6	658.4	744.4	837.2
President.....	513.9	598.0	687.8		

IMPLICATIONS OF THE HOUSE BUDGET COMMITTEE'S PROJECTION

The House Budget Committee recommendation assumes adoption of the House version of the windfall profits tax and the energy credits

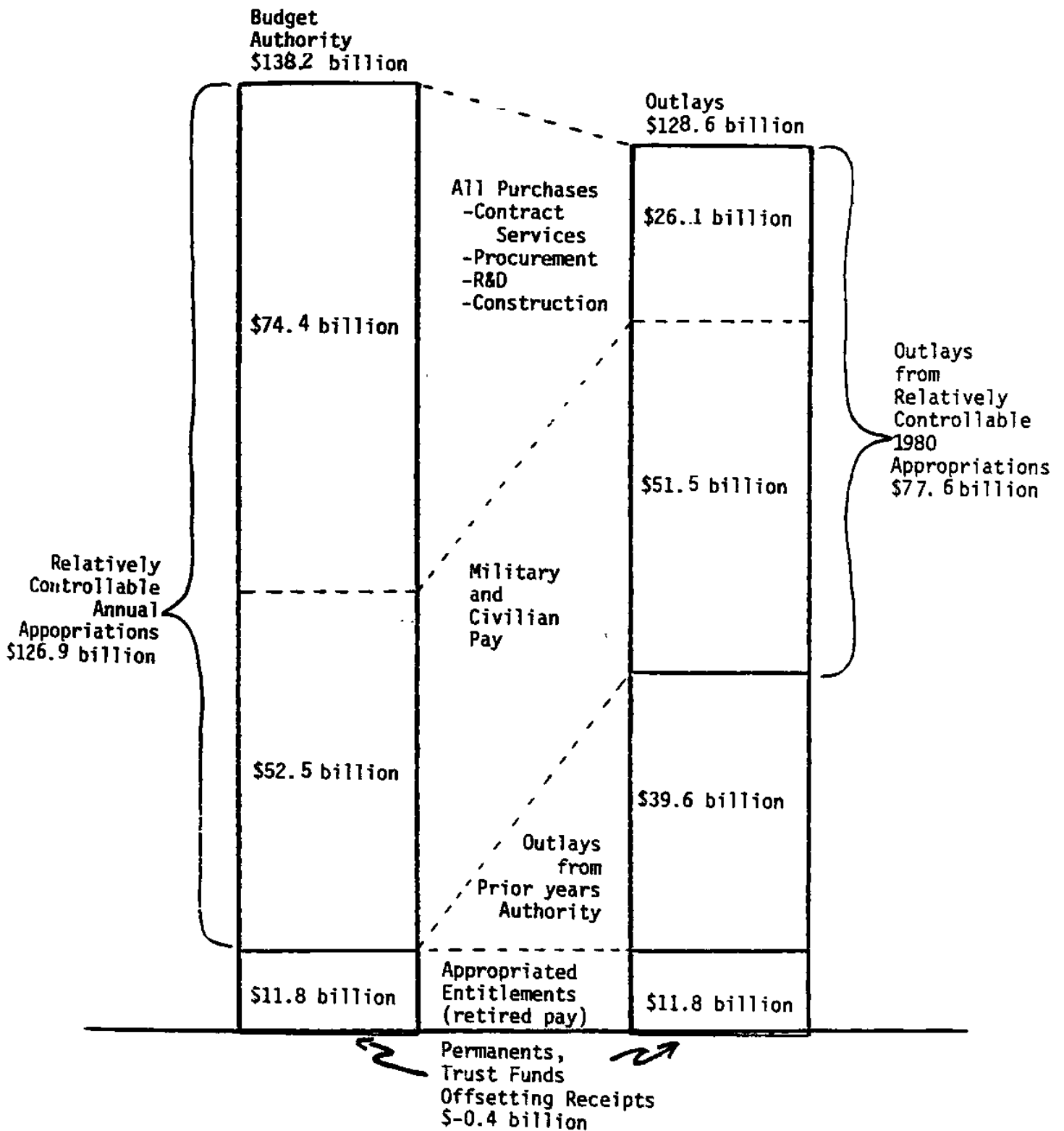
proposed by the President. It also assumes reform of tax exempt housing bonds as proposed by Chairman Ullman in H.R. 3712. It also assumes some increase in revenues for reform of the foreign tax credit.

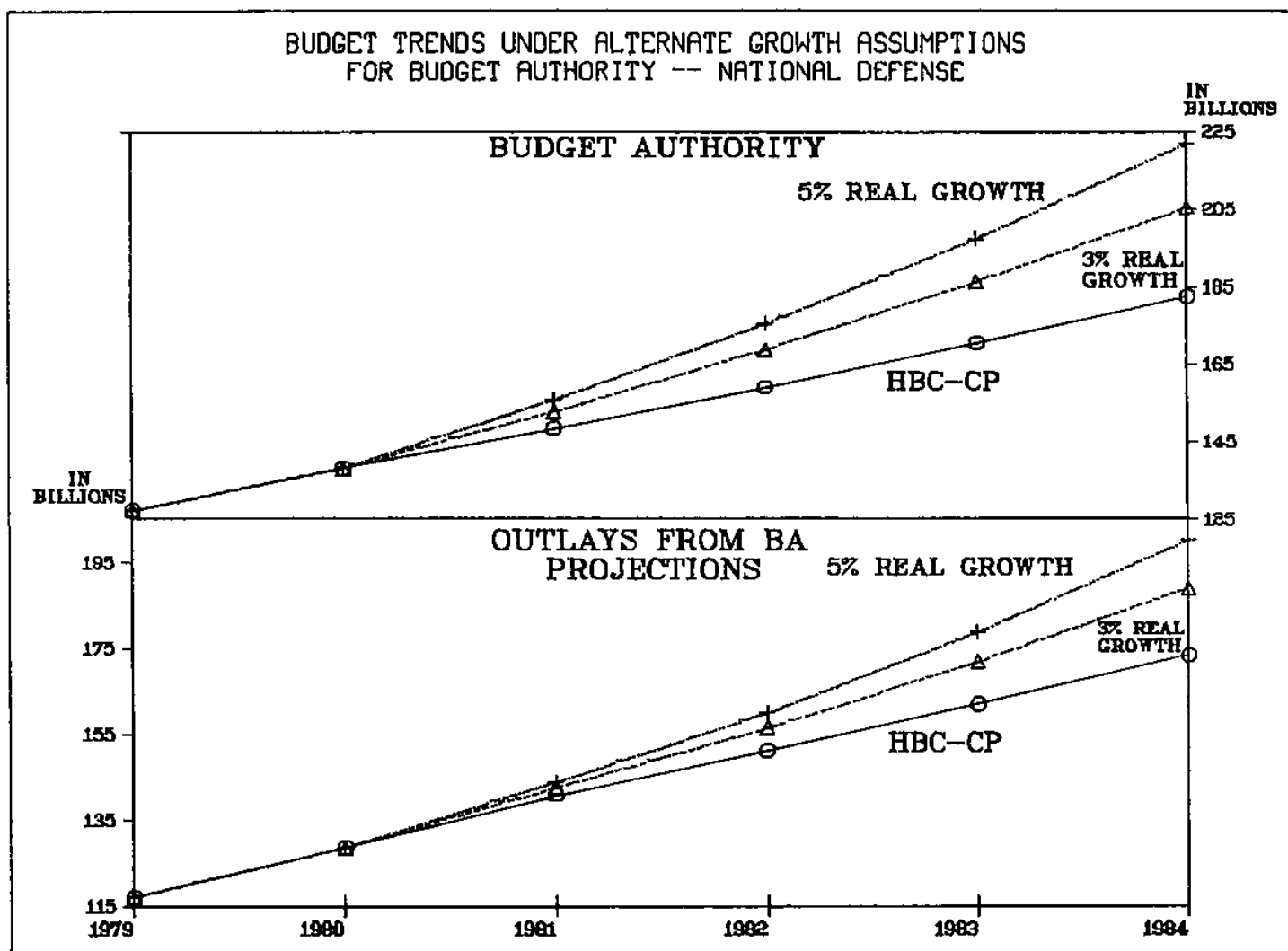
B. BUDGET FUNCTIONS

Function 050: National Defense

1. Controllability of Function

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





Sixty percent of outlays and 92 percent of the budget authority in this function are relatively controllable under existing law in fiscal year 1980. The remainder of the function is composed of retired military pay, outlays from prior years authority, and permanent appropriations.

Within the relatively controllable portion of the function, about \$52.5 billion of the budget authority and \$51.5 billion of the outlays are for military and civilian pay. Within the budget year, the costs associated with personnel reductions—terminal leave payments and severance pay—when combined with the time required for implementation would result in little or no savings from personnel reductions. However, personnel reductions would yield reductions in subsequent years.

The remaining portion of the relatively controllable budget authority and outlays is used for the purchase of goods and services, including contract services, procurement, research and development, and construction. About a third of the \$74.4 billion in budget authority and about three-fourths of the outlays of \$26.1 billion are directly related to maintaining and operating existing forces. Only minor reductions are feasible within the budget year without major changes in military readiness. In the longer run, these amounts will vary with manpower levels. About two-thirds of the \$74.4 billion in budget authority and one-fourth of the \$26.1 billion in outlays provided for development and procurement of new weapon systems. Funding for these activities can be changed in the budget year with little near term effect. In the longer term, however, these expenditures determine military capability.

2. Past 5-Year Spending Trend

During the 1975–79 period, budget authority increased from \$86 billion to \$127 billion, an annual rate of 9.75 percent, and outlays increased from \$85 billion to \$117 billion, an annual rate of 7.9 percent. The increases in budget authority were the result of inflation, small increases in the population of retired military personnel, and real increases for modernization and readiness.

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

3. Selected Major Outyear Budget Issues

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

The accompanying charts identify the cost of 3 percent and 5 percent real increases in budget authority and the outlays resulting from these increases in budget authority assuming the economic estimates of the House Budget Committee. A 3-percent increase in budget authority would increase the Defense budget from \$138.2 billion in fiscal year 1980 to \$205.4 billion in fiscal year 1984. A 5 percent increase would provide budget authority of \$221.9 billion by fiscal year 1984. These estimates assume a military and civilian work force at the current level of approximately 3 million.

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

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

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

An increase at the 3 percent level may result from procurement of weapon systems currently under development. The President's budget includes major new initiatives for strategic forces which will result in significant increase in cost in future years. For example, a new land based intercontinental ballistic missile system (MX) is proposed to

complete engineering development and enter into production. The fiscal year 1980 budget includes \$670 million, while total costs of the system have been estimated at \$30 billion. The budget includes funds to begin an extensive modification program for B-52 bombers. Air and ground launched cruise missile programs are entering into production. Procurement of TRIDENT submarines and missile continues and funding is included to develop a new larger TRIDENT missile.

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

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

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

The following tables identify funding increases required to obtain 3 percent and 5 percent real increases in budget authority and the resulting outlays.

BUDGET AUTHORITY

[In billions of dollars]

	Fiscal year—					Total fiscal year 1981-84
	1980	1981	1982	1983	1984	
Current policy	138.2	148.4	159.1	170.5	182.5	-----
3 percent		+4.5	+9.7	+15.8	+23.0	+53.0
5 percent		+7.4	+16.3	+26.9	+39.3	+89.9

OUTLAYS RESULTING FROM PROJECTED BUDGET AUTHORITY

[In billions of dollars]

	Fiscal year—					Total fiscal year 1981-84
	1980	1981	1982	1983	1984	
Current policy	128.6	140.7	151.2	162.0	173.4	-----
3 percent		+1.8	+5.2	+9.9	+15.7	+32.6
5 percent		+3.0	+8.8	+16.7	+26.8	+55.3

4. Outyear Overview—(See chart.)

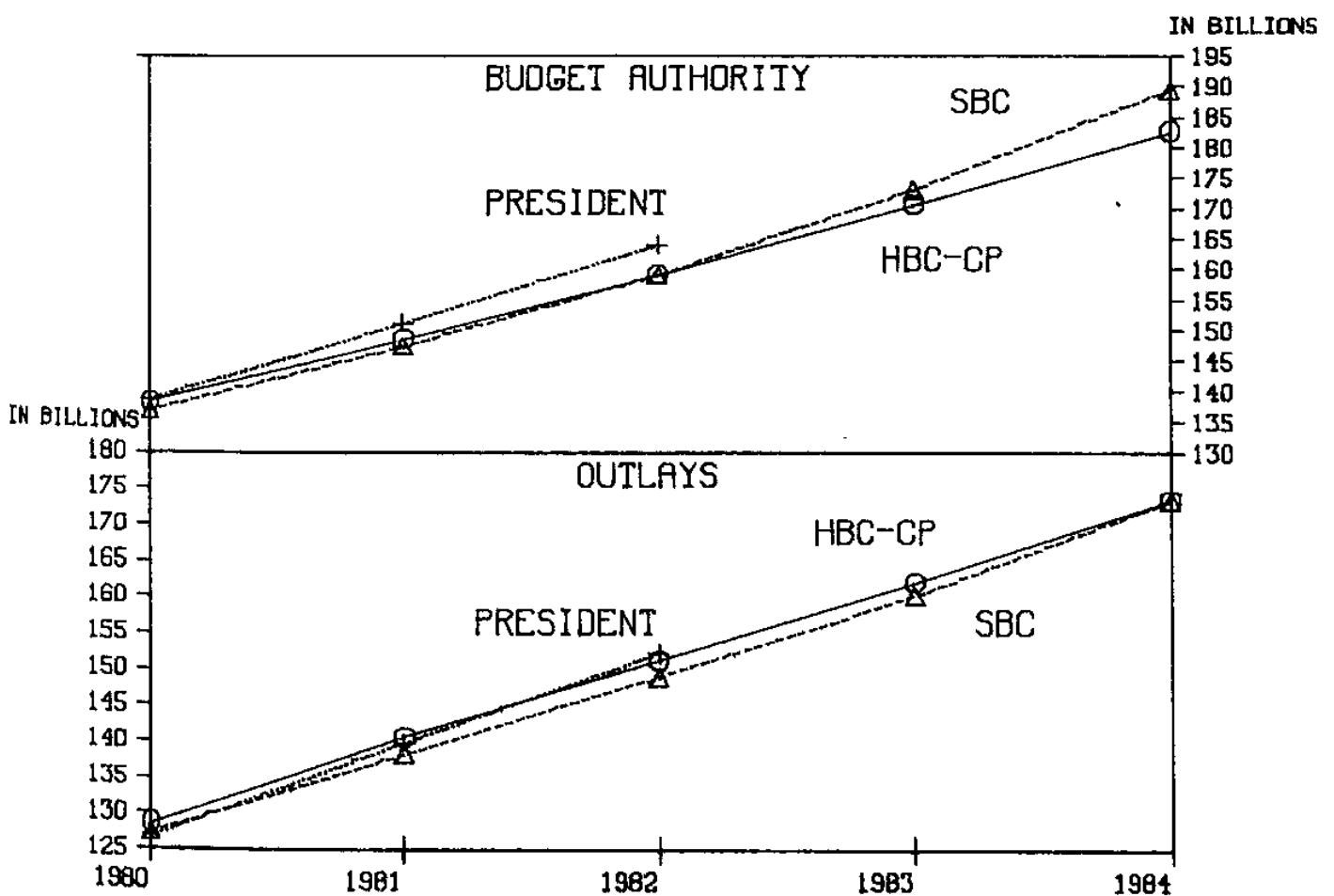
[In billions of dollars]

	1980	1981	1982	1983	1984
President:					
Budget authority	138.5	151.1	163.9		
Outlays	126.8	139.8	152.2		
HBC:					
Budget authority	138.2	148.4	159.1	170.5	182.5
Outlays	128.6	140.7	151.2	162.0	173.4
SBC:					
Budget authority	136.8	147.3	159.0	173.0	189.4
Outlays	127.4	138.3	148.9	160.1	173.3

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

The House current policy projection assumes budget authority for national defense that is constant in real terms except for military retired pay, which is projected to grow slightly as a result of a growing retired population. The budget assumes that pay raises for all active military and civilian personnel will be capped at 5.5 percent annually with 20 percent absorption, that wage board reform will be enacted, and that the cost-of-living adjustment for retired military personnel will be changed to an annual adjustment. The growth shown in budget authority results from adjustments for anticipated inflation and real growth in retired pay. Outlays increase as a result of the spendout of prior-year budget authority and current budget authority. Outlays for fiscal year 1981 increase 1.9 percent in real terms because of real increases in budget authority in past years.

FUNCTION 050



2. Past Five-Year Spending Trend

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

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

3. Selected Major Outyear Budget Issues

International Financial Institutions.—The projections continue contributions to International Financial Institutions at current levels and make no assumptions concerning U.S. participation in the sixth replenishment of the International Development Association (IDA VI) or about possible doubling the capital resources of the World Bank. If these programs are to be fully funded it could require adding up to \$5.0 billion in budget authority and \$1.0 billion in outlays over the 5-year period.

4. Outyear Overview—(See chart.)

OUTLAYS

[In billions of dollars]

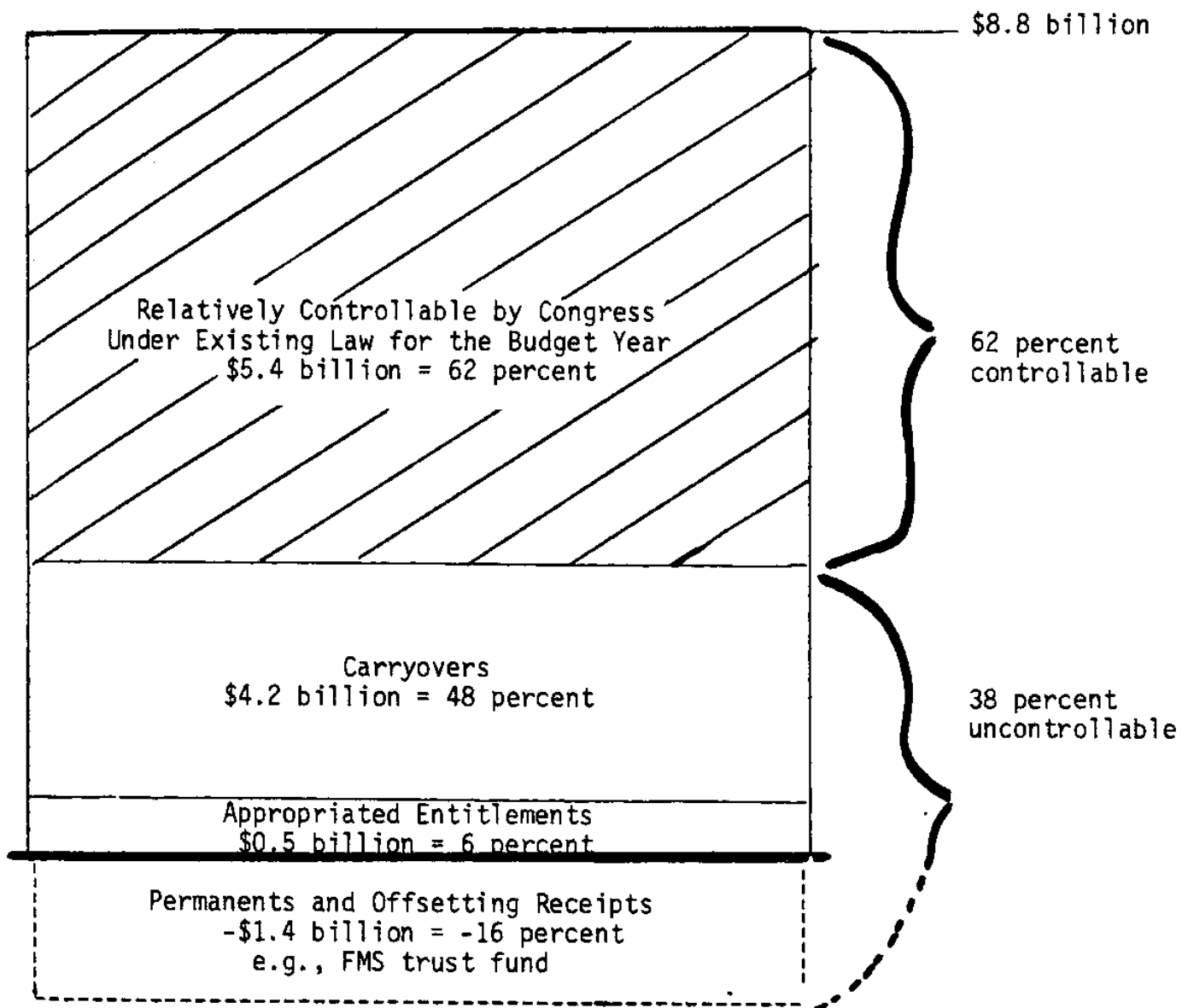
	1980	1981	1982	1983	1984
President.....	9.0	9.9	9.8	11.1	12.1
HBC.....	8.8	10.5	10.5	9.1	9.5
SBC.....	8.3	8.7	8.7		

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

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

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

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

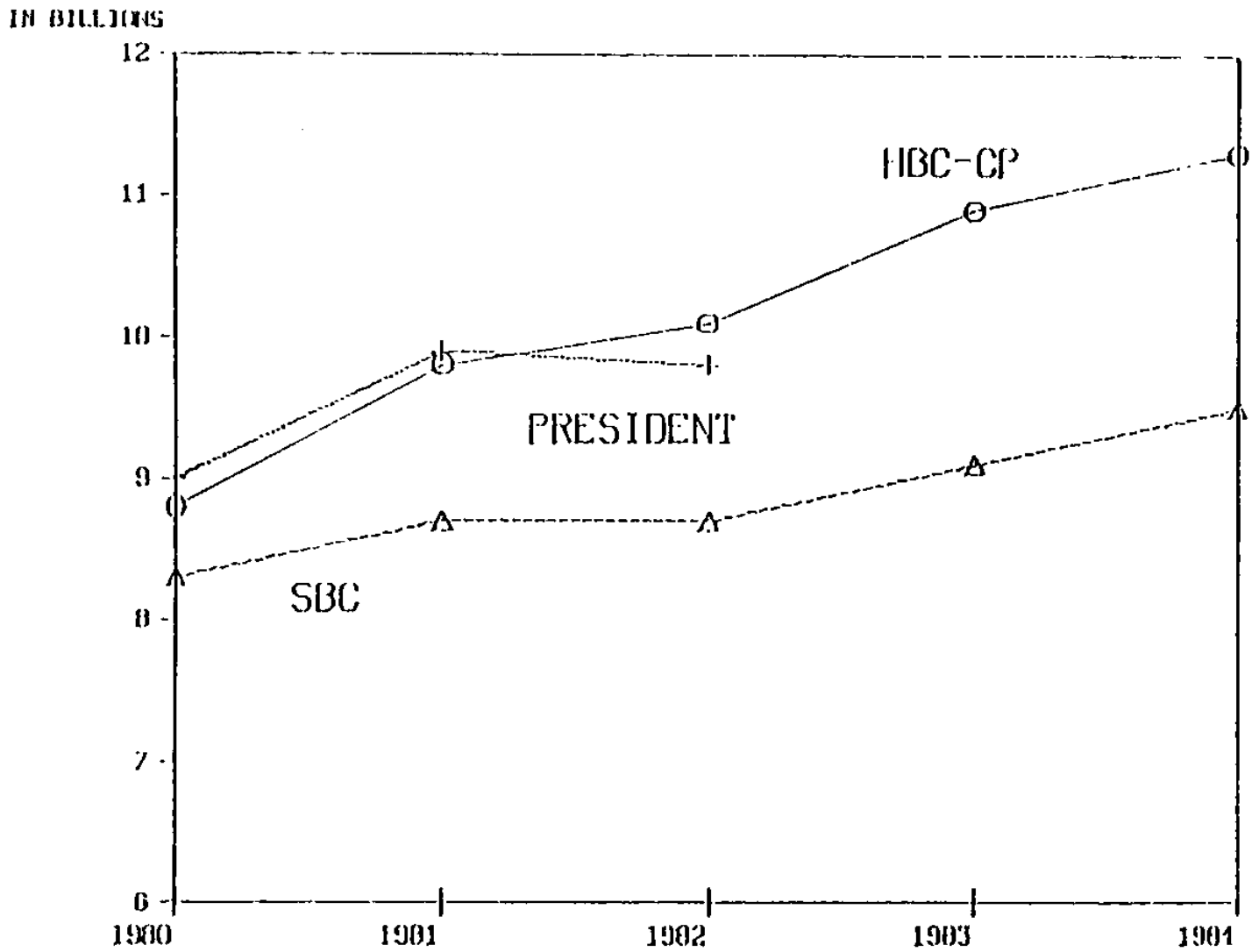


Function 150: International Affairs

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION

FUNCTION 150 OUTLAYS

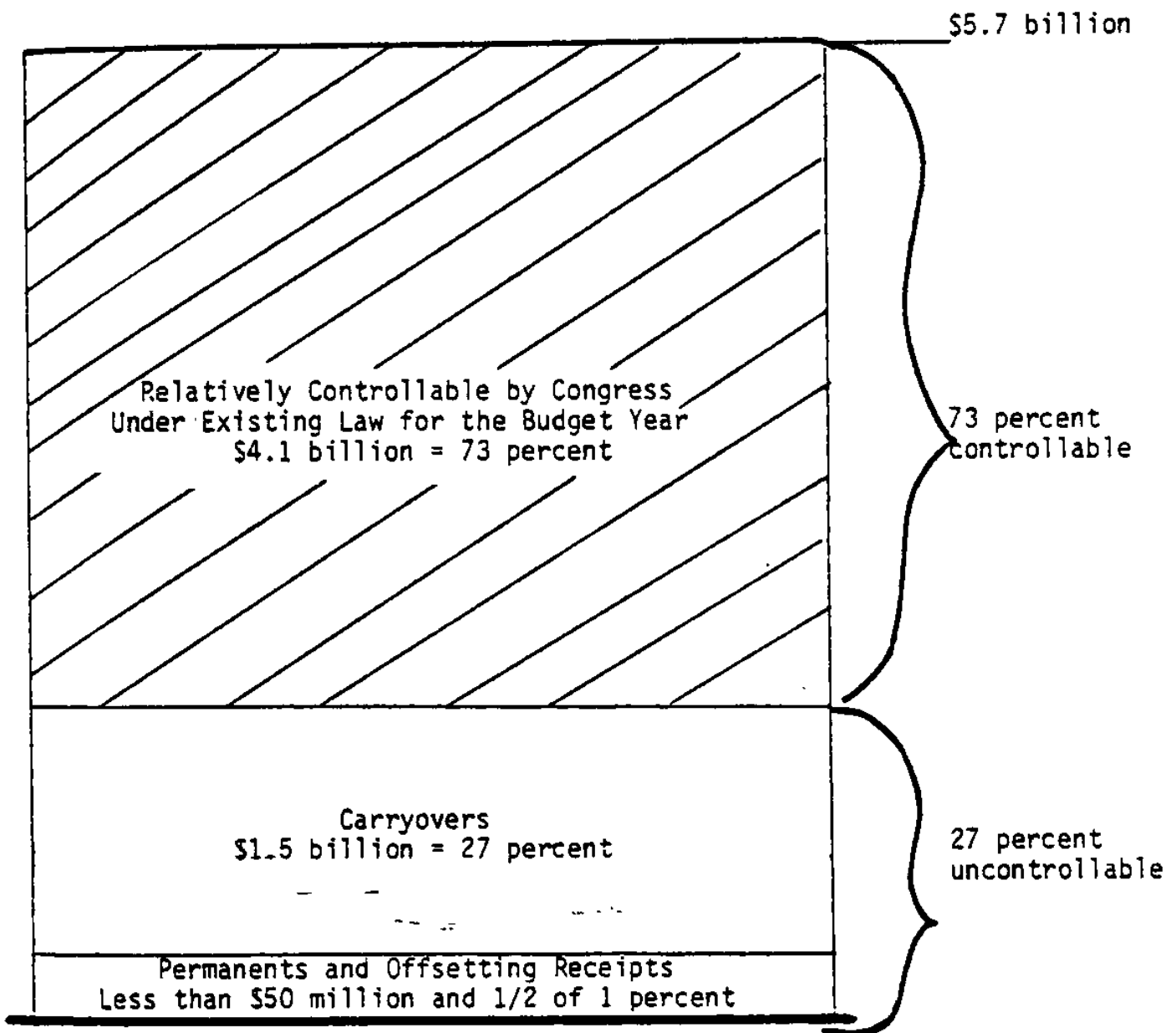


Sixty-two percent of this function is relatively controllable under existing law. In the short run, however, it is very difficult to control outlays except in a few fast spending accounts: Food for Peace, salaries and expenses of the Department of State and related agencies, and economic and military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

Function 250: General Science, Space, and Technology

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 73 percent of outlays in the function are relatively controllable under existing law in fiscal year 1980. The remaining 27 percent is considered to be relatively uncontrollable and consists almost entirely of outlays from prior year budget authority primarily for the NASA civilian space programs and the science programs of the Department of Energy and the National Science Foundation. The relationship of the outlays in terms of controllability will remain relatively constant throughout the period 1980-84.

2. Past Five Year Spending Trend

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

3. Selected Major Outyear Budget Issues

Civilian space program.—During the period fiscal year 1981–84, several factors could influence the level of outlays. First, further delays in the space shuttle development and production phases beyond the current planning milestones could necessitate additional outlays of from \$300 to \$600 million in the period 1981–83. Second, if the Congress decides in 1981 to proceed with the procurement of a fifth shuttle orbiter, additional outlays of approximately \$100 million in 1981 and \$200 million in each year 1982–1984 would be necessary. Third, to the extent that new mission starts are approved to take full advantage of the unique capabilities of the space shuttle, outlays will increase.

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

4. Outyear Overview.—(See chart.)

OUTLAYS

[In billions of dollars]

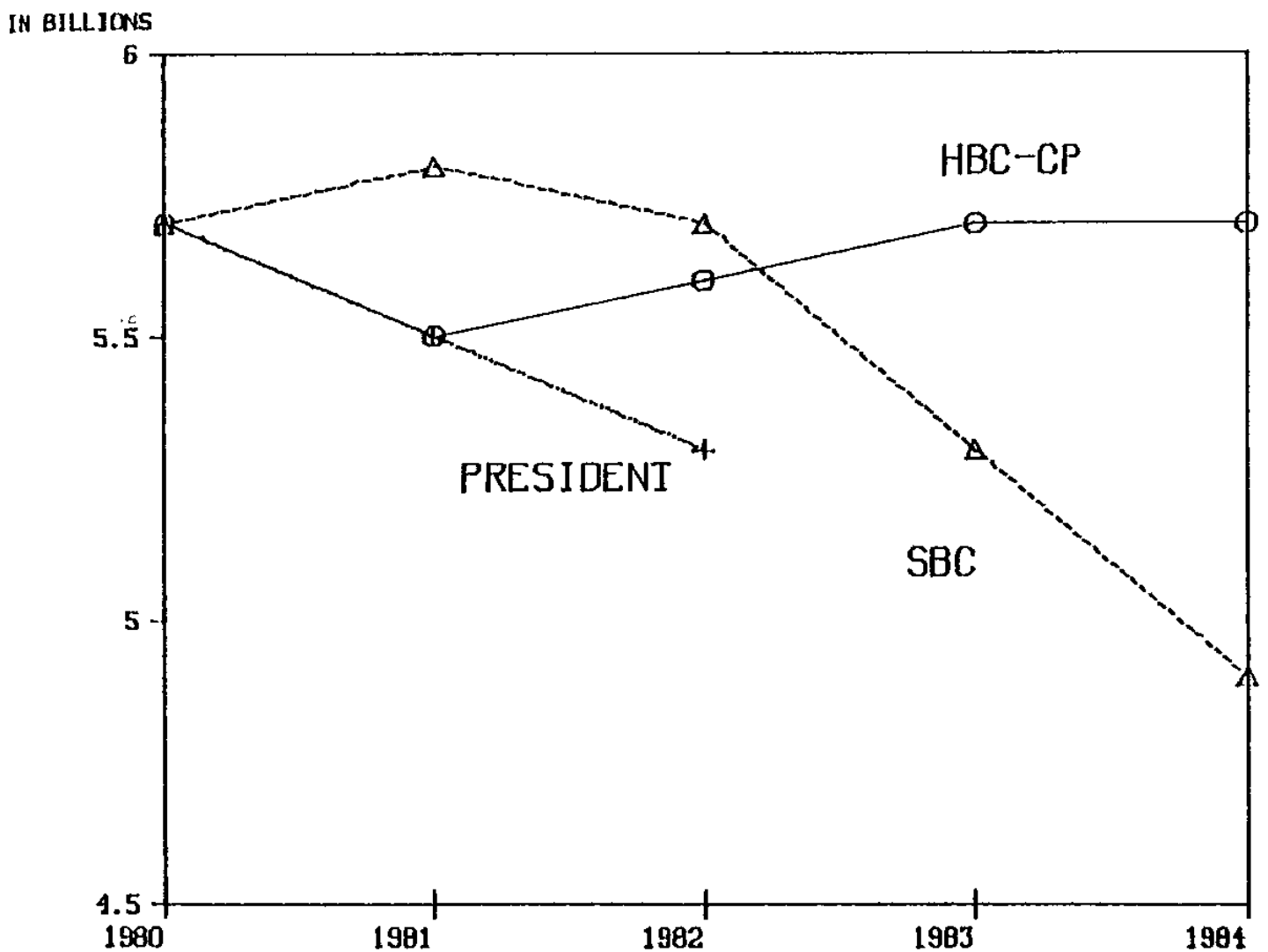
	1980	1981	1982	1983	1984
President.....	5.7	5.5	5.3	5.7	5.7
HBC.....	5.7	5.5	5.6	5.3	4.9
SBC.....	5.7	5.9	5.7	5.3	4.9

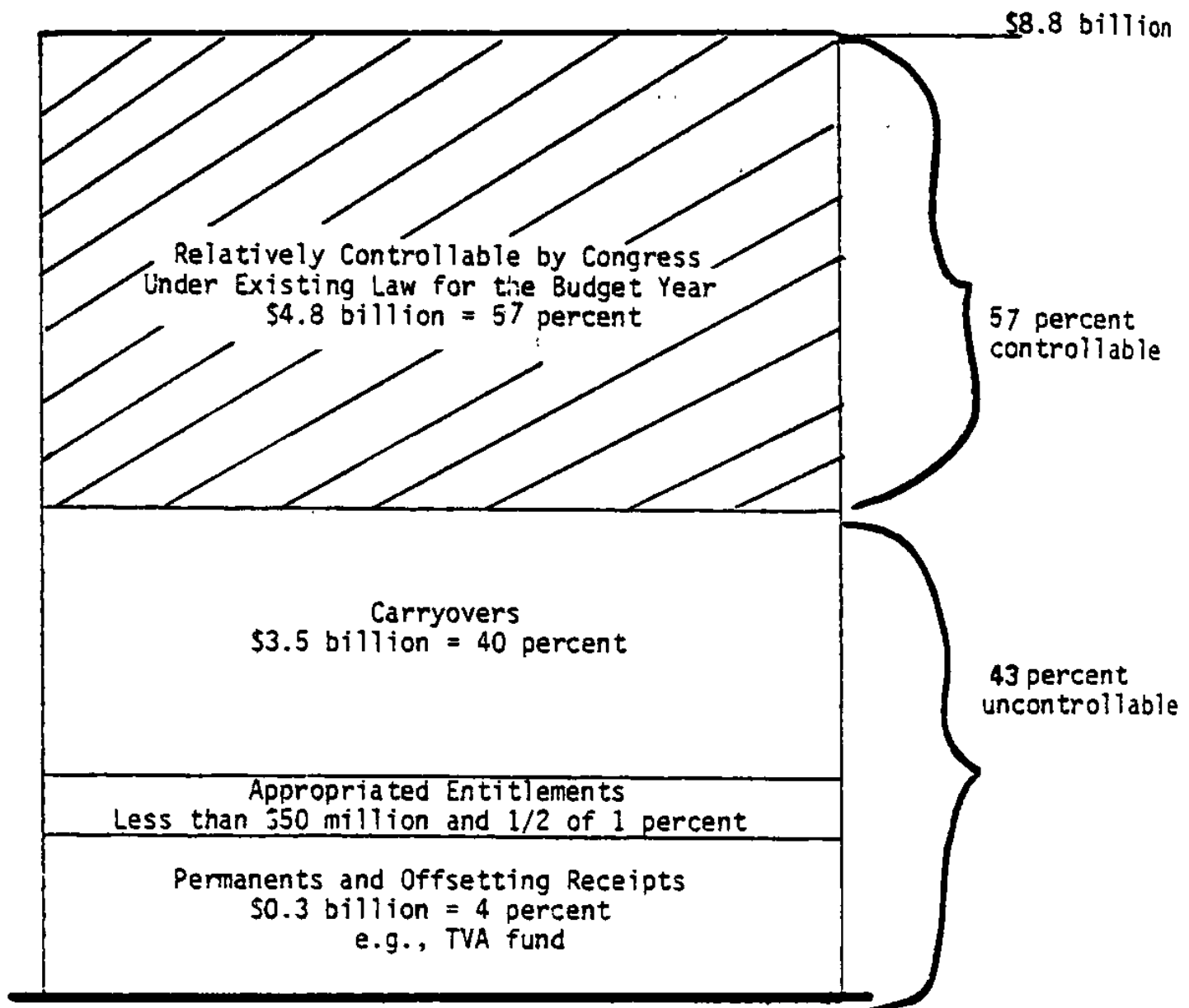
IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

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

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

FUNCTION 250 OUTLAYS



Function 270: Energy*1. Controllability of Function***FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET
COMMITTEE RECOMMENDATION**

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

2. Past 5-Year Spending Trend

Over the past 5-year period, outlays in this function have increased overall by close to 300 percent, from \$2.2 billion in fiscal year 1975 to \$8.6 billion in fiscal year 1979. This represents an average annual increase of nearly 70 percent.

Within the function, outlays for energy supply programs grew from \$1.7 billion in fiscal year 1975 to an estimated \$5.9 billion in fiscal year 1979. This represents an increase of \$4.2 billion or nearly 250 percent over the 5-year period. Energy conservation outlays increased from less than \$50 million in fiscal year 1975 to nearly \$500 million in fiscal year 1979 or almost 900 percent. Outlays in the Strategic Petroleum Reserve program increased from \$33 million in fiscal year 1975 to an estimated \$2.4 billion in fiscal year 1979 or by over 7,000 percent. Finally, outlays for energy information, policy, and regulation grew from \$389 million in fiscal year 1975 to \$974 million in fiscal year 1979 or 66 percent.

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

3. Selected Major outlay Budget Issues

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

Although congressional decisions on these new initiatives will be made in fiscal years 1979 and 1980, the effects of these decisions in terms of outlays will fall largely over the next 5 to 10 years. The initiatives related to encouraging the development of synthetic fuels involve a broad set of financial arrangements including price guarantees, purchase agreements, direct loans and loan guarantees. Significant outlays for these kinds of initiatives will not occur before seven to 10 years because of the long lead time required for construction of plants and subsequent production of synthetic fuels. Conversely, the initiatives related to conservation, transportation, and low-income assistance as proposed by the President will result in an immediate outlay impact and will become more substantial over the next 10-year period. Therefore, the major issue in terms of multi-years relates to the extent to which the Congress deviates from the President's proposals for reducing overall oil imports and to the extent that these deviations influence the outlays in the outyears.

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

4. *Outyear Overview* (See chart.)

OUTLAYS

[In billions of dollars]

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

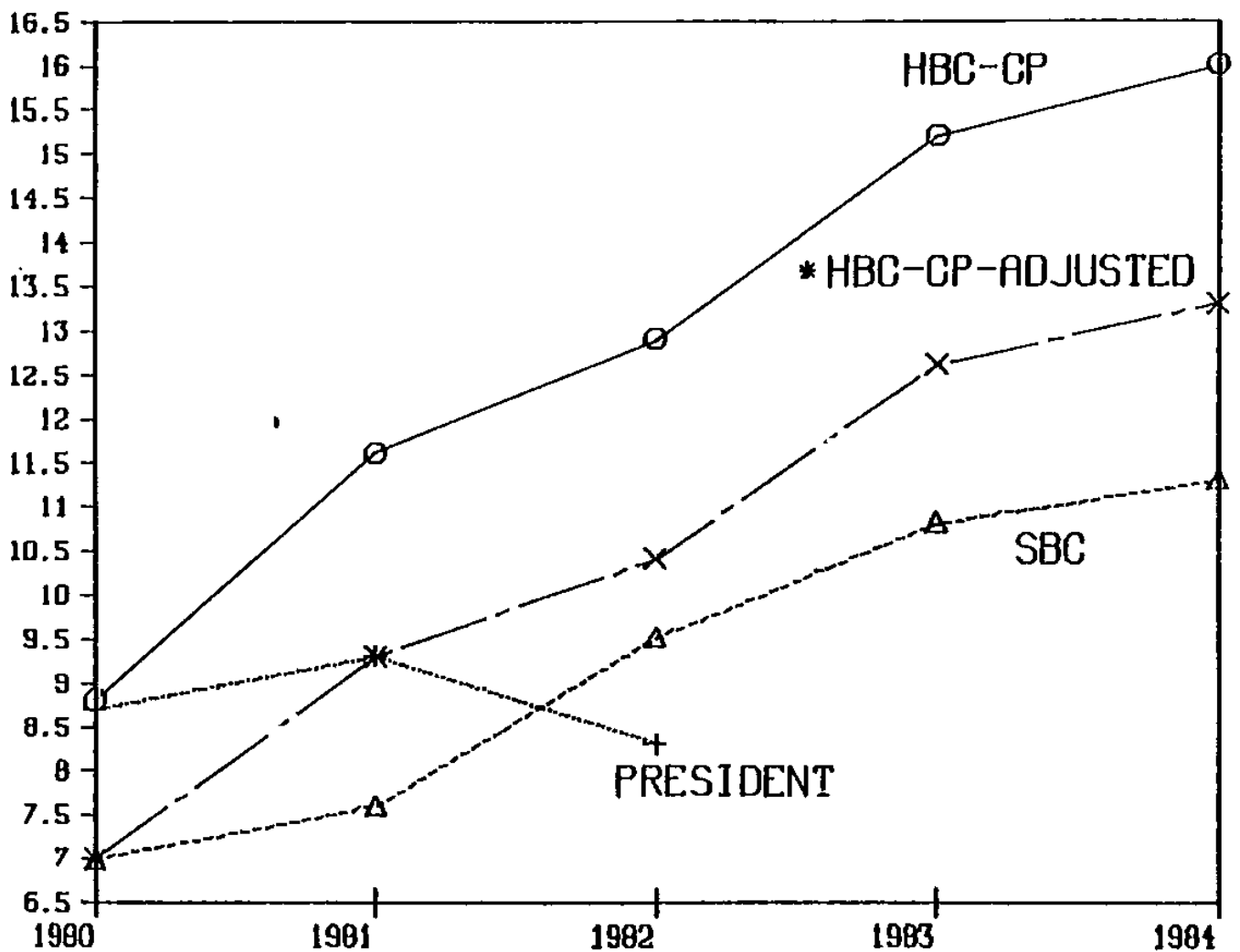
IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

The House Budget Committee current policy projections of outlays in fiscal year 1984 totals \$11.9 billion, 90 percent higher than fiscal year 1980, for the purposes of comparability with the President's

plan and the Senate figures, the HBC projections are adjusted exclude outlays for the portion of the new energy initiatives related to low income assistance and transportation. Otherwise, the HBC projections assume enactment of new energy initiatives similar in scope and composition to those proposed by the President; that no outlays will occur in the Energy Security Corporation, except for relatively small outlays for administrative expenses; continued nominal growth in outlays for a 750 million barrel Strategic Petroleum Reserve; and full inflation adjustments for all other energy programs.

FUNCTION 270 OUTLAYS

IN BILLIONS

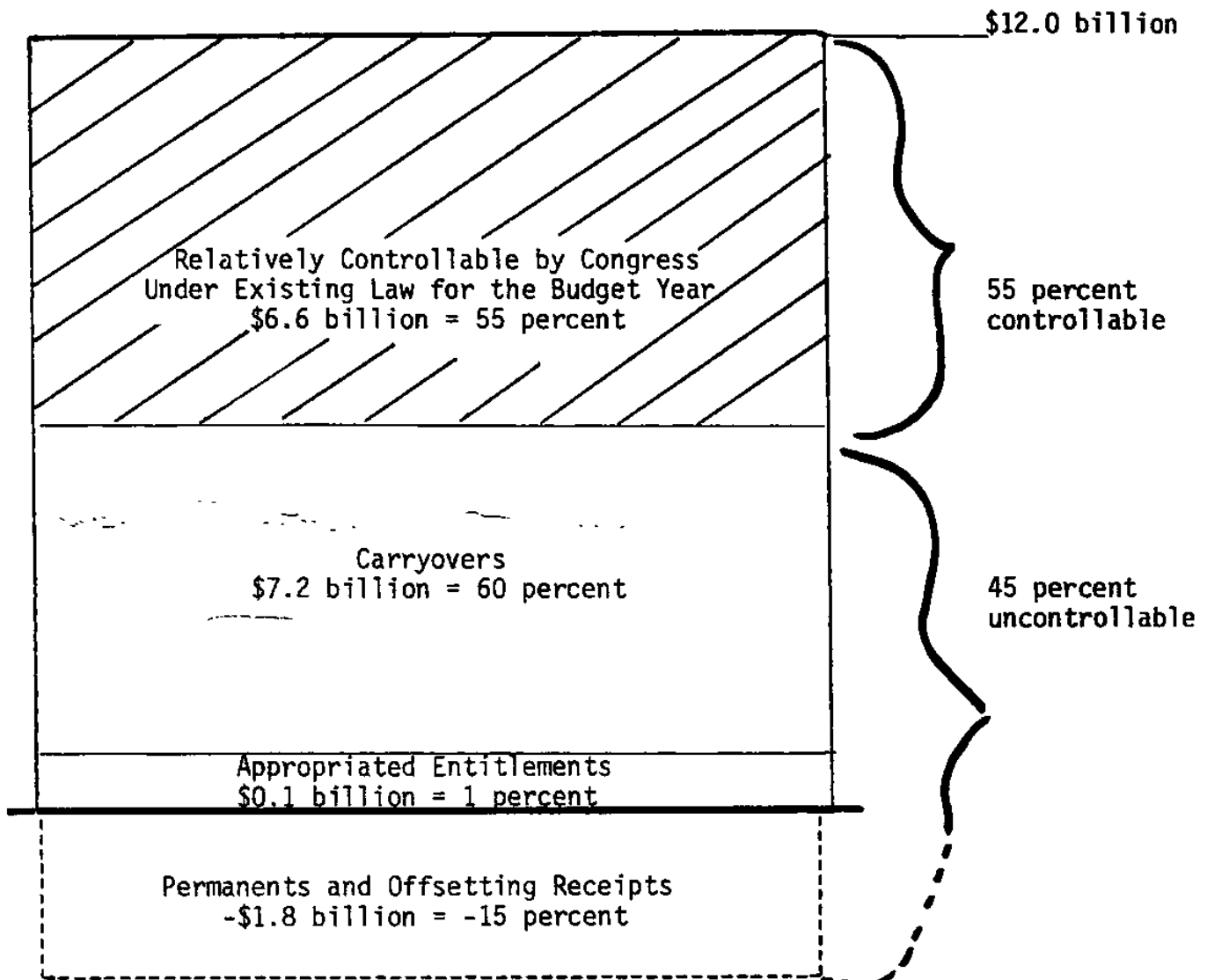


* EXCLUDES OUTLAYS FOR TRANSPORTATION AND LOW INCOME ASSISTANCE INITIATIVES IN THE PRESIDENT'S JULY ENERGY PROPOSALS FOR PURPOSES OF COMPARABILITY WITH SBC PROJECTIONS AND THE PRESIDENT'S PLAN.

Function 300: Natural Resources and Environment

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 55 percent of the outlays in this function are relatively controllable under existing law in fiscal year 1980 for such areas as flood control, construction and operations of the Corps of Engineers, forest and land management programs, and operations of the National Park Service and the National Oceanic and Atmospheric Administration. The remaining 45 percent is considered to be relatively uncontrollable and consists almost entirely of outlays from prior year budget authority particularly in the water pollution control construction grants and the pollution abatement and control program of the Environmental Protection Agency. Additionally, the recreational projects provided under the Land and Water Conservation Fund and the construction programs of the Bureau of Reclamation and the Corps of Engineers traditionally reflect significant balances of outlays from prior year budget authority. The relationship of the outlays in terms of controllability will remain relatively constant throughout the period 1980-84.

2. Past 5-Year Spending Trend

Outlays in this function have increased \$4.5 billion or 60 percent from \$7.33 billion in fiscal year 1975 to an estimated \$11.7 billion in fiscal year 1979. Most of the dollar increase in outlays has occurred in

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

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

3. Selected Major Outyear Budget Issues

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

This year the President proposed legislation to create a "superfund" for cleaning up oil spills and hazardous waste sites. The legislation proposed by the President would provide 80 percent of the program costs through levies on oil and chemical companies as well as hazardous waste disposal companies. The remaining 20 percent would be provided by the Federal Government. However, the receipts would be counted in the general Treasury revenues. The natural resources and environment function would reflect the full cost of appropriations for the fund. Thus, there will be no direct offset against the outlays in Function 300. The President assumes a \$1.6 billion fund will be built up during the next 4 years starting with fiscal year 1981 as follows:

[In millions of dollars]

	Fiscal year—			
	1981	1982	1983	1984
Budget authority.....	250	375	500	500
Outlays.....	45	205	333	441

While the legislation proposed by the President may encounter serious difficulties in Congress, particularly with its financing mechanism, there seems no doubt that Congress will be faced with responding in a major and costly way to the enormous problems presented by oil spills and hazardous waste sites. This response will be costly not only for the next 5 years but perhaps the next 25 years.

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

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

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

4. Outyear Overview. (See chart.)

OUTLAYS

[In billions of dollars]

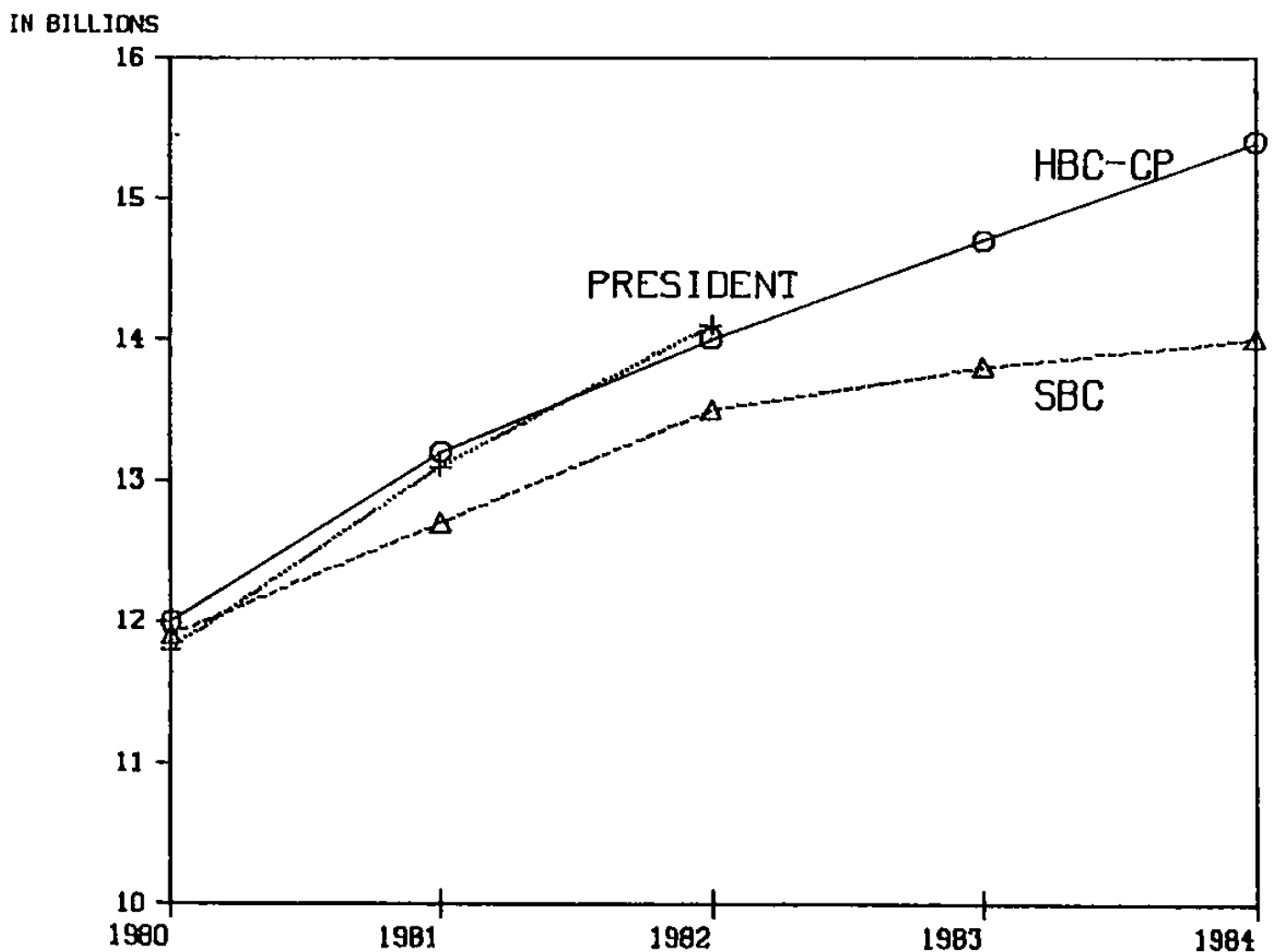
	1980	1981	1982	1983	1984
President.....	11.8	13.1	14.1	-----	-----
HBC.....	12.0	13.2	14.0	14.7	15.4
SBC.....	11.9	12.7	13.5	13.8	14.0

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

The House Budget Committee projection allows for growth of 28 percent or \$3.4 billion between fiscal years 1980 and 1984. This growth assumes full adjustment for anticipated inflation in this 5-year period. It includes one policy adjustment resulting from a fiscal year 1980 Second Budget Resolution recommendation to add \$250 million in budget authority for additional funds under the EPA water pollution control construction grant program. It is assumed in the recommendation that these funds will be provided for those states which are moving faster toward meeting the goals of the Clean Water Act. The outlays for these additional funds do not reach over \$50 million in a single fiscal year until fiscal year 1983.

The House Budget Committee projections do not reflect funding of the President's proposed oil spill and hazardous waste fund which is included in the Senate Budget Committee projections (\$1.6 billion between fiscal years 1981 and 1984). The House Budget Committee exclusion of these funds does not reflect any judgment for or against the President's proposal or any similar effort in this area. The current data on the costs of this enormous task are considered too rough plus there has been only cursory preliminary review of the issue in Congress thus far. In other words, it is simply too early to make a reasonable estimate on the costs of a major effort to remedy the problem.

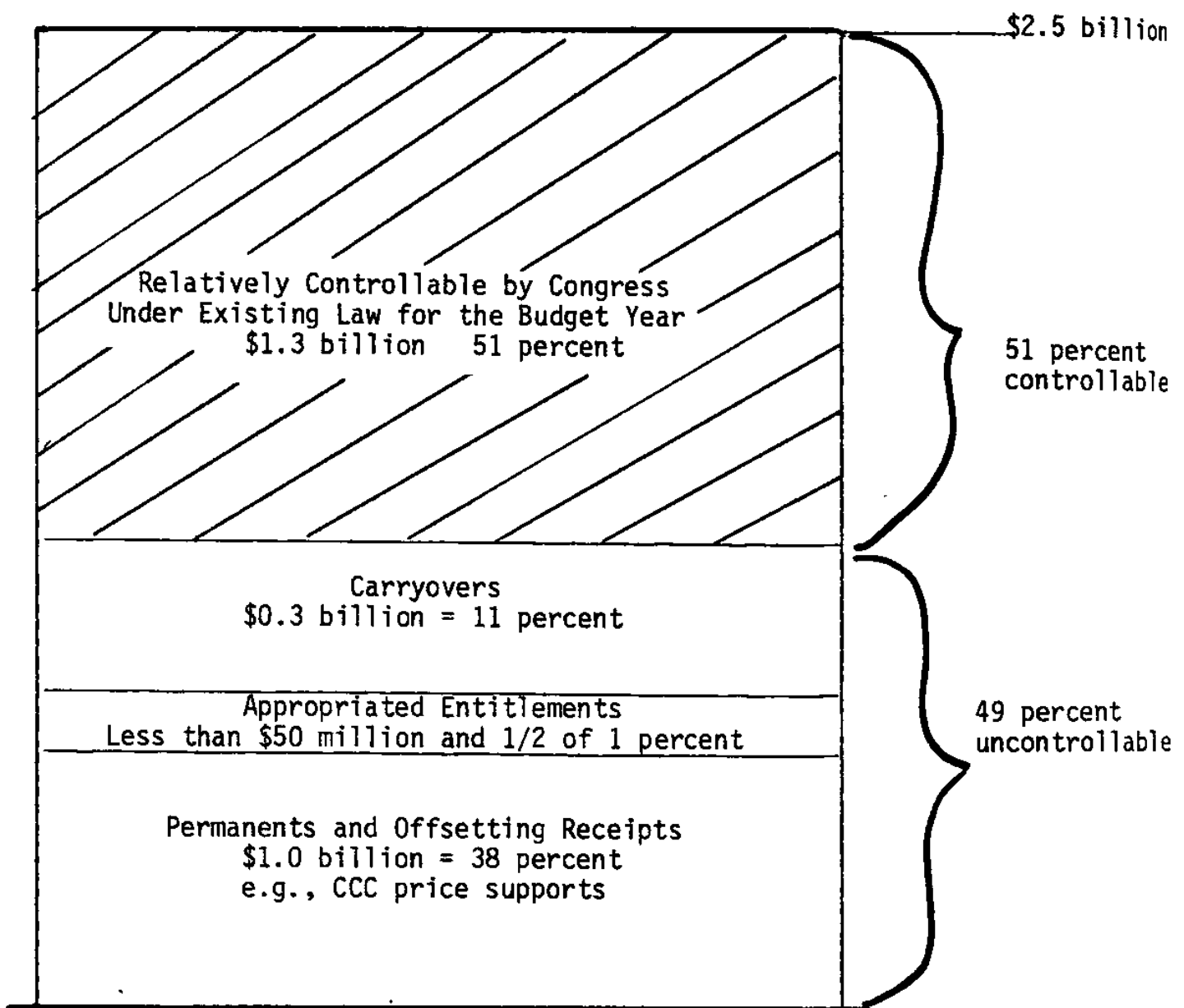
FUNCTION 300 OUTLAYS



Function 350: Agriculture

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

2. Past 5-Year-Spending Trend

Over the past 5 years, outlays in this function have been extremely volatile primarily because of erratic changes in the weather and the market conditions. The following table showing agricultural outlays

from fiscal year 1975 to fiscal year 1979 and the percentage change from year to year illustrates that point:

[Dollar amounts in billions]

1975:		
Amount.....		\$1.7
Percent.....		-23
1976:		
Amount.....		\$2.5
Percent.....		47
1977:		
Amount.....		\$5.5
Percent.....		120
1978:		
Amount.....		\$7.7
Percent.....		40
1979:		
Amount.....		\$6.2
Percent.....		-21

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

3. Selected Major Outyear Budget Issues

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

4. Outyear Overview. (See chart.)

OUTLAYS

[In billions of dollars]

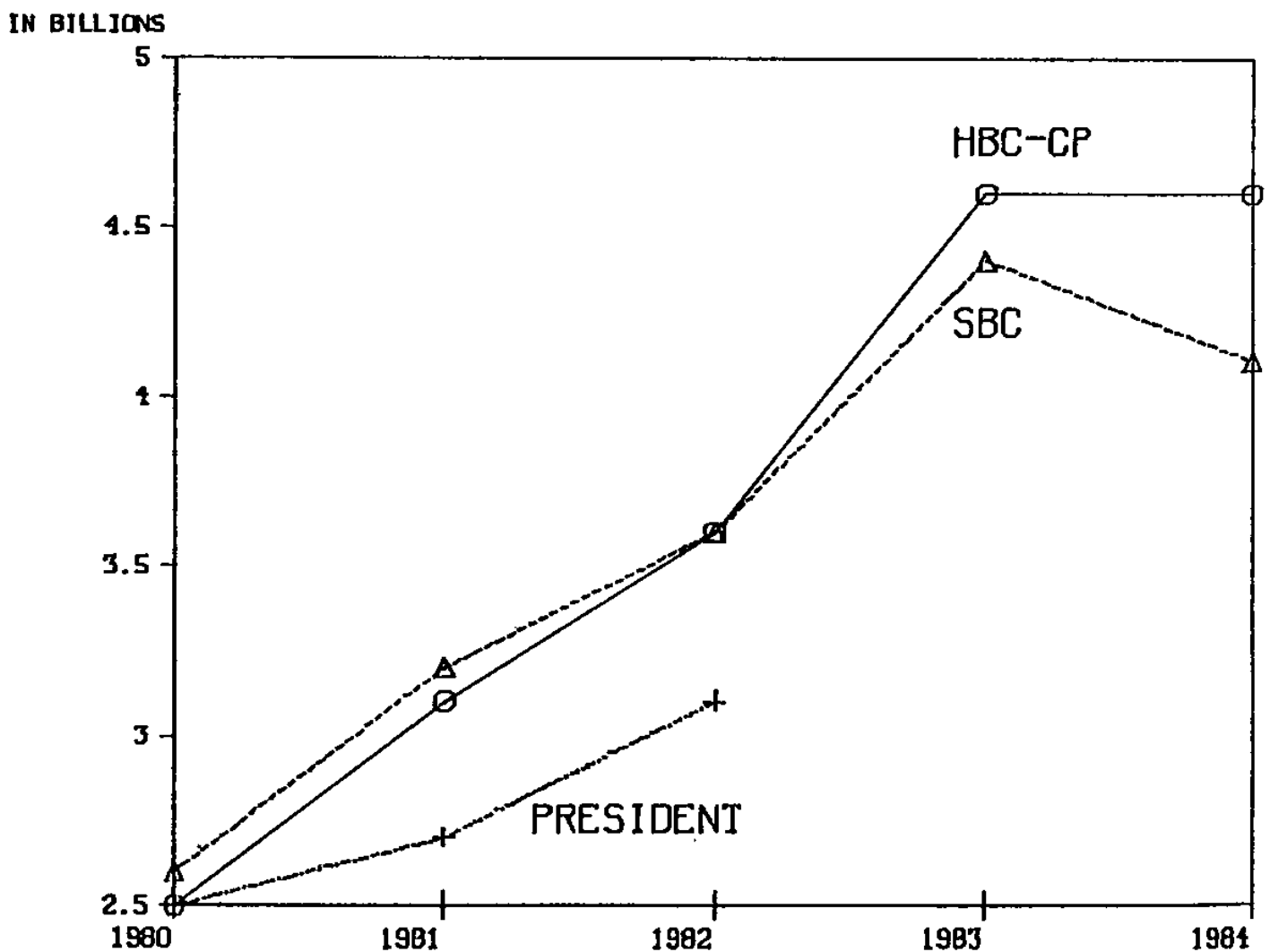
	1980	1981	1982	1983	1984
President.....	2.4	2.7	3.1		
HBC.....	2.6	3.1	3.7	4.7	4.6
SBC.....	2.5	3.2	3.6	4.5	4.2

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

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

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

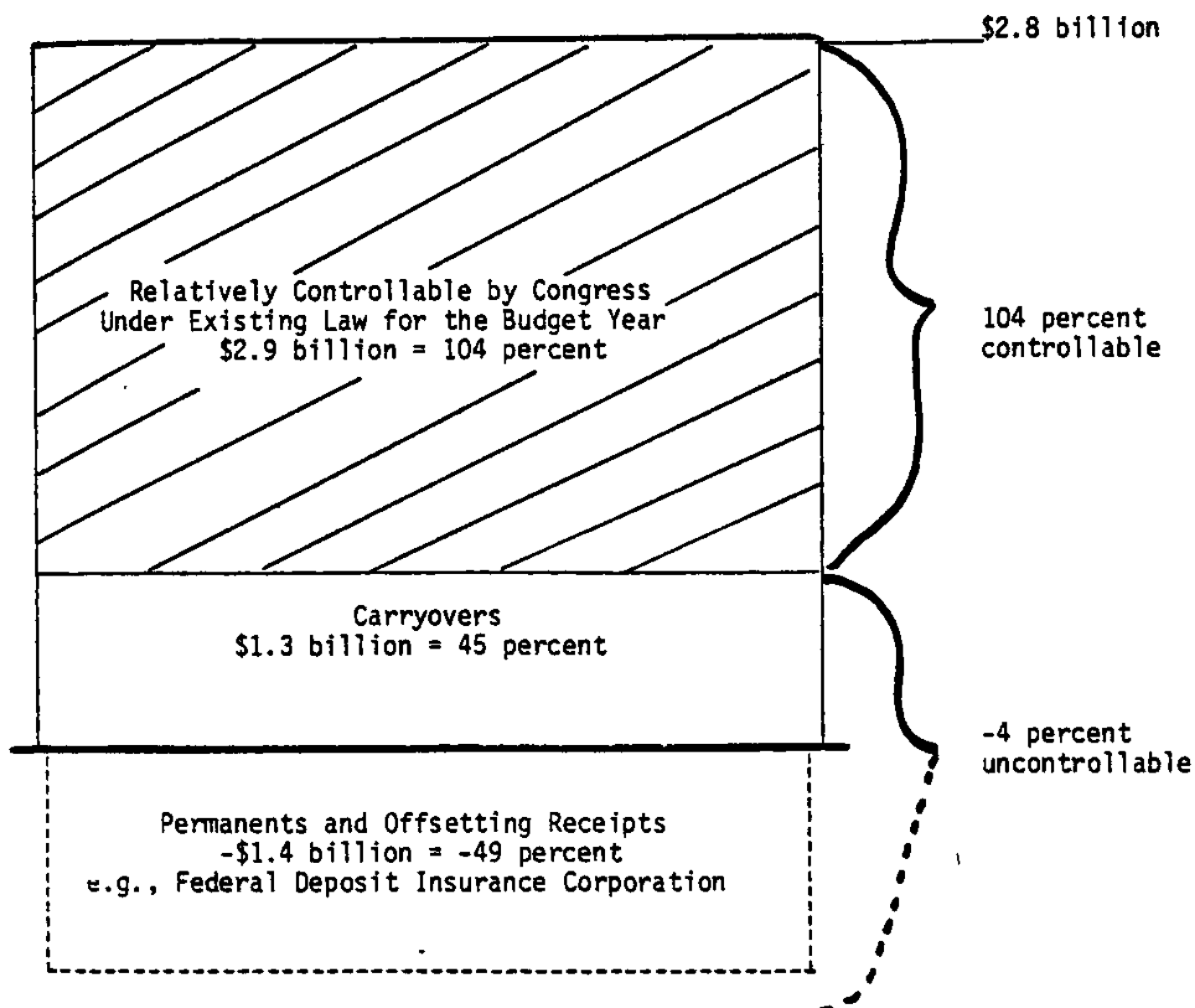
FUNCTION 350 OUTLAYS



Function 370: Commerce and Housing Credit

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

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

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

2. Past 5-Year Spending Trend

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

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

3. Selected Major Outyear Budget Issues

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

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

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

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

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

4. Outyear Overview. (See chart.)

OUTLAYS

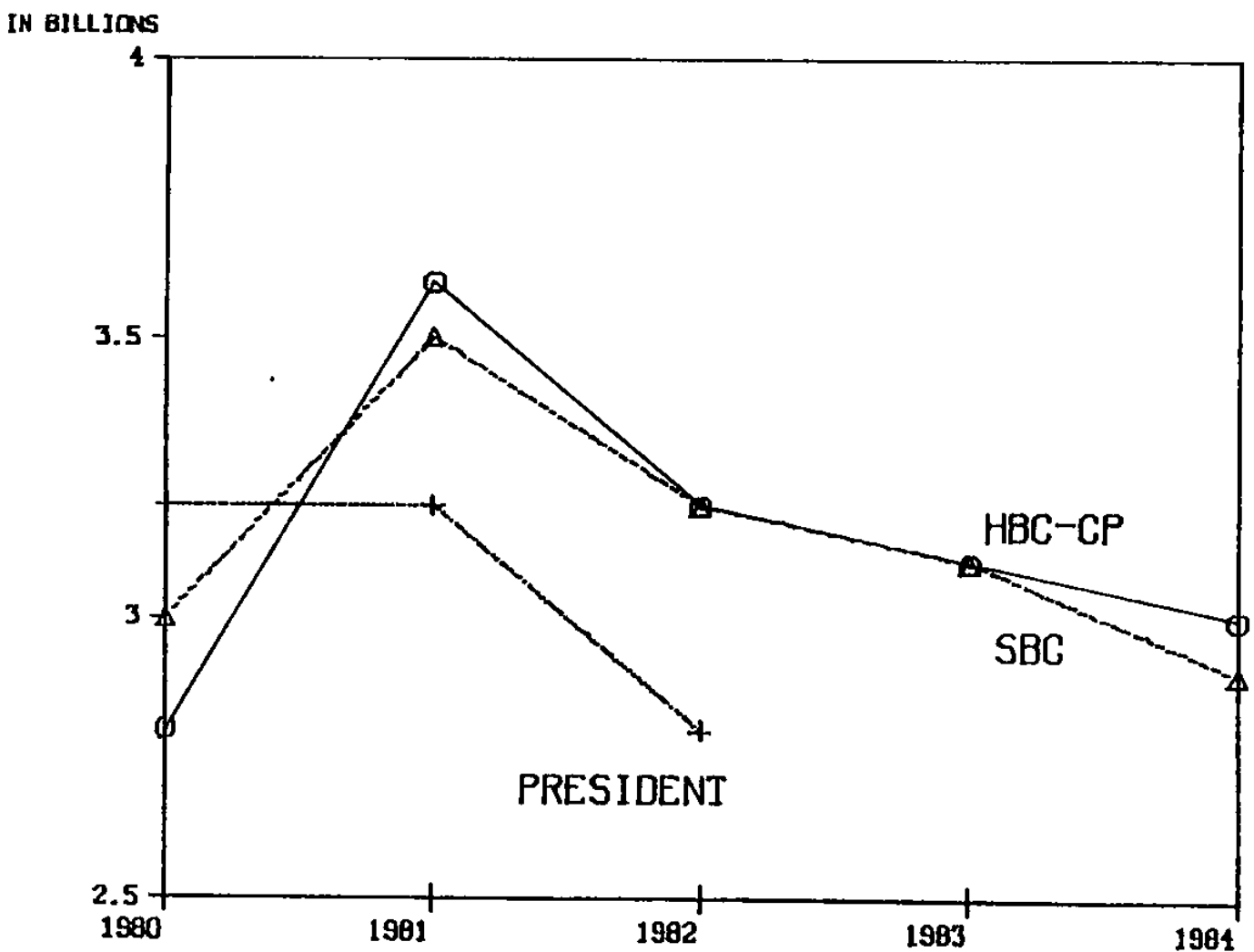
[In billions of dollars]

	1980	1981	1982	1983	1984
President.....	3.2	3.2	2.8	-----	-----
HBC.....	2.8	3.5	3.2	3.1	3.0
SBC.....	3.0	3.5	3.2	3.1	2.9

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

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

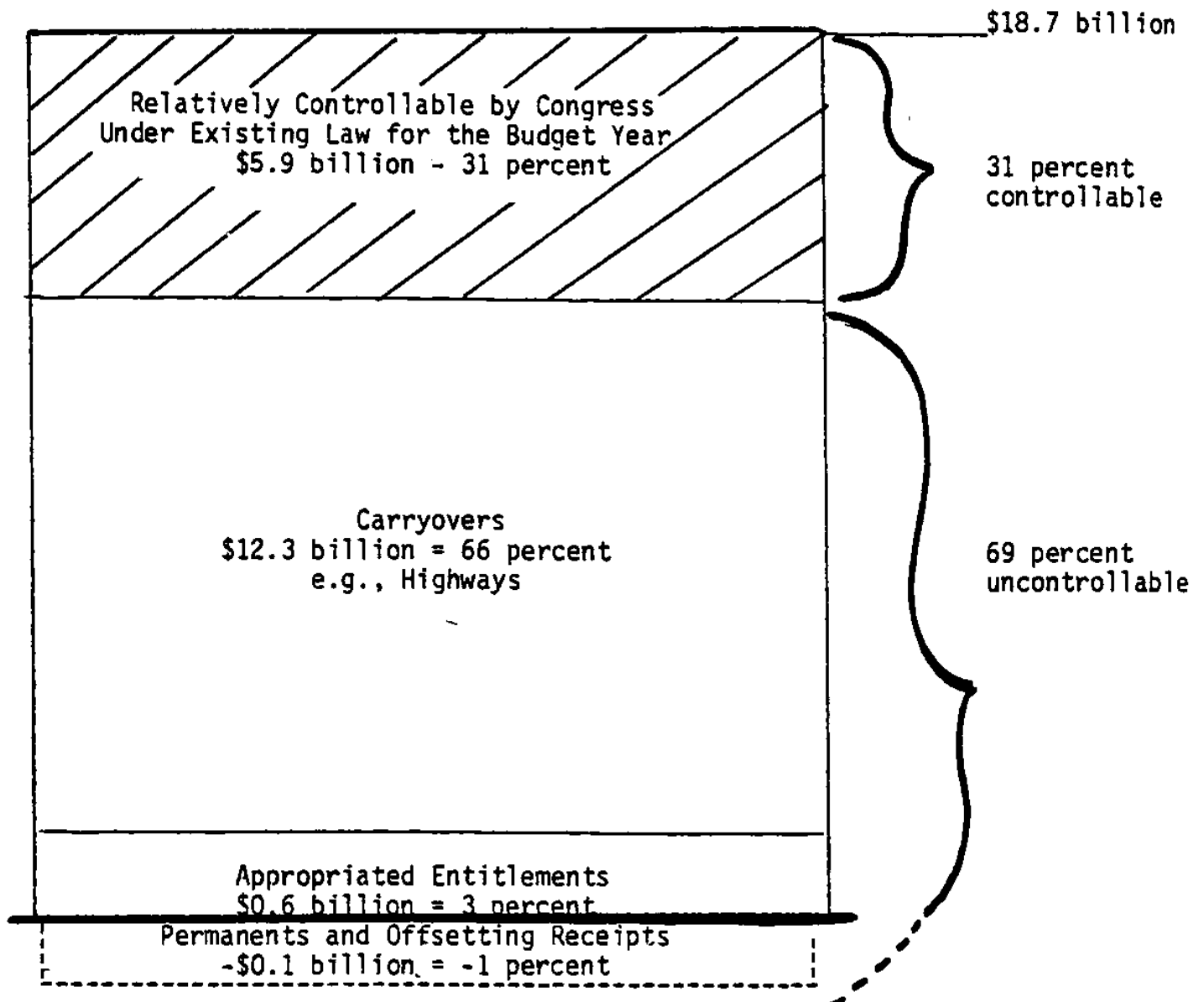
FUNCTION 370 OUTLAYS



Function 400: Transportation

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



Thirty-one percent of the outlays in this function are relatively controllable under existing law in fiscal year 1980. Approximately 50 percent or \$3.3 billion of the controllable funding is in three major accounts, the Urban Mass Transportation Administration and the Federal Aviation Administration and Coast Guard Operations accounts. The remaining controllable programs are various transportation grant, construction, safety, research and development, regulatory and miscellaneous programs.

Uncontrollable transportation funding.—There are four relatively uncontrollable transportation accounts, the highway trust fund, the maritime operating-differential subsidy, the Coast Guard retired pay and the Civil Aeronautics Board local air carrier subsidy accounts. The highway trust fund is a permanent appropriation, the Coast Guard and CAB accounts are entitlement programs and the maritime account is a mandatory appropriation. Spending resulting from both

permanent and entitlements can be controlled only if Congress acts to change the laws which mandate such spending.

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

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

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

2. Past 5-Year Spending Trend

Outlays in this function have increased from \$10.4 billion in fiscal year 1975 to \$17.0 billion in fiscal year 1979, an increase of 64 percent. Historically, as a percent of total budget outlays the transportation function has ranged between 3.2 percent and 3.7 percent during the period 1975–79. The average percentage of total budget outlays for transportation purposes has been 3.5 percent.

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

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

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

3. Selected Major Outyear Budget Issues

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

Fiscal year:	Billions
1979-----	\$8.0
1980-----	8.6
1981-----	9.0
1982-----	7.8

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

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

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

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

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

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

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

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

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

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

Air mode programs.—The issue is whether Congress will make substantial program and/or funding changes when the Airport and Airways Trust fund programs are reauthorized for fiscal year 1981. The President has proposed an air mode legislative initiative which would extend the trust fund, expand individual program levels, and provide substantial changes in the air trust fund mechanism associated with reducing the growing air trust fund surplus. Funding levels for fiscal years 1981-85 under the President's air legislation initiative would total \$14.6 billion.

4. Outyear Overview (See chart.)

OUTLAYS

[In billions of dollars]

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

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY
PROJECTIONS

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

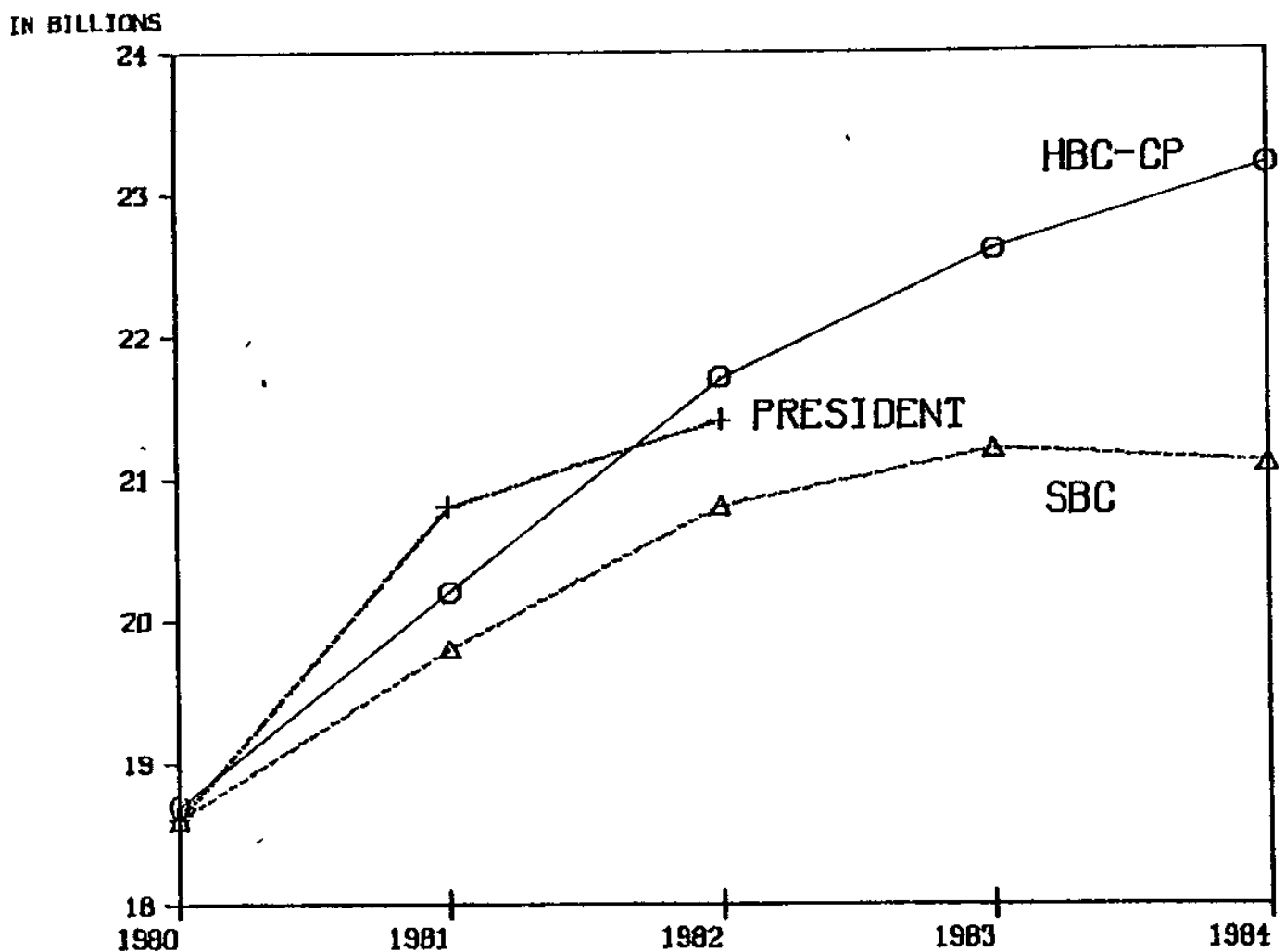
Highway funding.—The largest program, the highway trust fund account, is projected at the authorized level through fiscal year 1982. The last year of authorization is used as the base for the fiscal year 1983 and 1984 projections which assume discretionary inflation. Because the fiscal year 1982 authorization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

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

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

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

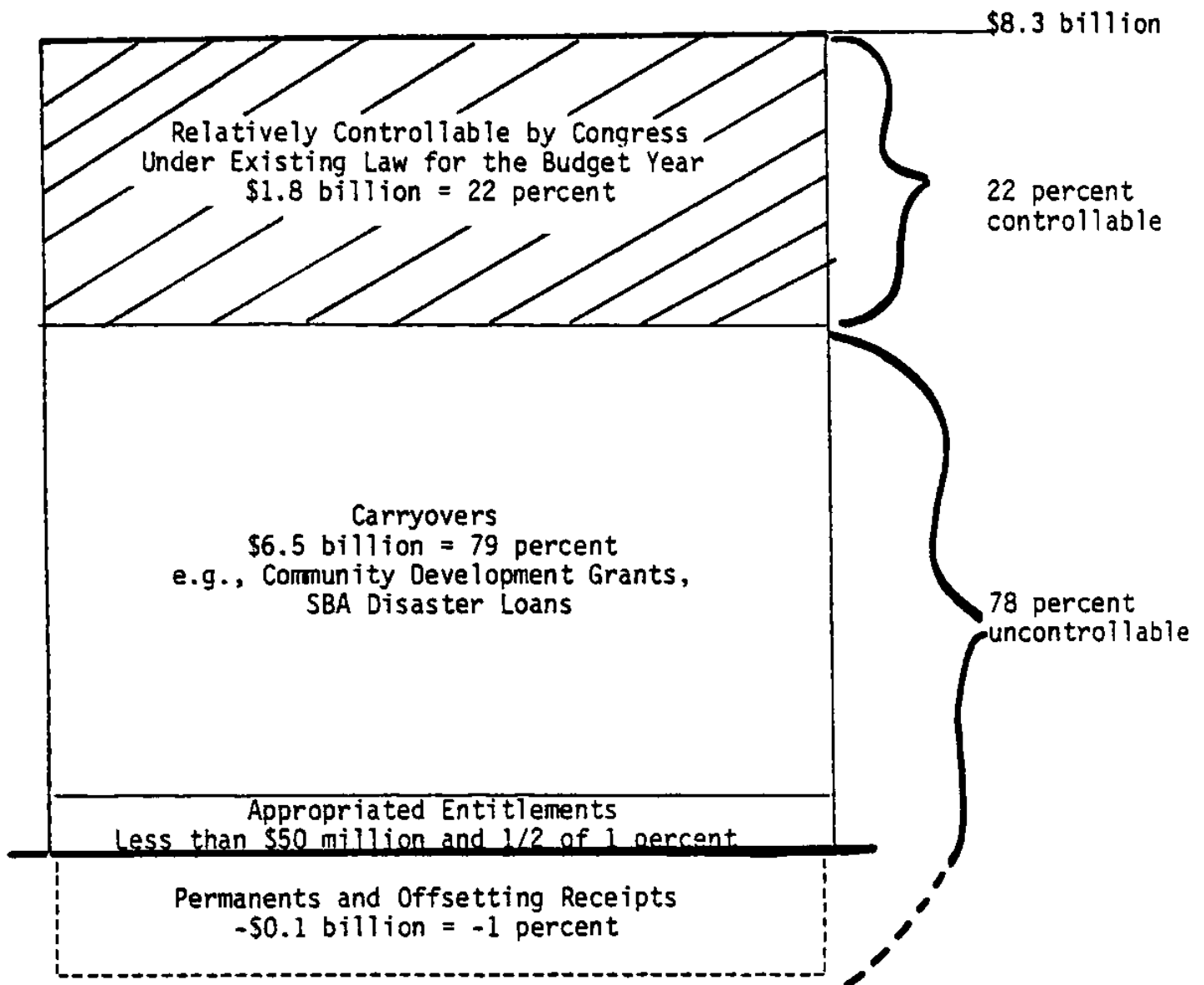
FUNCTION 400 OUTLAYS



Function 450: Community and Regional Development

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



Approximately 22 percent of the outlays in this function can be described as relatively controllable in the budget year. The balance of the outlays are the result of prior year obligations. In general, the major programs in the function spend out over a 2- to 5-year period. Therefore, significant reductions in budget authority would be required in fiscal year 1981 in order to achieve significant reductions in outlays in fiscal years 1982-84.

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

2. Past 5-Year Spending Trend

Spending in this function increased from \$4.4 billion in fiscal year 1975 to a peak of \$11.0 billion in fiscal year 1978. Growth in spending during this period was at an average nominal rate of 37.7 percent per year. The major increase in spending growth during this period is attributable to the impact of: (1) Outlays under the Community Development Block Grant program, authorized in 1974, which grew

from \$38 million in fiscal year 1975 to \$2,464 million in fiscal year 1978. (2) Outlays from the \$6.0 billion economic stimulus program of accelerated public works authorized in 1977 beginning at \$585 million in fiscal year 1977, growing to \$3,057 million in fiscal year 1978. Estimates for fiscal years 1979 and 1980 are \$1,750 million and \$375 million respectively. (3) Outlays from disaster assistance programs grew from \$398 million in fiscal year 1975 to \$2,871 million in fiscal year 1978.

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

3. Selected Major Outyear Budget Issues

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

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

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

4. Outyear Overview. (See chart.)

OUTLAYS

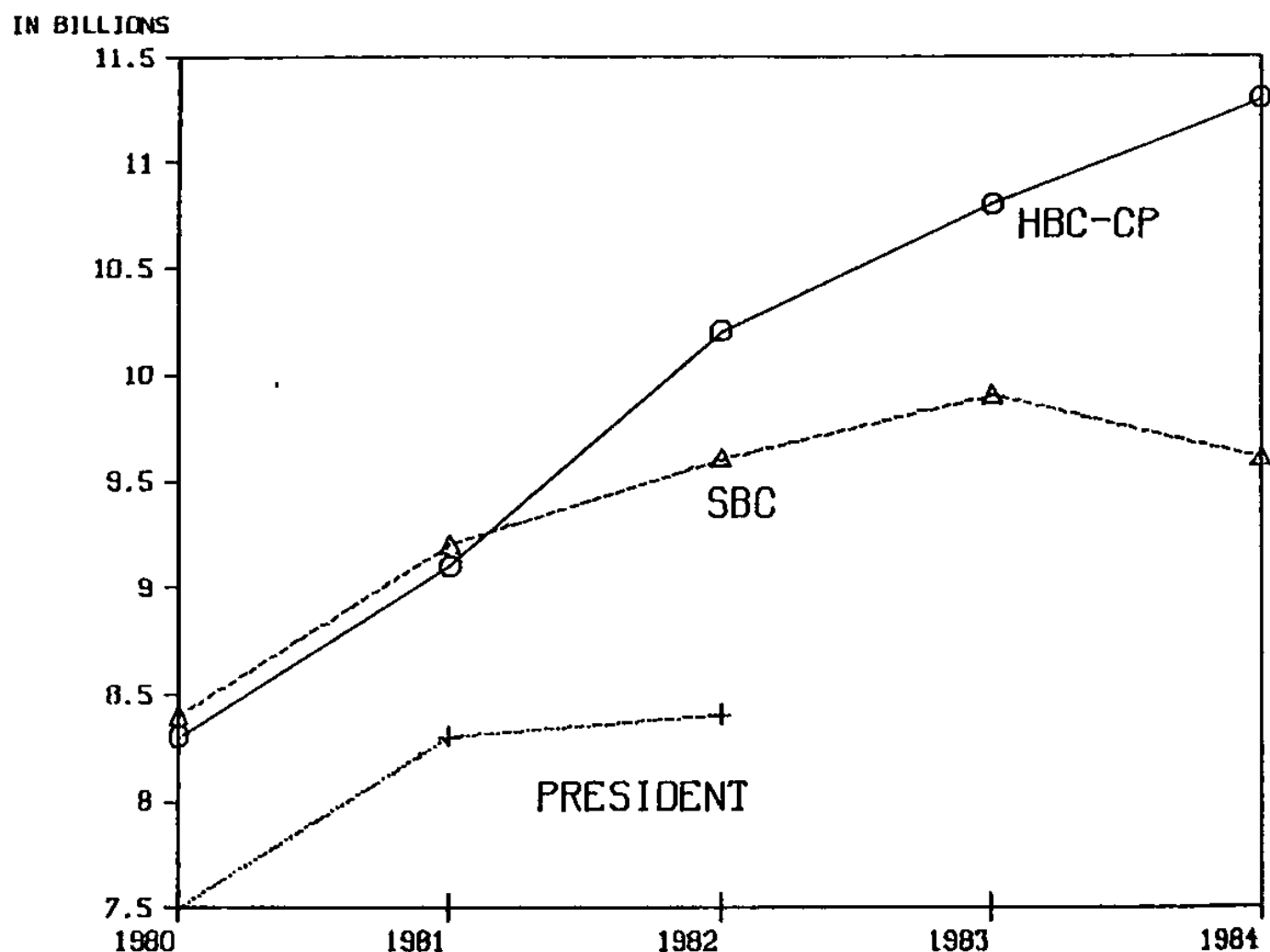
[In billions of dollars]

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

IMPLICATIONS OF HBC CURRENT POLICY PROJECTIONS

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

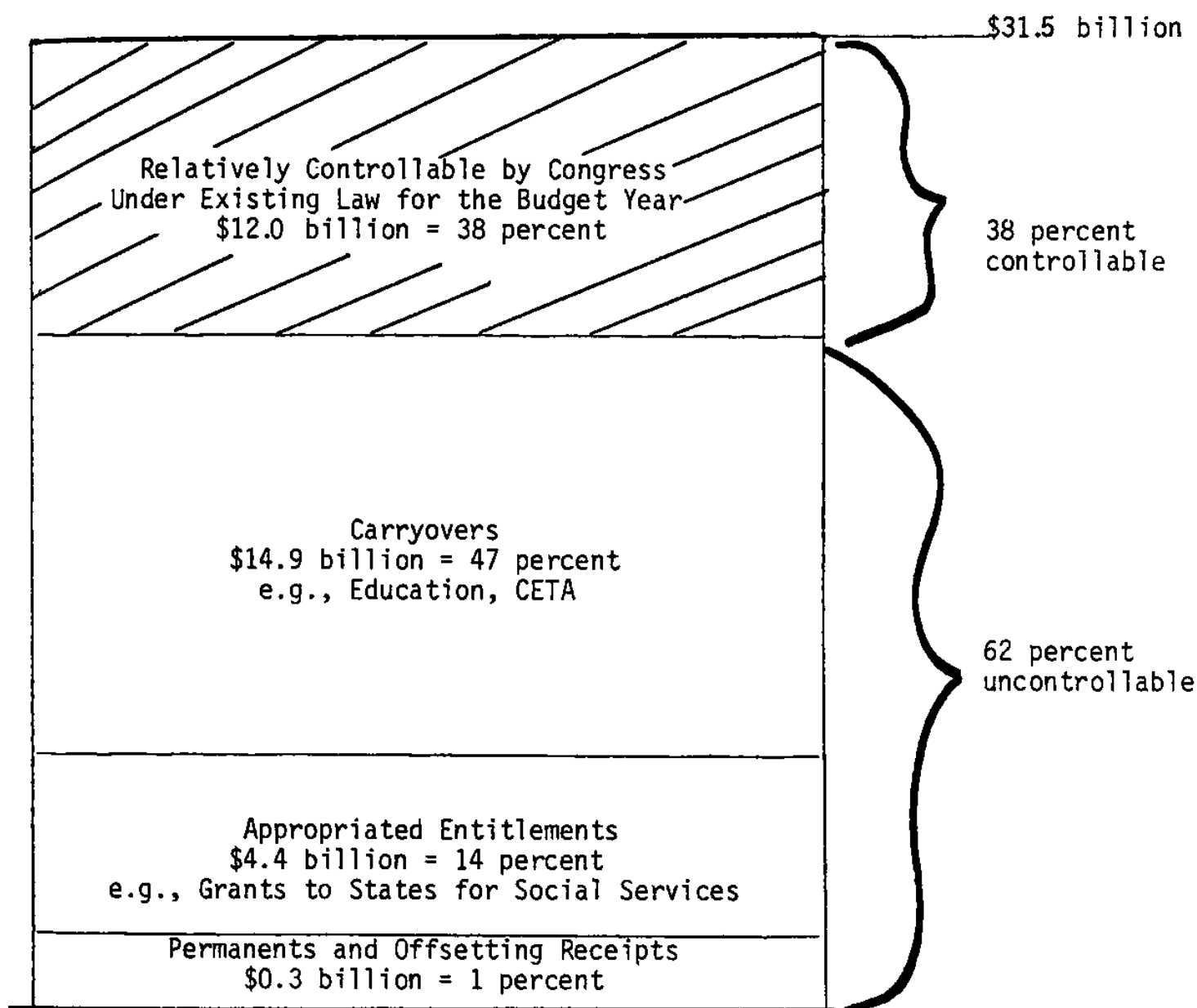
Future economic stimulus proposals to expand certain local public works or other development programs could similarly increase outlays in this function. Unexpected natural disasters could also have a significant impact on out-year costs.

FUNCTION 450
OUTLAYS

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

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS HOUSE BUDGET COMMITTEE RECOMMENDATION



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

The remaining 62 percent of outlays in this function are relatively uncontrollable. They consist largely of outlays from prior year appropriations associated with forward funded education programs such as Title I of ESEA, the Education of the Handicapped program and the Basic Educational Opportunity Grants program which

provides financial assistance to needy higher education students. Also about a third of these expenditures are associated with the CETA program.

2. Past 5-Year Spending Trend

In the 5 years from 1975 to 1979, outlays in this function increased a total of 91 percent—from \$15.9 billion in 1975 to \$30.4 billion in 1979. About 53 percent of the increase represented real growth, with inflation accounting for the rest of the increase. In addition to inflation, outlays have risen as a result of expansion in recipient populations, liberalization of program benefits, and responses to adverse economic conditions. Shown below is the 5-year increase in outlays to education, employment and training and social service programs.

FUNCTION 500: GROWTH IN OUTLAYS, FISCAL YEARS 1975-79

[Dollars in millions]

	Fiscal year—		Percent increase 1979 over 1975
	1975	1979	
Education programs.....	\$7,631	\$12,745	67.0
Training, employment, and other labor services programs.....	4,322	11,673	170.1
Social services programs.....	3,923	5,949	51.6
Total.....	15,870	30,363	91.3

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

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

Training and employment programs have increased by 170 percent from fiscal year 1975 through fiscal year 1979. The greatest part of this

increase is due to appropriations for the Comprehensive Employment and Training Act (CETA) due to Congress's and the administration's efforts to end the recession of the mid-1970's. At the peak of the recession the unemployment rate exceeded 9 percent, which meant that approximately 9 million people were unemployed. As part of the fiscal year 1977 economic stimulus package, \$9.425 million were appropriated for CETA, most of which was applied to public service employment programs (PSE). At its peak, (March 1978), the CETA/PSE programs had 753,000 enrollees.

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

3. *Selected Major Outyear Budget Issues*

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

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

4. *Outyear Overview.* (See chart.)

[In billions of dollars]

	1980	1981	1982	1983	1984
President.....	30.0	31.2	36.7	-----	-----
HBC.....	31.5	33.2	35.3	37.5	39.7
SBC.....	30.5	30.0	30.0	30.3	30.6

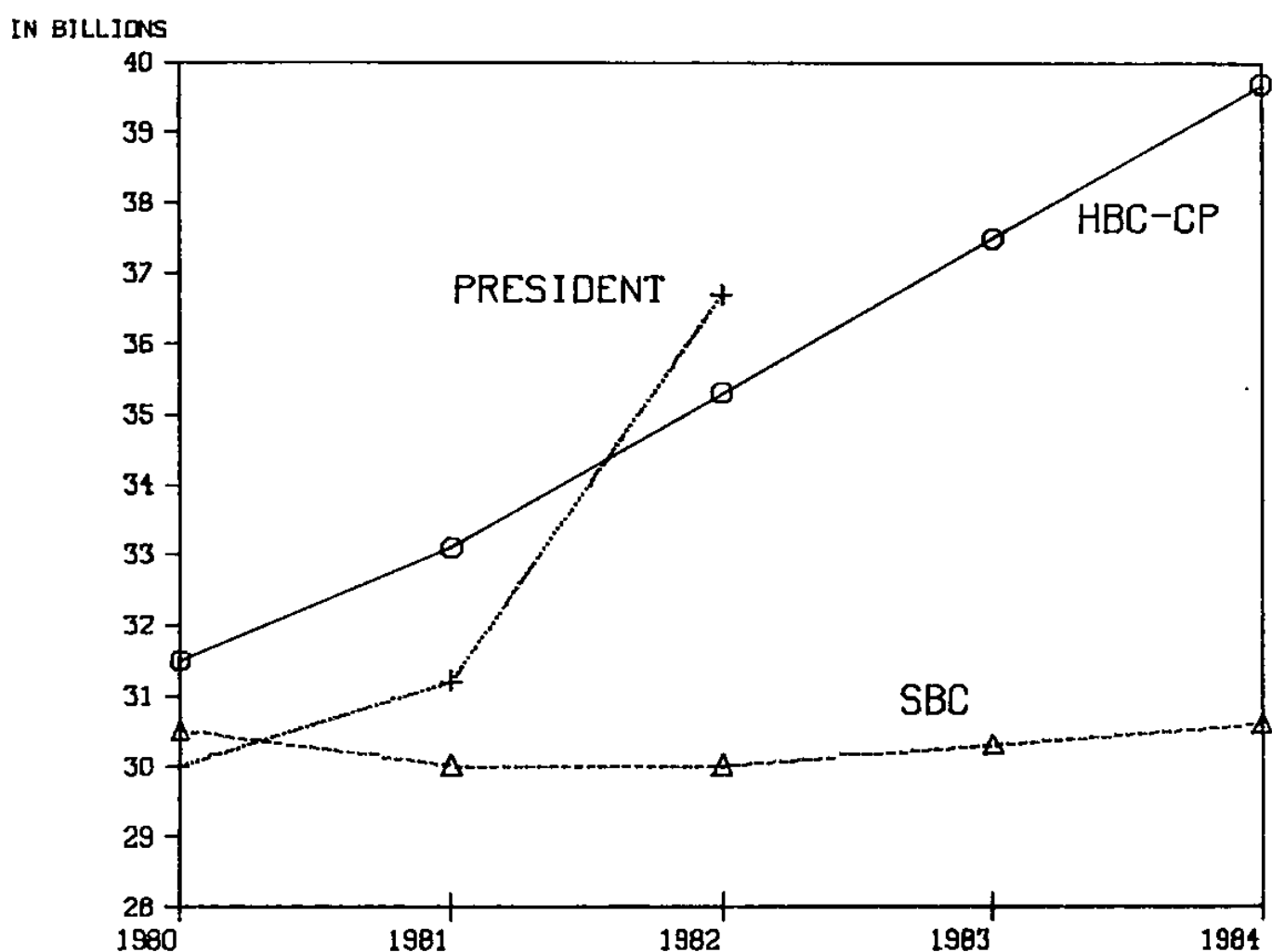
IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

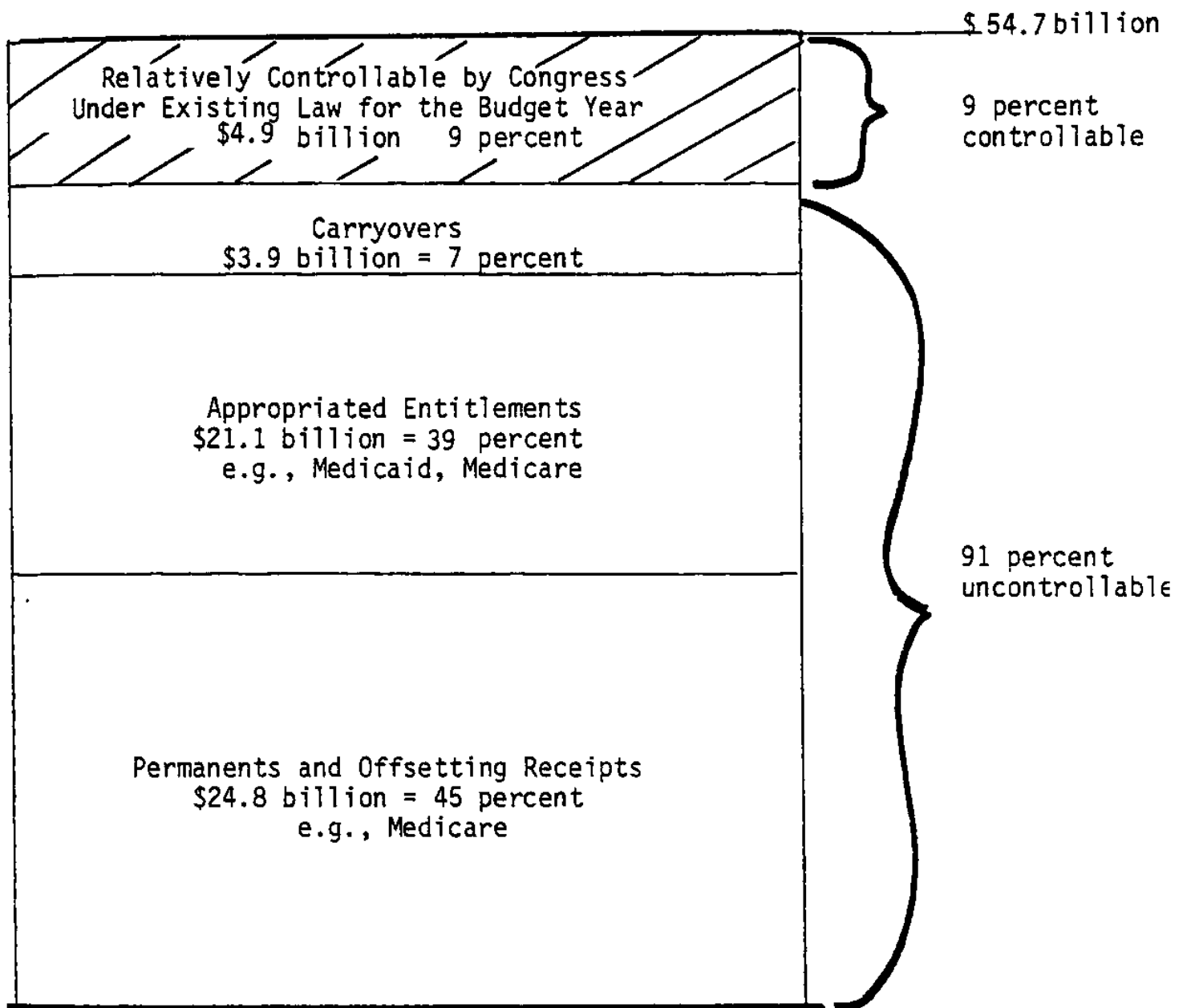
In the 5 years prior to budget year 1980, function 500 outlays increased by 91 percent. According to current policy projections, the function would grow 26.2 percent from fiscal year 1980 through fiscal year 1984.

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

The House Budget Committee current policy provides for a continuation of 250,000 job slots for CETA title II-D PSE jobs for the structurally unemployed and 200,000 title VI PSE jobs for the cyclically unemployed. In total, outlays for training and employment programs increase from \$11.5 billion in fiscal year 1980 to \$14.6 billion in fiscal year 1984, an increase of 27 percent. In total, for social services programs, the policy provides for a title XX ceiling of \$3.1 billion.

FUNCTION 500 OUTLAYS



Function 550: Health*1. Controllability of Function***FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET**

Only 9 percent of the outlays in this function are controllable in fiscal year 1980. The controllable outlays result primarily from appropriations for discretionary health programs, largely grants and contracts, and other related costs. They also include program improvements proposed for the medicaid and medicare programs which would result in net savings. The remaining 91 percent of outlays in this

function consists of expenditures under current law for the medicaid and medicare programs, which provide legal entitlements to eligible beneficiaries; obligations made in prior years; and health benefits for retired Federal employees. The medicare and medicaid entitlement programs in this function are authorized for indefinite time periods. In addition, outlays for employee benefits and prior year obligations are expected to be maintained at least at current levels. Therefore, the cost of the majority of funds in this account will remain uncontrollable in the outlays.

2. Past 5-Year Spending Trend

OUTLAYS

[In millions of dollars]

	Outlays	Percent of change over prior year
Fiscal year:		
1975	27,648	25
1976	33,448	21
1977	38,785	16
1978	43,676	13
1979	49,776	14

Outlays in this function have increased from \$27.6 billion in fiscal year 1975 to \$49.8 billion estimated in fiscal year 1979, an average of 14.8 percent per year. Over the 5-year period Federal expenditures for health have increased 80 percent.

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

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

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

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

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

3. Selected Major Outyear Budget Issues

National Health Insurance.—The major issue that would impact on the health function in the period 1981–84 is national health insurance. Predominant among the insurance proposals under consideration are those developed by the President, Senator Edward Kennedy and Senator Russell Long. The initial costs of these plans range from \$7 billion to \$40 billion per year. The plan proposed by Senator Long centers around efforts to provide assistance in the case of catastrophic illness. The health insurance plans of the President and Senator Kennedy provide comprehensive benefits and universal coverage. The President and Senator Kennedy have proposed that national health insurance be implemented in stages beginning in 1983. The plan proposed by Senator Long could be implemented shortly after its enactment.

Hospital Cost Containment—In addition, efforts to restrain cost increases, especially with regard to hospital cost containment, may be expected to continue. Legislation to impose such controls already has been reported by the House Ways and Means Committee. It is estimated that this bill, if enacted, would save the Federal Government \$12.7 billion from 1980–84. Total savings for the nation would be \$31.3 billion.

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

4. Outyear Overview. (See chart.)

OUTLAYS

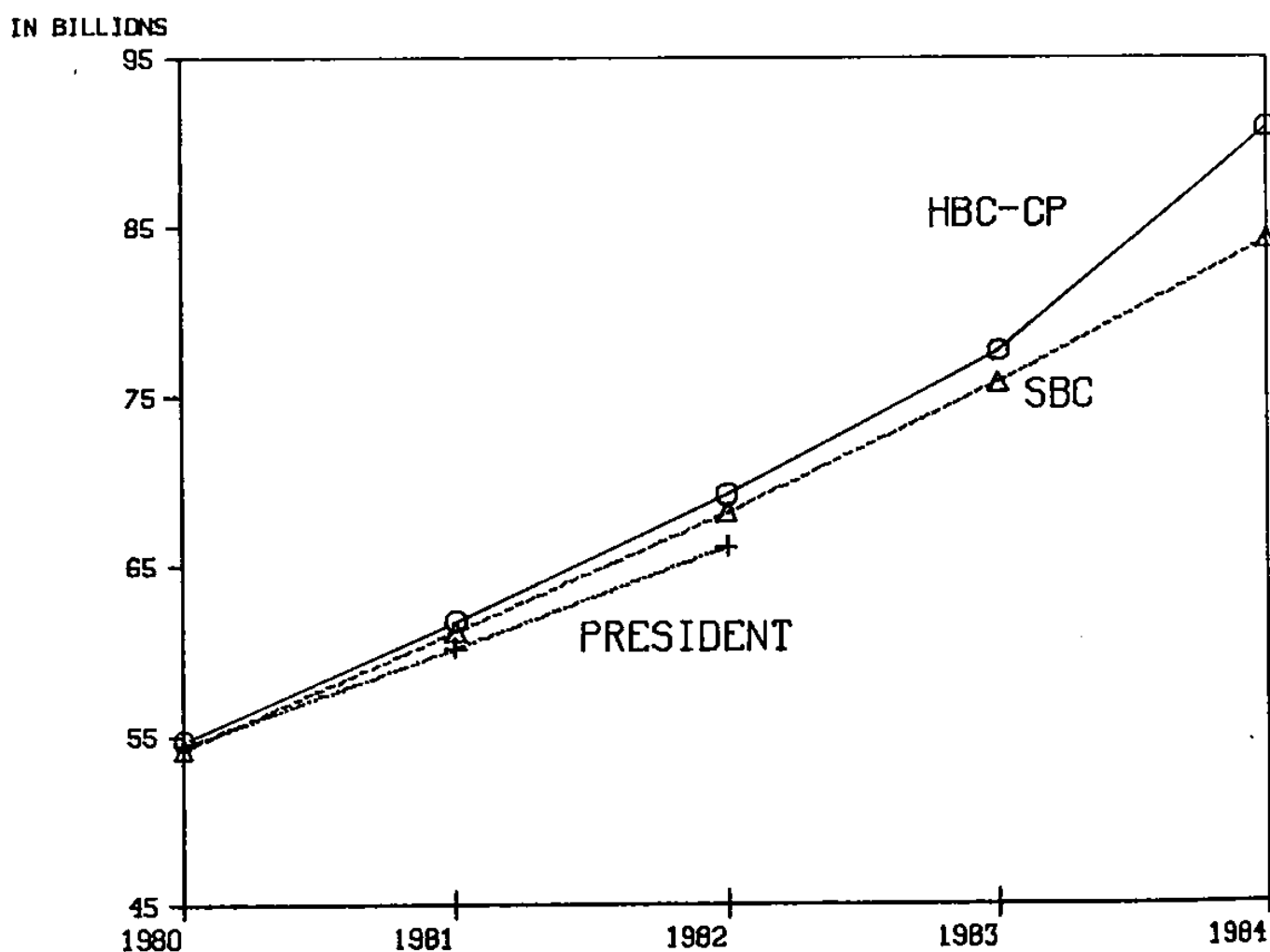
[In billions of dollars]

	1980	1981	1982	1983	1984
President.....	54.4	60.1	66.1	-----	-----
HBC.....	54.7	61.7	69.2	77.6	90.8
SBC.....	54.2	61.1	68.1	75.8	84.2

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

Current projections by the House Budget Committee are that Federal health care program outlays will increase by 66 percent between fiscal year 1980 and fiscal year 1984. By the end of the period, budget authority for health programs will exceed \$100 billion. The noncontrollable medicare and medicaid programs are primarily responsible for the increase. By 1984, medicare expenditures will have increased 72 percent and medicaid by 62 percent to totals of \$56 billion and \$21 billion, respectively. These levels assume enactment of a number of legislative reforms and benefit improvements in fiscal year 1980. Principal among these are hospital cost containment and the Child Health Assurance Program (CHAP). By fiscal year 1983, mandatory cost containment will save \$4.1 billion annually for the medicare program and another \$620 million in medicaid. The cost of CHAP in medicaid will reach \$2 billion by fiscal year 1984. Other program reforms assumed to be enacted by fiscal year 1980 will save almost \$900 million in fiscal year 1984.

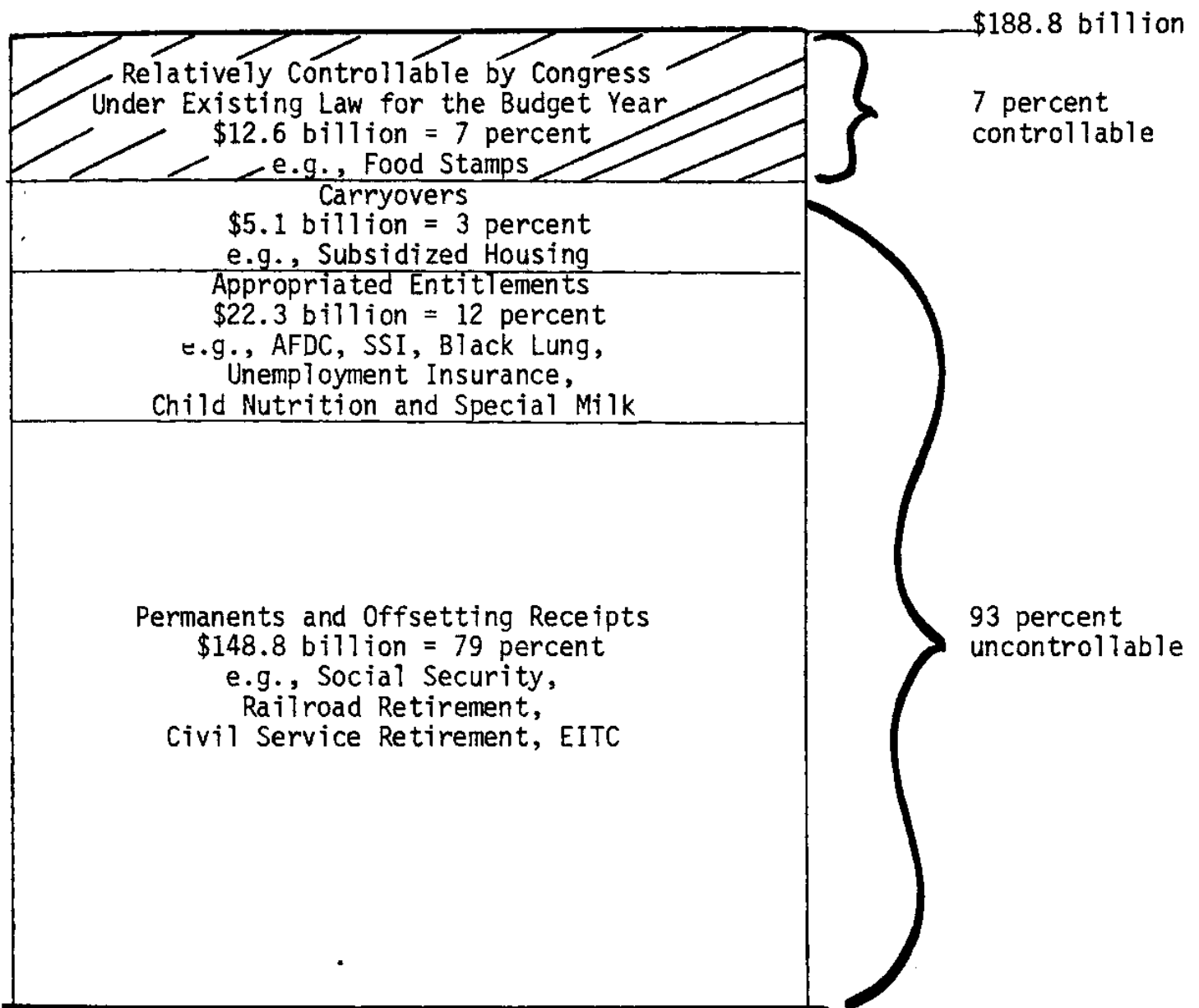
FUNCTION 550 OUTLAYS



Function 600: Income Security

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

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

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

2. Past 5-Year Spending Trend

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

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

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

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

3. Selected Major Budget Outyear Issues

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

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

balances in all three funds by fiscal year 1984, 26.8 percent of outlays by fiscal year 1984 (a decline from the current level of 37.7 percent). CBO notes that these estimates are affected by both economic assumptions and also methodology.

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

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

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

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

Federal Employee Retirement.—The cost of retirement and disability benefits for civilian Federal employees is included in the income security function. Funding for this activity increased by 78 percent, or \$5.4 billion, over the period fiscal years 1975–79 and over the next 5 years is projected to increase by 59 percent, or \$8.5 billion. At the request of the House Budget Committee, the Congressional Budget Office last year completed a study on this program, "Options for Federal Civil Service Retirement," which found that the current Civil Service Retirement system costs more than *one and a half times* what the combination of social security and a representative private

sector plan would cost. This system is subsidized with large and growing general fund payments, in addition to the matching employer-employee contributions which together equal 14 percent of the payroll. The CBO estimates the long-term cost of the system to be 21.9 percent of payroll, an estimate which is substantially more conservative than the OMB estimate of 27.4 percent. Even under the conservative CBO assumptions, however, the Federal Government pays two-thirds of the cost, while Federal employees pay one-third of the cost.

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

4. *Outyear Overview*—(See chart.)

OUTLAYS

[In billions of dollars]

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

IMPLICATIONS OF HBC CURRENT POLICY PROJECTIONS

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

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

COMPARATIVE ECONOMIC ASSUMPTIONS

	Calendar year—					
	1979	1980	1981	1982	1983	1984
Unemployment rate:						
HBC.....	6.2	7.2	7.1	6.9	6.6	6.3
Administration (post-OPEC).....	6.1	6.8	6.5	6.1	5.8	5.6
Percentage growth in Consumer Price Index:						
HBC.....	10.6	9.3	8.6	7.8	7.1	6.8
Administration (post-OPEC).....	10.7	8.6	7.5	6.6	6.2	5.6

The OMB economic assumptions are more optimistic than HBC's for all years. The differing assumptions have a substantial impact on spending estimates in this function, particularly on the largest programs—social security and unemployment compensation. For example, by fiscal year 1982, the House Budget Committee projection for social security under current law is \$8.2 billion over the comparable OMB projection. More than half of this is directly due to differing

economic assumptions. The remainder is attributable to differing estimating techniques. Economic assumptions are also significant in this difference since CBO in preparing the projections for House Budget Committee uses a model which gives greater weight to economic variables than does the model used in the OMB projections.

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

The projected trends between fiscal year 1980 and 1984 under the Committee recommendation show a continuation of the trends described previously for the fiscal years 1975-79 period.

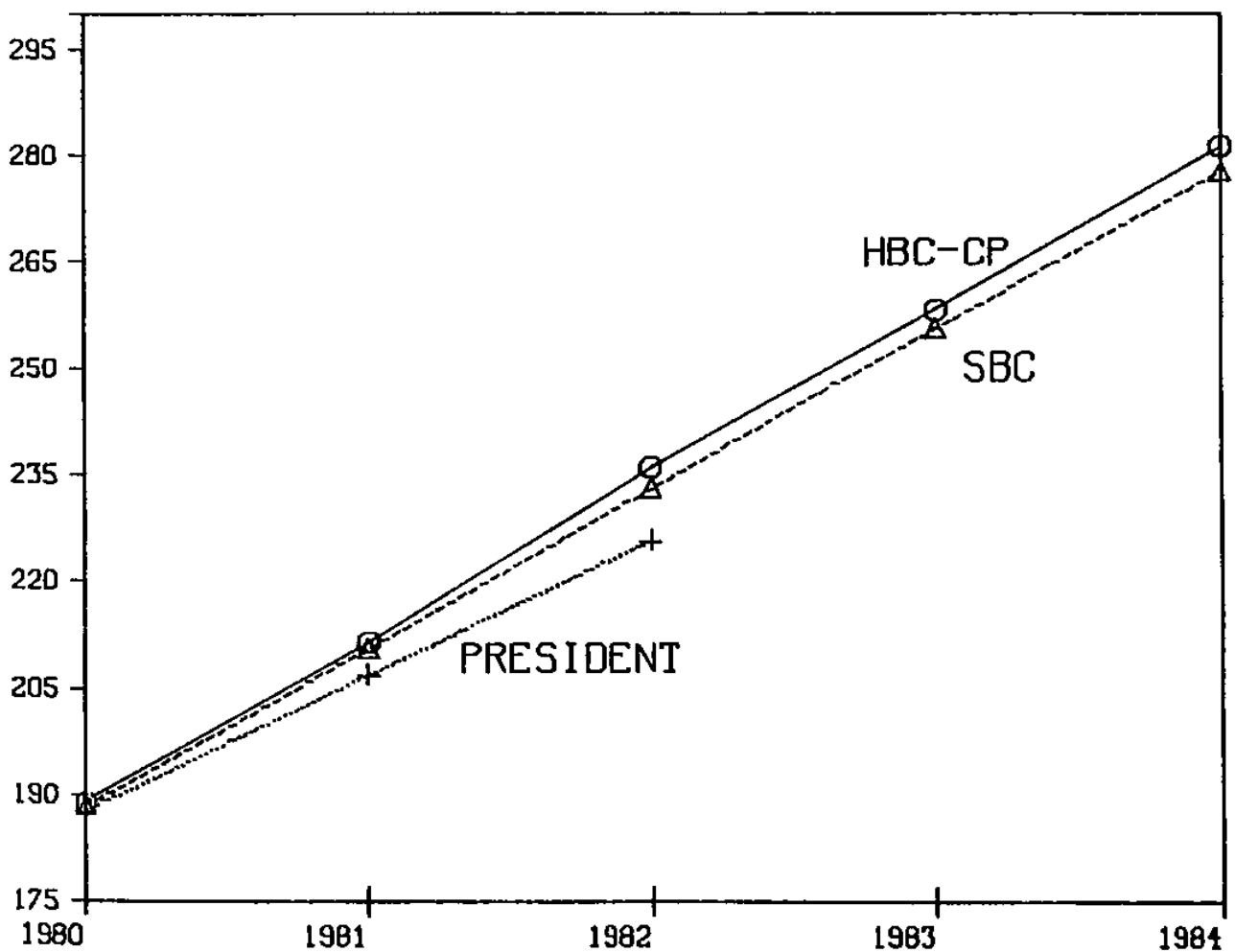
In general retirement programs, the growth will be larger than for any other program category. Social Security outlays will increase by 60 percent, or \$71.3 billion. Federal employee retirement outlays will increase by 59 percent, or \$8.5 billion.

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

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

FUNCTION 600 OUTLAYS

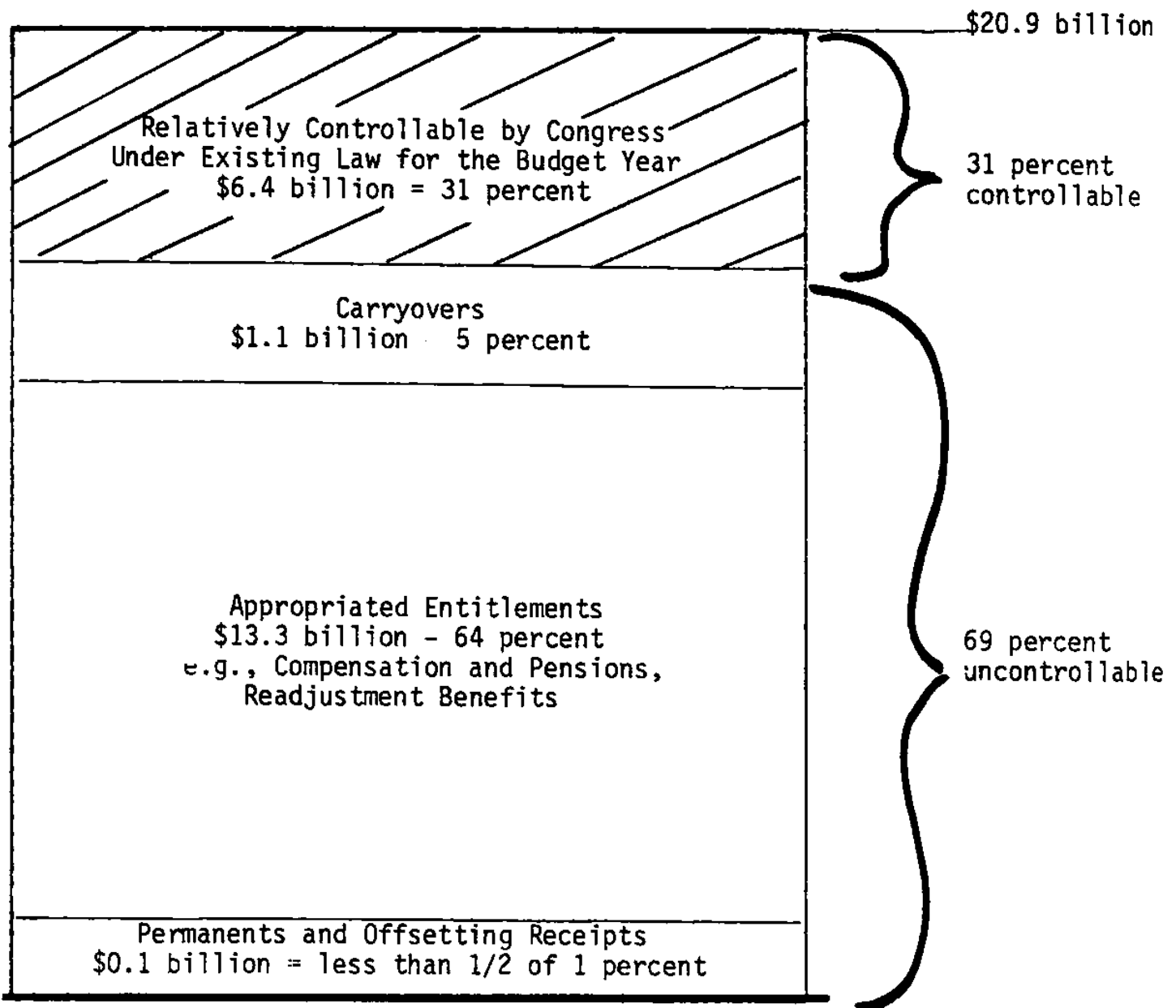
IN BILLIONS



Function 700: Veterans Benefits and Services

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

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

factors, in addition to the aging veteran population and the entitlement nature of the programs, make this portion of the function virtually uncontrollable.

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

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

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

2. Past 5-Year Spending Trend

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

Compensation and pension accounts have steadily increased over the past 5 years due to benefit adjustments to compensate for increases in the cost of living. These accounts grew from \$7.4 billion to more than \$10.5 billion, about 42 percent, primarily as a result of program liberalizations such as the 1978 pension reform act.

Readjustment benefits peaked in 1976, primarily as a result of the recession. Since readjustment benefits are very sensitive to economic changes, that period of high unemployment caused the trainee caseload to rise sharply. In addition, in 1974 the Congress legislated payment increases to offset inflation's erosion of real benefits, an action which encouraged many veterans to participate. Since 1976 there has been a steady decline in expenditures for readjustment benefits are very sensitive to economic changes, that period of high unemployment caused the trainee caseload to rise sharply. In addition, in 1974 the Congress legislated payment increases to offset inflation's erosion of real benefits, an action which encouraged many veterans to participate. Since 1976 there has been a steady decline in expenditures for readjustment benefits, due to the expiration of entitlement for 3.1 million veterans on May 31, 1976, reduced unemployment rates which led to fewer GI program participants, and the continuing caseload

decline due to expiring entitlements or full utilization of benefits. Between fiscal year 1975 and fiscal year 1979, readjustment benefits dropped from \$4.6 billion to \$2.8 billion, nearly 40 percent.

Medical program expenditures have risen from \$3.7 billion in fiscal year 1975 to \$5.8 billion in fiscal year 1979, or 58 percent. This growth has been primarily due to a 61 percent increase in hospital and medical care costs, which account for over \$2 billion of the increase. In the area of major construction, e.g., hospitals, the VA has consistently obligated lower amounts than estimated in its initial budget submission. As a result, unobligated balances have risen over the past 5 years from \$145 million in fiscal year 1975 to an estimated \$909 million in fiscal year 1979.

3. Selected Major Outyear Budget Issues

The Aging Veteran.—The next 5 years will mark the beginning of significant increases in expenditures for veterans pensions and medical care as a result of the aging of World War II and Korean conflict veterans. For example, veterans pension and compensation caseloads are expected to rise by more than 250,000 between fiscal year 1980 and fiscal year 1984. Program costs will increase from almost \$12 billion in fiscal year 1980 to about \$16 billion in fiscal year 1984, or 35 percent, as a result of inflation and rising caseloads. In addition to income security, the major long-range issue will be how best to meet the health care needs of an aging veteran population. By 1990 more than half of U.S. males over 65 years of age will be veterans. Between 1980 and the year 2000, the number of veterans age 65 and over will double, jumping from 2.2 million to 4.4 million. These statistics emphasize the need for long-range planning in this area. The immediate future will include funding for geriatric research and pilot projects to serve aging veterans, as well as evaluations of the type of care and treatment that will best serve future needs. Such studies of long-range requirements will likely influence more immediate decisions, for example, as to whether nursing homes or acute care hospitals should be constructed, and in that way impact on short-range budgets as well. While the dollar impact cannot be determined at this time, it is clear that the expanded and divergent health care requirements of the aged veteran population will require extensive and costly changes in both facilities and services.

4. Outyear Overview.—(See chart.)

OUTLAYS

[In billions of dollars]

	1980	1981	1982	1983	1984
President.....	20.8	21.4	22.2	25.0	26.3
HBC.....	20.8	22.2	23.7	23.6	24.7
SBC.....	20.5	21.4	22.5		

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

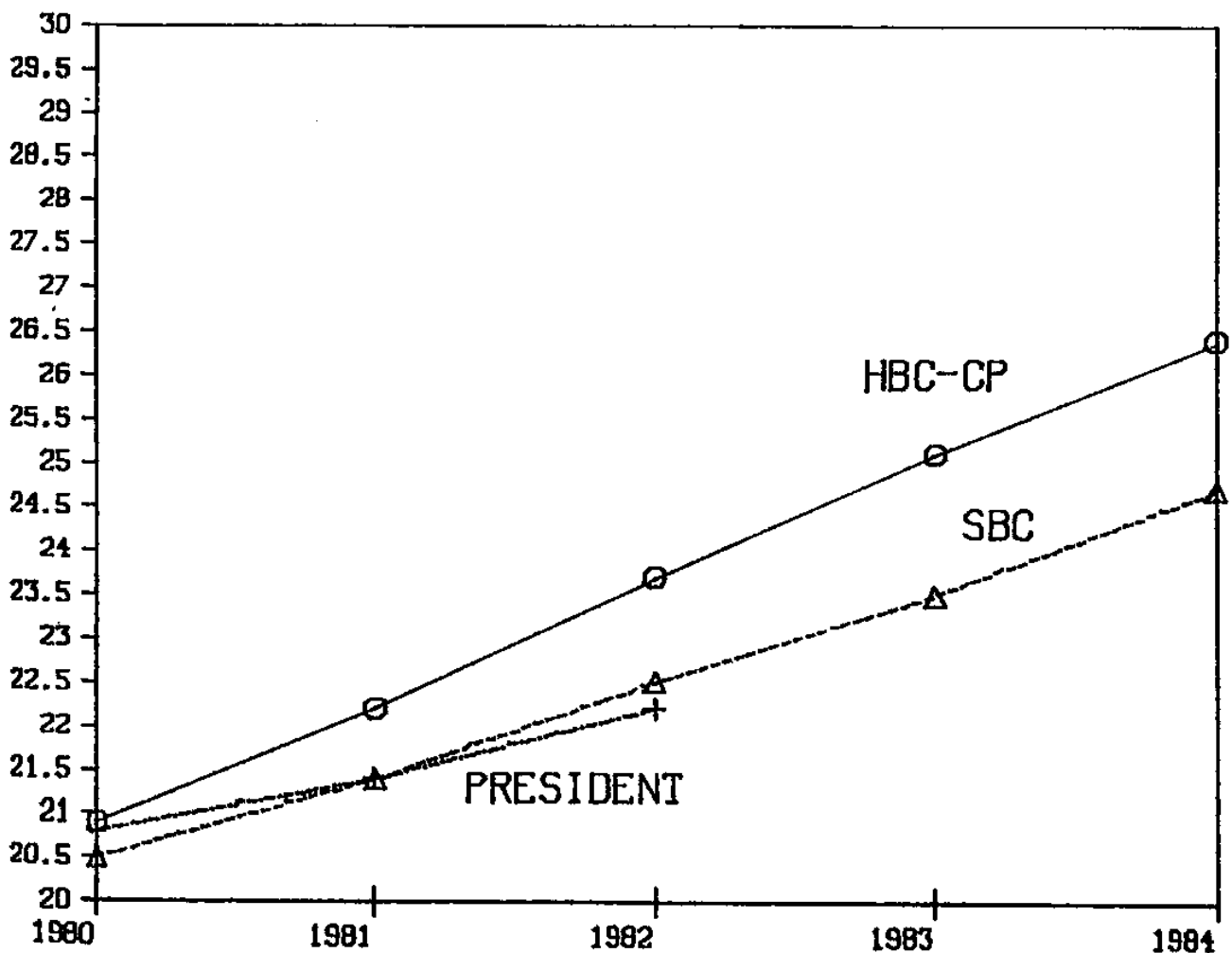
The House Budget Committee current policy path grows substantially higher than others shown above because full discretionary inflation is reflected. Since Congress usually passes annual compensation cost-of-living increases and annual or biannual adjustments in readjustment benefits, these factors are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

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

The House Budget Resolution also assumes savings of \$92 million in fiscal year 1980 from legislative reform of certain VA medical benefits and third-party reimbursement for medical care and treatment of veterans with non-service-connected conditions. The cumulative five-year savings from these reforms are estimated to be \$1.7 billion, most (89 percent) of which is due to the third-party proposal. None of these measures have been reported in the House. If these reforms are not effected, approximately \$1.7 billion will have to be added to the 5-year budget forecast.

FUNCTION 700 OUTLAYS

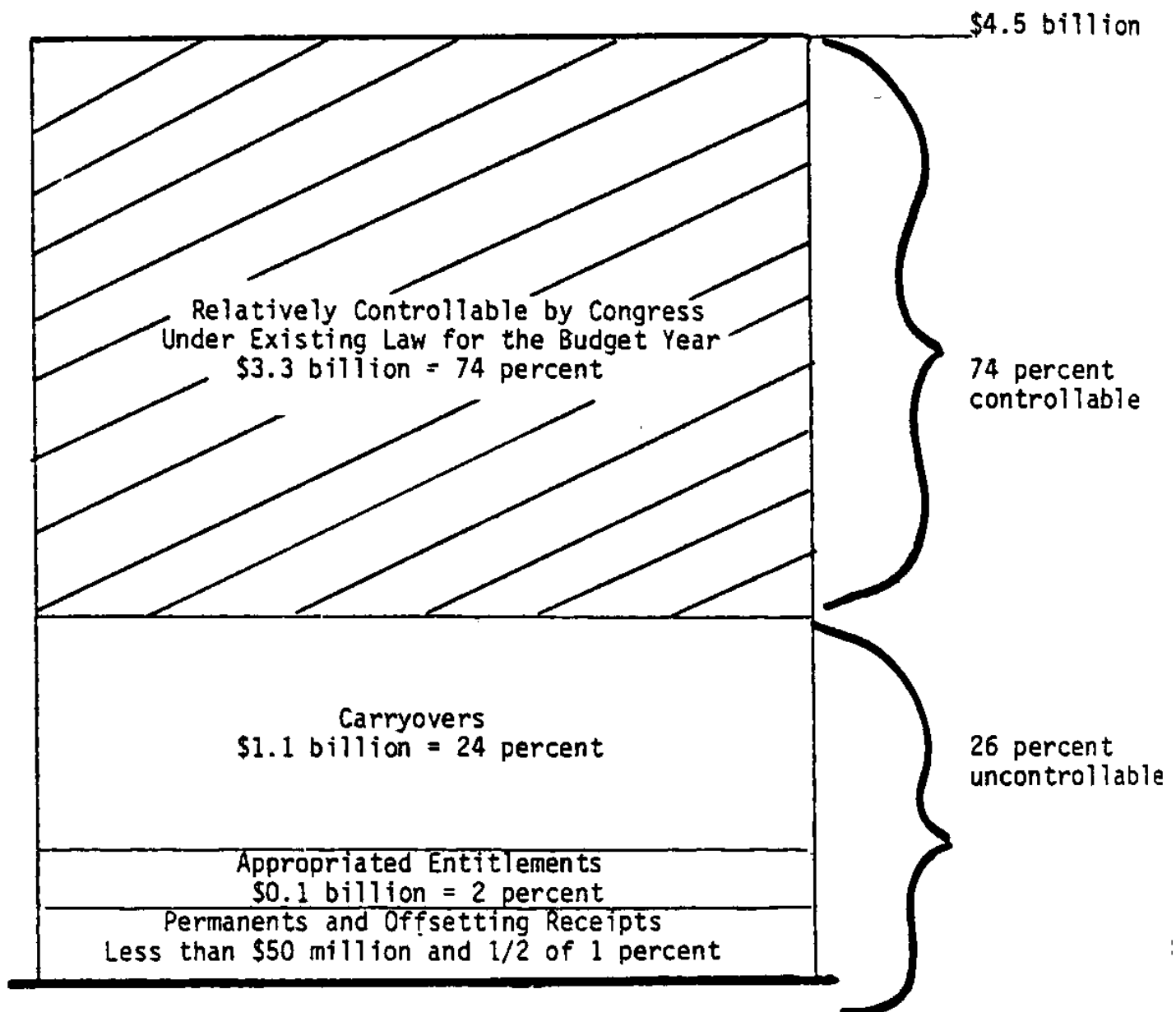
IN BILLIONS



Function 750: Administration of Justice

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

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

outlay savings in the same year due to temporary costs associated with termination of employees.

2. Past 5-Year Spending Trend

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

3. Selected Major Outyear Budget Issues

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

4. Outyear Overview. (See chart.)

OUTLAYS

(In billions of dollars)

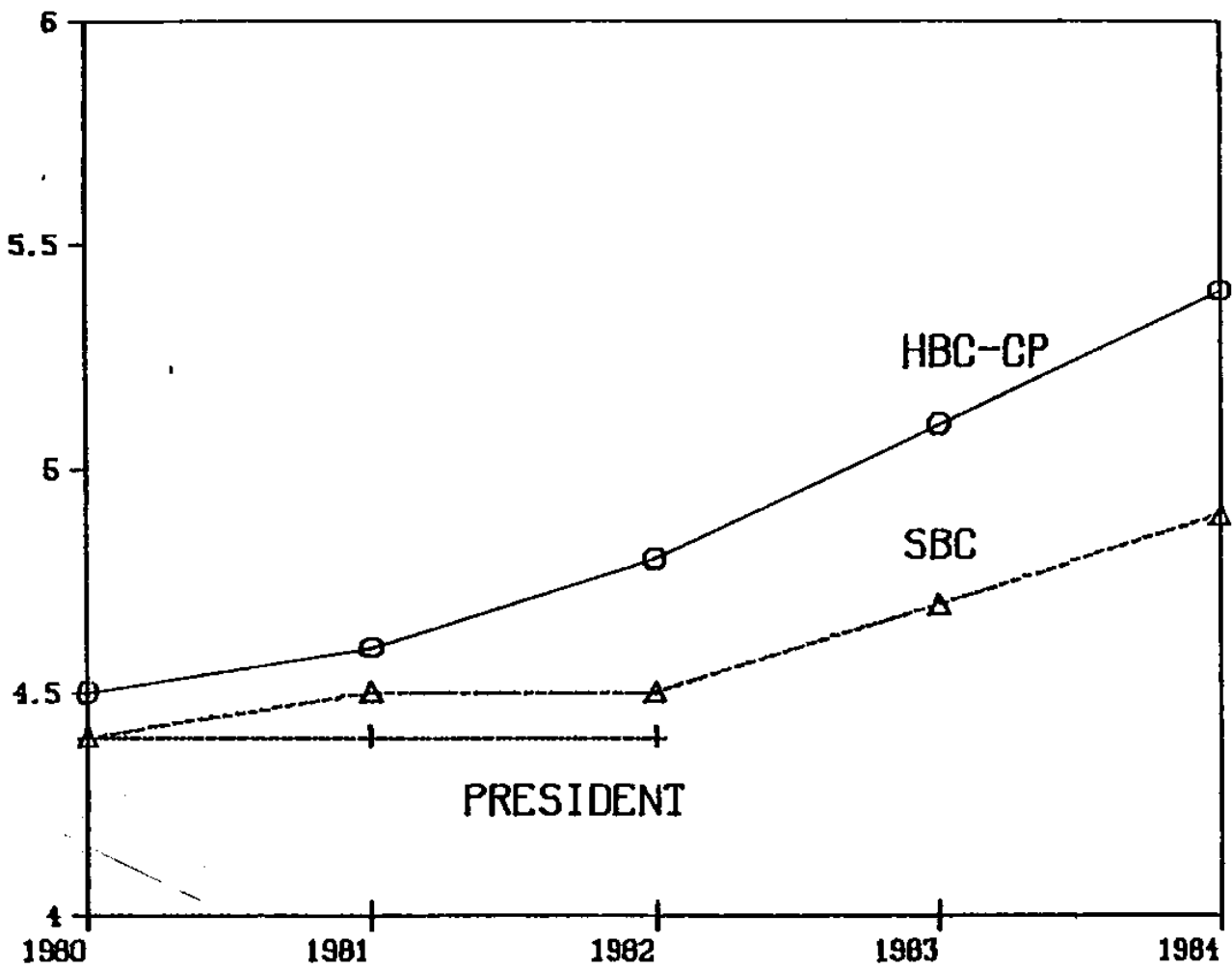
	1980	1981	1982	1983	1984
President.....	4.4	4.4	4.4	-----	-----
HBC.....	4.5	4.6	4.8	5.1	5.4
SBC.....	4.4	4.5	4.5	4.7	4.9

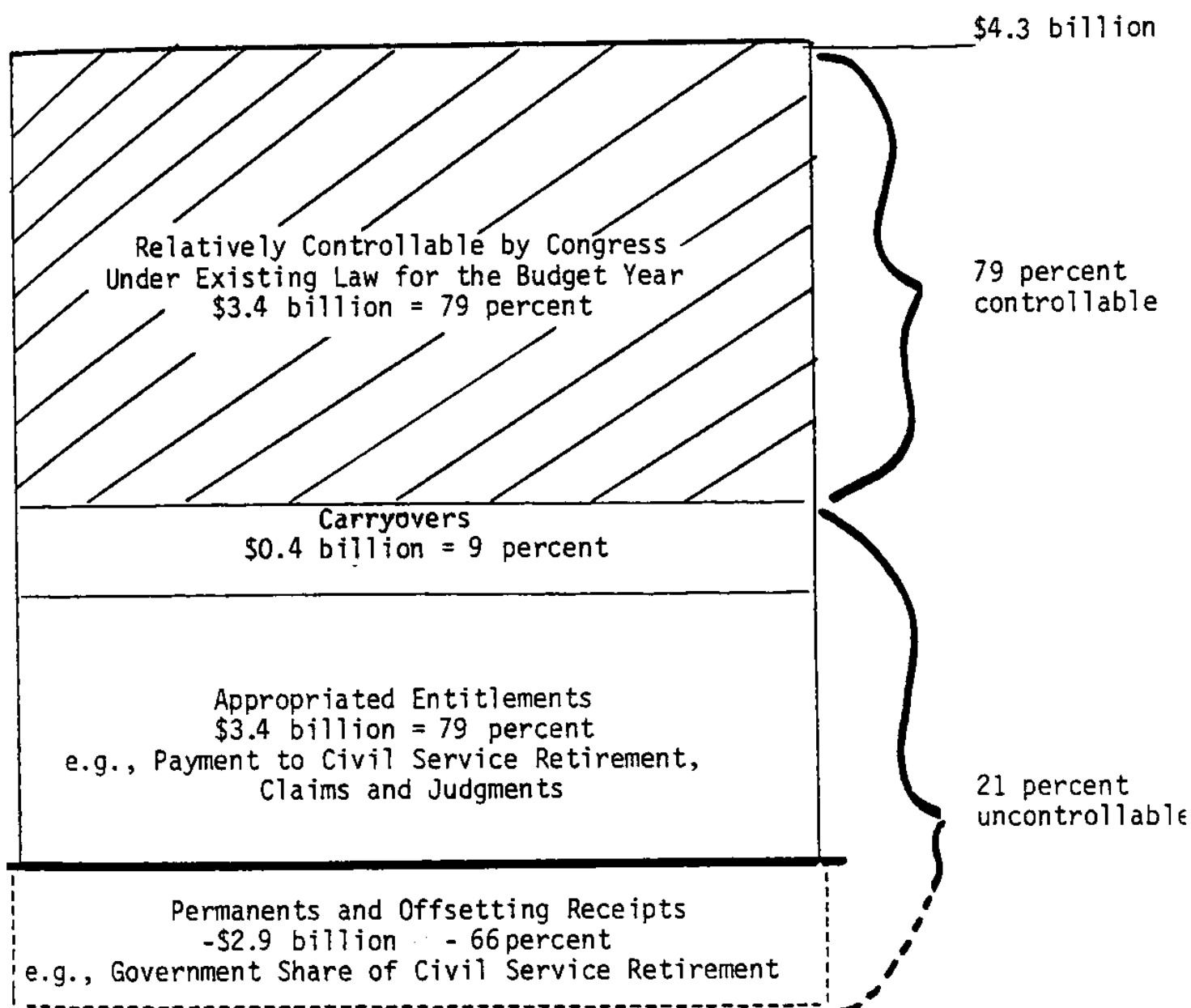
IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY PROJECTIONS

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

FUNCTION 750
OUTLAYS

IN BILLIONS



Function 800: General Government*1. Controllability of Function***FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET
COMMITTEE RECOMMENDATION**

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

2. Past 5-Year Spending Trend

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

3. *Selected Major Outyear Budget Issues*

None.

4. *Outyear Overview.*—(See chart.)

OUTLAYS

[In billions of dollars]

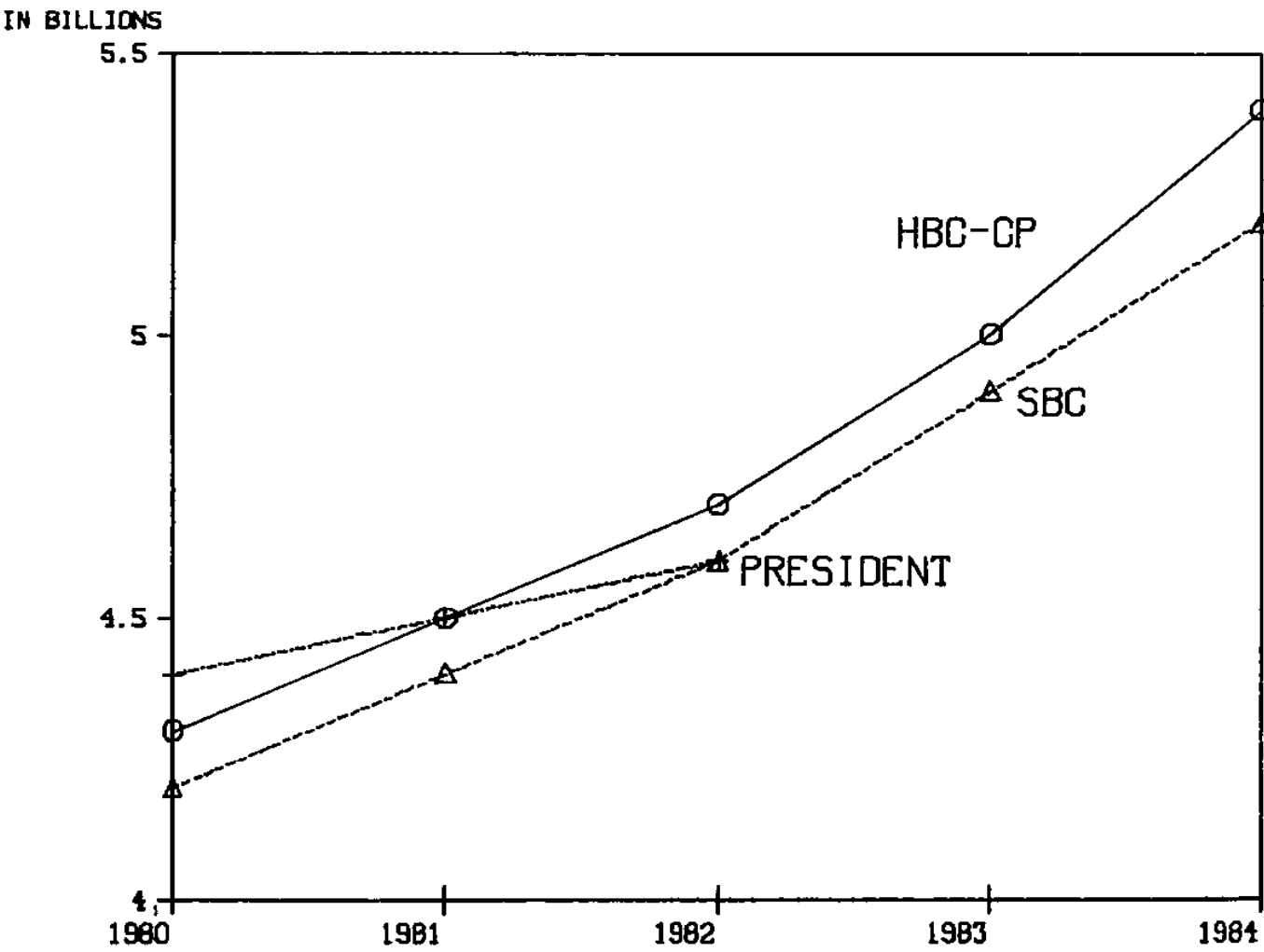
	1980	1981	1982	1983	1984
President.....	4.4	4.5	4.6	5.1	5.5
HBC.....	4.3	4.6	4.8	4.9	5.2
SBC.....	4.2	4.4	4.6	4.9	5.2

IMPLICATIONS OF HBC CURRENT POLICY PROJECTIONS

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

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

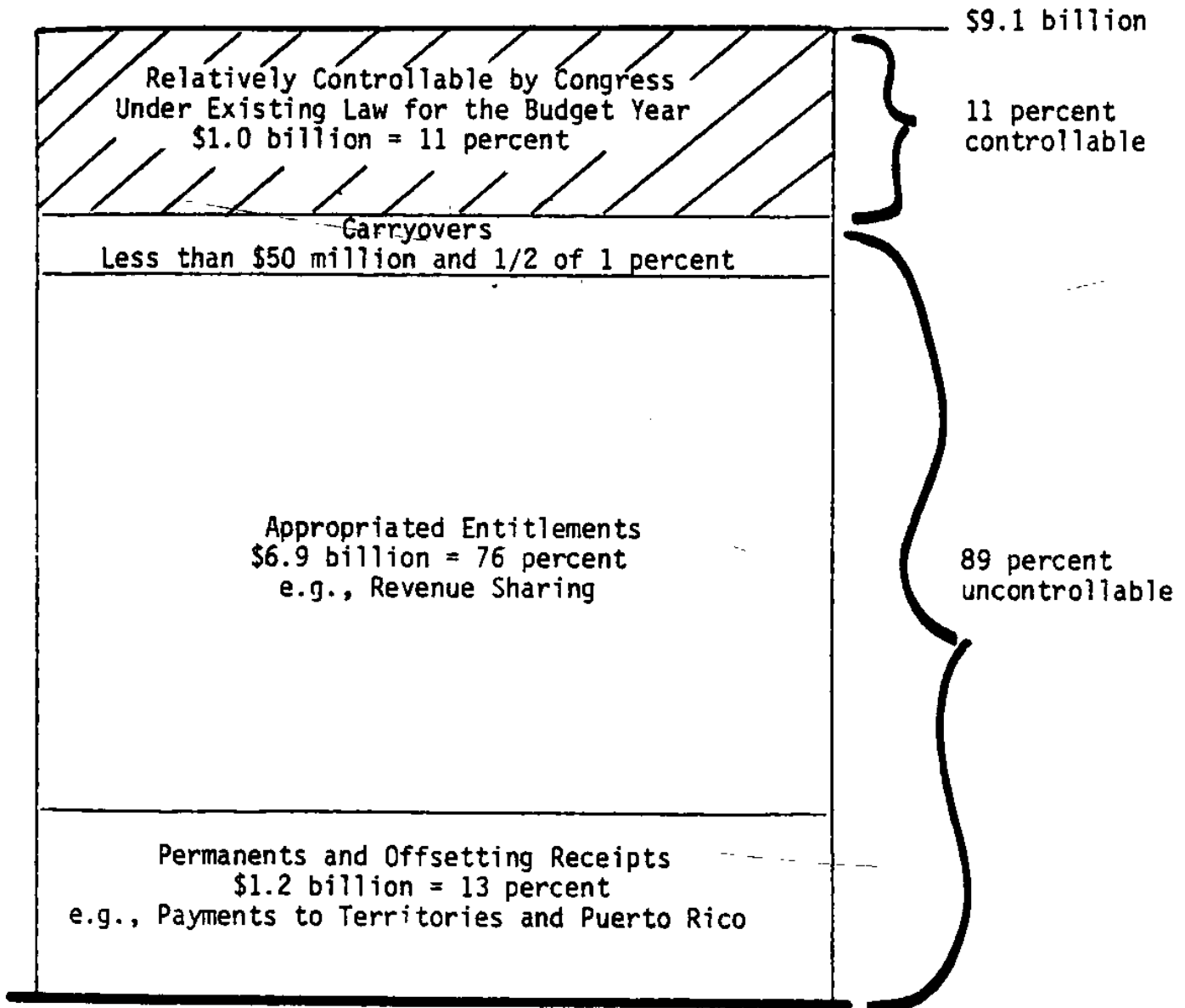
FUNCTION 800
OUTLAYS



Function 850: General Purpose Fiscal Assistance

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

2. Past Five-Year Spending Trend

Between fiscal year 1975 and fiscal year 1978, outlays in this function increased from \$7.1 billion to \$9.6 billion. A significant increase occurred in fiscal year 1977 and fiscal year 1978 as a result of anti-recession fiscal assistance provided in connection with a major economic stimulus program. Outlays are estimated at \$8.6 billion in fiscal year 1979 and \$9.1 billion in fiscal year 1980. The decline in outlays in fiscal year 1979 reflected a phasedown in the antirecession program.

Nominal growth between 1975 and 1979 was at an average annual rate of 5.82 percent; real growth was at an average annual rate of -11.7 percent.

3. *Selected Major Outyear Budget Issues*

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

The renewal of the General Revenue Sharing program will therefore have the dominant effect on outlays in this function during fiscal years 1981-84. The House Budget Committee supported a one-third reduction in revenue sharing payments in fiscal year 1980 to eliminate payments to State governments. This reduction was rejected by the Congress in appropriation actions.

Congress is currently considering legislation to provide a standby antirecession program which could affect outlays in fiscal year 1981 and beyond, depending on economic conditions. The Senate has passed a bill which would authorize a new program. The House Government Operations Committee has not reported a bill.

4. *Outyear Overview.*—(See chart.)

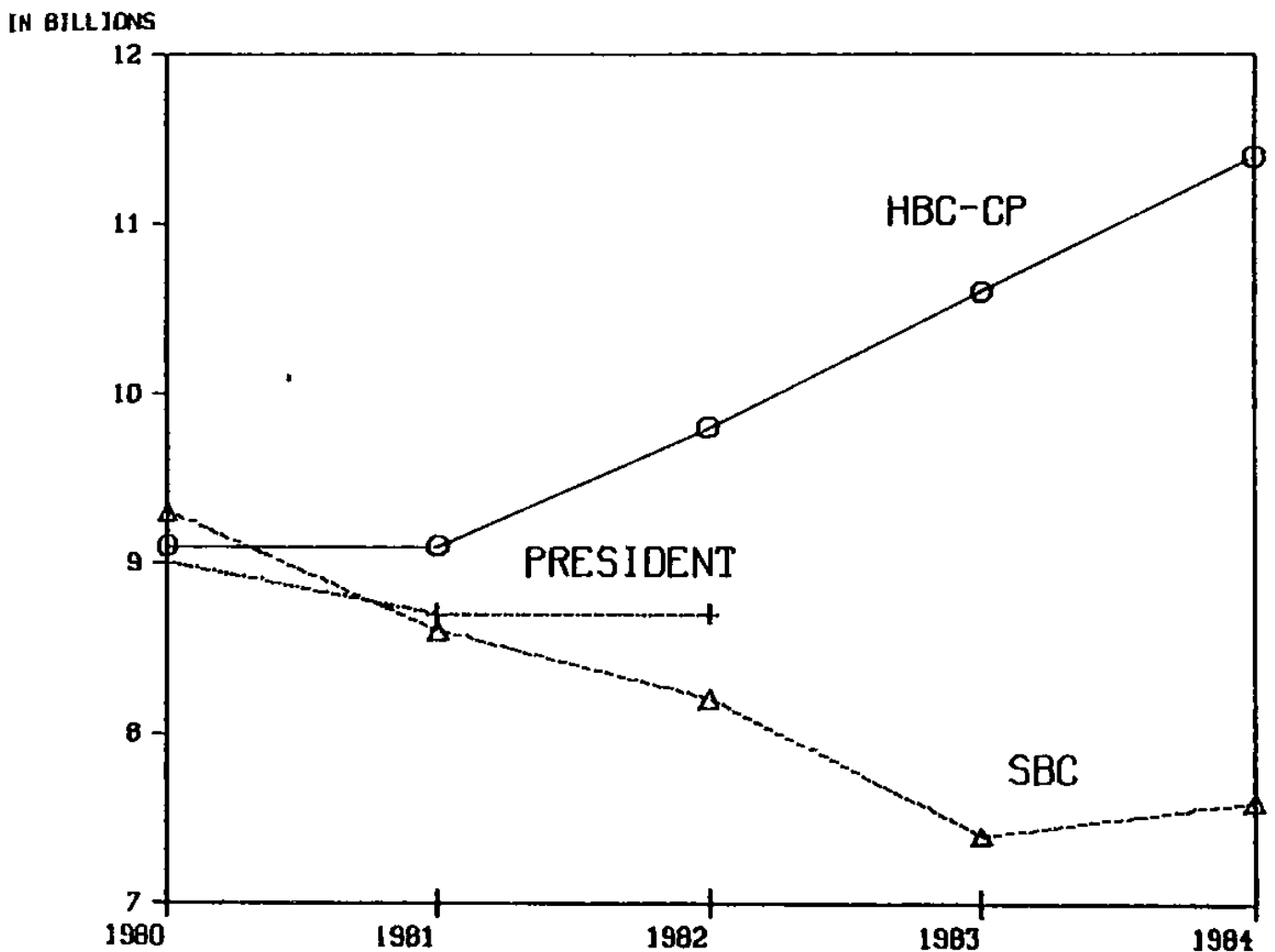
OUTLAYS

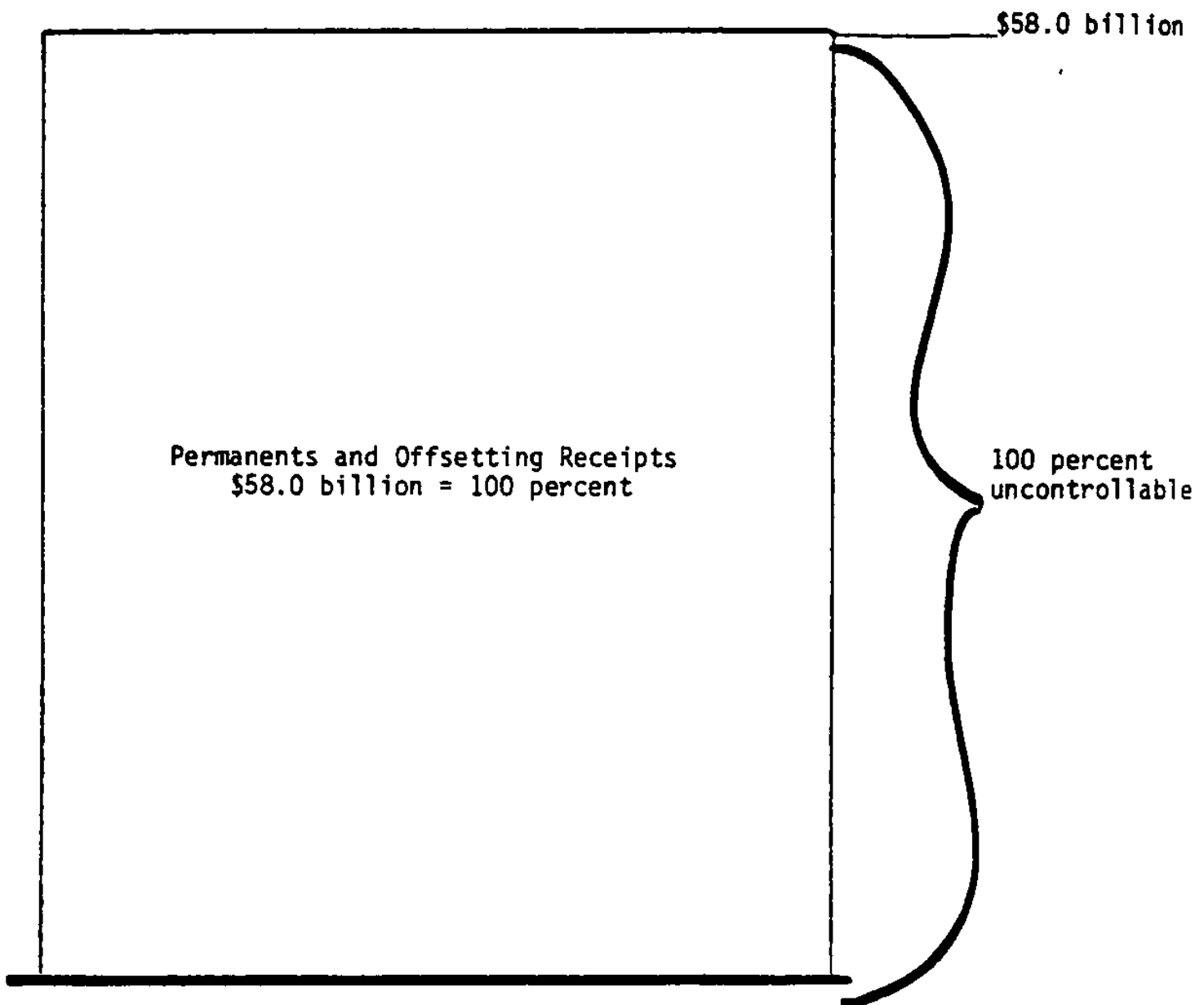
[In billions of dollars]

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

IMPLICATIONS OF HBC CURRENT POLICY PROJECTIONS

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

FUNCTION 850
OUTLAYS

Function 900: Interest*1. Controllability of Function***FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION**

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

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

2. Past 5-Year Spending Trend

Outlays in the interest function have increased from \$30.9 billion in fiscal year 1975 to \$58.0 billion estimated for fiscal year 1980, representing the outlays required to service the growing Federal debt. Total interest outlays have escalated sharply in the latter half of this 5-year period; for example, the increase from 1978 to 1979 was 20 percent.

Trends in outlays are highly sensitive to changes in the economy as reflected in the structure of interest rates, which are not directly controllable through actions of Congress.

3. Selected Major Outyear Budget Issues

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

4. Outyear Overview.—(See chart.)

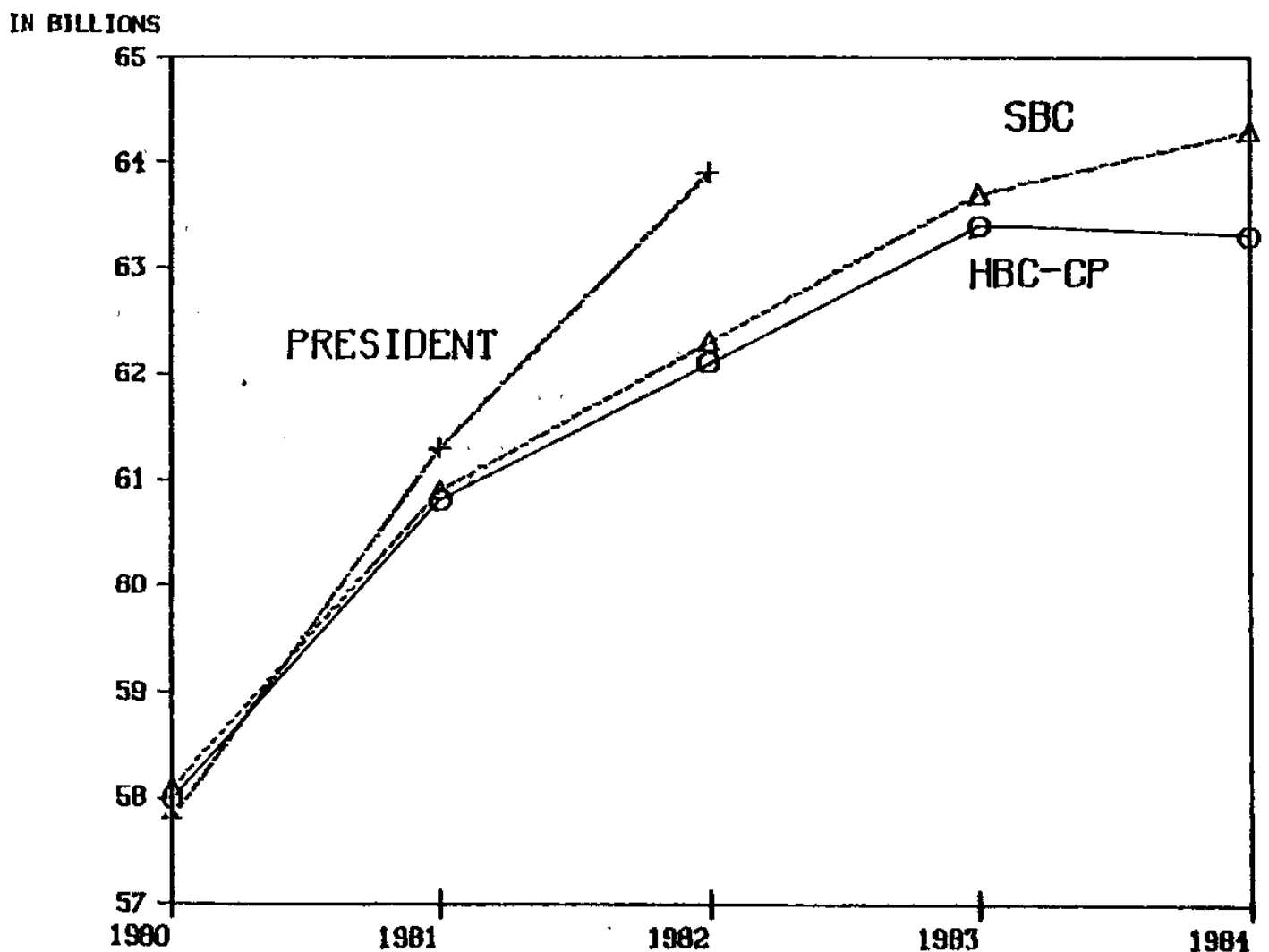
OUTLAYS [In billions of dollars]

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

IMPLICATIONS OF HBC CURRENT POLICY PROJECTIONS

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

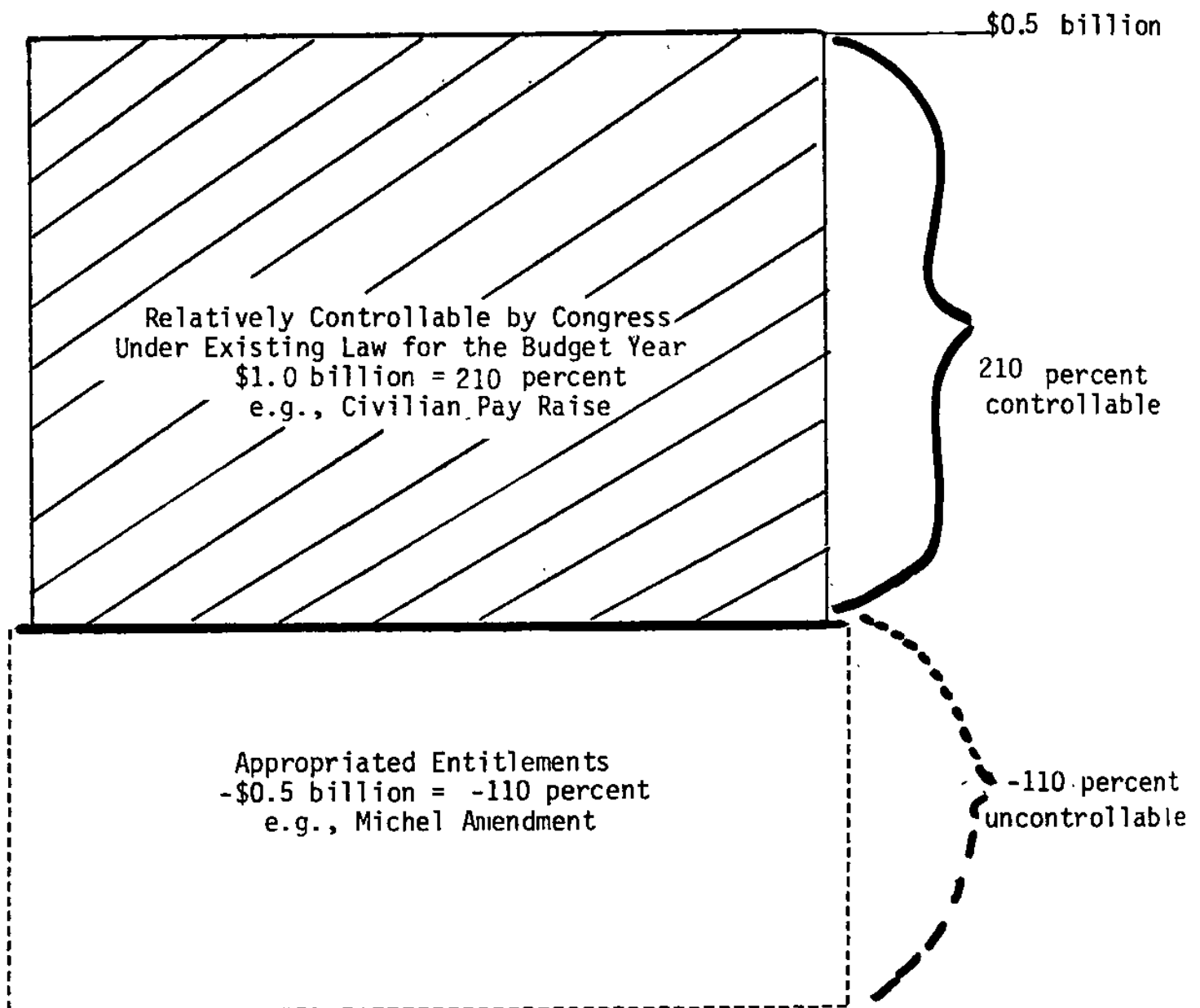
FUNCTION 900 OUTLAYS



Function 920: Allowances

1. Controllability of Function

FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

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

2. Past 5-Year Spending Trend

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

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

[In millions of dollars]

	Appropriation request	Enacted
1975	518	49
1976	636	46
1977	807	76
1978	1,144	1,16
1979	742	59

3. Selected Major Outyear Budget Issues

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

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

4. Outyear Overview.—(See chart.)

OUTLAYS

[In billions of dollars]

	1980	1981	1982	1983	1984
President	2.1	13.8	20.3		
(Pay only; cumulated)	.9	2.2	3.4		
HBC	.5	.8	.8	0.8	0.8
SBC	— .1	— .1	(¹)	(¹)	.1

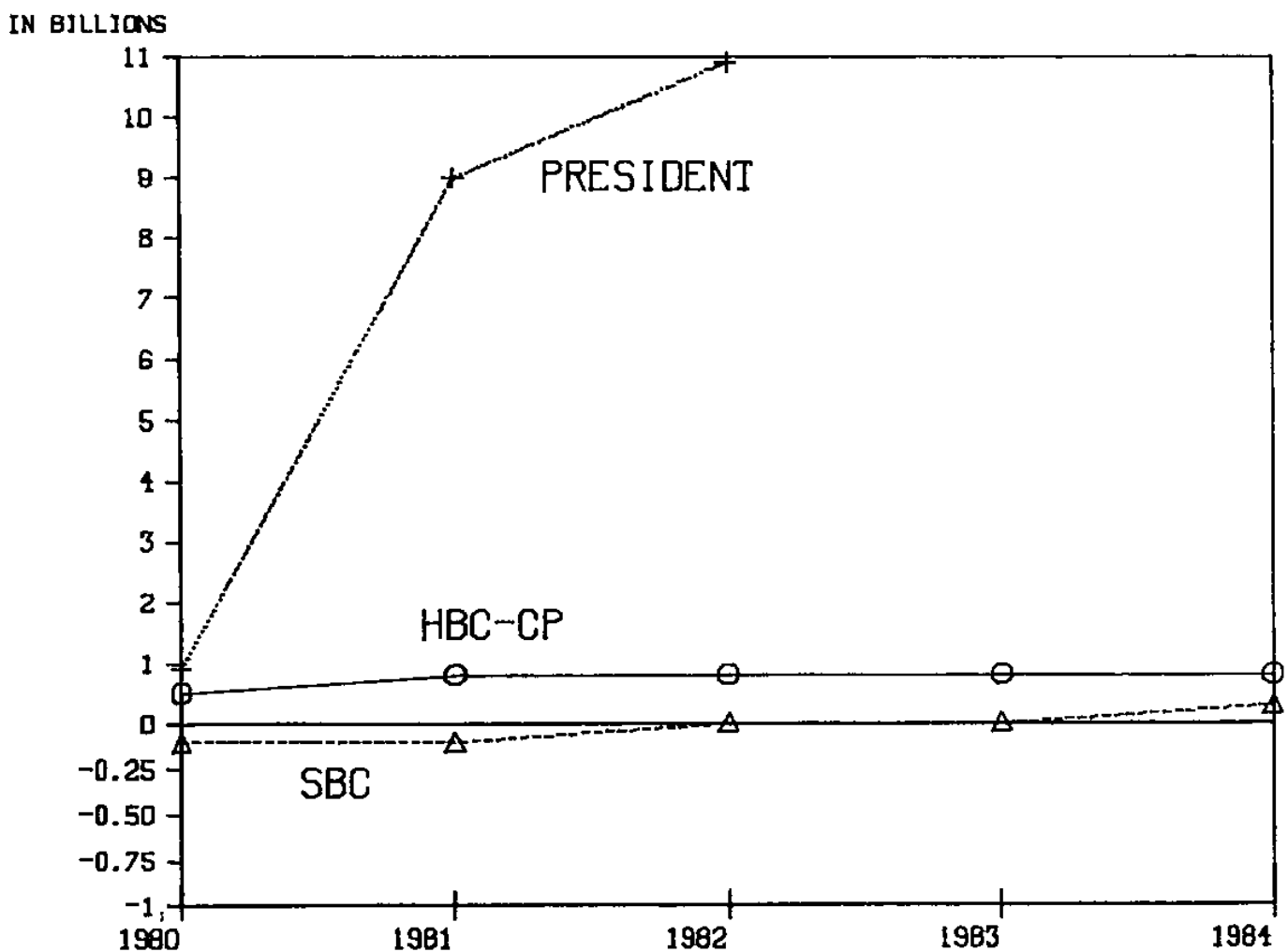
¹ Less than \$50,000,000.

IMPLICATIONS OF HOUSE BUDGET COMMITTEE CURRENT POLICY
PROJECTIONS

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

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

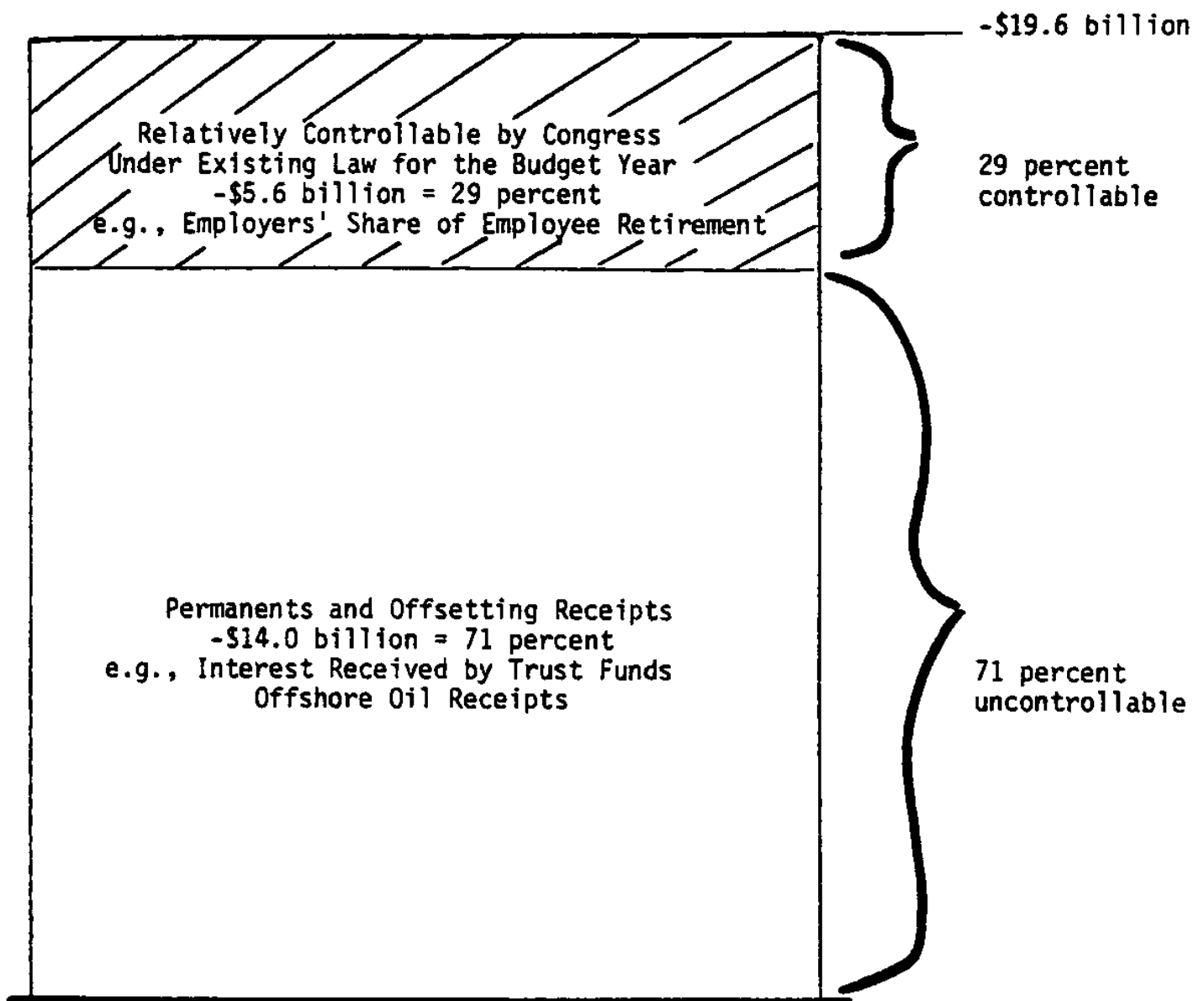
The costs of eliminating current compression in the upper levels of the General Schedule has not been computed. There are 16,875 employees subject to compression in some degree.

FUNCTION 920
OUTLAYS

Function 950: Undistributed Offsetting Receipts

1. Controllability of Function

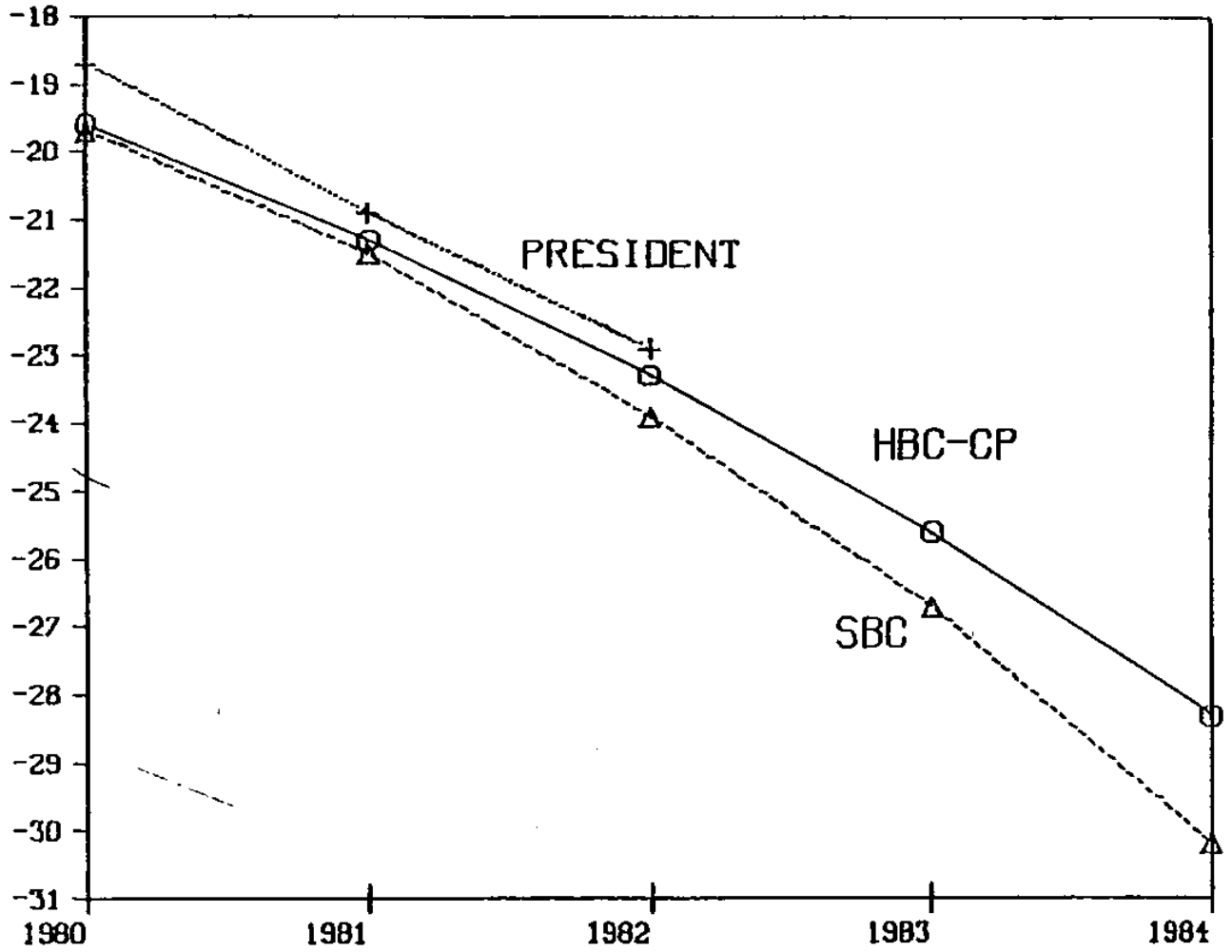
FISCAL YEAR 1980 OUTLAYS IN HOUSE BUDGET COMMITTEE RECOMMENDATION



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

FUNCTION 950
OUTLAYS

IN BILLIONS



APPENDIX E

CONTROLLABILITY OF FEDERAL OUTLAYS

Article I, Section 9, of the Constitution of the United States provides that “No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law”. The ultimate responsibility for all Federal appropriations belongs to Congress, and in that sense the budget is 100 percent controllable. Though Congress enacts appropriations—budget authority—it does *not* enact outlays. Yet the fiscal and political impact of spending and deficits makes the controllability of *outlays* the more commonly addressed question.

I. RELATIONSHIP BETWEEN BUDGET AUTHORITY AND OUTLAYS

Budget authority (BA) is defined under the Congressional Budget Act as “authority provided by law to enter into obligations which will result in immediate or future outlays involving government funds.”¹ By enacting BA, Congress allows an agency to incur obligations—it may hire personnel, buy supplies, make grants, and so on. After obligations are incurred, actual outlays take place—personnel receive their paychecks, suppliers are paid for their deliveries, etc. In other words, there is a three-step process, with time-lags between each step:

- (a) Appropriation of BA by Congress.
- (b) Obligation of BA by Executive agencies.
- (c) Expenditure of funds by the Treasury.

For a major construction project, for example funds might be appropriated with the stipulation that they remain available for a three-year period. The funds would be obligated over the course of that three-year period, while outlays would actually occur only after contractors finished their part of the project and submitted bills. If \$90 million were appropriated for such a project in fiscal year 1980, then BA, obligations, and outlays might be recorded as follows:

	Budget authority	Obligations	Outlays
1980.....	90	30	5
1981.....		30	10
1982.....		30	25
1983.....			30
1984.....			15
1985.....			5
Total.....	90	90	90

¹ Contingent liability, such as the authority to guarantee loans, is excluded from the definition of budget authority.

After funds are appropriated, but before they are spent, they are said to be "in the pipeline."

The amount of BA in a budget account in fiscal year 1980 is the amount of *new* budget authority available that year (whether or not it is intended to be obligated that year). The amount of outlays, however, equals the amount that will flow from the new BA, plus any outlays from previously appropriated BA. Outlays from prior-year BA are called "prior-year outlays" (PYO).

Appropriations and obligations are defined and controlled by law, but outlays are just estimates. The Antideficiency Act provides that the Office of Management and Budget (OMB) will set up a schedule of obligations for each appropriation. But there is usually no legal constraint on when the outlays should occur. Therefore, the amount of total outlays contained in a budget resolution is merely the best guess of the Budget Committee on the timing of current and prior-year outlays.² In short, Congress has complete control over appropriations, but after funds enter the pipeline the amount of congressional control over outlays is severely limited. For this reason, "controllability of BA" is a very different question from "controllability of outlays."

II. WHAT DOES "CONTROLLABLE" MEAN?

The term "controllable" is merely shorthand for the phrase "relatively controllable by Congress under existing law in the budget year." Each component of that phrase has its own significance, but the key element is "*under existing law*". If existing law, i.e., a law enacted before the 96th Congress, appropriates new BA in fiscal year 1980, then that BA is said to be uncontrollable *under existing law*.

Such laws constitute permanent appropriations. An example of a permanent appropriation is the payment of interest on the debt. A law enacted in 1847 automatically appropriates whatever sums are needed for interest payments. A law is permanent if it does not need renewal (at least not in fiscal year 1980).³ Permanent appropriations provide BA even if Congress does not meet.⁴

The bulk of permanent appropriations are to trust funds, for which amounts raised by special taxes or fees are earmarked to special funds for prescribed uses. The largest example is the Social Security trust fund; FICA taxes are automatically appropriated to that trust fund and used to pay for old age retirement and disability. Another major trust fund is the Unemployment Trust fund. In the fiscal year 1980 Second Budget Resolution outlays from permanent BA, available without further action of Congress, total \$ 237.5 billion.

It can be seen that the term "controllable" is something of a misnomer. Obviously Congress has control over permanent appropriations of any kind—all Congress need to do is change existing law. Social Security taxes and benefits can be raised or lowered whenever Congress chooses. The point is that, *under existing law*, Congress has no control.

² These guesses can be wrong; for fiscal year 1979 the Committee underestimated and for fiscal year 1978 the Committee overestimated outlays by more than 1 percent. "Long-fall" and "shortfall" are the terms used to describe such misestimates.

³ Some permanents provided a specified amount of BA annually, while others provide "such sums as may be needed."

⁴ But the executive has control over some permanents, especially offsetting receipts, through authority to set the level of fees and leases, to sell or not sell stockpile assets, etc. Primarily for this reason, executive and congressional controllability data differ.

Laws establishing permanent appropriations are within the jurisdiction of committees other than the Appropriations Committee.⁵ Thus, uncontrollable permanent appropriations are the responsibility of the legislative committees, while controllable current appropriations are the responsibility of the Appropriations Committee.

But not all Appropriations Committee actions are controllable. There are almost \$83.8 billion in outlays from *mandatory appropriations* that are required by existing law, even though the actual appropriations actions are current rather than permanent. For the most part, these appropriations are *entitlements*. An entitlement, as defined in Section 401(c)(2)(C) of the Congressional Budget Act, is a law that mandates payments to any person or government meeting specified eligibility requirements. Most entitlements are paid from trust funds; again, Social Security is the largest example. But a large number of entitlements are not permanently funded, and thus require the appropriation of new BA each year. Such current appropriations are still considered uncontrollable in that they are obligatory *under existing law*. Major examples are Medicaid, AFDC and SSI payments; Veterans' compensation, pensions, and readjustment benefits; Special Milk, Food Donations, and Special Supplemental Food Programs; and Retired Pay. Further, certain trust fund entitlements (such as Unemployment Insurance, Federal Retirement, and Hospital Insurance) do not receive enough earmarked revenues or fees and need to be supplemented by annual appropriations to remain actuarially sound.⁶

The mandatory nature of an entitlement comes from the legislation that specifies eligibility requirements and payment levels. Such a law commits the Government to making payments; if an appropriation were not made, then eligible recipients could sue to compel payment.

Just as with permanents, appropriated entitlements are only mandatory under existing law—Congress is free to change or repeal entitlement legislation at any time. Again, therefore, the shorthand term “uncontrollable” is misleading. In fact, the term does no more than describe the legal result of existing law. It does not reflect political reality. A glance at the list of controllable programs (shown at the end of this Appendix) reveals a number that are politically or realistically untouchable. There is no law that compels the appropriation of funds for the National Cancer Institute, or air traffic controllers, or defense operations and maintenance, or fighting forest fires. Yet Congress would more likely contemplate a cutback in an “uncontrollable” program such as Title XX Social Service Grants than in the “controllable” programs just mentioned. Therefore, the terms “controllable” and “uncontrollable” cannot be said to define what Congress can or cannot do, or even what it might or might not do. Rather, they merely distinguish between what has already been done by law, and what remains to be done, in providing funds for the fiscal year 1980 budget.

One could establish a hierarchy of controllability, based on the degree to which the Government has obligated itself. At the top of the

⁵ There are three exceptions: Public Broadcasting Fund, a small amount for subsidized housing, and funds derived from Sec. 32 and used for Child Nutrition and for Strengthening Markets.

⁶ Such payments are not technically entitlements in that the appropriation is neither to a beneficiary person nor a government, but rather to a trust fund. Those payments are considered mandatory.

list might go interest on the debt. Other contractual commitments of the Government are probably less binding than interest payments. After funds are appropriated and obligated, there are often methods of "deobligating" the funds. Usually this involves other costs, such as the payment of cancellation fees. Still, the possibility of deobligation gives Congress a degree of control over the obligated portion of prior-year outlays.

The unobligated portion of prior-year outlays are more controllable yet; Congress can rescind the funds. However, prior-year outlays flowing from unobligated balances are still termed uncontrollable simply because they result from prior, rather than current, congressional action.

It has already been mentioned that Congress can control many permanents and entitlements simply by revising or repealing existing statutes. But some argue that not all entitlements are equal. Congress has no right to abolish or curtail social security benefits, they argue, since the recipients have established their right to such benefits through years of FICA payments. In other words, they contend, a trust fund recipient has a greater degree of entitlement than, say, an AFDC or Social Services recipient.

Finally, as noted before, many controllable programs are in reality untouchable. With so many gradations between interest on the debt, on the one hand, and a program such as LEAA (which is reduced below the 1979 level in the 1980 budget) on the other, it is unrealistic to make sweeping decisions on what can or cannot be cut on the basis of the "uncontrollability" of the budget. Budget cutting truly involves case-by-case decisions on the merits and appropriate funding levels of various programs; the controllability of a program is only of procedural relevance.

III. CONTROLLABILITY OF OUTLAYS: 1979 TO 1980

Table 1 divides total outlays into three categories: (1) uncontrollable outlays, (2) controllable outlays, and (3) proposed legislation. This three-way division of outlays results from an HBC study of controllability undertaken last year. The HBC definitions differ in some cases from those used by the Executive. Table 1 covers fiscal year 1979⁷ and the Committee recommendation for the Fiscal Year 1980 Second Budget Resolution. Column A shows total gross⁸ outlays.

(a) *Uncontrollable Outlays* are divided among component parts. Permanents (Column B) include Federal, trust, and revolving funds. This column is actually a net figure, the sum of permanents and offsetting intragovernmental transactions. Such intragovernmental receipts usually represent payments from the general fund into a trust fund. Those payments are counted twice, in the general fund account and the trust fund account. To offset this double counting a third budget account, with a negative amount, is created purely for bookkeeping purposes.

⁷ Data for fiscal year 1979 reflect the "current level"—the Committee's best estimate of actual fiscal year 1979 outlays as of the August recess.

⁸ Gross outlays are the amounts flowing from permanent and current appropriations. In most budget presentations, they are partly offset by proprietary receipts. Proprietary receipts are amounts collected from the public for fees, licenses, rents, royalties, and so on, and deposited in the Treasury. Such receipts are not considered revenues, however, so they are customarily netted against BA and outlays. Under the definitions in the Congressional Budget Act, though, they are not BA and outlays, so this analysis is based on gross amounts. Receipts from off-budget agencies are considered to be proprietary receipts in this analysis.

Column *C* shows outlays from mandatory appropriations, generally for entitlements and payments to trust funds.

Column *D* shows prior-year outlays from budget accounts that are otherwise controllable. These are the outlays that are scheduled to emerge from the pipeline in fiscal year 1980—they total \$103.4 billion. (Prior-year outlays from permanents and mandatory appropriations are included under those categories. They total an additional \$68.1 billion in fiscal year 1980.)

Column *E* shows total uncontrollable outlays, and Column *F* shows the percentage of gross outlays that are uncontrollable.

(b) *Controllable outlays* are shown in Column *G*, and as a percentage of gross outlays in Column *H*.

(c) *Proposed legislation* is listed in a class by itself. This category consists of changes to permanent law that are assumed by the Budget Committee in its budget resolution. This new legislation will become mandatory once enacted (and the October 1, 1979, effective date is reached). The amounts assumed are neither mandatory nor discretionary *under existing law*, since they are not a product of existing law at all.⁹ Column *I* shows net legislation, the sum of increases and decreases. In the Fiscal Year 1980 Second Budget Resolution, the major increases are to provide \$15 billion in new borrowing authority to TVA, to provide a 7 percent cost-of-living increase for most Federal employees, and to provide for the President's energy initiatives.¹⁰ The major decreases are for hospital cost containment and for other Medicare and Medicaid program reforms. The decreases are discussed in detail in Appendix F, Legislative Savings.

Table 2 divides gross outlays by function, and shows the amount and percentage of each function that are uncontrollable, controllable, and proposed legislation. It can be seen that some major functions, such as Health and Income Security, are almost entirely uncontrollable.

Table 1 has one striking aspect: of the \$55.2 billion increase in gross outlays from fiscal year 1979 to fiscal year 1980, only \$9.0 billion are discretionary. The total growth in outlays is 74 percent uncontrollable. Looking at it another way, uncontrollable outlays grew at a 11 percent rate, while controllable outlays grew at only a 7-percent rate.

GROWTH OF GROSS OUTLAYS, 1979-80

[Dollars in billions]

	Dollar growth 1979-80	Percent of total growth	Percent growth 1979-80
Uncontrollable.....	40.7	74	11
(Permanents).....	(29.8)	(54)	(14)
(Mandatory appropriations).....	(1.3)	(2)	(2)
(Prior-year outlays).....	(9.6)	(17)	(10)
Controllable.....	9.0	16	7
Proposed legislation, net.....	5.5	10	NA
Total.....	55.2	100	11

⁹ By agreement among the Budget and Appropriations Committees, they are counted as "controllable" if a two-way division between controllable and uncontrollable is needed.

¹⁰ The energy legislation has not yet been submitted to Congress, for the most part. It is therefore not clear how much will be mandatory and how much discretionary after enactment. In this analysis the entire package is assumed to be mandatory after enactment, and is therefore classed as proposed legislation.

IV. CONTROLLABILITY OF FISCAL YEAR OUTLAYS: FIRST RESOLUTION TO SECOND RESOLUTION

Table 1 compared fiscal year 1979 outlays to the Committee recommendation for the Fiscal Year 1980 Second Budget Resolution; it showed that most of the growth was uncontrollable. Table 3 makes a similar comparison, portraying the changes from the Fiscal Year 1980 First Budget Resolution to the Second Budget Resolution. Again, much of the growth is uncontrollable, the result of outlay reestimates by the Congressional Budget Office and the Budget Committee (see Appendix I). Half of the remaining growth is for discretionary items; some additional outlays are required to keep the Food for Peace, CETA, and Food Stamp programs consistent with First Resolution program assumptions, and to provide for additional refugee assistance. The rest of the growth is for net proposed legislation—the outlay increases reflect the new energy initiative, an increase in the Federal pay raise from 5.5 percent to 7.0 percent, and a smaller legislative savings package.

GROWTH OF GROSS OUTLAYS, FIRST TO SECOND RESOLUTION

[Dollars in billions]

	Dollar growth 1st-2d	Percent of total growth	Percent growth 1st-2d
Uncontrollable.....	7.1	40	2
(Permanents).....	(2.8)	(16)	(1)
(Mandatory appropriations).....	(.5)	(3)	(1)
(Prior-year outlays).....	(3.7)	(21)	(4)
Controllable.....	5.3	30	4
Proposed legislation, net.....	5.2	30	280
Total.....	17.6	100	3

V. SPENDOUT RATES, BUDGET CUTTING, AND MULTIYEAR BUDGET PLANNING

The existence of pipelines makes budget cutting an especially frustrating task, at least if the object is an immediate reduction in outlays and the deficit. Obviously, if an appropriation of BA is reduced by \$90 million, then \$90 million in outlays will be saved over a period of years. Recall the construction project used as an example in Part I: of the \$90 million to be appropriated in fiscal year 1980, only \$5 million would actually be spent that year. Thus, the first-year spendout rate for that project is 5.6 percent. Long-term construction projects, such as the building of aircraft carriers, often spend out very slowly. On the other hand, many entitlement programs such as Medicaid or Revenue Sharing spend out at or near 100 percent. Overall, the average spendout rate of mandatory BA is significantly higher than the average spendout rate of discretionary BA, as is revealed in table 4.

There are three important caveats about table 4. First, in some functions peculiar financing methods can severely distort spendout rates. One example is the Commodity Credit Corporation program of price supports, for which BA is appropriated after, rather than before, outlays occur. Other examples are most trust funds, for which the BA

simply records the earmarked revenue taken in, and is relatively independent of the amount of outlays.

Second, table 4 merely details the average spendout rate. Of much more significance is the marginal spendout rate. Using Defense as an example, the average spendout rate of discretionary BA in fiscal year 1980 is expected to be 60 percent. Thus, if \$100 million in BA were cut proportionately from personnel, procurement, research and development, and operations and maintenance, then it would be reasonable to expect a \$60 million dollar outlay reduction that year. Realistically, however, if \$100 million were cut from the Defense budget, almost certainly a long-lead-time procurement item would be delayed or eliminated, while personnel and operations and maintenance would not be affected. But the spendout rate of such procurement items is significantly lower than 60 percent. It is widely agreed that to cut \$1 in defense outlays, one should cut \$3 in BA. The situation is undoubtedly similar in other functions.

Finally, the fear has been expressed that budget cutting may take place on the basis of spendout rates rather than on the basis of program merit. The idea is that a BA cut that produces a quick outlay reduction may seem especially attractive. Certainly spendout rates vary widely, even without a budget function. As an example, the average fiscal year 1980 spendout rate of subfunction 501, *Elementary, Secondary, and Vocational Education*, is 21 percent, while the average spendout rate of subfunction 506, *Social Services*, is 80 percent. The very low rate for subfunction 501 is a consequence of the forward funding of almost all education programs. BA is made available in the summer, before the academic year (and the new fiscal year) starts, but very little spends out until the new fiscal year. This is a logical response to the academic calendar, but it may shield education programs from deficit cutters and it diminishes the controllability of education outlays.

A multiyear perspective on the budget minimizes this problem. In fiscal year 1980, there are estimated to be over a \$103 billion in PYO's associated with otherwise discretionary budget accounts. These PYO's result from BA enacted in fiscal year 1979 or earlier. But the spendout of such already enacted BA tapers off in fiscal year 1981, fiscal year 1982, and beyond. Therefore, the controllability of future outlays increases as one looks further ahead. At this instant Congress has more control of fiscal year 1981 outlays than of fiscal year 1980 outlays, and still more control of fiscal year 1982 outlays. The following table is based on a current policy projection of the Fiscal Year 1980 Second Budget Resolution, and is one argument for a multiyear budget planning system.

Fiscal year	Gross outlays	Outlays from already enacted budget authority	Percent of gross outlays
1980	\$574	\$103	18
1981	633	55	9
1982	687	30	4
1983	740	20	3
1984	796	12	2

VI. MAJOR UNCONTROLLABLE BUDGET ACCOUNTS

The following list includes budget accounts or groups of accounts with at least \$100 million fiscal year 1980 mandatory outlays. These outlays are either permanents or entitlements; they are not PYO's from controllable accounts. Offsetting receipt accounts are not listed.

- 050: Retired Pay, Defense
 - Claims, Defense
- 150: Contributions to International Organizations
 - Payments to Foreign Service Retirement
 - Advances, FMS trust fund
- 270: TVA fund
- 300: Forest Service permanent appropriations
- 350: CCC price supports
 - Agricultural credit insurance fund
- 370: Rural housing insurance fund
 - Special assistance functions fund
 - Emergency mortgage purchase assistance
- 400: Operating differential subsidies
 - Coast Guard Retired Pay
- 450: Trust funds, area and regional development
- 500: Student Loan Insurance Fund
 - Public Broadcasting Fund
 - Grants to States for Social Services
- 550: Grants to States for Medicaid
 - Payments to Health Care Trust Funds
 - Federal Supplementary Medical Insurance
 - Federal Hospital Insurance Trust Fund
 - Government payments for annuitants
- 600: Payments to Social Security trust funds
 - Special Benefits for Disabled Coal Miners
 - Federal Old-age and Survivors Insurance Trust Fund
 - Federal Disability Insurance Trust Fund
 - Advances to the Unemployment Trust Fund
 - Black Lung Disability Trust Fund
 - Federal Windfall Payment to Railroad Retirement
 - Railroad Retirement
 - Special Benefits, Federal Employee Retirement
 - Civil Service Retirement and Disability
 - Federal Unemployment Benefits
 - Unemployment Trust Fund
 - Funds for Strengthening Markets
 - Special Milk Program
 - Special Supplemental Food Programs
 - Child Nutrition Programs
 - Supplemental Security Income
 - Assistance Payments
 - Earned Income Tax Credit
- 700: Compensation and Pensions
 - National Service Life Insurance Fund
 - Readjustment Benefits
- 800: House, Senate, and Joint Items
 - Payment to Civil Service Retirement
 - Claims, Judgments, and Relief Acts
- 850: Payments to State and Local Government Fiscal Assistance
 - Trust Fund

Forest Service Permanent Appropriations
 Miscellaneous Permanent Appropriations
 Payments to U.S. Territories
 Internal Revenue Collections for Puerto Rico
 900: Interest on the Public Debt

PART VII. MAJOR CONTROLLABLE BUDGET ACCOUNTS

The following list includes discretionary budget accounts or groups of accounts with at least \$100 million in FY 1980 outlays. These accounts are all discretionary appropriations. An account is listed even if most of the outlays are prior-year.

050: Military Personnel
 Reserve Personnel
 National Guard Personnel
 Operations and Maintenance
 Procurement
 Shipbuilding and conversion
 Research, Development, Test, and Evaluation
 Military Construction
 Family Housing
 Atomic Energy Defense Activities
 Stockpile operations
 Emergency Planning and Preparedness
 150: Security Supporting Assistance
 Contributions to international banks, conferences, and programs
 Agency for International Development
 Functional Development Assistance
 Food for Peace
 Migration and Refugee Assistance
 ACTION
 Military Assistance
 Foreign Military Credit Sales
 Administration of Foreign Affairs
 Acquisition, Operations, and Maintenance
 International Communication Agency
 Export-Import Bank
 250: General Science and Basic Research
 NASA
 270: Energy supply, research, and development
 Energy conservation
 Emergency energy preparedness
 Energy information, policy, and regulation
 300: Watershed and Flood Prevention
 Flood Control, Mississippi River
 General investigations, construction, and operations, Corps of Engineers
 Bureau of Reclamation
 Agricultural Conservation Program
 Soil Conservation Service
 Forest Service
 Bureau of Land Management
 Surface Mining Reclamation
 Land and Water Conservation Fund
 Fish and Wildlife Service
 National Park Service

- EPA construction grants
- EPA management, enforcement, and regulation
- EPA abatement and control
- NOAA
- Geological Survey
- Bureau of Mines
- 350: Agricultural Stabilization and Conservation
- CCC administrative expenses
- Extension activities
- Agricultural research
- Cooperative research
- Animal and Plant Health Inspection
- 370: Housing for the Elderly or Handicapped
- Payment to the Postal Service Bureau of the Census
- Regulatory Agencies: FTC, FCC, CFT, SEC
- Small Business Administration—S & E
- SBA Business Loan and Investment Fund
- 400: Federal-aid highways
- Highway Safety programs
- Rail Service Assistance
- Northeast Corridor
- Grants to Amtrak
- Railroad Rehabilitation
- Urban Mass Transit Fund
- Payment for the Purchase of Conrail securities
- Federal Aviation Administration operations
- Grants-in-aid for airports
- Facilities and equipment
- NASA air transportation research
- Ship construction
- Coast Guard operations
- Coast Guard acquisition, construction, and improvement
- Panama Canal Commission Fund
- 450: Community Development Grants
- Urban Development Action Grants
- Rehabilitation loan fund
- HUD S & E
- Appalachian Regional Development
- FmHA S & E
- Rural Water and Waste Disposal Grants
- Economic Development Assistance
- BIA operations and construction
- TVA fund (area and regional development)
- (Disaster Relief (funds appropriated to the President))
- Hazard Mitigation and Disaster assistance
- SBA disaster loan fund
- 500: Occupational, vocational, and adult education
- Emergency school aid
- Elementary and Secondary education
- Impact Aid
- Education for the Handicapped
- Indian Education
- Student Assistance—higher education
- Higher and Continuing Education
- Howard University

Library of Congress
 Library Resources
 HEW—education S & E
 National Endowment for the Arts & Humanities
 Smithsonian Institution
 Work Incentive Program
 CETA
 Community Service Employment for Older Americans
 Department of Labor S & E
 National Labor Relations Board
 Human Development Services
 ACTION
 Community Services Program
 550: Health Services Adm.
 Center for Disease Control
 Alcohol, drug abuse, and mental health
 Health Resources Adm.
 Medicaid and Medicare administrative costs
 National Institutes of Health
 Food Safety and Quality Service
 FDA
 OSHA
 Mine Safety and Health Adm.
 600: Social Security administrative costs
 Unemployment trust fund administrative costs
 Refugee assistance
 Food Stamps
 Subsidized housing programs
 Low income housing
 700: VA construction
 Medical Care
 VA operating expenses
 750: FBI
 Immigration and Naturalization
 Drug Enforcement
 Bureau of Alcohol, Tobacco, and Firearms
 U.S. Customs Service
 Secret Service
 EEOC
 Federal Judiciary expenses
 Department of Justice
 Payment to the Legal Services Corporation
 Bureau of Prisons
 LEAA
 800: GAO
 Bureau of Government Financial Operations, S & E
 Bureau of the Public Debt, S & E
 IRS
 Federal Supply Service
 Office of Personnel Management
 Trust Territories of the Pacific Islands
 850: BLM payments in lieu of taxes
 Targeted fiscal assistance
 D.C. Loans for Capital Outlay
 Federal Payment to D.C.

TABLE 1.—CONTROLLABILITY OF OUTLAYS: FISCAL YEAR 1979 TO FISCAL YEAR 1980

[Dollars in billions]

	Uncontrollable outlays						Controllable outlays		Proposed legislation, net legislation
	Gross outlays, Total (A)	Perma- nents (B)	Mandatory appro- priations (C)	Prior year (D)	Uncon- trollable (B+C+D) (E)	Percent of gross outlays (E÷A) (F)	Con- trollable (G)	Percent of gross outlays (G÷A) (H)	
Fiscal year 1979, current level.....	\$518.6	\$207.6	\$82.6	\$93.8	\$384.0	74.0	\$134.7	26.0	NA
Fiscal year 1980, Second Resolution.....	573.8	237.5	83.9	103.4	424.7	74.0	143.7	25.0	5.5
Change.....	+55.2	+29.8	+1.3	+9.6	+40.7	+73.8	+9.0	+16.3	+5.5

TABLE 2.—CONTROLLABILITY OF GROSS OUTLAYS, FISCAL YEAR 1980 SECOND RESOLUTION

Function	Gross outlays	Uncontrollable outlays		Controllable outlays		Net proposed legislation	
		Dollars	Percent	Dollars	Percent	Dollars	Percent
050 National Defense.....	\$129.0	51.9	40.3	75.3	58.3	1.8	1.4
150 International Affairs.....	19.2	13.8	71.9	5.4	28.1		
250 General Science, Space, and Technology.....	5.7	1.5	27.0	4.1	73.0		
270 Energy.....	10.3	5.3	51.5	2.7	26.1	2.3	22.4
300 Natural Resources and Environment.....	14.0	7.4	53.0	6.5	46.6	.1	.4
350 Agriculture.....	2.6	1.3	50.7	1.3	50.8	(¹)	-1.5
370 Commerce and Housing Credit.....	3.0	(¹)	.8	2.9	99.2		
400 Transportation.....	18.7	12.8	68.7	6.3	33.6	-.4	-2.3
450 Community and Regional Development.....	8.6	6.7	78.5	1.8	21.5		
500 Education, Training, Employment, and Social Services.....	31.5	19.5	61.9	11.4	36.1	.6	1.9
550 Health.....	54.7	49.9	91.1	5.4	9.8	-.5	-.9
600 Income Security.....	188.8	176.2	93.3	12.7	6.7	-.1	(¹)
700 Veterans Benefits and Services.....	21.4	14.9	69.9	5.7	26.7	.7	3.4
750 Administration of Justice.....	4.5	1.1	25.6	3.3	74.4		
800 General Government.....	4.5	1.1	23.8	3.4	76.0	(¹)	.2
850 General Purpose Fiscal Assistance.....	9.1	8.1	89.0	1.0	11.0		
900 Interest.....	65.1	65.1	100.0			(¹)	(¹)
920 Allowances.....	.5	-.5	-110.4			1.0	210.4
950 Undistributed Offsetting Receipts.....	-17.2	-11.6	67.4	-5.6	32.6		
Total.....	573.8	424.8	74.0	143.7	25.0	5.4	.9

¹ Less than \$50 million or ½ percent.

TABLE 3.—CONTROLLABILITY OF FISCAL YEAR 1980 OUTLAYS: FIRST RESOLUTION TO SECOND RESOLUTION
[Dollars in billions]

	Uncontrollable outlays						Controllable outlays		Proposed legislation, net legislation
	Gross outlays, total (A)	Perma- nents (B)	Mandatory appro- priations (C)	Prior year (D)	Uncon- trollable (B+C+D) (E)	Percent of gross outlays (E÷A) (F)	Con- trollable (G)	Percent of gross outlays (G÷A) (H)	
Fiscal year 1980, First Resolution.....	\$556.2	\$234.6	\$83.4	\$99.7	\$417.7	75.1	\$138.4	24.9	\$0.2
Fiscal year 1980, Second Resolution.....	573.8	237.5	83.9	103.4	424.7	74.0	143.7	25.0	5.4
Change.....	+17.6	+2.9	+0.5	+3.7	+7.0	+40.1	+5.3	+30.2	+5.2

**TABLE 4.—AVERAGE SPENDOUT RATE OF GROSS BUDGET
AUTHORITY, FISCAL YEAR 1980**

Function	Con- trollable	Uncon- trollable	Net legislation	Total
050 National Defense.....	60	99	99	64
150 International Affairs.....	51	38	NA	44
250 General Science, Space, and Technol- ogy.....	71	85	NA	71
270 Energy.....	38	99	8	13
300 Natural Resources and Environment.....	46	NA	NA	44
350 Agriculture.....	27	84	NA	28
370 Commerce and Housing Credit.....	55	14	NA	46
400 Transportation.....	62	5	100	33
450 Community and Regional Development.....	21	NA	NA	20
500 Education, Training, Employment, and Social Services.....	45	98	81	52
550 Health.....	61	51	NA	51
600 Income Security.....	35	72	NA	67
700 Veterans Benefits and Services.....	84	84	92	84
750 Administration of Justice.....	79	94	NA	80
800 General Government.....	87	84	83	86
850 General Purpose Fiscal Assistance.....	96	79	NA	81
900 Interest.....	NA	100	NA	100
920 Allowances.....	NA	100	97	94
950 Undistributed Offsetting Receipts.....	100	100	NA	100
Total.....	53	73	15	61

Note: "NA" indicates that the ratio was not calculable, either because there were no funds in that category or because BA and outlays were noncomprable.

APPENDIX F

LEGISLATIVE SAVINGS

The Second Budget Resolution assumes the enactment of legislation which will reduce outlays by over \$2.7 billion through reform in current laws which mandate spending. In order to achieve these savings, the authorizing committees of jurisdiction must initiate changes to laws now in effect. If the Congress does not enact the reforms assumed in the Resolution, over \$2.7 billion must be added to total outlays, the budget deficit and the national debt.

The First Budget Resolution for Fiscal Year 1980 assumed legislative savings of \$4.3 billion. However, in many cases, the authorizing committees have not yet acted and as a result the full amount of the savings assumed in the First Budget Resolution will not be achieved. In other instances, the committees have modified the reform legislation which results in smaller savings.

An explanation of the legislative savings assumed in the Second Budget Resolution follows:

Wage Board Salary Reform (050, 920).—The Second Budget Resolution assumes outlay savings of \$51 million for legislation to reform the method of setting salaries of Federal blue collar employees in the Defense Department (\$40 million) and civilian agencies (\$11 million).

The President submitted legislation for wage board reform as part of the Federal Employees Compensation Reform Act introduced June 14. The Post Office and Civil Service Committee has indicated it plans to hold hearings but does not anticipate action this session. As a result the savings associated with wage board reform are reduced from \$103 million assumed in the First Budget Resolution to \$51 million in the Second Budget Resolution to reflect enactment of the legislation next session and an effective date of April 1, 1980.

Annualize Cost-of-Living Increases for Federal Retirees (050, 600).—The Second Budget Resolution assumes outlay savings of \$200 million (\$103 million in the Defense Department and \$97 million for civilian employees) for legislation to limit the cost-of-living increase for Federal retirees to once a year as in social security. Under current law, Federal retirees receive semiannual cost-of-living increases.

This legislative savings proposal was not included in the President's budget, but was assumed in the First Budget Resolution. The Budget Committee continues to assume this reform. The estimate of savings has been increased from \$164 million to \$200 million to reflect higher anticipated cost-of-living adjustments due to inflation. The savings are calculated assuming that retired personnel receive their regular adjustment in September 1979 but that the increase scheduled for April 1980 would be delayed until June, thus placing Federal retirement programs on the same schedule as the social security program for annual cost-of-living adjustments.

Lower Operating Differential Subsidies (400).—The Second Budget Resolution continues to assume changes in program in the Federal contribution for operating subsidies to U.S. flag vessels. However, no cost savings are associated because it is not clear to what extent vessel owners will avail themselves of the changes in the program which resulted from two floor amendments to the original proposal. Currently, the Federal Government pays up to 50 percent of the difference in operating costs between U.S. flag vessels and comparable foreign vessels so that they can operate in international trade at competitive rates. The First Resolution had assumed an outlay savings of \$50 million.

Eliminate Indexing of Vocational Rehabilitation State Grants (500).—The Second Budget Resolution continues to assume \$72 million in outlay savings from legislation to repeal the vocational rehabilitation State grants indexing provisions and to lower the ceiling on appropriations. The President's budget proposed to achieve these changes through special limiting provisions of the Labor-HEW appropriations act. The amount provided by the Labor-HEW Appropriations Conference Report has the effect of adjusting the funds for the vocational rehabilitation State grants but without the limiting language. The Second Resolution reflects the amount included in the Conference Report.

Cap Title XX Grants for State and Local Training (500).—The Second Budget Resolution assumes \$18 million in outlay savings for legislation to cap the States' entitlement to Federal support of personnel training related to provision of social services under title XX of the Social Security Act. The Second Resolution recommendation reflects the limitation on Federal support included in H.R. 3434, the Social Services and Child Welfare Amendments, which passed the House in August.

Impact Air Reform (500).—The Second Budget Resolution assumes reduction of \$43 million in budget authority and \$29 million in outlays from lower appropriation for the impact aid program. This program pays part of the cost of educating children where enrollment and availability of revenue from local sources have been adversely affected by Federal activity.

Legislation did not accompany the President's proposed budget savings which was intended to be effected through special limiting language in the Labor-HEW appropriations act. The conference agreement on the Labor-HEW appropriations bill reflects a reduction of \$43 million from fiscal year 1979 for students whose parents reside on private taxable property, but who work for the Federal Government (category B students). No special limiting language was included in the bill.

Hospital Cost Containment (550).—The Second Budget Resolution assumes outlay savings of \$640 million in the medicare and medicaid programs resulting from legislation to control hospital cost increases. The mandatory limits on cost increases in the legislation would be triggered only if the Nation's hospitals as a whole exceeded voluntary guidelines established by HEW. The Resolution anticipates that the guidelines will be exceeded and that mandatory controls will be imposed in January 1980. Legislation has been reported by the Ways

and Means Committee to accomplish these savings. However, the recommendation reflects the modifications in the original proposal made by the Ways and Means Committee and also assumes that a higher rate of inflation will decrease the savings that can be achieved. The First Resolution assumption of \$1,400 million in savings is therefore reduced to \$640 million.

Medicare and Medicaid Program Reform (550).—The Second Budget Resolution assumes outlay savings of \$965 million from various reforms in the medicare and medicaid programs. These include revisions in reimbursement for routine hospital nursing care, reimbursement from liable insurers for accidents to medicare beneficiaries, more intensive review of preoperational hospital days, and reductions in payments for home type of care provided in hospitals. The First Resolution assumed savings of \$404 million for medicare and medicaid reforms. The higher amount assumed in the Second Resolution is based on enactment of legislation reported by the Senate Finance Committee.

Food Stamp Reform (600).—The Second Budget Resolution assumes \$250 million in outlay savings for food stamp reforms. The First Budget Resolution accepted the President's budget savings of \$152 million to be achieved through a number of changes, including improved State quality control, fiscal sanctions and benefit determinations based on past rather than anticipated income (retrospective accounting). The authorizing committee has committed itself this year to consider the President's proposals, as well as other additional savings. Therefore, the Second Resolution has assumed larger savings of \$152 million in the First Resolution.

Cash Assistance Program (600).—The Second Budget Resolution assumes outlay savings of \$146 million from legislative proposals to reform the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) programs. This could include modifications to the child support enforcement program, as well as reforms relating to work expenses and treatment of AFDC income and the asset test in the SSI program. Subcommittee markup has been completed on the administration's welfare reform bill which contains most of the legislative savings proposals assumed in the First Resolution.

Savings assumed in the Second Resolution reflect half the target savings in the First Budget Resolution. This reflects potential delays in final congressional action and subsequent implementation.

Child Nutrition Program (600).—The Second Budget Resolution assumes \$215 million in outlay savings from various reforms in the child nutrition programs. These include (1) reduction in subsidy for nonneedy children, (2) elimination of private sponsors in the Summer Feeding Program, (3) reform of the Special Milk program, and (4) reduction in the entitlement level for the Special Supplemental Food (WIC) program. The amounts assumed in the First Resolution were nearly the same as the President's budget but have been reduced in the Second Resolution to reflect both possible changes in specific proposals and later implementation dates.

Social Security Disability Reforms (600).—The Second Budget Resolution assumes \$17 million in outlay savings from social security

disability reforms passed by the House. The amount assumed is less than the First Resolution because of reestimates of the initial administrative costs associated with the bill.

Veterans Health—Third Party Reimbursement (700).—The Second Budget Resolution assumes outlay savings of \$57 million from legislation that would require that health insurers of veterans receiving VA medical care for non-service-connected health problems reimburse VA for such care. No action has been taken by the House Veterans Affairs Committee to date, but the Senate Veterans Affairs Committee has scheduled a hearing in September on the proposal.

Veterans Health Benefit Reforms (700).—The Second Budget Resolution assumes savings of \$35 million from proposals to limit the eligibility of veterans without service-connected disabilities for dental treatment, travel reimbursement, and outpatient drugs and supplies. Although the House has not scheduled action on these reforms, the Senate passed S. 1039, which incorporates these measures. The amount assumed in the Second Resolution reflects the Senate action.

APPENDIX G

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

The Committee recommendation provides \$98,835 million in budget authority and \$85,858 million in outlays in fiscal year 1980 for aid to State and local governments. This is an increase in outlays of \$3,312 million, or 4.0 percent, above the current estimate for fiscal year 1979. Between 1970 and 1978, the annual growth in Federal grant outlays averaged 16 percent.

Table 1 compares the levels of support recommended for fiscal year 1980 with those provided in past years.

TABLE 1.—OUTLAYS FROM FEDERAL GRANT PROGRAMS

[In millions of dollars]

Fiscal year	Total all grant programs	Grants for aid to individuals	Other grants
1980 Second Concurrent Resolution.....	85,858	28,591	57,267
1980 President's midsession review.....	85,479	28,465	57,014
1979 current estimate.....	82,546	27,488	55,058
1978.....	77,889	24,765	53,124
1977.....	68,415	23,041	45,373
1976.....	59,084	19,578	39,516
1975.....	49,832	16,217	33,615
1974.....	43,354	14,077	29,278
1973.....	41,832	13,104	28,782
1972.....	34,372	13,421	20,951
1971.....	28,109	10,789	17,320
1970.....	24,018	8,867	15,151

The decline in the rate of growth in Federal grant outlays in 1979 and 1980 is primarily attributable to phasedown in outlays of economic stimulus programs following the 1975-76 recession and to an increased emphasis on overall Federal budget restraint.

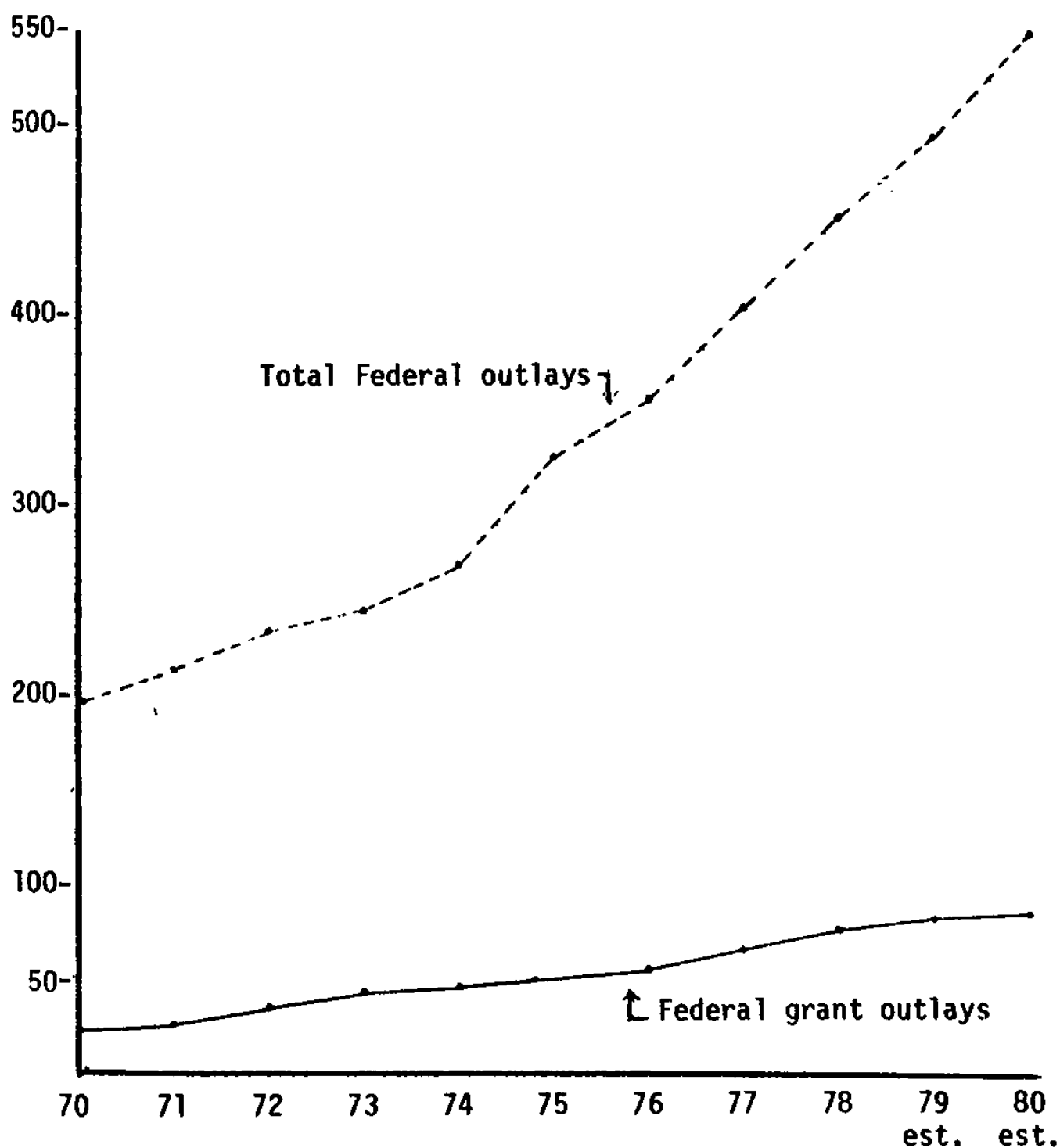
Over 33 percent, \$28,591 million, of 1980 grant outlays are for programs designed to provide income security and social services to individuals. Medicaid payments and Aid to Families with Dependent Children are examples of these programs. Other grant programs, with outlays totaling \$57,267 million, support ongoing public services, demonstration projects and capital development projects. General Revenue Sharing and Community Development Block Grants are examples. A major recommendation of the First Concurrent Resolution on the Budget was the reduction of the State share of revenue sharing.

The Congress subsequently approved an appropriation of \$6,855 million, the full amount authorized. The recommendation for the Second Budget Resolution has been adjusted to reflect this action.

Federal grants to State and local governments are estimated to total 15.6 percent of total Federal outlays in fiscal year 1980, about the same as the 16-percent average between 1970 and 1979. Chart A provides a historical view of Federal grant outlays as a percentage of total Federal outlays.

(CHART A. *Federal Grant Outlays as a Percent of Total Federal Outlays*)

In Billions



The Committee's estimate of grant outlays by function is compared with current estimates for fiscal year 1979 in table 2.

TABLE 2.—GRANTS TO STATE AND LOCAL GOVERNMENTS, OUTLAYS BY FUNCTION

[In millions of dollars]

Function	1979 current estimate	1980 Com- mittee recom- mendation Second Resolution	Difference
050 National defense.....	67	67	-----
270 Energy.....	258	606	+348
300 Natural resources and environment.....	4,441	4,034	-407
350 Agriculture.....	364	406	+42
370 Commerce and housing credit.....	23	33	+10
400 Transportation.....	9,984	10,987	+1,003
450 Community and regional development.....	6,318	5,635	-683
500 Education, training, employment and social services.....	22,713	22,915	-202
550 Health.....	14,257	14,726	+469
600 Income security.....	14,799	16,684	+1,885
700 Veterans benefits and services.....	88	93	+5
750 Administration of justice.....	550	500	-50
800 General government.....	177	198	+21
850 General purpose fiscal assistance.....	8,507	8,974	+467
Total, grant outlays.....	82,546	85,858	+3,312
Percent increase 1979-80—4.0.			

Total estimated outlays for grants to State and local governments in fiscal year 1980 are higher than current estimates for fiscal year 1979 by \$3,312 million. Significant changes occur in the following functional categories:

MAJOR INCREASES

- The largest increase in grant outlays, \$1,885 million, occurs in Function 600, income security. This increase is related primarily to economic assumptions as well as demographic and inflationary factors which affect public assistance payments, subsidized housing payments and operating subsidies, the supplemental food and child nutrition programs, and unemployment trust fund payments.
- Another significant increase, \$1,003 million, is in Function 400, transportation. The increase in this function reflects increased assistance under the Federal aid to highways program and increased operating assistance for urban mass transportation.
- An increase of \$469 million in Function 550, health, reflects the net effect of increased outlays for Medicaid resulting from estimates of increased utilization primarily by aged and disabled persons, and decreases among various discretionary health programs.
- Other major increases in grant outlays occur in Function 270, energy (\$348 million); Function 850, general purpose fiscal assistance (\$467 million); and Function 500, education, training, employment and social services (\$202 million).

The increase in the energy function reflects expansion of assistance for energy conservation activities. The increase in Function 850 reflects

the net effect of new funds available for anti-recession assistance proposals and a decrease in the Federal payment to be District of Columbia. The increase in Function 500 results primarily from increased grants to States for social services.

MAJOR REDUCTIONS

- The largest reduction in grant outlays, \$781 million, occurs in Function 450, community and regional development. This decrease is related to the phasedown in economic stimulus assistance under the former accelerated local public works program and anticipated reductions under the Small Business Administration Disaster Loan program.
- Other major reductions occur in Function 300, natural resources and environment, (\$407 million), and in Function 750, administration of justice (\$50 million). The reduction in Function 300 primarily reflects slower spending for waste treatment construction grants. Reduced outlays in Function 750 reflect reductions in Law Enforcement Assistance Administration programs.

MAJOR FEDERAL GRANT-IN-AID PROGRAMS

Another perspective on aid to State and local governments is provided by analysis of the 16 major grant programs which account for \$67,075 million, or 78.1 percent of total grant outlays in fiscal year 1980. These programs are shown in table 3.

TABLE 3.—MAJOR FEDERAL GRANT-IN-AID PROGRAMS

[In millions of dollars]

	Actual		Estimates	
	1970	1975	1979	1980 committee recommendation Second Resolution
Medicaid.....	¹ 2,727	6,840	12,286	12,903
General revenue sharing.....		6,130	6,852	6,863
Federal-aid highways.....	4,300	4,573	6,426	7,262
Public assistance—maintenance.....	4,716	5,121	6,650	7,058
Employment and training assistance.....	421	2,504	5,751	6,450
Sewage treatment plant construction.....		1,938	3,700	3,309
Elementary and secondary education.....	1,470	2,276	3,185	3,620
Subsidized housing programs.....	436	1,326	2,182	2,673
Community development block grants.....	¹ 1,305	¹ 1,944	3,030	3,450
Social services, regular program.....	¹ 441	2,047	3,107	3,135
Temporary employment assistance.....		319	3,368	2,348
Child nutrition program.....	379	1,565	2,648	2,894
Urban mass transportation administration.....	105	688	2,432	2,575
Aging and vocational rehabilitation programs.....	313	1,166	785	858
Unemployment trust fund: Administration of payments.....	328	636	695	711
Health services administration.....	9	567	910	966
Total—16 major programs.....	16,950	39,640	64,007	67,075
Percent increase 1970–80—295.7.				
Percent increase 1975–80—69.2.				
Percent increase 1979–80—4.8.				

¹ Amounts are for predecessor programs.

The rate of growth in Federal outlays for the 16 major grant programs has been significantly greater than the rate of outlay growth for the total of all grant programs. Between 1970 and 1980 outlays for these programs increased by \$50,125 million or 295.7 percent; between 1975 and 1980 outlays for them increased by \$27,435 million or 69.2 percent. Since 1975, the rate of growth in outlays for these programs has decreased consistent with the slowdown in outlay growth for all grant programs. Between 1979 and 1980, outlays for the 16 major programs are estimated to increase by 4.8 percent, compared to an estimated increase of 4.0 percent for all grant programs.

Major increases are anticipated as follows:

- Federal-aid-highways would increase by \$836 million. The increase reflects the impact of higher authorization levels and higher Federal contributions, particularly for highway safety activities.
- Employment and training assistance programs would increase by \$699 million. This increase reflects the spendout of commitments under title VI of the Comprehensive Employment and Training Assistance Act.
- Medicaid outlays would increase by \$617 million, primarily to cover increased program participation.
- Subsidized housing outlays would increase by \$491 million to cover the increased number of units scheduled for occupancy in fiscal year 1980.
- Other significant increases would occur for public assistance (\$408 million), community development grants (\$420 million), elementary and secondary education (\$345 million), and child nutrition programs (\$246 million).

Significant reductions occur in the temporary employment assistance program (\$1,020 million) and the sewage treatment plant construction program (\$291 million). The reduction in temporary employment assistance reflects the phasedown in spending for economic stimulus purposes; the sewage treatment construction program reduction reflects the slowdown in spending for prior obligations.

ECONOMIC AND URBAN DEVELOPMENT PROGRAMS

Another category of Federal grant programs has become increasingly important in providing assistance to urban and other communities. These programs aid communities in developing or revitalizing their economic and employment base. Major programs in this category are shown in table 4.

TABLE 4.—OUTLAYS FOR ECONOMIC AND URBAN DEVELOPMENT PROGRAMS

[In millions of dollars]

	1979 current estimate	1980 commit- tee recom- mendation Second Resolution
Economic development assistance, Commerce Department.....	314	420
Community development block grants and urban development ac- tion grants, Housing and Urban Development.....	3,080	3,620
Appalachian regional development programs.....	296	314
Regional action planning commissions.....	41	45
Urban parks.....	1	18
Sewage treatment plant construction.....	3,700	3,309
Minority business development.....	13	14
Urban mass transportation grants.....	2,432	2,575
Rural development grants.....	272	299
Comprehensive planning grants.....	60	53
Neighborhood reinvestment corporation.....		11
Antirecession fiscal assistance.....		550
Total, outlays for economic and urban development.....	10,209	11,228
Percent increase 1979-80, +9.98.		

In 1980, outlays for economic and urban development programs are expected to total \$11,228 million. This is an increase of \$1,019 million or almost 10 percent above the amount provided for these programs in fiscal year 1979. This increase is well above the 4-percent increase for grant programs overall.

Major new assistance, \$550 million in outlays, is provided for an antirecession fiscal assistance program, and \$11 million is included to cover initial funding for the neighborhood reinvestment corporation. Congress may enact an antirecession program which would assist localities experiencing fiscal stress to maintain employment and service levels. The neighborhood reinvestment corporation provides financial assistance to communities carrying out plans to rehabilitate declining neighborhoods.

Significant outlay increases would occur for the community development block grant and urban development action grant programs (\$540 million) and for economic development assistance programs (\$420 million). The increase in basic community development grant outlays (\$420 million) reflects the combined effect of a higher appropriation level and the spendout of prior obligations. The related increases for the urban development action grant program (\$120 million) reflects a substantial program expansion designed to intensify assistance to urban communities for economic and business development purposes. The increase for EDA programs also reflects a substantial program expansion designed to replace the former National Development Bank proposal. A restructured economic development financing facility would provide financial assistance for the purpose of stimulating business development.

The decrease in spending for sewage treatment plant construction (\$391 million) reflects a slowdown in the rate of spending rather than a program reduction.

APPENDIX H

TAX EXPENDITURES

INTRODUCTION

This analysis covers estimated tax expenditures for fiscal year 1979. The estimates were prepared by the Joint Committee on Taxation with the assistance of the staff of the Office of Tax Analysis in the Treasury Department. These estimates reflect the provisions in present law (as of December 31), and assume that the expiration dates will not be extended or otherwise modified and no other changes will be made in the present law. An addendum covers those bills passed by the House which affect tax expenditures. None has been enacted into law.

THE CONCEPT OF TAX EXPENDITURES

Tax expenditure data are intended to show the cost to the Federal Government, in terms of revenues it has foregone, from tax provisions that either have been enacted as incentives for the private sector of the economy or have that effect even though initially having a different objective. Tax incentives usually are designed to encourage certain kinds of economic behavior as an alternative to employing direct expenditures or loan programs to achieve the same or similar objectives. These provisions take the form of exclusions, deductions, credits, preferential tax rates, or deferrals of tax liability. Tax expenditures also are analogous to uncontrolled expenditures made through individual entitlement programs because the taxpayer who can meet the criteria specified in the Internal Revenue Code may use the provision indefinitely without any further action by the Federal Government. This is possible because provisions in the Internal Revenue Code rarely have expiration dates that would require specific congressional action to continue their availability. For many provisions, the revenue loss is determined by the taxpayer's level of income and his tax rate bracket. From the viewpoint of the budget process, fiscal policy and the allocation of resources, uncontrollable outlays or receipts restrict the range of adjustments that can be made in public policy. One of the purposes of the enumeration of tax expenditures is to provide Congress with information it needs to select between a tax or an outlay approach to accomplish a public policy goal.

The definition of tax expenditures is that developed in the legislative process that produced the Budget Control Act. Listing an item as a tax expenditure in this report is part of a process of providing information, and the listing becomes a catalog of past public policy

decisions accompanied by estimates of their effects upon budget receipts. No judgment is made, nor any inference intended, about the desirability of any specific provision as public policy or about the effectiveness of the tax approach relative to other methods of achieving the particular public policy goals desired.

In this report, a tax expenditure is described as a tax incentive that departs from simply allowing the taxpayer to deduct from gross income the costs incurred in earning net income. Under this concept, deductions are allowed for current expenditures which are directly related to the process of earning income, and therefore these expenditures are not treated as tax expenditures. These deductions also may be treated as business costs, and they are deducted on returns filed by corporations, partnerships, and individual proprietorships. On the other hand, capital costs by their nature are not incurred entirely in one year. The basic tax provision allows depreciation ratably (i.e., straight-line depreciation) over the useful life of the capital asset, but tax law also permits accelerated depreciation to provide investors with faster capital recovery through shorter lives and/or faster rates of depreciation. Such faster tax treatment of capital costs is classified as a tax expenditure; in this report, those items appear as various types of accelerated depreciation; asset depreciation range (ADR), depreciation in excess of straight-line, percentage depletion allowances (in excess of cost depletion), and current expensing of costs that otherwise would be capitalized.

Individuals who are employees—and do not carry on their own businesses—have analogous business-type deductions which also are not classified in this report as tax expenditures. The expenses also are costs which are incurred in earning net income, e.g., the cost of tools that a mechanic uses. Most other deductions which individuals take on their tax returns represent personal consumption expenditures. These deductions reflect public policy decisions to facilitate specific types of consumption spending and are therefore generally classified here as tax expenditures. An exception to this rule is made for general personal exemptions and the standard deduction which have not been treated as tax expenditures in any analysis of the subject or in the Budget Control Act. Individual tax expenditures also include various kinds of income, e.g., social security payments to the aged, dependents and survivors, which are tax-exempt income but would become components of adjusted gross income from which taxable income is derived in the absence of the tax exemption.

A number of tax provisions are not treated as tax expenditures. The general tax rate structure is not part of tax expenditure analysis: the structure of graduated tax rates and taxable income brackets in the individual income tax and separate tax structures for single persons, married persons filing separately, heads-of-households and income splitting for married persons. Other such items are the personal exemption—one per taxpayer and each dependent—and the standard deduction. On the other hand, included as tax expenditures are the additional personal exemptions for the aged and blind and itemized personal deductions.

In the business tax area, the combined corporate normal and surtax tax rate is considered to be the general tax rate structure and is not classified as a tax expenditure. The surtax exemption is treated as a departure designed to benefit small corporations, and therefore is treated as a tax expenditure.

There is no provision for negative tax expenditures, and no provisions are classified as disincentives. Thus, the corporate surtax rate is treated as the basic provision and not a departure from the normal tax. The limitation on the deduction of a net long-term capital loss is a limit to the incentive made available through the special treatment for capital gains.

Imputations of income in kind received from the services of durable assets are not treated as income in the tax code and are not here classified as tax expenditures. They might be considered as income under other concepts of income for tax purposes. Measurement of the imputed income-in-kind would be a formidable task. The imputed income from an owner-occupied home is the most prominent of these items, and among the others are the income that could be imputed to household furniture and appliances, books and art collections and automobiles. Food stamps are a form of income in kind that also is omitted from this listing.

Foreign tax credits are not classified here as tax expenditures since they are generally considered as the way of taking into account the interrelationship of domestic and foreign tax systems. In addition, this analysis does not attempt to go behind the current legal interpretation and attribution of payments by U.S. corporations to foreign governments as taxes (e.g., it does not attempt to treat any such payments as royalties as in the case of oil income), when the payments are designated in that way by those governments.

MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures are difficult to determine and are subject to important limitations.

Each tax expenditure is measured in isolation. The amount of the deduction is added back in the calculation of taxable income, which raises its level. The difference in tax liabilities as estimated under present law including the tax expenditure and this new higher level of tax liabilities is taken as the amount of the tax expenditure. For this computation and in keeping with the general practice of revenue estimating, it is assumed that nothing else changes.

Some further observations on these estimating problems follow:

First, if two or more items were to be eliminated, the result of the combination of changes being made at the same time might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately.

Second, in some cases if a tax expenditure item were to be eliminated, it is possible that Congress would, at least to some extent, desire to deal with the underlying problem by a direct expenditure or loan program. The effect of any such program is not taken into account

in the estimates shown. A direct expenditure could become a tax expenditure if it takes the form of a payment to an individual or business that is not included in income subject to taxation. In addition, if some of these provisions were removed from the tax laws, this removal might be accompanied by revisions in tax rates, personal exemptions or the standard deduction, as has happened in the past. Other fiscal and monetary policies might be adopted to offset a tax change. None of these possibilities has been taken into account in the estimates.

Third, when tax expenditure items have been added to the tax law in the past, they did not become fully effective until the lapse of several years. As a result, the eventual annual cost of some items is not fully reflected until some time in the future. Conversely, if various items now in the law were to be eliminated, it is unlikely, in many cases, that the full revenue effects shown would be realized until an extended period of years had passed.

Fourth, differences in personal income levels and corporate profits can also account for differences in the cost of tax expenditure items from year to year. Thus, some tax expenditure items themselves may be larger or smaller from year to year, wholly independent of tax considerations.

Fifth, in the case of many of the items, especially those for which information is not available on tax returns, it is necessary to obtain information from whatever sources are available and to base the estimates on these sources.

TAX EXPENDITURES BY FUNCTIONAL CATEGORY

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the costs (tax expenditures) and beneficiaries (in terms of area of activity) are grouped in the following table in the same functional categories as outlays in the Federal budget. Where possible and relevant, estimates are shown separately for individuals and corporations. Some tax expenditures do not fit clearly into any of the budget functional categories, and they have been placed in the functional category which is the most appropriate.

TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION ¹

[Fiscal years, in millions of dollars]

Function and subfunction	Corporations						Individuals					
	1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel							1,370	1,470	1,585	1,715	1,850	2,000
Exclusion of military disability pensions							120	130	135	145	150	160
Subtotal							1,490	1,600	1,720	1,860	2,000	4,160
International affairs:												
Exclusion of income earned abroad by U.S. citizens							530	555	600	645	695	755
Deferral of income of domestic international sales corporations (DISC)	1,170	1,260	1,300	1,400	1,525	1,640						
Deferral of income of controlled foreign corporations	530	445	480	520	560	605						
Special rate for Western Hemisphere trade corporations	15	5										
Subtotal	1,715	1,710	1,780	1,920	2,085	2,245	530	555	600	645	695	755
General science, space, and technology:												
Expensing of research and development expenditures	1,550	1,745	1,980	2,230	2,490	2,780	30	35	40	45	50	55
Energy:												
Expensing of exploration and development costs	1,060	1,160	1,280	1,365	1,475	1,605	430	505	590	675	890	1,025
Excess of percentage over cost depletion	1,190	1,265	1,355	1,440	1,525	1,625	435	485	525	535	540	550
Capital gains treatment of royalties on coal	10	10	10	10	15	15	65	75	90	100	110	115
Residential energy credits							715	435	465	505	555	610
Alternative conservation and new technology credits	220	390	495	595	460	160	(²)	(²)	(²)	(²)	(²)	(²)
Subtotal	2,480	2,825	3,140	3,410	3,475	3,405	1,645	1,500	1,670	1,815	2,095	2,300
National resources and environment:												
Exclusion of interest on State and local government pollution control bonds	200	220	245	270	295	325	215	240	265	290	320	355

Exclusion of payments in aid of construction of water and sewage facilities.....	10	60	110	110	110	110	-----	-----	-----	-----	-----	-----
5-yr amortization on pollution control facilities.....	(3)	(3)	15	55	95	90	-----	-----	-----	-----	-----	-----
Tax incentives for preservation of historic structures.....	5	5	5	5	5	5	5	5	10	10	10	5
Capital gains treatment of certain timber income.....	315	355	400	440	485	530	90	100	115	125	140	150
Capital gains treatment of iron ore.....	10	10	10	10	10	10	10	10	10	10	10	10
Subtotal.....	540	650	785	890	1,000	1,070	320	355	400	435	480	520
<hr/>												
Agriculture:												
Expensing of certain capital outlays.....	75	75	80	85	85	90	445	430	475	545	565	585
Capital gains treatment of certain ordinary income.....	10	10	15	15	15	20	365	385	405	425	445	465
Deductibility of noncash patronage dividends and certain other items of cooperatives.....	505	540	590	625	670	710	(4)	(4)	(4)	(4)	(4)	(4)
Exclusion of certain cost-sharing payments.....							(2)	30	75	80	80	75
Subtotal.....	590	625	685	725	770	820	810	845	955	1,050	1,090	1,125
<hr/>												
Commerce and housing credit:												
Dividend exclusion.....							450	450	470	495	515	540
Exclusion of interest on State and local industrial development bonds.....	240	280	335	395	455	510	265	305	360	430	490	555
Exemption of credit union income.....	90	100	115	125	140	155	-----	-----	-----	-----	-----	-----
Excess bad debt reserves of financial institutions.....	780	855	965	1,015	1,090	1,260	-----	-----	-----	-----	-----	-----
Deductibility of mortgage interest on owner-occupied homes.....							8,225	9,290	10,965	12,935	15,265	18,010
Deductibility of property tax on owner-occupied homes.....							5,920	6,615	7,675	8,905	10,330	11,980
Deductibility of interest on consumer credit.....							2,585	2,945	3,475	4,100	4,835	5,705
Expensing of construction period interest and taxes.....	525	555	585	615	645	675	90	145	165	160	155	150
Excess first-year depreciation.....	50	50	50	55	55	60	135	135	145	150	160	170
Depreciation on rental housing in excess of straight line.....	70	65	65	70	70	75	290	285	290	295	305	320
Depreciation on buildings (other than rental housing) in excess of straight line.....	135	135	140	150	165	185	120	120	125	135	150	165
Asset depreciation range.....	2,460	2,880	3,400	3,940	4,330	4,300	130	150	180	215	225	225
Capital gains (other than farming, timber, iron ore, and coal).....	555	625	725	785	870	965	7,520	10,150	10,905	11,730	12,615	13,580
Deferral of capital gains on home sales.....							1,125	1,010	1,115	1,225	1,350	1,485
Capital gains at death.....							9,015	10,005	11,105	12,275	13,555	14,965
Corporate surtax exemption.....	3,070	135	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

See footnotes at end of table.

TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION ¹—Continued

[Fiscal years, in millions of dollars]

Function and subfunction	Corporations						Individuals					
	1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
Reduced rates on first \$100,000 of corporate income.....	3,270	6,940	7,425	7,890	8,350	8,735						
Investment credit, other than for TRASOPs and for rehabilitated structures.....	13,405	15,370	17,380	18,965	20,180	21,300	2,665	3,090	3,510	3,870	4,110	4,360
Investment credit for rehabilitated structures.....	55	120	140	155	170	185	10	60	65	65	65	70
Exclusion of interest on state and local housing bonds.....	450	680	975	1,320	1,715	2,165	90	140	200	270	350	440
Subtotal.....	25,155	28,790	32,300	35,480	38,235	40,570	38,625	44,895	50,750	57,255	64,475	72,720
Transportation:												
Deductibility of nonbusiness State gasoline taxes.....							350					
5-yr amortization on railroad rolling stock.....	(8)	(8)	(8)	(8)	(8)	(8)						
Deferral of tax on shipping companies.....	75	70	75	75	80	90						
Subtotal.....	75	70	75	75	80	90	350					
Community and regional development:												
5-yr amortization for rehabilitation of low-income housing.....	5	5	10	10	10	5	10	10	15	20	15	210
Education, training, employment, and social services:												
Exclusion of scholarship and fellowship income.....							355	365	375	390	400	410
Parental personal exemption for students age 19 or over.....							935	1,020	1,025	1,020	1,020	1,020
Exclusion of employee meals and lodging (other than military).....							325	350	380	410	445	480
Exclusion of contributions to prepaid legal service plans.....							15	20	35	10		
Investment credit for employee stock ownership plans (TRASOP's).....			385	450	520	600	655	360				
Deductibility of charitable contributions (education).....	320	355	380	420	455	485	710	795	925	1,070	1,240	1,440
Deductibility of charitable contributions to other than education and health.....	395	440	475	520	560	600	5,320	5,965	6,920	8,030	9,310	10,805

Maximum tax on personal service income.....							1,335	1,625	2,030	2,540	3,175	3,970
Credit for child and dependent care expenses.....							610	705	770	845	925	1,015
Credit for employment of AFDC recipients and public assistance recipients under work-incentive programs.....	55	120	160	185	215	240	5	40	55	65	70	75
General jobs credit.....	1,035	215	110	55	35	20	860					
Targeted jobs credit.....	125	345	470	320	85	85	15	135	190	135		
Employer educational assistance.....							20	30	30	35	40	25
Subtotal.....	2,315	1,925	2,115	2,100	2,005	1,790	10,505	11,050	12,735	14,550	16,625	19,240

Health:

Exclusion of employer contributions for medical in- surance premiums and medical care.....							8,255	9,595	11,150	12,955	15,030	17,490
Deductibility of medical expenses.....							2,890	3,120	3,525	3,985	4,505	5,090
Expensing of removal of architectural and transporta- tion barriers to the handicapped.....	10	(8)	(3)	(3)	(2)	(2)						
Deductibility of charitable contributions (health).....	195	220	235	260	280	300	1,065	1,195	1,385	1,605	1,865	2,160
Subtotal.....	205	220	235	260	280	300	12,210	13,910	16,060	18,545	21,400	24,740

Income security:

Exclusion of social security benefits:												
Disability insurance benefits.....							615	735	860	1,010	1,175	1,370
OASI benefits for retired workers.....							5,455	6,430	7,535	8,750	10,115	11,630
Benefits for dependents and survivors.....							825	940	1,075	1,210	1,365	1,540
Exclusion of railroad retirement system benefits.....							275	305	345	365	380	390
Exclusion of workmen's compensation benefits.....							1,035	1,285	1,590	1,975	2,450	3,035
Exclusion of special benefits for disabled coal miners.....							50	50	50	50	50	50
Exclusion of unemployment insurance benefits.....							1,780	1,935	2,150	2,095	2,010	1,940
Exclusion of public assistance benefits.....							355	395	425	455	515	525
Exclusion of disability pay.....							140	150	155	165	175	185
Net exclusion of pension contributions and earnings:												
Employer plans.....							11,325	12,925	14,740	16,815	19,175	21,860
Plans for self-employed and others.....							1,920	2,205	2,535	2,920	3,355	3,860

See footnotes at end of table.

TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION ¹—Continued

[Fiscal years, in millions of dollars]

Function and subfunction	Corporations						Individuals					
	1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
Exclusion of other employee benefits:												
Premiums of group term life insurance.....							875	915	950	990	1,030	1,075
Premiums on accident and disability insurance.....							75	80	85	90	90	95
Income of trusts to finance supplementary unem- ployment benefits.....							10	10	10	10	10	10
Exclusion of interest on life insurance saving.....							2,475	2,720	2,990	3,290	3,635	4,015
Exclusion of capital gains on home sales for persons age 55 and over.....							300	535	590	645	710	785
Additional exemption for the elderly.....							1,670	1,855	1,950	2,045	2,150	2,255
Additional exemption for the blind.....							30	35	35	35	40	40
Deductibility for casualty losses.....							435	475	540	610	685	775
Tax credit for the elderly.....							160	160	160	160	160	160
Earned income credit:												
Nonrefundable portion ⁶							266	350	276	272	268	260
Subtotal.....							30,071	34,490	39,046	43,957	49,543	55,855

Veterans' benefits and services:													
Exclusion of veterans' disability compensation								905	1,005	1,085	1,165	1,265	1,340
Exclusion of veterans' pensions								45	55	60	60	60	65
Exclusion of GI bill benefits								195	170	150	135	120	105
Subtotal								1,145	1,230	1,295	1,360	1,445	1,510
General government:													
Credits for political contributions								80	100	140	100	125	100
General purpose fiscal assistance:													
Exclusion of interest on general purpose State and local debt	3,245	3,515	3,900	4,335	4,815	5,360	2,120	2,365	2,625	2,915	3,240	3,600	
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)							10,935	12,450	14,690	17,335	20,455	24,135	
Tax credit for corporations doing business in U.S. possessions	685	730	805	885	970	1,070							
Subtotal	3,930	4,245	4,705	5,220	5,785	6,430	13,055	14,815	17,315	20,250	23,695	27,735	
Interest:													
Deferral of interest on savings bonds								615	625	640	655	665	680

¹ All estimates are based on the law enacted as of Dec. 31, 1978.

² Less than \$2,500,000.

³ This provision initially applied to new facilities added to plants in existence on Jan. 1, 1969. It expired on Dec. 31, 1975. No investment credit was allowed on property subject to this provision. The 1976 act renewed the provision for property in existence on Jan. 1, 1976. An investment credit of 1/2 now applies to facilities installed after Dec. 31, 1976. Amortization on these facilities is a tax preference falling under the minimum tax. The interaction of these provisions results in revenue gains of \$25,000,000 and \$10,000,000 in fiscal years, 1979 and 1980, respectively.

⁴ Some individuals will have their taxable income increased by the dividends paid by cooperatives. It is estimated that these dividends will increase revenues by \$170,000,000, \$175,000,000, \$190,000,000, and \$200,000,000, \$210,000,000, and \$220,000,000 in fiscal years 1978, 1980, 1981, 1982, and 1984, respectively.

⁵ Before 1976, railroad stock, at the taxpayer's election, could be amortized over 5 yr rather than depreciated. Some property that was amortized is still in service producing income. Because such property has no basis for depreciation, taxable income from it is higher than it would have been if the property had not been amortized. The revenue on this income is greater than the revenue losses on property subject to amortization. The amount of the tax liability accruing from corporations is \$40,000,000 in each fiscal year except 1983 when the amount is \$35,000,000 and 1984 when it is \$20,000,000.

⁶ The refundable portion of the earned income credit is considered an outlay. This is estimated to be \$941, \$1,874, \$1,567, \$1,544, \$1,544, \$1,521, and \$1,128, for fiscal years 1979, 1980, 1981, 1982, 1983, and 1984, respectively.

Source: Staffs of the Treasury Department and the Joint Committee on Taxation.

SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER: BY FISCAL YEARS

[In millions of dollars]

Fiscal year	Individuals and corporations	Individuals	Corporations
1979	150,051	111,491	38,560
1980	168,825	126,015	42,810
1981	191,191	143,381	47,810
1982	214,862	162,542	52,320
1983	240,613	184,398	56,215
1984	269,010	209,505	59,505

ADDENDUM

Legislation Affecting Tax Expenditure Levels

During the First Session of the 96th Congress through September 12, 1979, the House reported two bills that affect tax expenditures. No bills have been enacted or passed by the House that affect tax expenditures. The two reported bills are listed below. H.R. 3712, which alters the tax treatment of interest on certain housing bonds, will result in a decrease in tax expenditures (revenue gain). H.R. 4746, which makes eight miscellaneous changes in the tax laws, includes one provision that makes the investment tax credit applicable to certain property used by the International Maritime Satellite Organization. It will result in a negligible increase in tax expenditures.

REVENUE EFFECT IN MILLIONS OF DOLLARS: IN FISCAL YEARS

	Fiscal year—					
	1979	1980	1981	1982	1983	1984
H.R. 3712, mortgage subsidy bonds	0	+143	+776	+2,274	+4,797	+8,356
H.R. 4746, miscellaneous change in tax laws	0	(1)	(1)	(1)	(1)	(1)
Net revenue gain	0	+143	+776	+2,274	+4,797	+8,356

¹ Less than \$1 million.

APPENDIX I

ESTIMATING DIFFERENCES FROM THE FIRST BUDGET RESOLUTION FOR FISCAL YEAR 1980

The Second Budget Resolution assumptions include \$5.6 billion more in budget authority and \$9.95 billion more in outlays than the First Budget Resolution due to approximately 300 reestimates of spending. These reestimates reflect revised economic assumptions affecting indexed programs (\$7.35 billion) and policy assumptions about program levels or methodologies (\$2.6 billion). These reestimates reflect an update of the information used in formulating the First Budget Resolution.

Section 601 of the Budget Act requires the President to submit a summary of revisions each April and July of budget authority, outlays, and estimated receipts previously submitted in the President's budget. The President's midsession review, submitted on July 12 in fulfillment of the requirement, indicated a net total of \$10.1 billion in upward outlay reestimates and \$7.8 billion in budget authority from his earlier March 12 reestimates. Subsequently, the midsession review was revised upward on July 31 by an additional \$570 million in outlays and \$22.1 billion in budget authority to reflect the administration's new energy program proposals.

The President's midsession review estimates were carefully reviewed by the Congressional Budget Office and by the House and Senate Budget Committees. All three institutions agreed on the appropriate amount for a reestimate before incorporating it into the Second Budget Resolution.

Many of the reestimates occur in programs which are affected by changes in the economy. Prospects for the economy have become less favorable since the passage of the First Budget Resolution. The inflation rate which is likely to be higher than previously anticipated will raise the cost of Federal programs automatically indexed to the Consumer Price Index and will also affect the amount of Federal revenues. In addition, a higher employment rate will result in higher outlays for unemployment compensation.

Major examples of the reestimates due to economic factors include:

- A \$2.5 billion outlay increase due to higher short-term interest rates on Treasury notes.
- A \$1.7 billion outlay increase in the social security program.
- A \$1.2 billion outlay increase for unemployment compensation.
- A \$900 million outlay increase resulting from cost-of-living increases in civil service and military retirement and in veterans compensation.

Other reestimates are due to changes in program participation rates that are sensitive to economic changes. For example, higher caseloads will increase Black Lung program costs by \$700 million and medicare and medicaid program costs by \$800 million. Food Stamp program costs increased by \$700 million due to higher inflation and unemployment assumptions. These Federal programs are designed to provide assistance during periods when individuals lose income through unemployment; as a result, participation rates vary with employment rates.

Other reestimates represent changes in actual program performance, weather, acts of God, or financial or accounting transactions. The following table distributes major estimating differences by category and function.

COMPARISON OF MAJOR ESTIMATING DIFFERENCES BETWEEN FIRST BUDGET RESOLUTION AND SECOND BUDGET RESOLUTION ASSUMPTIONS

[In billions of dollars]

Categories of differences		Budget authority	Outlays
I. Economic assumptions:			
050	Military retired pay	+0.2	+0.2
550	Medicare and medicaid	+.7	+.8
600	Social security	-.6	+1.7
	Civil service retirement		+.5
	Unemployment compensation	+.3	+1.2
	Food stamps	+.7	+.7
700	Veterans and survivors compensation	+.2	+.15
900	Average short-term interest rates on Treasury notes	+2.5	+2.5
950	Higher offsetting interest receipts by trust funds are assumed, reflecting higher rates on Treasury special issues	-.4	-.4
II. Demographic programmatic:			
350	CCC-price support programs		-.0
400	Highway trust fund		+.3
	Northeast Corridor rail service delays		-.2
	UMTA contract authority	-.4	
500	Basic educational opportunity grant (BEOG's)	+.4	+.1
	CETA	+.3	+.2
	Title XX, social services program	+.2	+.1
	Increased outlays than assumed in 1st resolution		+.5
550	Medicare-medicare reforms		+.9
600	Civil service retirement	+.3	
	Black lung increased caseloads	+.6	+.7
	Failure to achieve Michel amendment to fiscal year 1979 appropriation bill	+.1	
	Decrease legislative savings because of revised savings estimates later implementation dates	+.3	+.4
700	Legislative reform proposals reduced due to late implementation	+.2	+.2
	Lower adjustment benefits		-.1
950	OCS rent and royalties	+.5	+.5
III. Estimating differences: ¹			
050	Increased outlays based on analysis of recent spending patterns mostly procurement		+2.8
150	Increased level of cash disbursement for Export-Import Bank loan commitments		+.2
	Foreign military sales trust fund	+.3	
270	Higher than anticipated oil production and prices for naval petroleum reserve oil increasing Treasury receipts	-.3	-.2
370	Lower FDIC outlays associated with bank failures		-.2
	Other miscellaneous reestimates		-.3
450	SBA disaster loans		+.2
900	Interest paid to Treasury by off-budget and on-budget agencies	-.5	-.5
Total changes due to reestimates		+5.6	+9.95

¹ Weather, financial transactions, executive actions, etc.

APPENDIX J

ENERGY: BACKGROUND INCLUDING PRESIDENT'S PROPOSALS

BACKGROUND

Federal spending for energy programs has grown substantially since fiscal year 1974 when it basically consisted of relatively small nuclear and coal programs. In fact, the nuclear program was the only large program where the Arab Oil Embargo of 1973 occurred. Since then, Federal energy programs have grown to also include large R. & D. expenditures for solar, fossil, conservation and environmental support programs; a several-billion-dollar effort to acquire a strategic oil reserve; and large efforts to subsidize energy conservation activities and State efforts in the energy area.

Reducing the insecurity of the world oil market, and learning to cope with that insecurity, are the fundamental problems for U.S. energy policy. Present Federal energy expenditures can be classified under these two broad headings. First, there are those programs that will help prepare the Nation to cope successfully with future oil emergencies. World oil emergencies have occurred twice in the past 6 years: In 1973, due to the Arab Oil Embargo, and most recently as a result of the Iranian Revolution, supplemented by the deliberate withholding of supplies by a few oil-producing nations. The Strategic Petroleum Reserve and other emergency preparedness programs are intended to help the U.S. deal with these emergencies.

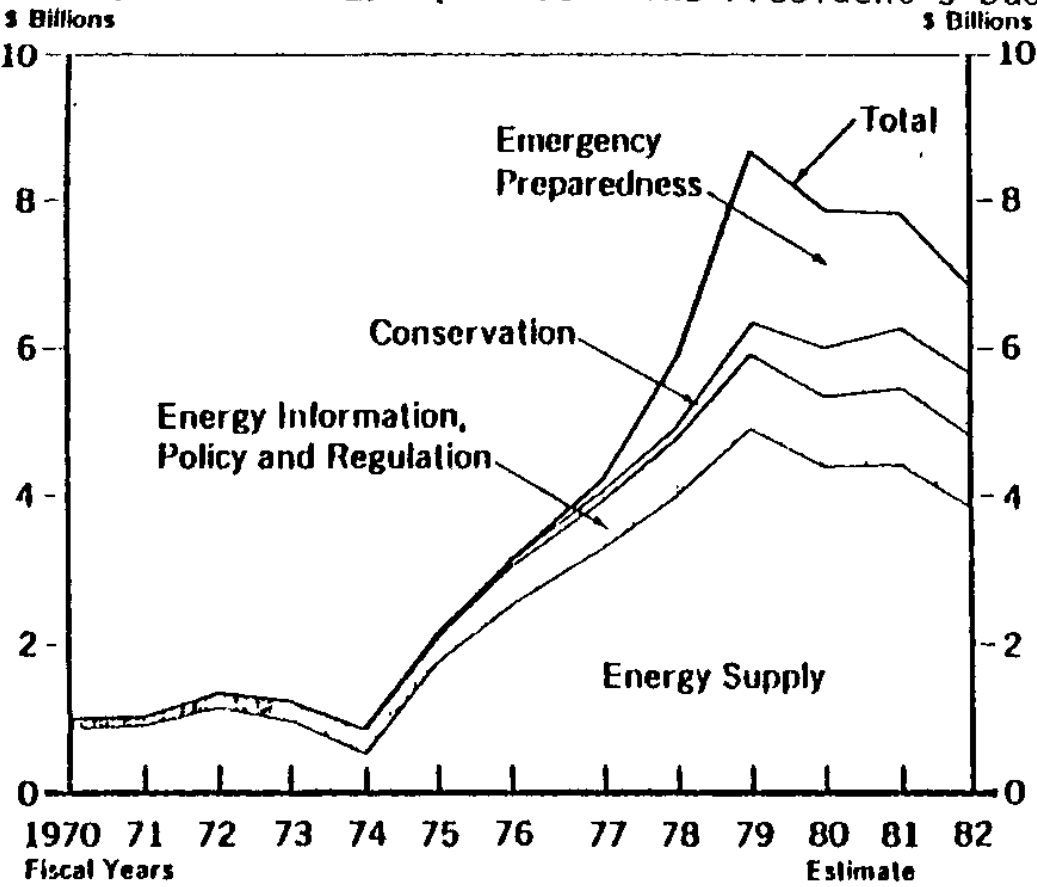
Second, the United States has other programs which are designed to help make such future oil emergencies less likely. This is being accomplished by supporting programs to improve the Nation's, as well as the world's, oil supply-demand balance. Examples of these are broad energy R. & D. programs, energy production and conservation tax incentives, and large energy conservation promotion programs.

The United States is also supporting other programs to improve the supply-demand balance of the world oil market. For example, there are several minor programs to encourage the discovery and development of new energy supplies around the world, such as those in the Department of Energy, the Agency for International Development, the Overseas Private Investment Corporation (OPIC), and the Export-Import Bank. Further, with the support of the U.S. Government, the World Bank has recently adopted a program to increase oil exploration and development activities in lesser developed countries throughout the world.

The record of Federal energy expenditures can best be seen in the two tables that follow :

Table 1.

Outlays for Energy (Source: The President's Budget for Fiscal Year 1980)



	Fiscal Year											President's Budget Request for Fiscal Year
	1970	1971	1972	1973	1974	1975	1976	1976 T.Q.	1977	1978	1979	1980
270 Energy:												
271 Energy supply	874	898	1,107	975	517	1,743	2,508	603	3,266	3,970	4,896	4,371
272 Energy conservation.....					3	48	51	38	143	221	490	660
274 Emergency energy preparedness...						33	65	31	123	897	2,367	1,961
276 Energy information, policy, and regulation	142	155	207	231	331	389	558	147	664	798	974	969
Deductions for offsetting receipts.....	-25	-23	-43	-26	-14	-43	-55	-25	-23	-25	-96	-84
Total energy.....	990	1,031	1,270	1,179	837	2,170	3,127	794	4,172	5,861	8,630	7,878

TABLE 2.—ERDA-DOE ENERGY R. & D.

[Dollars in millions]

	1975 budget		1976 budget		Transition quarter budget		1977 budget		1978 budget		Estimate 1979 budget		1980 Congress- sional budget	
	Au- thority	Out- lays	Au- thority	Out- lays	Au- thority	Out- lays	Au- thority	Out- lays	Au- thority	Out- lays	Au- thority	Out- lays	Au- thority	Out- lay-
Direct energy R. & D.:														
Nonnuclear:														
Solar applications-----	\$42	\$15	\$115	\$63	\$34	\$37	\$221	\$149	\$124	\$102	\$127	\$141	\$126	\$135
Solar technology ¹ -----									249	185	315	292	383	381
Geothermal-----	28	21	31	30	12	13	53	4.6	108	82	158	137	141	134
Biomass ² -----							13	8	21	16	43	28	58	56
Hydropower-----							2	1	10	7	28	23	19	18
Electric energy systems-----	24	12	39	26	7	10	27	21	93	73	101	90	94	91
Conservation ³ -----	13	9	37	19	10	18	140	106	137	108	193	174	191	178
Conservation ⁴ -----	13	9	37	19	10	18	140	106	137	108	193	174	191	178
Fossil energy R. & D.-----	335	139	427	242	105	93	535	460	765	659	760	823	747	775
Coal-----							469	395	659	565	626	683	663	666
Petroleum-----							47	44	79	73	101	100	57	69
Gas-----							19	21	27	21	33	40	27	40
Subtotal, nonnuclear-----	442	196	649	380	168	171	991	791	1,507	1,232	1,725	1,708	1,759	1,768

Nuclear:														
Converter ⁵	18	16	26	22	10	11	59	48	106	102	122	111	104	115
Commercial waste management	11	11	13	10	5	6	88	67	184	125	191	167	199	194
Spent fuel disposition									5	5	11	7	21	19
Advanced nuclear systems ⁶	30	34	138	139	42	44	181	164	75	62	55	55	40	47
Breeder reactor ⁷	567	538	505	441	112	127	708	600	735	729	742	754	590	611
Light water reactor facilities							29	20	28	27	10	17		3
AISI ⁸	24	19												
Subtotal, nuclear	650	618	682	612	169	188	1,065	899	1,133	1,050	1,131	1,111	954	989
Fusion: Magnetic fusion	118	95	166	139	53	50	316	211	332	277	356	342	364	367
Supporting energy R. & D.:														
Basic sciences ⁹	161	175	297	273	71	77	351	324	406	378	431	420	474	453
Basic research ¹⁰	191	165	131	118	35	35	155	135	184	168	220	211	276	269
Environment ¹¹	183	159	165	149	45	49	196	184	238	212	245	236	278	264
Subtotal, supporting energy R. & D.	535	499	593	540	151	161	702	643	828	758	896	867	1,028	986
Total, DOE energy R. & D.	1,745	1,408	2,090	1,671	541	570	3,074	2,544	3,800	3,317	4,108	4,028	4,105	4,110

¹ Prior to fiscal year 1978 solar applications and solar technology are combined.

² Prior to fiscal year 1977 included in solar.

³ This is called "End Use Conservation and Technology to improve Efficiency" prior to fiscal year 1977.

⁴ Breaks below fossil not readily available prior to fiscal year 1977.

⁵ Prior to fiscal year 1978 fuel cycle R. & D. only.

⁶ Space nuclear systems only in fiscal year 1975; nuclear research and applications (NRA) in fiscal year 1976, transition quarter, and fiscal year 1977.

⁷ Fission power reactor development in fiscal year 1975.

⁸ Included in NRA in fiscal year 1976, transition quarter, fiscal year 1977: Included in converter fiscal year 1978-80.

⁹ This is high energy physics only, prior to fiscal year 1977.

¹⁰ This is basic energy sciences in fiscal year 1975.

¹¹ Effective fiscal year 1976 life sciences research and biomedical applications is reclassified from environment to basic sciences.

Source: U.S. Department of Energy.

THE PRESIDENT'S NEW ENERGY PROPOSALS

In April, the President decided to allow price controls on oil to phase out over the next 2 years, corresponding with the time at which price control authorities under the Emergency Petroleum Allocation Act, as amended, would expire. At the same time, the President also proposed passage of a windfall profits tax on the oil industry that would recapture for the Government some of the increased revenues that would accrue to the industry as a consequence of the decontrol of oil prices. While this measure, along with previously enacted laws and recent OPEC oil price increases, should substantially reduce the dependence on oil imports the United States might otherwise have experienced in future years.

The United States probably will still have to import at least 9 million barrels of oil a day in 1990.

On July 15, the President proposed another set of new energy-related initiatives that would go beyond those already enacted. These initiatives are designed to reduce U.S. oil imports from the expected 1990 level of 9 million barrels a day (MMBD) to 4.5 MMBD. The President further proposed that these initiatives be financed with the receipts from the windfall profits tax and stated that it would be necessary to scale back his programs if a satisfactory version of such a tax were not enacted.

The President's proposed initiatives are summarized in table 3 below.

TABLE 3.—PRESIDENT'S ENERGY PROGRAM RECOMMENDATIONS

[In millions of dollars]

	Functional categories	White House fact sheet—7/16 1980-90 obligations	Revised midsession review fiscal year 1980 recommendations	
			Budget authority	Outlays
1. Energy Security Corporation.....	(270)	88,000	22,000	100
2. Energy Mobilization Board.....	(270)			
3. Low-income assistance.....	(600)	24,000	1,600	1,600
4. Transportation.....	(400)	16,500	1,445	312
5. Utility oil reduction.....	(270)	5,000	585	135
6. Solar bank.....	(270)	3,500		
7. Residential and commercial conservation.....	(270)	2,000		
8. \$3 oil shale tax credit.....	Tax	1,000		
9. 50¢/MCF credit for unconventional natural gas, and solar tax credits.....	Tax	1,000	(246)	(246)
10. Heavy oil decontrol, exemption from windfall profits tax.....	Tax			
11. Other Apr. 5 programs, including.....	(270)	1,200	NA	NA
● Regional strategic oil product reserve and additional coal R. & D.....	(270)	NA	250	111
● Full funding for additional SRC (solvent refined coal) plant.....	(270)	(495)	(495)	(24)
Total:				
Spending programs.....		142,000	25,880	2,258
Tax programs.....			-246	-246
Windfall profits tax.....			+2,907	+2,907
Net impact on the deficit.....				-403

The following is a brief explanation of each of the items in the President's plan, as of September 3, 1979.

● *Energy Security Corporation.*—The Corporation would be directed to help develop in private industry the capability to produce 2.5 million barrels a day of oil substitutes from coal liquids and gas, oil shale, biomass and unconventional gas by 1990. It would be an independent, government-sponsored corporation, with a Congressional charter. It would have a board of directors, nominated by the President, and confirmed by the Senate, which will consist of 3 members of the Cabinet and 4 outside directors. The Corporation is intended to be free of direct Executive and Congressional control. For the purposes above, the Corporation would be given \$88 billion in borrowing authority from the Treasury, to enable it to enter into commitments, prior to the availability of windfall profits tax revenues in that amount, which would be used to pay off whatever borrowing was done. The President has requested that this be appropriated up-front and that he make it available to the Corporation in \$22 billion installments, once every 18 months. The Corporation would have a 12 year life and would determine the resources and technologies used to meet its 2.5 million barrel a day objective. However, for illustrative purposes only, the President suggested a possible breakdown including:

	<i>Million barrels per day</i>
● Coal liquids and gas.....	1-1.5
● Shale oil.....	.4
● Biomass.....	.4
● Unconventional gas.....	5-1.0

The Corporation would be given authority to make its own financial commitments, up to its applicable borrowing authority ceiling. The Corporation could underwrite a very broad set of financial instruments, including price guarantees, purchase agreements, direct loans and loan guarantees. The Corporation, however, would have very limited authority to own such synfuel plants, or to have any equity in them; specifically, the Corporation would only be allowed to own up to a maximum of three synfuel plants, in the event it was not able to secure sufficient private sector participation in the program.

● *Energy Mobilization Board.*—This proposed Board would have almost a negligible direct impact on the Federal Budget, consisting only of manpower costs estimated at \$2 million in fiscal year 1980 to run this small agency. The Board would be empowered to expedite permitting and construction of critical energy facilities.

● *Low Income Assistance.*—The initial description proposed \$1.6 billion in fiscal year 1980 funds to help supplement the incomes of poor and near poor families who must pay higher prices for the energy they consume. Over ten years, the President expects to commit \$24 billion for this purpose. Of the \$1.6 billion for fiscal year 1980, \$400 million would be for a crisis intervention program to help low income families pay their higher fuel bills, the remaining \$1.2 billion is to be used as a welfare payment supplement.

● *Transportation.*—This proposal is intended to commit \$16.5 billion over ten years to help improve the nation's mass transportation systems and the efficiency of its automobiles. It is hoped that these

initiatives will reduce the 1990 oil import level by 250,000 barrels a day or more.

Of the total program, \$13 billion is earmarked for public transportation programs emphasizing a significant expansion of both bus and rail capacity, along with an acceleration of new systems presently under construction and the rehabilitation of existing systems. The public transportation component is all capital aid; no new operating subsidy is recommended by the President.

The remaining \$3.5 billion of the 10-year proposal is earmarked for conservation programs, including: \$2.5 billion for auto-use management programs such as carpooling and vanpooling, \$.2 billion for fuel economy technology assessment, and \$.8 billion for basic automotive research in partnership with the auto industry. The total 1980 first-year cost for all programs is projected at \$1.445 billion in budget authority and \$230 million in outlays.

● *Utility Oil Reduction.*—This proposal involves reducing the use of oil by electric utilities by 50 percent by 1990, yielding oil import savings of about 750,000 barrels a day at that time. The Federal Government would use \$5 billion over the 10-year period to help electric utilities pay for the capital investments that will enable this to occur. The first-year cost for this program is estimated at \$500 million in budget authority and \$50 million in outlays.

● *Solar Bank and Tax Credits.*—The President proposes to establish a Solar Bank which will make solar energy systems more attractive by giving interest subsidies to those who borrow money to install solar energy systems. The Bank eventually would be funded at \$150 million a year, and for fiscal year 1980 at \$35 million in budget authority and outlays. In addition to the Bank, the President proposed new tax credits for solar energy including: A 20-percent credit for residential and commercial passive solar construction; an additional 15 percent for solar process heating uses in agriculture and industry; a 15-percent credit for wood stoves; and making the exemption from the 4 cents a gallon Federal gasoline tax permanent for gasohol which is the equivalent to a \$16.80 subsidy per barrel of grain alcohol produced. It should be noted that \$150 million a year for subsidy payments could support a gross investment level in solar equipment of at least \$1.5 to \$2 billion a year.

● *Residential and Commercial Conservation.*—This proposal is intended to save 500,000 barrels of oil a day in 1990 by helping accelerate conservation in existing buildings, and by converting homes heated by oil to natural gas where feasible. It will attempt to do this by offering Government subsidized loans to homeowners who wish to participate, and by requiring that electric and gas utilities offer to finance these improvements for their customers. This program eventually would be funded at \$200 million a year, and for fiscal year 1980 at \$50 million in budget authority and outlays.

● *\$3 Shale Oil Tax Credit.*—For every barrel of shale oil produced, a tax credit would be allowed. The tax credit would be \$3 if world oil prices were \$22 or below, and would phase out as world oil prices increased until it terminated at \$28 a barrel. If a project received assistance from the Energy Security Corporation, it would not be eligible for the tax credit.

● *50 Cents/MCF Credit for Unconventional Natural Gas.*—For every MCF (thousand cubic feet) of unconventional natural gas produced, a 50 cents tax credit would be allowed. The credit would not be available if the Energy Security Corporation assisted the project. Unconventional natural gas would include gas produced from tight sands, Devonian shales, from coal seams, and from geopressurized aquifers near the Gulf of Mexico.

● *Heavy Oil Decontrol and Exemption from the Windfall Profit Tax.*—The President decontrolled heavy oil in an executive order issued on August 17, defining heavy oil as oil with API gravity of less than 16 degrees, and has proposed that such oil be exempt from the windfall profits tax. The President expects that an additional 500,000 barrels a day would be produced through this incentive.

● *Other Programs announced by the President on April 5.*—In the midsession review of July 31 the President requested \$200 million in budget authority and \$61 million in outlays to start constructing a regional product Reserve as part of the Strategic Petroleum Reserve; \$50 million in budget authority and outlays for additional coal R & D; and full funding of an additional SRC (solvent refined coal) plant with \$495 million in budget authority and \$24 million in outlays.

ADDITIONAL VIEWS OF HON. JIM WRIGHT, MAJORITY LEADER, HOUSE OF REPRESENTATIVES

The \$12 billion in budget authority for synthetic fuel development contained in this budget represents an historic first for the Congress and the American people. It is provided in response to international events which have underlined the precarious nature of our dependence on foreign oil.

An official of the Department of Energy has estimated that the true cost of a barrel of foreign oil may be far greater than the published crude oil price—perhaps as high as \$90 a barrel if one takes into account the impact of our oil purchases on the value of the dollar abroad and the effect of oil prices on domestic inflation. Within the next year the United States will pay some \$60 billion for foreign oil, compared with \$8 billion just six years ago. This drain of our resources cannot continue indefinitely.

Similarly, the dependence this nation has on foreign oil has raised questions about the ability of the United States to withstand political pressures from producing nations or even to meet future international emergencies.

In view of these concerns the Congress and the President have taken a number of initiatives offering promise of substantial production of synthetic fuel from domestic sources in coming years. In June the House passed H.R. 3930, a bill to bring on 500,000 barrels a day of synthetic fuel production by 1985 and 2 million barrels a day by 1990. The President has asked for an appropriation of \$22 billion as a first stage in an overall program seeking to encourage the development of 2½ million barrels a day of synthetic fuel production within ten years. The amount contained in this budget is intended to allow for a first installment on this program; others will follow as legislation is enacted and additional authority is required.

Virtually no outlays are contemplated in Fiscal Year 1980. If, as is expected, most of the production is brought on through government contracts to purchase the product of privately-owned plants, the first appreciable outlays will not occur until about 1985. However, this and later increments of spending authority will provide bidders for government contracts with the certainty that funds will be available when production begins. In the case of government loan guarantees or completion guarantees the same need for appropriated funds will exist, even though no outlays may ever occur.

Depending on future increases in world crude oil prices the real cost of a synthetic fuel program may either approach the figure set by the President or fall far short of that cost. Either way the nation will gain—through lower oil costs or a less costly synthetic fuel program. Virtually all authorities are agreed that before the end of the century synthetic fuel will cost less than crude oil. When that occurs plants built in the 1980s will be an important part of the nation's economic strength.

By approving the funding allowed under this resolution the Congress will be taking a big first step toward eventual energy independence for America.

JIM WRIGHT.

ADDITIONAL VIEWS OF HON. NORMAN Y. MINETA, SECOND BUDGET RESOLUTION FISCAL YEAR 1980

This Second Budget Resolution marks a major step forward in the development of a multi-year budget planning process. Multi-year planning is a tool which I believe we must employ if we are ever to reach our goal of a balanced budget with healthy economic growth.

As the House will recall, the conference agreement on the First Budget Resolution for fiscal year 1980 included aggregate projections of the resolution for the budget year and the next two fiscal years. This was a compromise between the House, which had included outyear projections in the report accompanying the resolution, but not in the resolution itself, and the Senate which had included functional planning numbers, as well as aggregates, in its resolution. Although the other body had voted on planning numbers which assumed policy changes in the outyears, conferees agreed to include only each bodies' aggregate projections in the conference report.

In the Second Resolution the Senate has again included outyear figures, in the aggregates, as well as by function. For the Second Resolution, it is my understanding that our Committee will include budget aggregates for fiscal years 1981 and 1982 in the resolution we report. These figures will be projections of our 1980 budget resolution, exactly as they were in the First Budget Resolution. They would not constitute policy recommendations.

As we are all painfully aware, there is very little the Congress can do to make next year's federal budget look much different from this year's. Most of the federal spending for next year—probably as much as 75 percent of it—will occur because of decisions of past Congresses, not this Congress. Of course, we must remember that this is not necessarily undesirable. The lives of many Americans are shaped by an assumption of stability in the programs and commitments of their government. Sharp changes in the composition of the budget could have many adverse consequences. The point, however, is this: if Congress wishes to make major changes in the budget, these will take time to plan and execute. Budget goals should not be left to speculation; they should be specified now. But the budget procedures we now use cause us to focus primarily on the budget year immediately ahead—fiscal year 1980—about which we can do very little, while we virtually ignore future years about which we can do a lot.

In many ways, a multi-year approach to formulating budget resolutions would increase both the flexibility of any individual Congress in dealing with budgetary choices and our budgetary control over the total size and composition of the budget. Concentrating on budget year dollar effects does not allow the Congress to deal very well with those issues that cannot be affected in a single year. But in a multi-year target planning system, the dollar impact of adding major new programs can be clearly seen and voted upon by the Congress. A multi-year planning framework would allow Congress to phase in or out

programs in a manner that would be consistent with its fiscal policy goals.

Further, a multi-year budget approach would enhance Congressional budgetary control by providing a better mechanism than the annual budget for affecting the approximately 60 percent of the budget that now can be changed only by modifying the authorizing statutes. Under the present system, the ability of the Budget Committees to achieve cost savings through reforms of existing programs is frequently severely limited either because the authorizing committees feel that they do not have enough time after the passage of the first concurrent resolution to enact the reforms, or because of the fear that a change in the program this year would cause great hardship to the program's beneficiaries. A system of setting multi-year budget targets would allow the Congress to plan these changes over a number of years, thus giving the authorizing committees the time they need and ensuring that the programs' beneficiaries are forewarned of future changes. At the same time, it would put the Congress on record advising that changes should be made.

In my view a great deal of education needs to occur before this Committee brings a set of outyear numbers to the floor of the House which represent planning decisions. Just consider how long we would have been on the floor in the Spring if we had asked the House to approve specific future year policy choices on a subfunction by subfunction basis. I think we have a long way to go before this occurs. Much work has to be done with the House Committees if such an effort is to be successful.

But no one can deny the need for better budget planning. For a start the House needs to have more and better data on the outyear implications of the decisions made in the budget year.

This Committee Report presents a significant amount of information on such outyear implications. I would urge all Members to give special attention to this multi-year perspective. There is a discussion of controllability, major outyear issues, outyear implications of the HBC projections, the Senate Budget Committee figures, and the President's plans. I would also draw your attention to the function by function discussions which lay out very succinctly exactly the kinds of major decisions we will be facing over the next five years.

NORMAN Y. MINETA.

ADDITIONAL VIEWS OF HON. JIM MATTOX

It was very difficult for me to vote to report out the Second Budget Resolution, which establishes spending ceilings and a revenue floor for Fiscal Year 1980. I did so because I believe the Committee made a genuine, constructive effort to balance the forces that are pulling our economy in opposite directions, namely, recessionary pressures on the one hand, and double-digit inflation on the other. In brief, I believe we reached the stage in Committee where it was time to report out and let the House work its will.

On the positive side, I strongly support the Committee's new initiatives for a national energy policy. We must take constructive steps now in order to meet the energy crisis. It's a long-term problem and one that does not lend itself to a simple, easy solution. I am especially pleased that the Committee adjusted the President's request to insure effective congressional control over all new energy initiatives.

My major disappointment with the recommendations contained in this Resolution is twofold:

First, I think it's imperative that we reduce payroll taxes and relieve the burden both on the employer and the employee, the productive Americans. My tax package that I proposed early this year would also relieve the pressure on business by liberalizing investment tax credits and accelerated depreciation allowances. This tax proposal is both stimulative and anti-inflationary because it would reduce the cost of doing business.

Second, I am disappointed that we did not find further reductions in Federal spending. Although I am pleased that my amendment saved the taxpayers \$100 million which otherwise would have been spent, the recommendations still contain spending far in excess of what is either necessary or desirable.

I cite as an example the \$550 million provided in this resolution for an ill-defined, unnecessary hot check payment to State and local governments from borrowed money. The targeted fiscal assistance program is a sham and the Committee of relevant jurisdiction, Government Operations, has never either requested or reported a bill for this purpose.

We must continue our efforts to eliminate excessive Federal spending. I intend to make every effort to both relieve our taxpayers and eliminate waste and mismanagement.

JIM MATTOX.

ADDITIONAL VIEWS OF HON. LOUIS STOKES AND HON. WILLIAM H. GRAY III

When viewed in the context of the current economic situation, the Second Concurrent Budget Resolution for Fiscal Year 1980 is a totally unresponsive resolution; that is, it does not respond to the signals of economic decline that have become clear to economists and policy makers over the last two months. What these signals tell us is that we are already in a recession; the only questions are how deep it will be, how long it will last and the effect it will have on this nation's precious human resources.

In terms of policy assumptions, the second resolution closely mirrors the first. However, the first resolution was adopted at a time when there was more optimism about the economic outlook. In early 1979, the administration thought that they could "fine-tune" the economy and engineer a soft landing. That is, they felt that they could dampen demand in order to reduce inflationary pressures without causing a technical recession.

Time has proven the administration wrong. While there were admittedly many factors out of the administration's control, administration policy makers were not able to meet their economic objectives. For 1979 the House Budget assumed an inflation rate of 8.2 percent and an unemployment rate of 6.2 percent. Those figures will certainly be breached; the annual rate of inflation is currently running at over 13 percent and unemployment is now creeping over 6 percent.

The net effect of these factors is that the cyclical position of the economy has shifted, partially as a result of cyclical forces, and partially as a result of deliberate policy actions. The restrained economy planned by President Carter never really materialized. The economy slipped right past his "soft-landing" target and dipped into the recession phase of the economic cycle.

Against the background of a declining economy, it is just plain bad policy to "hold the line" with this resolution and assume that the economy will make some sort of miraculous internal adjustment. As a point of fact, the Budget Committee is deliberately ignoring factual analysis presented by a number of economists. These economists testified that a balanced budget would not by itself reduce inflation, and that a balanced budget was a dubious short-run objective given the current economic situation. Two economists, Leif Olsen and Walter Heller, said that some economic stimulus might be required by early 1980. The Budget Committee, however, cited the need to balance the budget to instill "business confidence" and appears to have dismissed the views of these noted economists.

I have many concerns about this resolution. First, it really does not do much to retard the growth of inflation. Congress and the public are disturbed because inflation upsets currency values, erodes business confidence and increases tax burdens for the middle class, but no one has mentioned the fact that it is the poor, the disadvantaged and the

elderly who are hardest hit by inflation. Tampering with the budget alone is only a cosmetic measure; if we really want to attack inflation we need a broadbased effort including evaluating regulations, increasing productivity and training and reducing discrimination.

Second, the reduced levels of budget authority for human needs functions will have an impact far beyond FY 1980. Human progress is a continuing process, and one stage of development depends on the completion of the one preceding it. By interrupting the flow of resources to the less advantaged for even one year we are denying them a critical building block. Foregone income means that economic and educational opportunities for millions of families will be lost. Foregone nutrition indicates greater health maintenance costs and unrealized mental and physical capacities. Collectively, it means that we will be wasting our most precious resource—our people, our human capital—while at the same time we will have to maintain them at the margin of economic society by paying a number of social costs in the marketplace and to government through taxes.

Third, this resolution not only accepts the inflation-unemployment trade-off, it does a great deal to support it. At a time when unemployment is projected to increase to over 8 percent, we are actually recommending a reduction in the number of CETA Title VI counter-cyclical jobs. These jobs are specifically counter-cyclical in nature and should not be reduced in the middle of a recession.

Our economic tool kit is empty when it comes to dealing with the concurrent problems of inflation and economic recession. We have chosen to do nothing, while hiding behind the smoke-screen of "fiscal restraint." Our problems will not be solved in one or two years, and they go much deeper than the budget. In the interim, it is the economically disadvantaged who suffer disproportionately and essentially "finance" any adjustment process.

There have been increases in human needs programs—notably employment and assistance to hard pressed local governments—based on changed economic assumptions. However, in light of the clear need for economic stimulus, these increases are inadequate. As Congress considers this resolution, we will support efforts to increase funding for human needs programs. Additional funding, at the margin, will have no real impact on inflation, and in fact may save on future outlays by eliminating recession-related social pathologies.

LOUIS STOKES
WILLIAM H. GRAY III.

ADDITIONAL VIEWS OF HON. JAMES R. JONES

A favorite children's story is the classic "The Little Engine that Could;" a tale about a small red railroad engine which labors against all odds to perform its mission of delivering goods to various markets along the track.

In many ways, the history of the budget process and this Committee resembles the efforts of the little Engine. We have made some progress in delivering our message of spending restraint. Unfortunately the color of our budget—not unlike the little Engine—is still red.

Despite the clear mood of the country to limit the size and role of the federal government, this Committee has failed to come to grips with federal spending. We simply must do a better job in the future of scrutinizing spending programs and cutting out the less meritorious functions of government. The growth and size of entitlement programs underscores the inability of Congress to have any effective control over these expenditures. Entitlements now account for over one-half of the budget, thus removing these funds from our deliberations as surely as if we were denied power over one-half of our subject matter jurisdiction.

The adoption of Mr. Regula's amendment goes part way down the road to regaining control over these entitlement programs, but until we succeed in reversing this trend toward uncontrollables, our annual budget mark-up will remain in part a phony exercise.

Lastly, our projected deficit of \$29.2 billion dollars is too high. Many of us had hopes that the fiscal year 1980 budget would put us within striking distance of a balanced budget. Our resolve to balance the budget remains, but our task will be much harder due to the size of the projected deficit. The hard choices simply were not made; the cuts were not enacted; and the process does not adequately reflect the instructions from our employers to reduce spending and cut the deficit.

In view of these developments, those of us advocating responsible spending limitation proposals must continue to work together to draft and pass legislation which will insure a balanced budget. The current constraints are apparently not adequate to bring order to our fiscal house. Without additional power in the form of spending restraint legislation, the little Budget Engine will never reach the station.

JAMES R. JONES.

ADDITIONAL VIEWS OF HON. LEON E. PANETTA

The Committee's mark-up of the budget resolution was a graphic lesson in the impact of economic conditions on the budget. Worsening inflation and unemployment brought automatic increases in expenditures, sharp increases in payments for benefits, interest on the debt and the like. The committee struggled to hold spending down and, indeed, the reported deficit is now slightly below the projected fiscal year 1979 deficit.

While I join with many of my colleagues who would like to see the deficit lower than it is and while I would support responsible amendments to lower it further, I do want members to keep in mind the important role of legislative savings in holding down this deficit and in holding down future deficits. As Chairman of the Legislative Savings Task Force, I would note that the committee has given strong emphasis to this area in the proposed budget.

This Second Resolution assumes legislative savings of more than \$2.7 billion from reforms in mandatory spending programs. (A list of savings is included in the Committee report.) These savings, which come from a variety of program areas, will spin out to significantly larger annual savings in future years, if enacted. It is crucial that Members remember that without the savings assumptions the deficit in this Resolution would be not \$29.2 billion, but \$31.9. In addition, it is thought-provoking to consider the fact that if some of these savings which were first proposed years ago were enacted, this year's deficit would be far lower than the present figure. It is the relentless adding-on of expensive entitlement programs that produces the so-called "uncontrollable" portion—almost 75 percent—of our budget and that is responsible in such large part of our present deficit. It is only by reforming and implementing administrative and legislative improvements on existing entitlements that we can ever successfully hold down spending.

Therefore, as these savings proposals come before you and your committees, I ask that you remember this year's deficit, where it is now, where it would be without legislative savings and where it would have been, had we had legislative savings adopted in past years.

Obviously, the first step toward such savings is increased oversight by the committees, which would be provided by proposals to implement sunset laws as well as my proposal for a Biennial Budget period. Allowing one year out of two for nothing else but oversight would give the committees a clear focus and responsibility in this area. But steps can be taken even under present procedures. The Budget Committee's Task Force on Legislative Savings has been working closely with the various committees considering legislative savings proposals. Indeed, there has been some action on almost all of the savings included in the resolution. Some have hearings scheduled; others, such as the proposals

to cap Title XX state and local grants or social security disability reform have passed the House, and still others have been acted on by the Senate. In particular, it is worth noting the cooperation of the Ways and Means and the Appropriations Committees in pushing for legislative savings proposals this year. In fact, legislation that is coming out of Ways and Means will contribute savings of more than \$800 million in FY 80 alone. It is my sincere hope that other committees, facing what seem to be difficult program reform proposals, will make similar efforts to reform or cut out wasteful and unnecessary programs.

Indeed, it is because of the cooperation of the various House committee chairmen and members that the committee concluded that it should not adopt a reconciliation proposal to force the Committees to act. The Appropriations Committee and the authorizing committees have been responsive to the mandates of the First Budget Resolution. But while the House Budget Committee has decided not to recommend reconciliation as a means of forcing legislative savings, the Senate Committee chose that approach. There are some concerns about reconciliation, because it is a largely untested process. However, now that the Senate has raised the possibility of reconciliation on a large scale, it is an issue that we will face each year until we have balanced the budget and regained substantial control over runaway program spending. For this reason, I would urge members and chairs of committees, again, to continue to act on legislative savings and eliminate the need for the more drastic measures such as reconciliation.

Finally, at this point a word about the future is in order. This summer, the Legislative Savings Task Force held hearings on new areas of legislative savings. The outcome of the hearings was a long list of new savings that could produce annual savings of more than \$6.8 billion dollars in the first year. In areas where legislation to enact these reforms is not pending, I will be introducing legislation myself and looking for others with interest in these measures to join me. By beginning now to plan for the FY 81 budget resolution, we can hope to achieve substantial savings that will hold spending in that budget to a level significantly below the projected FY 80 level.

LEON E. PANETTA.

**ADDITIONAL VIEWS OF HON. RICHARD A. GEPHARDT,
HON. BILL NELSON, HON. LEON E. PANETTA, AND HON.
TIMOTHY E. WIRTH**

In approving the First Concurrent Budget Resolution for Fiscal 1980, the Congress demonstrated a strong commitment to a policy of fiscal restraint. The resolution endorsed some tough and controversial proposals to cut unnecessary or wasteful government spending, eliminate ineffective Federal programs and reduce outlays and the deficit to a level that will help control inflation.

To a significant degree, the recommendation for the Second Resolution, as approved by the Budget Committee, adheres to that austere budget policy. First of all, the Committee, appropriately in our view, resisted any effort at this time to enact fiscal stimulus. While leading economic indicators show we have entered a recessionary period, the severity and duration of this decline is far from clear. Many experts believe the recession could be weak and brief and expect a fairly quick and easy recovery without major stimulus action from the government. On the other hand, despite the decline in GNP, it is all too clear that inflation remains our principal economic problem. With price increases well into the double-digit range, we believe it would be most ill-advised to enact a tax cut or spending program to spur economic activity at this time, and endorse the basic fiscal policy reflected in the Committee's actions.

The spending ceiling exceeds the target of the First Resolution, but this is largely attributable to changes in the economy and revised estimates of program costs. Of the \$16.7 billion increase in outlays over the First Resolution target, almost 50% results from higher inflation, unemployment and interest rates. Another 20% results from changes in the anticipated cost of permanent programs.

The Committee also held the line on many legislative savings proposals that are essential for long-range control over budget increases. While delays in enactment of legislation to effect these savings has necessitated an increase in expenditures to be assumed in the budget resolution, the Committee has yielded on few such issues so the resolution reflects \$2.7 billion of the \$4.2 billion in legislative savings originally proposed in the First Resolution.

Of the spending for new programs proposed in the resolution, roughly a half would fund new initiatives needed to solve our growing energy problem. We fully support the recommended ceilings in the Energy Function and believe the increase in outlays proposed is absolutely essential for us to reduce our dangerous dependence on foreign oil through a balanced strategy of increased energy production from alternative sources and conservation.

The resolution also accommodates the additional cost of helping relieve the tragic refugee problem.

We are concerned about reports that there will be unnecessary attempts to increase spending levels in a number of areas. At the same time, we believe that some of the recommended functional ceilings could have been further reduced, to eliminate programs of questionable value or cut those which are simply lower priorities. If unwarranted spending increases are voted on the floor, or untargeted percentage reductions are offered, we will seriously consider supporting, and possibly proposing, additional specific cuts to the full House.

On the whole, however, the resolution approved by the Budget Committee represents a reasonable response to the fiscal problems we face. Like our first resolution, it makes significant but not radical cuts without unfairly forcing austerity on some groups more than others. By holding the deficit below that projected for Fiscal 1979, the Budget Committee has kept on a steady path toward a balanced budget. We hope our colleagues will support the direction the Committee has taken.

RICHARD A. GEPHARDT.
BILL NELSON.
LEON E. PANETTA.
TIMOTHY E. WIRTH.

MINORITY VIEWS OF REPRESENTATIVES DELBERT L. LATTA, JAMES T. BROYHILL, BARBER B. CONABLE, JR., MARJORIE S. HOLT, RALPH REGULA, BUD SHUSTER, BILL FRENZEL, AND ELDON RUDD

INTRODUCTION

In the early months of this year we held out hope that, for the first time, we might be able to join the Majority in reporting out the 1980 budget resolutions. After all, nearly every successful candidate for the 96th Congress had campaigned on a platform of balanced budgets and tax relief. The President had sent up a budget in January which, contrasted with his earlier attempts, actually showed a welcome modicum of restraint. Even the Joint Economic Committee, long a bastion for the most liberal economic ideology, made an about face and issued a bi-partisan report on the economy so thoughtful and well-reasoned many people could not believe it was a government report.

That we are once again unable to support a Committee-reported budget resolution is not for lack of trying. Although we believe our very able Chairman may have wanted to produce a tough, austere budget, it is clear the big spenders in his own Party would tolerate neither the direction nor the discipline such a budget would impose. If ever there was a year when the budget process could have been used to force basic, fundamental changes in fiscal policy, this was it.

Instead, the budget resolution is being used to put the stamp of Congressional approval on a set of actions determined outside the Budget Committee and completely at odds with the true intent of the Budget Act. The Majority cannot politically afford to abandon the appearance that they operate under the discipline of a budget process but in reality they are unwilling to give it anything more than lip service.

While we will discuss our objections to this particular budget resolution in more detail, a much larger and more troubling problem is, "what went wrong with the budget process?"

Remember that the Second Concurrent Resolution on the 1980 Budget marks a significant milestone: the budget process Congress established in 1974 has now been in effect for one entire business cycle. Born in the very depths of the 1974-75 recession, the budget process was in place throughout one of the longest economic recoveries on record. Now, this current resolution acknowledges the end of that expansion and the start another recession. Yet during this period, the Congress and the current Administration were able to reduce the deficit from its recession high (\$66 billion in 1976) down to only slightly less than half that amount (\$29 billion in 1979). Now, as we start the slide into what may be a recession as severe or more so than its immediate predecessor, the deficit has stopped its

descent and is poised and ready to move upwards once again. As we will examine later, a deficit of \$29 billion is simply unprecedented at this stage of a business cycle; the implications for future deficits are staggering; the hopes of making progress against inflation nearly non-existent. The failure of Congress to balance the budget during the strongest phase of the recovery should be even more difficult to defend in view of the fact that throughout that period Congress was intentionally raising taxes so that today the government is taking a far greater proportion of Americans' income in taxes than ever before.

The first lesson of the past five years is that no mechanism, however good the intentions of its framers, can force the Congress to do what it lacks the will to do. It is not the Congressional budget process which failed the people, it is the majority party in the Congress who would not let it succeed. During two of the past three years the Majority has changed its budget in mid-stream with third budget resolutions rather than reconcile the results of its spending decisions with the constraints imposed by the budget they adopted earlier in the year. Even now, before we have even adopted the Second Resolution for 1980, the House Majority Leadership is quietly passing the word that a Third Budget Resolution may be needed to accommodate an election-year tax cut and stimulus package.

To hear the plaintive excuses of the apologists, one would believe that every single penny the government spends is either absolutely essential for the survival of the Republic or imposed on Congress by forces beyond its control. Not so. Spending will reach \$550 billion next year not because of OPEC, food prices or unemployment, but because the majority party in the Congress has never learned to say "No!" to anyone other than the taxpayer. By contrast, listen to the words of former Secretary of Health, Education, and Welfare, Elliot Richardson:

Choice is the basic reality, and for us it is doubly difficult and saddening because whatever we have to give up is not something bad or trivial, but something that is only somewhat less important, if that, than what we have selected to do.

This observation is a succinct paraphrase of the commitment Congress made to the people when it passed the Congressional Budget and Impoundment Control Act of 1974. The very essence of budgeting is making choices, setting priorities and allocating scarce and finite resources among an infinite number of competing demands. Unfortunately, Congress has been unwilling to carry out either side of the equation: it refuses to treat its resources as "finite," and instead imposes new taxes, allows others to rise automatically, and then borrows whatever else is needed to make good on all the commitments it has made independently of any budget discipline. On the other side, it has no mechanism for evaluating programs and allocating revenues to only those programs which are the highest priority.

On this latter point, we would direct our Minority colleagues once again to Mr. Richardson's words. It is true that there is a great amount of waste in the Federal Government that should be cut out, but it is also true that most programs run by the Federal Government try to address real needs and are for worthy causes. Federal spending cannot be brought down to the levels necessary to sustain and encourage

strong economic growth solely by eliminating those programs fraught with fraud, waste and abuse or those which are "bad or trivial". There are many decent Federal programs which address needs that are just not critical enough or pressing enough to justify taxing and borrowing from the American people in order to finance them. Many such programs have long enjoyed substantial Minority support.

As for the Majority, it is time they recognized that there are many costly programs which were passed with the very best of intentions that simply do very little good compared with what is being spent on them. It is not that they accomplish nothing, but what benefits they do produce could be accomplished at less cost by other means.

In short, holding down the growth of Federal spending means making hard and unpopular choices by both sides. For example, a majority in Congress believes that we must give higher priority to national defense and to energy. But giving higher priority to these issues does not mean merely increasing their funding levels, it implies that other programs, in other areas, have become, by comparison, less important and therefore funded at lower levels in order to free up funds for a greater emphasis on defense and energy.

Because the Majority has not had the courage or the will to set priorities, the Minority is once again forced to develop its own budget which does make hard choices. We believe our approach is preferable to the budget reported by the Budget Committee for the reasons set forth below.

HISTORY OF THE CONGRESSIONAL BUDGET PROCESS UNDER DEMOCRAT CONTROL

Inflation is currently soaring at a rate of 13.2 percent for calendar year 1979 and, given the Democrats' approach to the budget process, this is not at all surprising. The major problem with the spending aggregates set by the Majority is that they accommodate all possible spending measures and actually have excess room for spending measures that may come up at a later date. With the exception of 1979, in each year that the congressional budget process has been in effect, this has been the case. A couple of examples serve to illustrate this point.

In January of 1976 President Ford submitted his 1977 budget to the Congress which recommended a spending figure of \$394 billion. The Congress, without the support of Republicans, passed a First Resolution in May of 1976 setting outlays at approximately \$413 billion, \$19 billion above the Ford budget. The second resolution for 1977 accommodated total spending of about \$413 billion, the third resolution accommodated \$418 billion, and finally, an amended third resolution (passed in May 1977) accommodated about \$410 billion. Actual outlays for 1977 were \$402.7 billion, well below any of the Democrat-approved spending ceilings. The Majority had utilized the budget process, if anything, to increase expenditures rather than reduce them.

In 1978, we witnessed a repeat of this performance. President Carter entered office in January of 1977 and immediately added \$19 billion of spending to former President Ford's 1978 budget requests. The Congress decided in May of 1977 on an outlay target of \$462 billion, \$3 billion above the President's request and in September set the binding Second Budget Resolution ceiling at \$459 billion. In the final analysis,

this ceiling had no impact at all on total government spending—outlays for the fiscal year settled at \$450.8 billion, approximately \$8 billion below the ceiling.

An exception to this trend appears to have taken place in 1979. Outlays this year have in fact pushed up against the budget resolution ceilings, primarily because inflation has been running much higher than expected. While both the President and the first resolution anticipated outlays for the fiscal year at above \$497 billion, the Second Resolution provided for only \$487 billion of spending. Given the budget-trimming and tax-cutting mood of the country last fall, it is not surprising that Congress shifted gears and supported a budget resolution containing low levels of both spending and revenues. After inflation soared, the Second Budget Resolution was "revised" to permit \$494.5 billion in spending. Even though the outlay ceiling in the Second Resolution did impinge on spending in 1979, the overall impact was not substantial. First of all, the First Budget Resolution, which signals the authorizing and appropriations committees on how much to spend, provided excessive leeway for spending programs (\$498 billion). Secondly, when the outlay ceiling of the second "binding" resolution was brushed up against, the ceiling was merely raised by adopting a third resolution. With regard to the 1979 fiscal year, we have just been advised that the spending ceiling of the second resolution has been breached.

It is instructive to note the increases in Federal spending that have occurred since the advent of the congressional budget process. During the fiscal years 1977–1979, Federal spending has increased at an annual average rate of 10.4 percent. During these years, the economy for the most part, was in an upswing. In the years 1971–1974, also non-recessionary years, annual spending increases averaged only 8.3 percent. The fact that a Republican President was in office in this period may explain the lower spending increases in those years. Nevertheless, these contrasting figures indicate that the Democrats have taken lightly the mandate to restrain government spending. If expenditures had only been allowed to increase by 8.3 percent in each of 1977–1979, the 1979 budget would be in balance by about \$1 billion.

Current economic indicators signal that we entered into a recession in the second quarter of 1979 (the third quarter of the fiscal year). At this point in the business cycle, before pressures for anti-recessionary government spending mount, the Federal budget deficit traditionally has been at its lowest level (or the surplus is at its highest level). This is so first because at this stage of the cycle unemployment is relatively low, which reduces expenditures on unemployment compensation and entitlement programs tied directly or indirectly to unemployment, and second, because the inflation rate at this stage is relatively high and inflation boosts revenues by approximately 1.6 times the amount it increases expenditures (thereby exerting a downward effect on the deficit).

We entered into recessions in both 1970 and 1974, and the budget deficits for these years were \$2.8 billion and \$4.7 billion, respectively. These are the smallest deficits that we have experienced this decade. Amazingly enough, for 1979, a year that is comparable to 1970 and 1974, in terms of business cycles, the anticipated deficit is about \$29 billion, the fifth highest deficit of this decade.

The Democrats have failed to harness the potential of the Congressional budget process for controlling government expenditures and restoring this country's economic strength. Instead they have utilized the budget process in a way that has increased government spending. By setting aggregate spending targets at levels that provide leeway for new initiatives and unnecessary spending, the Democrats invite the authorizing and appropriations committees to approve more spending than they would otherwise approve.

It is time for a change. The budget process must be used to constrain spending and force hard choices.

The Second Budget Resolution for 1980 has the same toothless qualities as the 1977 and 1978 budget resolutions. The spending ceiling is set at 11.1 percent above the 1979 ceiling. If the Congress is serious about fighting inflation, it must produce a government budget with negative real growth. We wonder how much higher the inflation rate must go before the Majority decides that enough stimulus has been injected into the economy.

THE BUDGET OF DESPAIR PROPOSED BY THE DEMOCRATS

One of the basic flaws in the Congressional budget process is that the first budget resolution, coming before the Congress considers any spending measures for the budget year, is not binding, whereas the second budget resolution coming after consideration of spending measures, is binding. Predictably, this procedure has made the first resolution a political process and the second resolution an adding-up process (the spending measures are simply summed to arrive at the totals). Under the control of the Democratic Majority, the House Budget Committee has chosen a predictive rather than normative role; they have opted for what they think will be rather than what they think should be. In contrast, the Senate Budget Committee has reported a budget with requirements that would force spending reductions in already-passed legislation. One of the main purposes of the Budget Act was to instill fiscal discipline over congressional fiscal policymaking. Instead, the process has become little more than a mechanical scorekeeping operation and a political forum. We are hard pressed to find significant fiscal restraint which can be attributed to the budget process.

The Democratic majority apparently does not understand the term "priorities." Instead of establishing a system of ranking programs, Democrats seem to see all programs as "high priority." The result is that as new "priorities" come around (as they will), other "priorities" are not dropped. We see this phenomenon in the reported budget, in the case of the expensive new energy initiatives and the increased defense funding levels.

Recent Majority budgets have been glowingly described—by them—as "lean", "austere", "tight", and "fiscally restrained." Our judgement is firmer than ever that the Democratic rhetoric fails to match up with the facts. Perhaps, if such adjectives are used often enough, people will believe them; but we doubt it.

We on the minority side have seen the congressional budget process go through one complete business cycle—from the depths of the 1975

recession to the present recession—with the Democrats in control of the process. During that period:

spending rates were double what they were in the years just prior to the process;

with the Democrats commanding a 2:1 edge, the deficit accumulated to a peacetime record of \$218.2 billion for any five-year period;

inflation has grown steadily, now running at a 13 percent plus clip, with interest rates in hot pursuit;

Federal Government spending (outlays) has actually doubled and has grown nearly \$100 billion in the last two years alone.

There can be no doubt that their reported budget is more of the same, and we do mean more!

An overview of the numbers is frightening. Look first at the difference between this proposed second budget resolution and the first resolution adopted only last May:

[In billions of dollars]

	First Budget Resolution (May 1979)	Reported Second Budget Resolution (September 1979)	4-month increase
Budget authority-----	604.4	632.6	+28.2
Outlays-----	532.0	548.7	+16.7
Revenues-----	509.0	519.5	+10.5
Deficit-----	-23.0	-29.2	+6.2

How can a \$16.7 billion increase in spending in a four-month period be reconciled with statements of "continuing fiscal restraint?" In fact, the effect of higher-than-anticipated inflation driving up spending in those Federal programs indexed to the CPI accounts for only about \$7 billion of the increase. More than \$9 billion of the increased spending is attributable to changes other than those induced by economic conditions. This increase can only be described as fiscally stimulative.

To our knowledge, the markup for the reported budget set a record for speed. Markup was completed during the second day. However, rather than applaud this feat, we were disappointed by so cursory an approach to serious issues. For example, although the reported resolution contains budget aggregates for the outyears 1981 and 1982, there was no discussion of the outyears during markup. While the Senate Budget Committee takes the outyears seriously—and, in fact, spent several days considering outyear options—the House Budget Committee has always focused on getting a resolution to the floor that will pass. Any extraneous material is apparently construed as diminishing the probability for passage.

We were particularly distressed by the scandalous manner in which the final revenue figure was derived. The Majority has again failed

to distinguish itself in honest budgeting. The Chairman had recommended an optimistic, but realistic figure of \$516 billion which included \$2.8 billion for the rather uncertain House-passed version of the so-called windfall profits tax (which the Administration has admitted is really an excise tax). However, by Tuesday noon it was apparent that the Majority didn't have the votes to report out a budget with a deficit of \$33 billion. Instead of looking for spending cuts in already bloated programs, the Majority chose the path of fiscal legerdemain, coming up with \$3.5 billion in new-found revenues—just enough to bring that nasty \$33 billion deficit to below \$30 billion. In the past, we have pointed out similar slight of hand maneuvers, though they were restricted to the spending side.

The Majority on the House Budget Committee could have at least indicated a modicum of concern for the inflation problem by adhering to the \$532 billion spending goal set only four months ago. Though we Republicans would like to see government expenditures even lower, a 7.5 percent rate of increase in government expenditures (to \$532 billion) would have constituted an initial step toward fighting inflation. The Majority, however, chose not to restrain the runaway spending. They increased outlays by \$7.4 billion over the first resolution to reflect the effect of expected higher inflation, unemployment and interest rates on mandatory entitlement programs and interest accounts. Then they "revised" outlays upward by an additional \$9.3 billion because of various reestimates. The first set of increases might be justified on the grounds that Congress is mandated by law to provide them, though in our opinion they should be offset by reductions in other upward reestimates and adjustments, however, should by no means be considered essential because, for the most part, they constitute discretionary spending increases.

The \$7.4 billion in upward adjustments to reflect changed economic assumptions may be an overcompensation. The 1980 inflation rate of 8.9 percent (4th quarter over 4th quarter) chosen by the Committee exceeds the average of the private forecasters' predictions (Chase, DRI, Wharton) by 0.4 percent. Interest rates assumed by the Budget Committee are also higher than those forecast by private economists. To the extent that the committee's estimates are too pessimistic, the spending adjustments provided for in the reported Second Budget Resolution will be too high, thus slack will be created for future spending initiatives. Also with regard to economic assumptions, it is interesting that the Committee has chosen a nominal GNP assumption for 1980 of 11.9 percent (4th/4th) that is significantly higher than the average of the private forecasts (10.6 percent). With the current focus on the deficit, this assumption is convenient. The higher the nominal GNP growth, the higher the revenues, leading to a lower deficit.

The additional \$9.3 billion in upward outlay reestimates are primarily a result of the Committee's unwillingness to include reconciliation requirements in the resolution which would instruct various standing committees to lower their spending bills. Legislative savings proposals assumed in the first resolution are essentially abandoned. Granted, legislative savings enacted after the start of the fiscal year will not have as great an impact as they might have had if enacted earlier. However, it is certainly clear that failure to continue pushing for such savings, whenever they may be enacted, will mean continued

wasteful spending. Appropriation actions that appropriated more than was allotted to them in the first resolution are forgiven—their spending is merely accommodated into this second resolution. With this kind of resolve on the part of the Budget Committee, it is no wonder that the budget process has failed to restrain government expenditures.

Comparing the reported budget with 1979 budget levels is equally revealing as shown in this table:

HOUSE-REPORTED BUDGET VERSUS 1979 LEVELS

[In billions of dollars]

	Fiscal year 1979 (latest CBO estimate)	Fiscal year 1980 reported Second Budget Resolution (September 1979)	Change
Budget authority.....	\$556.1	\$632.6	+\$76.5
Outlays.....	496.2	548.7	+52.5
Revenues.....	466.4	519.5	+53.1
Deficit.....	-29.8	-29.2	-.6

As noted above, one reason for the jump in outlays from the first resolution to the second is that new government initiatives and expanded government programs are provided. We on the minority side found enough faults in the priorities recommended by the Majority in the first resolution (see the Minority Views accompanying the first resolution report, No. 96-95). Now, the House is being presented a budget that adds funds for energy initiatives, CETA, subsidized housing, anti-recession fiscal assistance, and general government.

Some of these additions and others may be justified, but we feel that they should be judged relative to other budget requests, within the confines of aggregate budget authority and spending ceilings that are consistent with good economic policy. If expenditures on these pro-expenditures. Additional government spending at this time is a prescription for continually worsening inflation and economic decline.

Perhaps the most telling aspect of the reported budget is not the enormous increases in budget authority and outlays, or even the large increase in tax revenues (all of these being into double digits, percentage-wise), but rather two more subtle facts. First, budget authority—the driving force behind future outlays—increases more and at a greater rate than do outlays. This continues an ominous trend that guarantees even greater spending and less control over government spending down the road. Second, the remarkable increase in revenues portends the largest single jump in the tax burden (revenues as a percentage of GNP) ever, to the highest peacetime level ever—21 percent. The historic tax burden level is below 19 percent. In a three trillion dollar economy, each percentage increase in the tax burden means \$3 billion in increased tax receipts.

We believe the reported budget is the wrong fiscal medicine. It is wrong both for what it does and for what it doesn't do. The proposed large increases in spending will exasperate our already severe inflation problem. The budget would direct significant fiscal stimulus into the non-productive sectors of the economy (including government). It would contribute to our country's declining productivity growth rate, discourage saving when the savings rate is alarmingly low, discouraging capital investment by providing no relief from the effect of inflation on the depreciation of capital, and it would hurt all Americans—especially the poor—by ensuring increased erosion of earnings through inflation and progressive taxation.

Defense

As we have done in the past, we have separated from our review of the Committee reported resolution our analysis of the defense budget. Because national security is the first and foremost responsibility of the Federal Government, decisions in this area are properly made apart from the general fiscal considerations applying to other parts of the budget.

In this resolution, the Majority took a long-overdue step forward in their approach to the defense budget by providing for an increase in budget authority (the real determinant of our defense posture) to bring it up to the same level as recommended by the President in his January budget submission. Unfortunately, developments since that time have made the original level of \$138.2 billion in defense budget authority inadequate to meet extremely urgent national security needs.

The President has confirmed our assessment of the situation, and announced several days ago that he would submit a supplemental defense appropriation request to bring new budget authority in 1980 up to \$141.2 billion—an amount which would meet our commitment to NATO to increase real (after inflation) defense appropriations by at least 3 percent a year. This adjustment is a belated acknowledgment that inflation will be far higher than the Administration estimated in January (a fact we pointed out in the Minority Views at the time of the first budget resolution). Were the House to accept the Committee-reported level of budget authority, real growth in the defense budget would slip to less than 1 percent.

Although we support the President's actions in general, it is important to understand that the appropriate level of defense spending cannot be arrived at merely by applying some arbitrary percentage growth rate. To determine the adequate level of funding, it is necessary to consider in depth a complex set of inter-related factors, such as our interests overseas, the military objectives we want to pursue, the threats posed to our achievement of these objectives, and the force programs needed to counter those threats. With this in mind, we must consider what changes have occurred since the First Resolution which dictate a change in our posture and, therefore, a change in funding levels. Several significant changes have been:

(1) The Senate debate concerning the ratification of the Strategic Arms Limitation Treaty has highlighted very forcibly the fact that the acceptability of the terms of that Treaty is quite dependent on the context in which that Treaty has been negotiated. The debate has thereupon pinpointed severe deficiencies in the US/USSR strategic

balance which can be corrected only by higher defense spending of the kind which we will propose.

(2) The forward deployment of a combat brigade in Cuba by the USSR has been discussed vociferously in connection with the debate surrounding SALT. Overlooked, however, has been the importance of that action as an indication of Soviet intentions to support its overseas political activities with military force—a significant move for the USSR and one which has implications for the conduct of US military policy. Again, the bolstering of the worldwide US military posture in response will require additional funding by the Congress.

(3) This country's summer-long struggle with a fuel shortage heightened America's awareness of its vulnerability of overseas supplies of critical raw materials. Due to the cutbacks in our naval posture, the overseas supply routes of this country are increasingly susceptible to forcible interdiction by foreign powers. For the first time in decades, we face the situation in which we barely, if at all possess the military capability to protect such routes. Furthermore, this Administration's plans for naval building programs indicate that we will experience a net loss of capabilities in the future. In a recent study by the Congressional Research Service on the current state of our naval shipbuilding program, the authors stated:

The number of combatant ships in the active fleet will increase over the next few years as ships funded during the Nixon and Ford Administrations are completed. After about 1985, however, if the five-year shipbuilding plan developed by the Carter Administration is followed, the size of the fleet will begin to decline because retirements for age will exceed new ship deliveries.

The present inadequacies in our current naval posture can be redressed only as part of a comprehensive program aimed at rebuilding the kind of military posture to which we had become accustomed, and on which our allies relied, even until the recent past.

In sum, while we believe that the Chairman of the Budget Committee should be commended for his acceptance of a more realistic level of defense spending, we must reiterate that additional funds are required if we are to meet our defense needs and to keep our international commitments.

The reported budget does contain two bright spots, and both are the result of Republican sponsored amendments during markup. The first, offered by Representative Regula, represents the first attempt ever to get a real handle on the so-called "uncontrollable" portion of the budget (now estimated as 75 percent of the total budget and growing) by specifically requiring each House committee with jurisdiction over entitlement programs—programs which constitute the lion's share of all uncontrollables—to review such programs and report on legislative options for savings. As a percentage of GNP, uncontrollables have doubled since 1950. If we are ever to regain control over the Federal budget, we must first regain control over the heretofore sacrosanct entitlements which have increased so dramatically in recent times.

The second amendment, sponsored by Representative Holt, reminds the Congress of the existence of off-budget Federal agencies and Congress' commitment to accurately reflect their entities to the budget.

The amendment also advises the Congress that the off-budget deficit, which by law is not counted in the "official" deficit, will be \$12 billion next year.

The reported budget resolution represents another inflation-fueled budget supported by the Majority. After three years of experience in formulating budgets, one would think that the Majority would have learned that government's excesses are the main reasons for our present deteriorating economic picture. But as usual, the budget authority and outlays ceilings recommended by the Committee do not require that any budget functions be restrained nor do they require consideration of any remedial actions to be taken by any spending committees. Instead, the Second Resolution proposes ceilings that will not only be able to accommodate most current budget requests but also additional 1980 budget requests that could come up in the course of the year. We believe that there is considerable slack in the proposed ceilings. In recommending this second budget resolution for FY 1980, the Budget Committee follows its historical tendency of avoiding hard choices and over accommodating. This posture undermines the Budget Act's goal of fiscal discipline and the intent of the Budget Act.

THE REPUBLICAN SPONSORED BUDGET OF HOPE

Because of our assessment of both the economy and the reported budget, we will offer an alternative budget when the second budget resolution is considered by the full House next week.

Instead of adding up the costs of the various Federal programs to arrive at a budget, we approached our alternative budget based on our perception of what the appropriate fiscal policy response ought to be given the state of the economy. We approach budgeting as a serious endeavor and regard budgeting as the proper focal point for comprehensive macroeconomic policymaking.

To us, budgeting ought to be a two-step process: the budget aggregates—outlays, budget authority, revenues, and the deficit—ought to be determined first, based on macroeconomic considerations, and only then should the various budget functions be allocated from these aggregate amounts based on their relative importance. In other words, we think the total size of the economic pie should be determined and fixed first, *before* individual budget functions or programs are funded. This two-step process is just the reverse of the practice of Majority which first adds up the "needs" of the various programs to arrive at the budget aggregates.

Likewise, tax policy ought to be determined as part of the overall fiscal strategy, and not as separate from the spending side, connected only by the arithmetic operation of deriving the deficit between revenues and outlays. With this overall philosophy in mind, and given our previously-stated perception of the economy, we based our deliberations on the following:

1. The fundamental economic problems are long-term and cannot be solved in one year; therefore, our budget ought to be the beginning of a well-defined path to specified goals, some of which will be achieved before others.

2. These goals must include, a balanced Federal budget, restrained spending growth, a restoration of the historic tax burden, substantially lower inflation, high levels of employment, and steady economic growth.

3. Achieving these goals will require focused attention on the supply side of our economy—productivity, investment, and saving—because low levels here are the root causes of our economic difficulties.

4. Finally, we believe these goals and this framework are an accurate reflection of what the American public wants, that these wants are complementary, and that they form a basic for the optimal economic strategy.

Our budget making procedure is necessarily iterative; it involves going back and forth between spending options and tax options. It became apparent early on that because of the dramatic run-ups in spending and taxation that have occurred under the Democrats since 1976, a balanced budget in 1980 is impractical and poor economics. A balanced budget in fiscal year 1980 would cause unacceptable economic disruptions. (We point out, however, that had the Congress adopted our budget alternative for fiscal year 1979, we would already be at a balanced budget and with real tax relief).

We had little trouble eliminating the option of increased Federal spending that was selected by the Democratic majority. We rejected this on two counts: first, increased spending draws resources from the productive private sector and re-directs those resources to the non-productive sectors of the economy—for example, the large government involvement in the proposed energy initiatives, added funds for CETA, and added funds for anti-recession fiscal assistance (a program by the way, which has yet to be enacted). Second, higher spending would be highly stimulative at a time when inflation is above 13%; it is the last thing our economy needs at this time.

Given that the acknowledged leading cause of the current recession is weakened consumer spending, it seemed to us appropriate to correct for this problem through a tax cut rather than through the increased spending and increased taxes selected by the Majority. We believe a properly designed tax cut could serve the additional duty of providing needed incentives for increased savings and investment which, in turn, would lead to an improvement in our sagging productivity rate.

Our substitute budget is a comprehensive strategy of real spending restraint accompanied with a tax relief directed at the supply side of the economy. Such an approach would not be stimulative, hence, it would not be inflationary. It would mark a turning point in a Federal tax policy that discourages saving and capital investment, and drives productivity down. It would result in a substantially reduced deficit and would lead directly to a balanced budget in 1981 with tax cuts in both 1980 and 1981.

The Republican substitute will show a deficit below \$20 billion, about \$10 billion below the reported budget, a spending figure below \$530 billion (nearly \$20 billion below the Democratic proposal, but still \$35 billion over 1979 levels) and a post-tax-cut revenue level approximately \$10 billion less than the reported budget. The follow-

ing table compares our budget with the reported resolution budget and the 1979 levels:

[In billions of dollars]

	Fiscal year 1979 (latest CBO estimate)	Fiscal year 1980	
		House Budget Committee- reported resolution	Republican substitute
Outlays.....	\$496.2	\$548.7	\$529.8
Revenues.....	466.4	519.5	510.0
Deficit.....	-29.8	-29.2	-19.8
Budget authority.....	556.1	632.6	594.4

More specifically, the Republican alternative will provide for a tax cut of \$20 billion in calendar 1980 to help offset the rise in the tax burden caused by inflation and Social Security tax increases. A series of tax cuts over a five-year period (beginning with 1980) will total \$170 billion. These cuts will offset the \$100 billion of inflation-driven and Social Security tax increases during the period plus provide \$70 billion for tax cuts designed to increase savings, productivity, and investment.

Furthermore, the alternative will include a five-year program of moderate but reasonable increases in outlays in order to free from the public sector the resources necessary to meet the urgent long-run needs of the economy, and it will eliminate the deficit and begin on the long-neglected task of reducing the public debt.

We believe that such a program will: (1) Gradually reduce inflation from 13.2 percent currently to 6 percent in 1984, (2) Increase real economic growth from almost nothing next year to a robust 5 percent by 1984, and (3) Reduce the unemployment rate from the estimated 7.2 percent next year to 5.6 percent by 1984.

We will unveil the remaining details of our alternative when the Second Budget Resolution for 1980 comes to the floor. The following table compares our economic assumptions and expectations with those of the reported budget:

COMPARISON OF 5-YEAR BUDGET PLANS

[In billions of dollars]

	1980	1981	1982	1983	1984
Democrat:					
Real GNP.....	1,422	1,471	1,530	1,591	1,654
Percent change.....	.4	3.4	4.0	4.0	4.0
Republican:					
Real GNP.....	1,425	1,475	1,548	1,619	1,691
Percent change.....	.6	3.7	5.0	4.5	4.5
Democrat:					
Receipts.....	519	604	706	801	910
Percent change.....	11.6	16.3	17.0	13.5	13.5
Percent of GNP.....	20.8	21.6	22.5	22.8	23.3
Republican:					
Receipts.....	510	567	624	669	728
Percent change.....	9.7	11.2	10.1	7.2	8.8
Percent of GNP.....	20.4	20.3	20.0	19.3	19.0
Democrat:					
Outlays.....	549	605	656	708	761
Percent change.....	10.9	10.2	8.4	7.9	7.5
Percent of GNP.....	22.0	21.6	20.9	20.2	19.5
Republican:					
Outlays.....	529	564	592	630	670
Percent change.....	7.0	4.3	7.0	6.5	6.5
Percent of GNP.....	21.2	20.2	19.0	18.2	17.5
Democrat: Deficit/surplus.....	-30	-1	+50	+93	+149
Republican: Deficit/surplus.....	-19	+3	+32	+39	+58
Democrat: Tax cut ¹	0	0	0	0	0
Republican: Tax cut ¹	20	16	50	42	42
Democrat:					
GNP deflator (percent) ²	9.0	8.5	7.8	7.1	6.9
CPI (percent) ²	9.3	8.6	7.8	7.1	6.8
Republican:					
GNP deflator (percent) ²	9.0	8.2	7.6	7.0	6.0
CPI (percent) ²	9.1	8.5	8.0	7.0	6.0
Democrat: Unemployment rate (percent) ²	7.2	7.1	6.9	6.6	6.3
Republican: Unemployment rate (percent) ²	7.0	6.8	6.0	5.5	5.0

¹ Calendar year basis.² Calendar year average.

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 JAMES T. BROYHILL.
 BARBER B. CONABLE, Jr.
 MARJORIE S. HOLT.
 RALPH REGULA.
 BUD SHUSTER.
 BILL FRENZEL.
 ELDON RUDD.

SUPPLEMENTAL VIEWS OF HON. MARJORIE S. HOLT
(R-MD.)

The current Administration and the Congressional majority have failed to provide adequate funding for the most important responsibility of the national government: Defense.

Our military strength has declined relative to the enormous and fast-growing war machine of the Soviet Union. The world perceives American weakness—weakness of will matched by deteriorating defense capability.

Measured in real dollars, our Defense spending shows no growth over a span of 10 years. In that same period, the Soviet Union has wiped out our advantage in strategic nuclear arms and has achieved superiority in almost every category of conventional military strength.

In areas of the world where we have critical interests, even in our own hemisphere, the Soviet Union uses proxy armies and terrorist movements to expand its control and grasp for vital raw materials. Massive Soviet armies directly threaten Western Europe.

The trend is very clear, and we are in mortal danger if we allow it to continue.

Before President Ford left office in January 1977, he presented Congress with a 1978 budget and a five-year plan with realistic commitments for Defense. His projections for the 1980 defense budget were:

	<i>Billions</i>
Budget authority -----	\$145.9
Outlays -----	136.3

In the proposed second budget resolution for fiscal 1980, the House Budget Committee recommends the following sums for National Defense:

	<i>Billions</i>
Budget authority -----	\$138.2
Outlays -----	128.6

This is a cut of \$7.7 billion, more than 5 percent, from the realistic projections made less than three years ago by the Defense Department and the Office of Management and Budget.

The Budget Committee majority notes that it has increased the 1980 Defense budget since the first, target resolution was passed four months ago. In fact, the Committee majority has only restored the Defense budget to approximately the level requested by President Carter in January.

The President made a commitment to our NATO allies to increase our Defense spending by 3 percent in real terms in 1980. Because of rapid inflation, the Budget Committee's recommendation now provides a real growth rate of only 1 percent.

President Carter has now proposed to add budget authority, \$3 billion more than the Committee recommendation, to maintain the commitment for 3 percent real growth.

What he and the Committee majority fail to understand is this: even the 3 percent real growth is not enough after a decade of no growth. The Soviet Union is reaching for global supremacy.

What we need is a 5 percent real growth in Defense spending for several years to restore our military capability to a condition of meaningful strength and readiness. It should be noted that the new Carter request is still \$4.7 billion less than the Ford Administration's projection of Defense needs in 1980.

I recently made a comparison of how Congress measured Defense needs against other budget categories in the past 10 years. It is very revealing. Here are the growth rates of major functions derived by comparing 1969 outlays with 1979 outlays estimated by the Carter Administration on July 12:

	<i>Percent</i>
National defense.....	+44
Community and regional development.....	+359
Education, training, employment and social services.....	+335
Health	+319
Income security.....	+332

Defense spending was 43 percent of our budget 10 years ago. This year it is 23 percent of our budget. Inflation has eliminated any real growth in Defense effort, while social programs have enjoyed a handsome rate of real growth.

If we are to rebuild our military strength to a respectable level relative to the power that threatens us, it is obvious how we should reorder our budget priorities. We must achieve slower growth rates of budget categories that have ballooned at extravagant rates, and we must invest substantially more money in our foremost national responsibility: Defense.

MARJORIE S. HOLT.

ADDITIONAL MINORITY VIEWS OF HON. ELTON RUDD ON THE SECOND CONCURRENT BUDGET RESOLUTION FOR 1980

The President has made a solemn commitment to our NATO allies that the 1980 U.S. defense budget will be increased at least 3 percent in real terms over the current 1979 levels.

This proposed Second Concurrent Budget Resolution for 1980 does not uphold the President's commitment.

As shown by the following table, a 3 percent real growth in the defense budget would require \$141.79 in budget authority and \$130.74 billion in outlays for defense. The Committee mark would allow only a 0.3 percent real increase in budget authority, and only a 1.3 percent real increase in outlays for the national defense function (050).

REAL GROWTH IN DEFENSE SPENDING

[In millions of dollars]

	Fiscal year 1979	No growth, fiscal year 1980 ¹	House Budget Committee mark, Second Resolu- tion, 1980	3 percent real growth, fiscal year 1980	5 percent real growth, fiscal year 1980
Budget authority.....	² 127,000	137,660	138,156(+0.3%)	141,790	144,540
Outlays.....	³ 117,100	126,936	128,587(+1.3%)	130,744	133,280

¹ Based upon 8.4 percent overall inflation rate for defense spending, assuming 9.3 percent inflation for purchases (50 percent of budget), 7-percent increase for payroll (40 percent of budget), and 10-percent increase for retired pay based upon the Consumer Price Index (10 percent of budget).

² Third Concurrent Budget Resolution, fiscal year 1979.

³ Latest Congressional Budget Office estimate.

There are many who believe, in light of the substantial Carter Administration cuts amounting to \$45.8 billion from the five-year U.S. defense plan that was in place when the President took office, that our 1980 defense budget should be increased at least 5 percent in real terms in order to start recovering from dangerous constraints imposed by these cuts since FY 1978 on essential force modernization programs.

The following table documents the cuts averaging \$9.1 billion each year which resulted from Carter Administration reductions in the previous Ford Administration's existing five-year defense budget.

TABLE 2.—COMPARATIVE 5-YEAR DEFENSE BUDGETS

[In billions of dollars]

	Fiscal year—						1978-82 difference, Carter/Ford
	1977	1978	1979	1980	1981	1982	
Ford administration ¹	116.9	123.1	135.4	145.8	156.7	166.8	
Carter administration.....		² 117.9	³ 124.5	⁴ 138.2	⁵ 145.7	⁶ 155.7	-45.8

¹ Department of Defense Report to Congress, fiscal year 1978.

² Actual.

³ Department of Defense estimate, Sept. 13, 1979.

⁴ Estimate based upon the President's announcement of Sept. 12, 1979.

⁵ Department of Defense Report to Congress, fiscal year 1980.

Approximately 85 percent of the Carter Administration cuts have been from the defense procurement account, which provides for modernization of our existing military forces and equipment. The cuts have been roughly 60 percent/40 percent between general purpose and strategic forces, with the Navy absorbing about 55 percent of the cuts, the Air Force 30 percent, and the Army 15 percent.

Force Modernization

Since the Navy is suffering more than half of the procurement cuts under the current Administration's revised five-year defense plan, it is in the shipbuilding and Naval aircraft area where force levels and modernization are most threatened.

The most recent Library of Congress projection of current Naval shipbuilding under the Carter plan states that "the size of the fleet will begin to decline because retirements for age will exceed new ship deliveries. A continuation of the present shipbuilding policy for ten years or more would result in a Navy of about 350 ships."¹

Our current ship inventory includes 497 vessels of all types. (This does not include the Naval Reserve force and underway replenishment ships of the Military Sealift Command.) The Library of Congress study shows that we will have to build 339 new ships at an average annual cost of \$7.98 billion (FY 1980 dollars) for the next 20 years, *just to sustain our fleet at its present size and composition* through the year 2005.

Our average annual shipbuilding appropriations for the past 10 years have only been \$5.63 billion (FY 1980 dollars). Therefore, just to maintain the current size and capability of our fleet for the next 25 years, our annual shipbuilding investment must be increased 41.6 percent, rather than decreased further.

The following three tables from the Library of Congress study summarize the current Naval fleet levels, shipbuilding requirements to sustain those levels through 2005, and the projected costs of \$167.6 billion over the 20-year period compared with the FY 1970-79 level of Congressional appropriations.

TABLE 3.—SUMMARY OF SHIPBUILDING REQUIRED TO SATISFY FORCE LEVEL OBJECTIVES, 1980 TO 2005
[Fiscal years]

Type ship	Inventory at end of 1979	Force level objective	Deficit	Retirements through 2005	Additions through 2005	Authorized as of end of 1979	New authority required 1980-2000
Ballistic submarines.....	41	27	(14)	41	27	7	20
Attack submarines.....	¹ 80	90	17	78	95	23	² 76
Aircraft carriers.....	13	12	(1)	6	³ 5/9	1/1	4/8
Cruisers and destroyers...	⁴ 128	102	(26)	101	³ 75/10	11/0	64/10
Frigates.....	65	126	61	69	130	34	96
		91	26				⁵ 61
Amphibious warfare ships.....	⁶ 68	65	(3)	54	³ 51/14	1/0	³ 50/14
Replenishment ships.....	⁷ 48	52	4	25	29	5	24
Support ships.....	⁸ 97	(*)	(*)	(*)	(*)	(*)	65
Total.....	540						339

¹ Includes 7 diesel powered SS.

² Includes 4 SSN needed to replace ships retiring after 2005.

³ SLEP.

⁴ Includes 28 World War II destroyers in Naval Reserve Force.

⁵ Assumes a reduced frigate force level objective.

⁶ Includes 1 LKA and 2 LPA Naval Reserve Force.

⁷ Includes 12 UNREP ships operated by Military Sealift Command.

⁸ For the composition of this group see page 53.

¹ "Naval Shipbuilding Costs: A Projection," by Edmund J. Cannon and Alva M. Bowen (Library of Congress, Foreign Affairs and National Defense Division, June 28, 1979).

TABLE 4.—SUMMARY OF PROJECTED SHIPBUILDING COSTS 1980-2000¹

Type	Number	Unit cost (millions)	Total cost (millions)
Ballistic missile submarines.....	20.....	\$1,277.4 (958.1)	\$25,548.0 ² (19,161.0)
Attack submarines.....	76.....	473.0 (354.8)	35,948.0 ² (26,961.0)
Aircraft carriers.....	4.....		
	8 SLEP.....	1,624.0 515.7	6,496.0 4,125.6
Cruisers/destroyers:			
DDG 47.....	11.....	820.2	9,022.2
Other DD.....	53 DDX.....	475.0	25,175.0
	10 DDG-2 SLEP.....	183.4	1,834.0
Frigates.....	96.....	200.7	19,267.2
	(61).....		³ (12,242.7)
Amphibious ships.....	50.....	360.0	18,000.0
	14 SLEP.....	(⁴)	3,300.0
Replenishment ships.....	24.....	245.0	5,880.0
Support ships.....	65.....	200.0	13,000.0
Total.....	399.....		167,596.0 (145,197.0)

¹ Expressed in fiscal year 1980 dollars.² Assumes the construction of less capable and 25 percent less costly submarines than now in series production.³ Assumes force level objective is 91 vice 126.⁴ See analysis.

TABLE 5.—SHIPBUILDING AND CONVERSION, NAVY, FISCAL YEAR 1970-79

Fiscal year:	Request (millions) (new ships/conversions)	Funding (millions) (new ships/conversions)	Funding (millions) (in fiscal year 1980 dollars) ¹
1970.....	\$2,631.4 (16/17)	\$2,490.3 (10/5)	\$5,161.7
1971.....	2,728.9 (14/15)	2,465.4 (15/10)	4,928.7
1972.....	3,327.9 (17/9)	3,005.2 (16/9)	5,885.5
1973.....	3,564.3 (20/9)	2,970.6 (8/3)	5,636.1
1974.....	3,778.9 (14/8)	3,492.9 (14/5)	5,785.6
1975.....	3,562.6 (30/4)	3,059.0 (22/4)	4,376.2
1976 ²	5,980.2 (23/0)	4,324.2 (15/0)	5,838.9
1977.....	7,263.5 (21/0)	6,195.0 (17/6)	7,872.5
1978.....	5,751.2 (22/0)	5,760.5 (18/0)	6,786.2
1979.....	4,712.4 (15/0)	³ 3,759.6 (15/0)	³ 4,071.7
1980.....	6,173.8 (15/1)		

¹ Based on Department of Commerce (Bureau of Labor Statistics) "Machinery and Related Equipment" deflators.² Includes 3-mo transition quarter (making it a 15-mo fiscal year).³ Estimated dollar figure.

Neither the American people nor a majority of the Congress would likely settle for only maintaining the size and capability of our current Naval fleet for the next 25 years. Even the Department of the Navy's contracted study, *Sea Plan 2000*, indicated that the U.S. must have a force level of 535 to 585 vessels in order to maintain minimum Naval capability across the spectrum of possible strategic circumstances, or to have a high degree of versatility throughout the world, in light of the obvious and growing Soviet threat.

The Soviet Threat

Several facts should be clear about the Soviet threat: Since 1963, the Soviets have increased the resources devoted to its military establishment by 4 to 5 percent every year, thus *doubling* its military budget in real terms over the past 15 years.

Our U.S. defense budget, in constant dollars, is less than it was in 1961.

Soviet military spending now exceeds ours by 20 to 40 percent in real terms. The Soviets are outspending us by about 75 percent in military procurement and weapons research and development.

The Soviets have spent about 250 percent more than the U.S. on strategic forces for the duration of the 1969–1979 SALT decade.

This spending has included development and production of an entire new force of intercontinental strategic *Backfire* bombers, now numbering around 150 already in operation with additional production running at around 30 a year.

The *Backfire*'s unrefueled range enables it to attack large population centers in the United States, as well as our military bases along the East and West coasts. Owing to the President's decision not to proceed with the counterpart U.S. B-1 bomber, the United States has no strategic counterweight to this additional Soviet threat.

U.S. Naval Aircraft Procurement

A letter to members of the United States Senate from a distinguished bipartisan group of Senators on Sept. 10th succinctly summarized the serious deficiency of the Administration's FY 1980 defense budget, particularly in the Naval aircraft procurement area.

The letter was signed by Sens. Ernest Hollings, Henry M. Jackson, Sam Nunn, John Tower, Robert Packwood, and Orrin Hatch. It stated:

"One fact is clear: We are not enriching we are playing catch-up ball. In the FY 1980 budget, the President asked for only 39 Navy combat aircraft, barely more than one-third of the replacements needed for the approximately 100 aircraft we lose annually."

In recent hearings of the Subcommittee on Defense Appropriations, our distinguished colleague Jack Edwards of Alabama noted that the Administration's current procurement of Navy combat aircraft is going to leave us with a 200 shortfall by 1984. The Navy officially responded that it agreed with this assessment, and blamed the serious shortfall on budgetary constraints.

The data inserted in the 1980 Defense appropriations hearing record by Congressman Edwards, and the Navy response, are as follows:

NAVAL AIRCRAFT REQUIREMENTS ¹

The Department of the Navy needs to procure at least 160 to 200 new fighter/attack aircraft each year merely to offset normal peacetime attrition so as to maintain the 12 active and 2 reserve carrier airwings and 3 active and 1 reserve Marine airwings at their authorized strength and with an average aircraft age of 7–8 years.

Procurement of fighter/attack aircraft, fiscal year 1970–1979, Navy and Marine Corps

Fiscal year:		Fiscal year:	
1970 -----	134	1975 -----	92
1971 -----	110	1976 -----	92
1972 -----	114	1977 -----	93
1973 -----	147	1978 -----	68
1974 -----	149	1979 -----	69

¹ Hearings, Department of Defense Appropriations for 1980, part 7, pages 482–484.

In recent years, the Navy has procured far fewer than the required 180 new fighter-attack aircraft per year. In the last five budgets, as noted above, the Navy has procured an average of only 83 fighter/attack aircraft per year.

DELIVERIES COMPARED TO ATTRITION, FIGHTER/ATTACK, FISCAL YEAR 1970-78
NAVY AND MARINE CORPS

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Deliveries ¹	354	211	131	112	140	166	186	99	83
Attrition ²	259	226	203	193	158	258	199	198	241
Difference.....	+95	-15	-72	-81	-18	-92	-13	-99	-158

¹ Deliveries of new aircraft.

² Includes attrition due to damage and retirement of older aircraft.

During the 1970-78 period, attrition exceeded deliveries by a total of 453 aircraft. With attrition exceeding deliveries by such a wide margin, the Navy has gradually absorbed excess aircraft that became available as the force was reduced from 17 to 12 carrier airwings. Those excess assets are now gone, and the latest estimates project that the Navy and Marine Corps will experience shortfalls of fighter/attack aircraft — over the next five years.

FUNDING FOR AIRCRAFT PROCUREMENT, NAVY AND MARINE CORPS, FISCAL YEARS 1970-79

	Fighter/attack (millions)	Total (billions)
Fiscal year:		
1970.....	\$444	\$2.0
1971.....	882	2.5
1972.....	851	3.3
1973.....	811	3.0
1974.....	958	2.9
1975.....	847	2.8
1976.....	928	3.6
1977.....	902	2.9
1978.....	963	3.6
1979.....	1,400	4.4

While there is an increase of 25 percent between 1978-79, there was little or no growth in funding for naval aircraft procurement between 1973 and 1977.

Projected procurement of fighter/attack aircraft, fiscal year 1980-84, Navy and Marine Corps, excluding AV-8B

Fiscal year 1980: 39 aircraft—24 F-14s and 15 F/A-18s.

Fiscal year 1981: 72 aircraft—24 F-14s and 48 F/A-18s.

Fiscal year 1982: 120 aircraft—24 F-14s and 96 F/A-18s.

Fiscal year 1983: 132 aircraft—24 F-14s and 108 F/A-18s.

Fiscal year 1984: 210 aircraft—24 F-14s and 186 F/A-18s.

Totals: 573 aircraft—120 F-14s and 453 F/A-18s.

Projected funding for aircraft procurement, fiscal year 1980-84, Navy and Marine Corps, excluding AV-8B

Fighter/attack

Fiscal year:	(Total billions)
1980: \$1.4 billion.....	\$4.0
1981: \$2.1 billion.....	4.7
1982: \$2.6 billion.....	5.2
1983: \$2.7 billion.....	5.9
1984: \$3.5 billion.....	6.9

Between 1980 and 1984, the five-year defense plan projects a 75 percent increase in funding for naval aircraft procurement, including about a 150 percent increase for fighter/attack aircraft. During the same period, funding for shipbuilding and conversion programs is projected to increase by 40 percent from \$6.2 billion to \$8.7 billion.

Projected procurement of fighter/attack aircraft, fiscal year 1980-84, Navy and Marine Corps, including AV-8B

Fiscal year 1980 : 39 aircraft—24 F-14s and 15 F-18s.

Fiscal year 1981 : 72 aircraft—24 F-14s and 48 F/A-18s.

Fiscal year 1982 : 132 aircraft—24 F-14s, 96 F/A-18s, 12 AV-8Bs.

Fiscal year 1983 : 156 aircraft—24 F-14s, 108 F/A-18s, 24 AV-8Bs.

Fiscal year 1984 : 210 aircraft—24 F-14s, 132 F/A-18s, 54 AV-8Bs.

Totals : 609 aircraft—120 F-14s, 399 F/A-18s, 90 AV-8Bs.

Projected funding for procurement of fighter/attack aircraft, fiscal year 1980-84, Navy and Marine Corps

<i>Excluding AV-8B</i>		<i>Including AV-8B¹</i>	
Fiscal year :	<i>Billions</i>	Fiscal year :	<i>Billions</i>
1980 -----	\$1. 4	1980 -----	\$1. 4
1981 -----	2. 1	1981 -----	2. 1
1982 -----	2. 6	1982 -----	3. 0
1983 -----	2. 7	1983 -----	3. 1
1984 -----	3. 5	1984 -----	3. 6
Total -----	12. 3	Total -----	13. 2

¹ Excludes AV-SB R. & D. costs of \$606 million for fiscal years 1980-84.

Under the current five-year defense plan (1980-84), the Navy would procure 573 fighter/attack aircraft—120 F-14s and 453 F/A-18s, at a total estimated cost of \$12.3 billion. Under a modified five-year plan, including the AV-8B, the Navy would procure 609 fighter/attack aircraft, 120 F-14s—399 F/A-18s—90 AV-8Bs, at a total estimated cost of \$13.2 billion. The modified plan would cost an additional \$900 million but would yield 36 additional fighter/attack aircraft. Under either plan, the procurement of fighter/attack aircraft would peak at 210 units in the fiscal year 1984 budget and remain at that level indefinitely.

Execution of the 5-year plan

The current five-year plan calls for a very substantial increase in funding for naval aircraft procurement. If this plan were fully executed, Navy and Marine Corps aviation programs would be well on the way to recovery. However, for this to occur, there must be 3-4 percent real growth annually in overall funding for the Navy over the next five years.

Effects of not executing 5-year plan

Assuming that the procurement of fighter/attack aircraft peaks at 60 instead of 210 units per year planned, and it should be noted that procurement of the F-14—the only Navy fighter in production today—peaked at 50 units per year in the 1974-75 budgets, Navy and Marine Corps force levels would decline rapidly.

According to Navy estimates, a cutback in planned fighter/attack procurement of this magnitude would yield a shortage of 5 fighter/attack squadrons in 1985—the number assigned to each carrier airwing—and a shortage of 11 fighter/attack squadrons by 1986—the equivalent of two carrier airwings.

NAVY RESPONSE

Admiral SPEER. We agree with the data provided for the record by Mr. Edwards; and cannot dispute the conclusions that may be drawn from these data. Mr. Edwards' tables show graphically the requirements versus funding dichotomy facing the Navy today. We have had to make some very difficult decisions regarding not only what we must do, but also what we can afford to do. We are trying to maintain a balanced, ready force; and we believe that we are doing as good a job as can be done in today's fiscal climate.

It is readily apparent from the foregoing data that neither the President's FY 1980 defense request of \$138.2 billion, as amended on Sept. 12th by his additional request of \$2.7 billion, nor this proposed Second Concurrent Budget Resolution for 1980, adequately provide for our defense needs.

The House must increase the defense function in real terms so that our Nation's military forces will not continue to be denied vital modernization efforts now required in order to meet the worldwide Soviet threat and prevent reduced force levels through obsolescence of our surface ships, submarines, and combat aircraft.

Failure by Congress to provide for at least a 3 percent, and preferably a 5 percent real growth in the national defense function to help redress these deficiencies in modernization programs will certainly further reduce the worldwide capabilities of our military forces in the immediate future.

The bipartisan Senate group quoted earlier put the issue into realistic perspective:

"While the Soviets build toward superiority, we allow our own strength and credibility to ebb. The need of the hour is to rebuild."

I share their view that our minimum duty is to provide a real increase of 3 percent over 1979 defense spending. To do otherwise will be a repudiation of our Nation's pledge to NATO and a dereliction of our duty.

The realities of our overall defense requirements—the need to improve military readiness, to increase the survivability of our ICBM and B-52 strategic forces, as well as to catch up with operational maintenance and force modernization—cry out for a 5 percent real growth in the defense budget in 1980.

Such an increase in defense expenditures is essential to protect our Nation, whether or not a SALT II treaty is approved.

ELDON RUDD.

