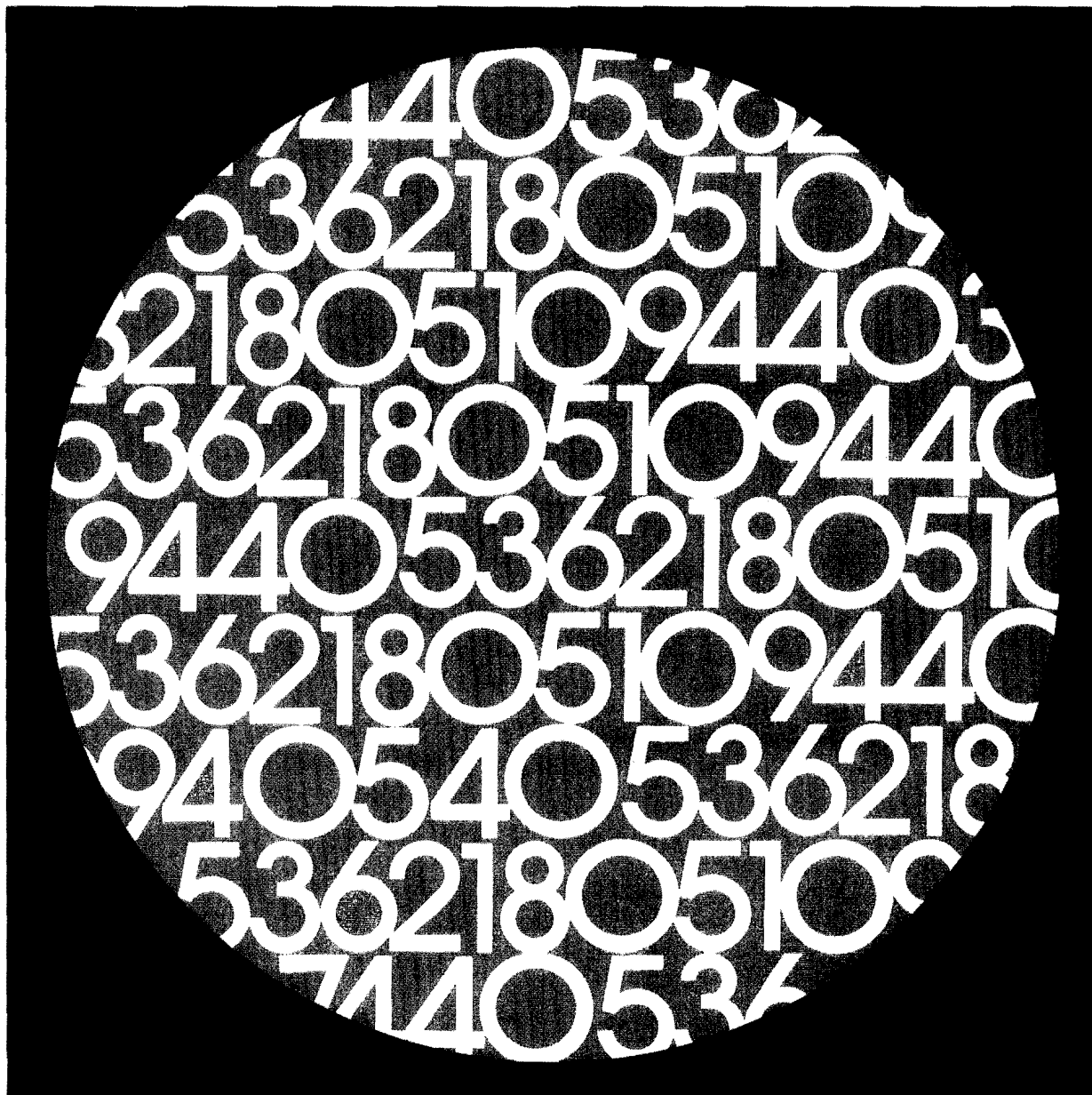


FIVE-YEAR
BUDGET
PROJECTIONS:
FISCAL
YEARS
1978-1982

December 1976

As required by Public Law 93-344



CONGRESS OF THE UNITED STATES



CONGRESSIONAL BUDGET OFFICE

**FIVE-YEAR BUDGET PROJECTIONS:
FISCAL YEARS 1978-1982**

**The Congress of the United States
Congressional Budget Office**

NOTES

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

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

PREFACE

As required by section 308(c) of the Congressional Budget Act of 1974 (Public Law 93-344), this report by the Congressional Budget Office projects total new budget authority, outlays, and receipts for each fiscal year between 1978 and 1982. The act requires the report on federal budget projections to be issued as soon as practicable after the beginning of each fiscal year.

The primary purpose of these projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations about the next annual budget. A longer-term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run but can significantly influence relative budget priorities over a period of several years.

The projections presented in this report are based on the estimated budget revenues and outlays specified in the Second Concurrent Resolution on the Budget -- Fiscal Year 1977 (S. Con. Res. 139) and use a "no new policy change" concept for the 1978-1982 estimates. The projections represent only the estimated expenditures that result from continuing ongoing federal programs and activities at 1977 levels. The projections contain no new policy initiatives either to expand or contract the budget. As a result, the budget estimates presented in these projections are not to be construed as inevitable or a forecast of what will occur.

The budget estimates in this report are based on the economic assumptions underlying the second concurrent resolution. These assumptions are subject to change due to the recent slowdown in the economy. Finally, it should also be noted that the spending estimates do not take account of any possible future effects of the "shortfall" in federal outlays in fiscal year 1976 and the transition quarter.

The Congressional Budget Act also requires the Congressional Budget Office to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

Alice M. Rivlin
Director

December 1, 1976

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SUMMARY

This report presents estimates of what would happen to the federal budget over the next five years, fiscal years 1978 through 1982, under specified economic conditions if spending and taxing policies were continued unchanged. That is, it projects the revenues that would be generated under current tax laws. Similarly, it projects the outlays that result from continuing federal programs at the levels specified in the Second Concurrent Resolution on the Budget for Fiscal Year 1977.

In general, the projections indicate that under current policy assumptions:

- o Federal spending would grow by 30 to 40 percent by fiscal year 1982, depending on whether all programs are adjusted for inflation.
- o Receipts would rise more rapidly than outlays, growing by 70 to 85 percent between fiscal years 1977 and 1982, depending on the assumed rate of economic growth.
- o The current budget deficit would turn to a surplus by fiscal year 1980 or 1981.

Under the baseline economic assumptions used for this report, total revenues are projected to rise from \$362.5 billion, as specified in the Second Concurrent Resolution for Fiscal Year 1977, to \$668 billion in fiscal year 1982. This represents a 14 percent annual growth rate during the same period when taxable personal income is assumed to rise at about 11 percent a year. The rate of increase in revenues exceeds the rate of increase in income. This is due in large part to the individual income taxes, which are especially responsive to changes in economic conditions because of the progressive tax structure. As a result, the share of total revenues generated by individual income taxes would rise from 46 percent in fiscal year 1977 to 51 percent in 1982. Also, total receipts as a percentage of the gross national product (GNP) would rise from 20 percent in 1977 to 22 percent in 1982.

Projections of federal outlays were made under two alternative assumptions for reflecting the effects of inflation. Under the first assumption, inflation adjustments are made for only those programs that are indexed for inflation under current law. Under the second assumption, inflation adjustments are provided for all federal programs. Under existing law commitments and the baseline economic assumptions, projected outlays rise from \$413 billion (as provided in the Second Concurrent Resolution for

Fiscal Year 1977) to \$445 billion in fiscal year 1978 and \$542 billion in 1982. If all programs were adjusted for inflation, projected outlays reach \$451 billion in fiscal year 1978 and \$586 billion in 1982.

The difference between the level of outlays specified in the Second Concurrent Resolution for Fiscal Year 1977 and projected outlays in fiscal year 1982 if all programs are adjusted for inflation is \$173 billion. Almost one-half of this change is due to projected increases in social security, medicare, and medicaid payments. About one-sixth is for increases in pay for federal employees, retired military pay, and civil service retirement benefits. Another one-fourth of the change is for discretionary inflation adjustments in grants to state and local governments, veterans' benefits, defense purchases and other federal purchases. The remainder of the change consists of increased outlays for interest on the public debt and outlays for program increases that were approved prior to fiscal year 1977 but will not be reflected in federal spending totals until 1978 and beyond.

Under current policy assumptions, the relative allocation of federal spending to various broad categories such as national defense and benefit payments for individuals would not show any major changes over the next five years. Thus, the share of total spending allocated to national defense would remain relatively constant at about 25 percent, and benefit payments for individuals, such as social security and veterans' benefits, would rise only slightly from an estimated 44.5 percent in 1977 to 47 percent in 1982.

Also, even with inflation adjustments for all federal spending programs, current policy projections of outlays would not rise as fast as GNP. As a result, total outlays as a percentage of GNP would fall from an estimated 22.5 percent for fiscal 1977 to 19 percent in 1982.

Projections of revenues and outlays depend on assumptions about economic conditions. Lower economic growth means less tax revenues and more outlays for unemployment compensation. Because of the sensitivity of projections to economic conditions, this report contains projections not only under a baseline economic path but also under an alternate path. The baseline path assumptions, which are relatively optimistic, are consistent with the long-range economic assumptions used by both Committees on the Budget for the Second Concurrent Resolution for Fiscal Year 1977. This path assumes that real economic growth, as measured by the GNP in constant dollars will average 5.5 percent in the next three years and then taper down to 4.5 percent in 1982 as the unemployment rate reaches 4.1 percent. The alternative path, which assumes less vigorous economic expansion, is consistent with the long-term outlook contained in various commercial models of the economy. This path assumes that real economic growth will fall from 6.4 percent in 1976 to 4.0 percent by 1979 and remain at that level through the end of the projections period, at which time the unemployment rate would be about 5.5 percent.

Under the alternative path, revenues would be lower than under the baseline path and outlays somewhat greater. The budget projections do not show a surplus until fiscal year 1981, rather than fiscal year 1980 as under the baseline path.

The two economic paths represent only two of many possible paths the economy might follow. Neither is a necessary or predicted consequence of the spending and taxing policies assumed in this report. Nevertheless, projections under assumed economic conditions can provide a useful benchmark against which the effects of new initiatives can be measured.

In considering potential changes in federal spending or taxing programs, it is important to specify what would happen to the federal budget if current policies were to be continued unchanged. Without any alteration in legislation or policy, budget figures can shift from one year to the next. For example, social security payments may rise because more elderly people claim benefits; or, income tax collections may fall because fewer people are employed. Careful consideration of the base from which a budgetary change is to be made contributes to the soundness of budgetary decisions.

Moreover, it is desirable to assess the implications of existing budgetary commitments for several years in the future before deciding to maintain or alter those commitments. Annual budget decisions often have little short-run impact on budget totals or on the composition of the budget, but in the longer run, they can significantly influence both the size and relative priorities of the budget.

In preparation for Congressional action on the budget for fiscal year 1978, this report presents projections through fiscal year 1982 of federal spending and receipts, based on the assumption that current policies will continue unchanged. The budget totals presented in these projections are in no sense inevitable; they are intended neither as budget recommendations nor as predictions of what will actually occur. They are presented simply to provide a useful analytical base from which various budget alternatives may be evaluated.

BASIS OF THE PROJECTIONS

The projections presented in this report are estimates of the receipts and outlays that would occur if present tax laws and all ongoing federal programs were to continue to operate for five more years at the levels specified in the Second Concurrent Resolution on the Budget for Fiscal Year 1977 (S. Con. Res. 139), adopted by the Congress on September 16, 1976.

The basic assumption for the projections of receipts is quite simple: present federal tax laws are assumed to continue. In particular, the provisions of the Tax Reform Act of 1976 are assumed to continue in effect through fiscal year 1982. This assumes that the tax cuts originally provided for in the Tax Reduction Act of 1975 and extended for varying lengths of

time under the Tax Reform Act of 1976 will be at least extended through September 30, 1982.

The definition of current policy for spending is more complicated and consists of the following major assumptions:

- o The costs of a few federal programs (notably general revenue sharing) are specified by existing law. There are also statutory ceilings on outlays for some programs, such as social services grants. For these programs, the projections are based on current laws.
- o Some federal programs -- such as social security, medicare, unemployment insurance, and interest on the public debt -- are open ended; that is, their costs are determined primarily by population changes or economic factors and are not reviewed annually by the Congress through the appropriation process. Other federal programs -- such as medicaid, public assistance, and veterans' pensions -- are also open ended in the same sense, even though funds are appropriated annually. Projections for these programs are based on specific economic assumptions (discussed later in this chapter) and anticipated population changes.
- o Although the statutory authority for many federal programs will expire during the five-year projection period, authorizations are assumed to be renewed routinely, except for programs that are clearly of a one-time nature, such as temporary study commissions and short-term loans to New York City under the New York City Seasonal Financing Fund Act. In general, for federal programs with authorizations that expire during the projection period, the projections extrapolate into fiscal years 1978 through 1982 the same level of resources provided in the second concurrent resolution. In other words, for these programs a constant level of resources is provided during the projection period in order to meet continuing needs, such as national security, energy research and development, and law enforcement. With few exceptions, the projections do not carry forward funding for specific needs or projects, such as the B-1 bomber. Rather, they hold constant the resources devoted to general needs such as national security.
- o The major exceptions to the above rule are programs that are assumed to be of a temporary nature and are projected to be phased out over the projection period. For example, the temporary employment assistance program, which provides funds for public service jobs at state and local government levels, is assumed to phase down as the unemployment rate falls.

- o Existing laws provide for various automatic cost-of-living adjustments of some sort for virtually all federal programs providing direct benefit payments to individuals. (Veterans' benefits are a notable exception.) The benefit levels for some programs, such as public assistance and unemployment insurance, are set by state and local governments under federal guidelines. It is assumed that the benefits under these programs will also keep pace with inflation. Outlays for certain other programs, such as medicare and medicaid, are indirectly indexed for inflation since the federal government pays part of the costs. Together, benefit payment programs that respond automatically to inflation comprise nearly one-half of the federal budget.
- o The projections assume no change in military or civilian federal employment. Federal pay scales are assumed to be adjusted annually in accordance with the Federal Pay Comparability Act of 1970. The costs for such pay increases each year are initially shown in an allowance line and then are distributed among federal programs the following year as is customary in federal budget presentation.
- o As discussed above, for most federal programs with authorizations due to expire during the projections period, the projections contain a constant funding level. However, for these programs the funding level is discretionary; that is, outlays depend on the amount the Congress chooses to authorize and appropriate. There is no statutory requirement that appropriations for such programs receive inflation adjustments. Since much of the budget responds automatically to inflation, however, it seems useful to show the costs of inflation adjustments for these programs as well in order to have a relatively consistent baseline against which to measure changes in both discretionary and non-discretionary programs. Thus, for programs in which funding levels are discretionary, two projections are made. The first holds funding constant in current dollar terms, while the second holds it constant in real terms.

In summary, the spending projections assume that all current programs will continue except for those that are clearly temporary; that open-ended claims on the federal Treasury, such as interest on the public debt and social security payments, will respond to assumed economic and population changes in essentially the same way they have responded to such changes in the past; and that, for federal programs in which funding levels appear to be discretionary, funding is held constant in both current dollar and in real terms.

ECONOMIC ASSUMPTIONS

Inflation, unemployment, and other levels of economic activity have a major effect on both receipts and outlays. In order to develop budget projections, therefore, explicit assumptions must be made about what will happen to the economy over the next several years. In view of the uncertainty surrounding the economic outlook between now and 1982, this report presents overall budget projections on the basis of two alternative sets of economic assumptions, shown in Table 1. Details of federal receipts and outlays, however, are only shown for one set of economic assumptions in this report. This set is designated as the baseline assumptions; the other set is designated as "less vigorous economic expansion."

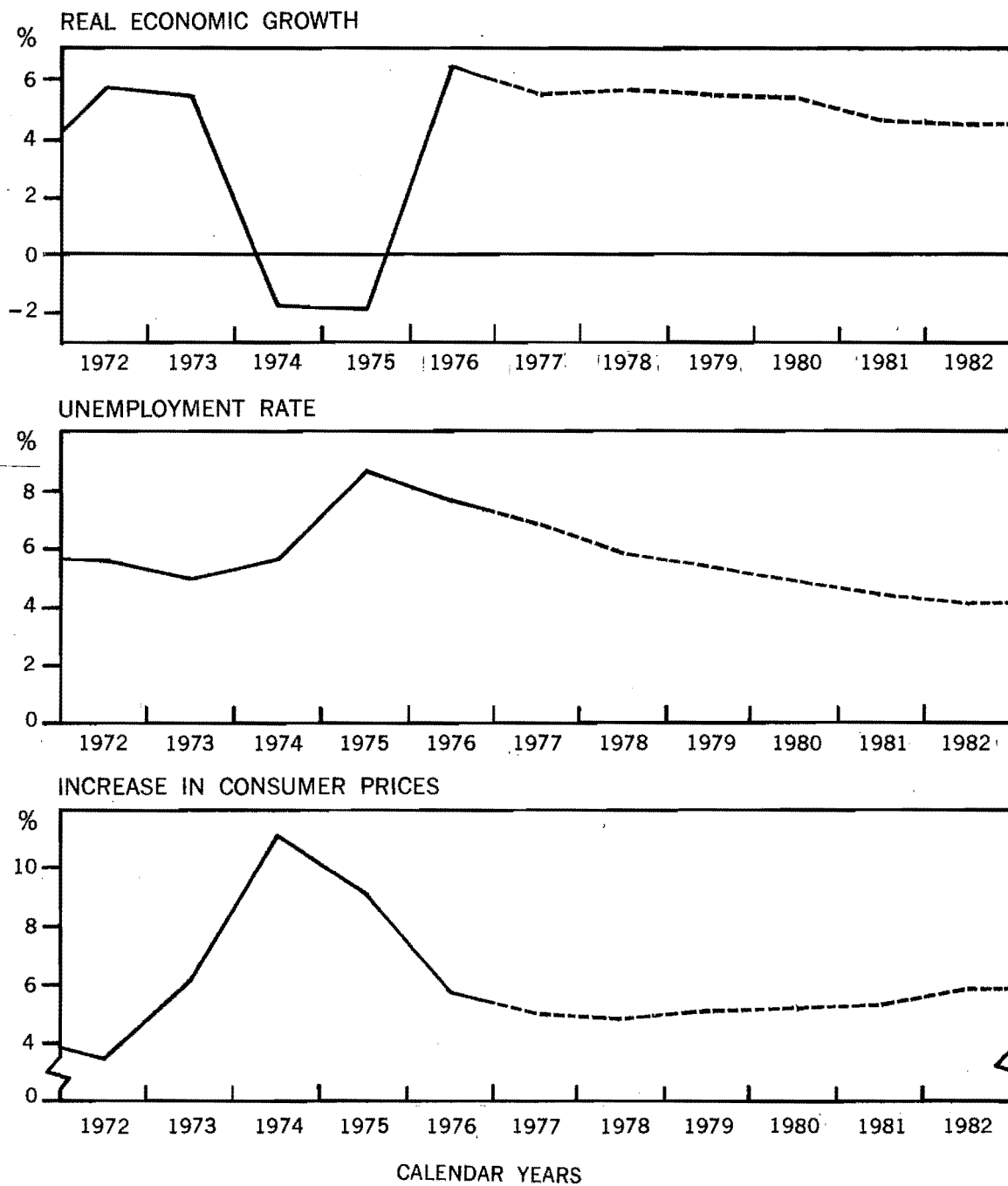
Table 1. Economic Assumptions, 1976-1982, by Calendar Years

Selected Economic Variables	1976	1977	1978	1979	1980	1981	1982
Baseline Assumptions							
Gross National Product (GNP)							
Current dollar GNP (in billions)	1,697.7	1,884.5	2,085.2	2,304.4	2,547.0	2,808.7	3,102.6
Real GNP (in billions of 1972 dollars)	1,267.7	1,336.5	1,410.9	1,488.5	1,567.4	1,641.3	1,714.6
Growth rate of real GNP	6.4	5.4	5.6	5.5	5.3	4.7	4.5
Unemployment rate (percent)	7.6	6.8	5.9	5.3	4.8	4.4	4.1
Consumer price index (percent change)	5.7	5.0	4.8	4.8	5.0	5.3	5.8
Less Vigorous Economic Expansion							
Gross National Product (GNP)							
Current dollar GNP (in billions)	1,697.7	1,884.5	2,074.8	2,258.7	2,457.1	2,672.9	2,909.2
Real GNP (in billions of 1972 dollars)	1,267.7	1,336.5	1,404.1	1,460.9	1,519.3	1,580.1	1,643.3
Growth rate of real GNP	6.4	5.4	5.1	4.0	4.0	4.0	4.0
Unemployment rate (percent)	7.6	6.8	6.1	5.9	5.8	5.6	5.5
Consumer price index (percent change)	5.7	5.0	4.7	4.6	4.6	4.6	4.6

The baseline assumptions are consistent with the long-range economic assumptions used by both Committees on the Budget for the Second Concurrent Resolution on the 1977 Budget. This path assumes that real economic growth, as measured by the gross national product (GNP) in constant dollars, will average 5.5 percent during the next three years and then taper down to 4.5 percent by 1982, as the unemployment rate falls below 5.0 percent in 1980 and reaches 4.1 percent by the end of the projection period. The rate of inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), is assumed to fall from 5.7 percent in 1976 to 4.8 percent in 1978 and 1979 and then rise to 5.8 percent by the end of 1982 as the unemployment rate falls to 4.1 percent (see Chart 1).

As noted above, considerable uncertainty exists concerning the economic outlook in the period 1978 through 1982. Because the federal budget responds automatically to certain changes in the economy, projec-

Chart 1.
MAJOR ECONOMIC ASSUMPTIONS



tions were also made assuming an alternative economic path. The less vigorous economic expansion path assumptions are generally consistent with the long-term outlook contained in various commercial models of the economy. This path assumes that real economic growth will fall from 6.4 percent in 1976 to 4.0 percent by 1979 and remain at that level through the end of the projection period. The unemployment rate falls from an average of 7.6 percent in 1976 to only 5.5 percent in 1982. The annual percentage change in the CPI is assumed to remain stable at 4.6 percent throughout most of the projection period (see Table 1).

Several points concerning these sets of economic assumptions should be emphasized. First, neither set is an economic forecast in the sense of being the best estimate by the Congressional Budget Office of how the economy is likely to behave over the projections period. Rather, they are two of many possible paths that the economy could follow during the next several years. Nothing explicit has been assumed about the sources of economic demand necessary to generate either of these growth paths.

Second, the paths do not represent a necessary or predicted consequence of the budgetary projections associated with it. The budget projections simply show what the federal budget would look like (if services were maintained at current levels) if the economy by some means -- as a result of foreign demands, monetary policy, or some other developments -- achieved either of these paths. These projections do not necessarily represent the budgetary policy that would be required to achieve either path under particular assumptions about the rest of the economy.

Third, the economic paths are basically trend projections for 1978 to 1982. Cyclical movements in the economy are largely ignored. Long-run historical patterns and relationships were used to generate the allocation of income shares, the required money stock growth, and other variables needed to project budget revenues and outlays.

Finally, neither path should be considered as a recommended or "target" path. It is possible for fiscal and monetary policies (or other forces) to decrease unemployment faster than is assumed under the baseline path, but presumably at a cost of more rapid inflation. Similarly, it is possible for fiscal and monetary policies to hold inflation below the rates assumed under the baseline path, but at a cost of higher unemployment. The purpose of the alternative path to the baseline assumptions is simply to illustrate the effect of different economic assumptions on budget projections.

BASELINE BUDGET PROJECTIONS

This section provides an overview of the projections of budget totals using the baseline economic assumptions. Further details on these projections are provided in Chapters II and III. The next section discusses the effects of the alternative set of economic assumptions on the budget projections.

Receipts

Under the baseline economic assumptions, federal receipts would rise from an estimated \$362.5 billion in fiscal year 1977 to \$668 billion in 1982 (see Table 2). Compared to GNP measured in current dollars, total receipts would increase by more than two percentage points, from 19.7 percent of GNP in 1977 to 22.1 percent in 1982. Federal receipts always rise faster than GNP largely because inflation and growth in real incomes push individuals into higher income brackets.

Table 2. Projections of Federal Budget Totals, 1978-1982, by Fiscal Years, in Billions of Dollars

	1976 Actual a/	1977 Estimate b/	Projections				
			1978	1979	1980	1981	1982
Total Receipts	299.2	362.5	407	464	526	594	668
Total Outlays							
Under existing law commitments	364.8	413.1	445	467	491	516	542
With further adjustments for inflation	364.8	413.1	451	480	514	548	586
Budget Deficit (-) or Surplus							
Outlays under existing law commitments	-65.6	-50.6	-38	-3	35	78	126
Outlays with further adjustments for inflation	-65.6	-50.6	-44	-16	12	46	82

a/ The earned income credit (\$0.8 billion) is deducted from receipts (rather than added to outlays) to provide comparability with the Congressional budget resolutions.

b/ Second Concurrent Resolution on the Budget (S. Con. Res. 139).

Outlays

As noted earlier, outlays in this report are projected both under existing law commitments in which many, but not all, federal programs are directly or indirectly indexed for inflation, and with further inflation adjustments for other spending programs that are not so indexed. The cost of the discretionary inflation adjustments grows over time as the cumulative effects of price increases are worked through the projections.

Under existing law commitments and the baseline economic assumptions, total federal outlays would rise from \$413.1 billion in 1977, as specified in the second concurrent resolution, to \$542 billion in 1982. With further adjustments for inflation, total outlays would reach \$586 billion in 1982. Even with the discretionary inflation adjustments, total budget outlays would not rise as fast as GNP under current policy. As a percentage of GNP, total outlays would fall from an estimated 22.5 percent for fiscal year 1977 to 19.3 percent in 1982 (or 18.1 percent if discretionary inflation adjustments were excluded).

Table 3 shows the changes to fiscal year 1977 outlays of \$413.1 billion over the next five years, projected under existing law commitments and with further adjustments for inflation. For example, the projected outlays of \$451 billion in fiscal year 1978 exceed fiscal year 1977 outlays by \$38 billion, of which \$8 billion represents increased outlays for social security, \$6 billion represents increased outlays for medicare and medicaid, and so forth. The table demonstrates that almost one-half of the total increase in federal spending by fiscal year 1982, assuming full adjustment for inflation, would be for social security, medicare, and medicaid payments. About one-sixth of the increase would be for pay increases for federal employees, retired military pay, and civil service retirement. Another one-fourth would be for discretionary inflation adjustments, such as grants to state and local governments, veterans' benefits, and other federal purchases. The remaining increase consists primarily of increasing costs for interest on the public debt and increasing outlays for defense purchases. The latter are the result of the lagged effect of appropriations increases voted in fiscal years 1975 through 1977.

Table 3. Projected Increases in Federal Outlays, by Fiscal Years, in Billions of Dollars

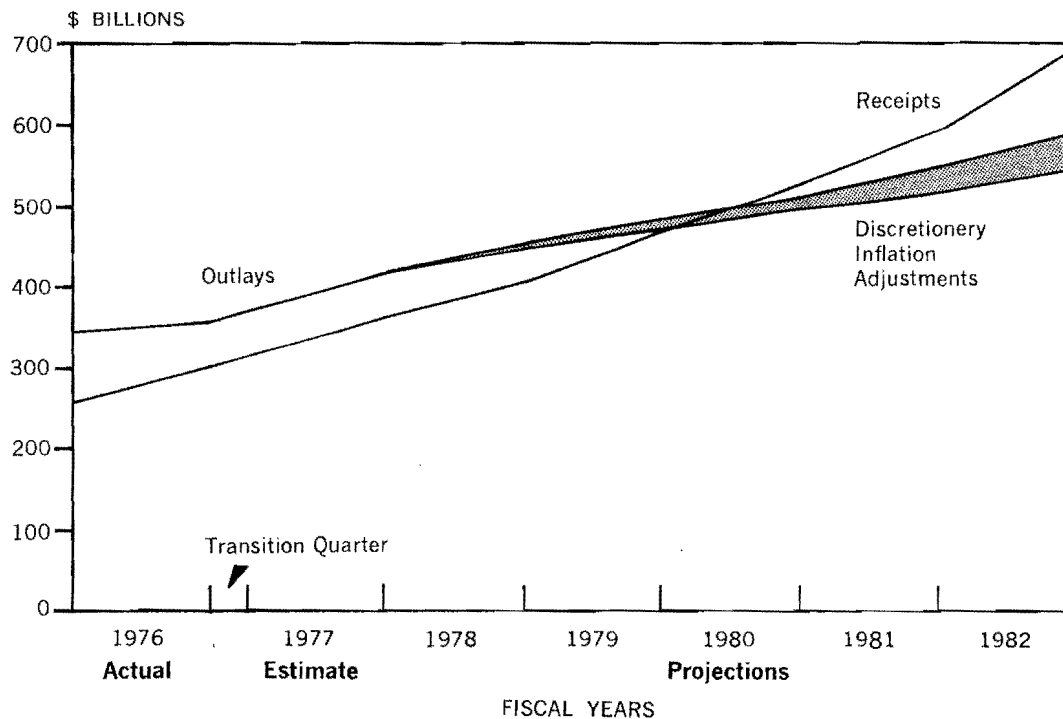
	1978	1979	1980	1981	1982
Fiscal Year 1977 Total Outlays	413	413	413	413	413
Add: Commitments under Existing Law					
Social security	8	16	25	35	47
Medicare and medicaid	6	11	18	25	34
Pay increases for federal employees	4	8	11	16	20
Retired military pay and civil service retirement	1	3	4	6	8
Net interest	6	8	8	8	8
Defense purchases (lagged effect of prior appropriations increases)	8	8	11	11	11
All other federal spending (net)	--	--	2	2	1
Subtotal, projected outlays under existing law commitments	445	467	492	516	542
Add: Further Adjustments for Inflation					
Maintain 1977 value of grants to state and local governments	1	2	3	5	8
Maintain 1977 value of defense purchases	2	5	10	14	19
Maintain 1977 value of other federal purchases	2	5	6	9	14
Cost of living increase for veterans benefits	1	1	2	3	3
Indirect effect on interest of further adjustments for inflation	--	1	1	1	1
Total, projected outlays with further adjustments for inflation	451	480	514	548	586

Deficits and Surpluses

In fiscal year 1977, federal outlays exceed receipts by \$50.6 billion, as specified by the second concurrent resolution. This deficit results largely from the fact that the recession has reduced federal tax receipts and increased federal outlays for some types of expenditures, such as unemployment compensation, from what otherwise would have occurred under a full-employment economy. (See Appendix B for budget estimates using a full-employment budget concept.)

Under the baseline economic assumptions and the current policy projections, the federal deficit would be eliminated by 1980 (see Table 2). The potential budget surplus by 1982 would be quite large, ranging from \$82 billion to \$126 billion, depending again on what assumption is made for discretionary inflation adjustments (see Chart 2).

Chart 2.
BUDGET PROJECTIONS



These projections illustrate some facts about the built-in changes in the federal budget that are useful for policy decisions. As prices rise, federal spending will grow even if current policies remain unchanged. Receipts, however, will rise somewhat more rapidly than outlays. This occurs because, as the economy grows, more people will be working and paying taxes. Also, given the progressive nature of the personal tax system, as a household's income rises, a greater fraction of that income is paid in taxes. Hence, with no change in current policy and sufficient economic stimulus to achieve the baseline economic path, the current federal deficit would disappear over time. As will be seen in the next section, the speed with which a current policy budget deficit turns to a surplus depends to some extent on the assumed rates of economic growth and inflation.

EFFECT OF ALTERNATIVE ECONOMIC ASSUMPTIONS

The alternative economic path is consistent with the long-term outlook contained in various commercial models of the economy. Both economic growth and the inflation rate are smaller under this path than under the baseline economic path.

As shown in Table 4, receipts would be smaller under the alternative path than under the baseline path. The gap widens from \$2 billion in fiscal year 1978 to \$47 billion in fiscal year 1982. Spending under the alternative

Table 4. Effects of Alternative Economic Assumptions on Budget Projections, by Fiscal Years, in Billions of Dollars

	1977	1978	1979	1980	1981	1982
<hr/>						
Total Receipts						
Baseline economic assumptions	362.5	407	464	526	584	668
Less vigorous economic expansion	362.5	405	454	505	562	621
Total Outlays <u>a/</u>						
Baseline economic assumptions	413.1	451	480	514	548	586
Less vigorous economic expansion	413.1	451	483	519	552	587
Budget Deficit (-) or Surplus						
Baseline economic assumptions	-50.6	-44	-16	12	46	82
Less vigorous economic expansion	-50.6	-46	-29	-14	10	34

a/ Includes further adjustments for inflation.

path would be approximately the same as under the baseline path. Although the inflation rate under the alternative path is lower resulting in a lower cost for inflation adjustments, the higher unemployment rate would lead to increased outlays for unemployment insurance and temporary employment assistance.

As a percentage of GNP, total receipts would increase from 19.7 percent in fiscal year 1977 to 21.8 percent in 1982, essentially the same result as under the baseline economic assumptions. However, federal outlays as a percentage of GNP would fall from 22.5 percent in fiscal year 1977 to only 20.6 percent under the alternative economic path, compared to 19.3 percent under the baseline path.

As discussed earlier, deficits and surpluses are especially sensitive to the economic assumptions. As shown in Table 4, the first projected surplus would be in fiscal year 1981 under the alternative path rather than in 1980, as projected under the baseline economic path.

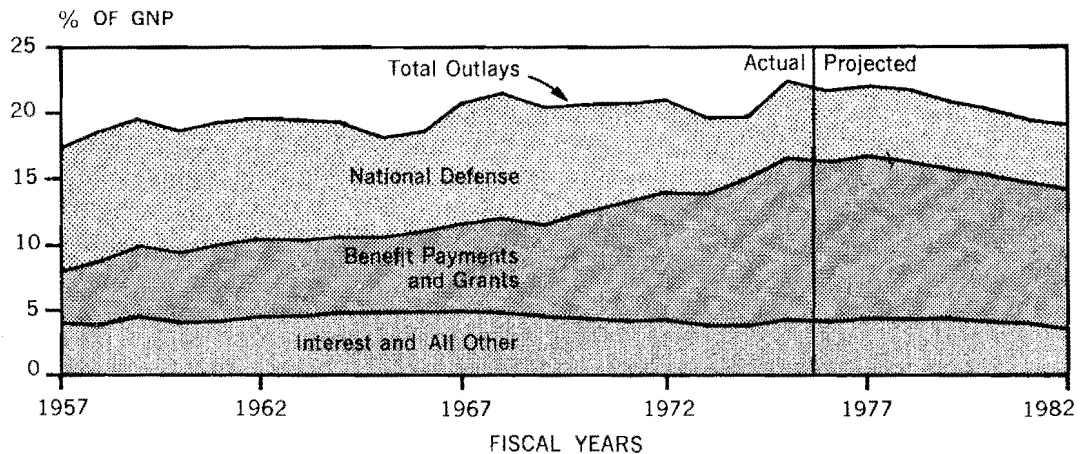
This chapter provides further details on the projections of federal spending that would occur under the baseline economic assumptions described in Chapter I if current budget policies remain as they are outlined in the Second Concurrent Resolution on the 1977 Budget. Two different levels of spending are projected for 1978-1982. The first projects spending under existing law commitments to increase according to rises in prices. The second and increasingly higher level projects spending with further discretionary adjustments for inflation. In order to provide some perspective for these forward projections, the next section gives a brief overview of federal spending over the past 20 years.

PAST TRENDS

Under the second concurrent resolution, the level of spending for fiscal year 1977 is estimated to be \$413 billion. This is more than five times the level for 1957, which was \$77 billion. This represents an average annual rate of increase of 8.8 percent, which is faster than the rate of growth for the total economy during this period. Consequently, total federal outlays as a percent of the gross national product (GNP) have risen from 18 percent in fiscal year 1957 to approximately 23 percent for fiscal year 1977.

Between fiscal years 1957 and 1966 federal spending as a percent of GNP averaged less than 19 percent (see Chart 3). Between 1967 and 1974, the proportion averaged about 20.5 percent due largely to a rapid expansion of benefit payments for individuals and other grants to state and local governments. The sharp rise in this ratio, to 22.5 percent, occurred in 1975; it is expected to remain at this level through 1977. This recent increase in federal spending relative to the size of the total economy is largely a result of the recession, which gathered momentum at the beginning of fiscal year 1975. The effect of the recession was to raise federal spending (for such programs as unemployment compensation, food stamps, and welfare payments) and to lower GNP from what it would have been under a full-employment economy. Thus, the recession can be seen to have pushed federal spending up and GNP down.

Chart 3.
FEDERAL SPENDING AS A PERCENTAGE OF GNP



To smooth out the apparent short-term fluctuations in federal spending caused by recessions, GNP can be measured in terms of a constant level of unemployment -- say 4 percent; federal outlays can be similarly adjusted to eliminate recession-related spending. ^{1/} With these adjustments, the overall level of federal spending appears to have risen less sharply relative to the size of the economy. ^{2/}

Another way to examine past trends in federal spending is to set aside the effects of inflation. Measured in constant dollars, the growth in federal spending appears less great than when judged by current prices. Between

^{1/} There is some controversy over what level of unemployment to use for this calculation. The conventional rate for many years was 4 percent, but some analysts believe that a higher level, such as 4.5 or 5 percent would be more appropriate to reflect a full-employment economy. For purposes of the calculations discussed in this section, it does not matter what unemployment level is used to discount the effect of the recent recession, so long as every year is adjusted to the same level.

^{2/} See the appendix for further details on measurements of a full-employment budget.

fiscal years 1957 and 1977, total federal spending in real terms doubled; when measured in current prices, it increased more than five times. This amounts to an average annual rate of real increase of somewhat less than 4 percent during the past 20 years, which is slightly above the average rate of real economic growth. When measured in constant prices, the ratio of federal spending to GNP has increased only slightly. If the effects of recessions and inflation were removed from federal spending and GNP, the ratio of spending to GNP would probably show a decline during the past 20 years.

The composition of federal spending has changed significantly during the past 20 years. The relative share of the budget allocated to benefit payments for individuals and grants to state and local governments has increased substantially, particularly since 1967. At the same time, the share of the budget devoted to national defense has fallen markedly. Spending for other federal programs, including interest on the public debt, has remained a relatively constant share of the budget. These shifts in the relative shares of budget allocations are displayed in Chart 4 and Table 5.

FIVE-YEAR PROJECTIONS

Under current policy assumptions, and using the baseline economic assumptions described in Chapter I, federal spending during the next five years would:

- o fall as a percent of GNP as the economy returns to full employment, and
- o show little further shift in the relative composition of the budget.

These results, as shown in Table 5, are largely a consequence of the methods used to make the projections and, as noted in Chapter I, they should not be considered as a prediction of what actually will occur. Rather, they are intended to provide a neutral benchmark against which potential changes in the federal budget during the next five years can be judged.

The five-year spending projections in terms of five major spending categories are shown in Table 6. The program components of each of these major categories, and any special assumptions used to define current policy, are discussed below. The concluding section of this chapter presents the spending projections in terms of the 17 major functional categories used for the congressional budget resolutions.

Table 5. Composition of Federal Spending

As a Percent of GNP						
Major Component	1957	1962	1967	1972	1977	1982 a/
National defense	9.8	9.2	8.9	7.0	5.5	4.9
Benefit payments for individuals	3.6	5.0	5.2	7.7	10.0	9.1
Grants to state and local governments	.5	.8	1.3	1.9	2.6	1.8
Net interest	1.2	1.3	1.3	1.4	1.7	1.3
Other federal operations	2.6	3.3	3.7	3.0	2.7	2.3
Total budget outlays	17.7	19.6	20.5	20.9	22.5	19.3
As a Percent of Total Budget Outlays						
National defense	55.1	47.2	43.7	33.4	24.4	25.2
Benefit payments for individuals	20.4	25.4	25.3	36.8	44.5	47.0
Grants to state and local governments	2.7	4.3	6.4	9.0	11.6	9.2
Net interest	7.0	6.4	6.5	6.7	7.4	6.6
Other federal operations	14.9	16.7	18.1	14.2	12.1	12.0
Total budget outlays	100.0	100.0	100.0	100.0	100.0	100.0

a/ Includes further adjustments for inflation.

Table 6. Major Components of Budget Outlay Projections, by Fiscal Years, in Billions of Dollars

Major component	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
National defense	90.0	100.6	111.7	115.5	121.3	125.1	128.5
Benefit payments for individuals	166.6	183.9	195.2	211.0	228.6	248.6	271.7
Grants to state and local governments	40.4	48.0	48.1	45.8	44.9	45.0	45.2
Net interest	26.9	30.4	35.7	37.8	38.3	38.3	38.2
Other federal operations	41.0	50.1	54.3	57.2	58.4	58.7	58.6
Total budget outlays	364.8	413.1	445.0	467.2	491.5	515.6	542.2
Outlays with Further Adjustments for Inflation							
National defense	90.0	100.6	113.6	120.8	130.8	139.1	147.4
Benefit payments for individuals	166.6	183.9	195.9	212.4	230.8	251.5	275.4
Grants to state and local governments	40.4	48.0	48.8	47.5	48.2	50.3	53.2
Net interest	26.9	30.4	35.8	38.6	39.5	39.5	39.4
Other federal operations	41.0	50.1	56.7	60.8	64.7	67.4	70.3
Total budget outlays	364.8	413.1	450.7	480.1	513.9	547.8	585.7

National Defense

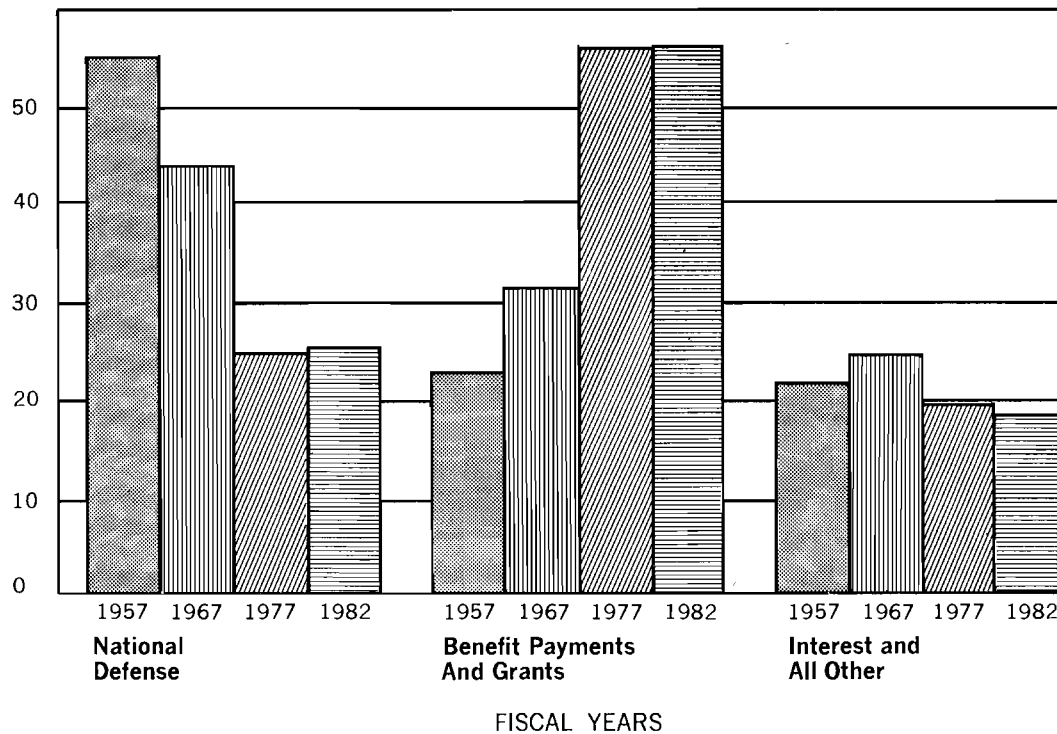
This category is identical with the national defense budget function and includes the military activities of the Department of Defense (DoD), military assistance, atomic energy defense activities, and defense-related activities of civilian agencies.

Under the second budget resolution, estimated outlays for national defense in fiscal year 1977 total \$100.65 billion, which represents 24 percent of total spending. This reflects a significant shift in spending from 20 years ago, when national defense outlays were 55 percent of the budget. Chart 4, which breaks down federal expenditures into three general groups, presents a comparison of defense spending with other outlays for the period 1957 to 1977 and projected to 1982.

Chart 4.

COMPOSITION OF FEDERAL SPENDING

% OF BUDGET OUTLAYS



Total defense outlays would rise from \$100.65 billion in 1977 to \$128.5 billion in 1982 under existing law commitments. With further adjustments for inflation in order to hold the dollar value of defense purchases constant in real terms, total defense spending would rise to \$147.4 billion in 1982, an increase of 46 percent from 1977. National defense spending as a share of total federal spending would remain relatively constant; with full adjustments for inflation, defense spending would represent 25 percent of the total budget in 1982 under a current policy concept. As a percent of GNP, projected defense outlays would decline slightly from 5.5 percent in 1977 to 4.9 percent in 1982.

National defense spending breaks down into four components: Department of Defense, military; military assistance; defense-related programs of the Energy Research and Development Administration (ERDA); and other defense-related programs. Table 7 contains projections for each of these components.

Table 7. National Defense Projections, by Fiscal Years, in Billions of Dollars

Major Component	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
Department of Defense, Military							
Pay	38.2	40.7	43.7	45.8	48.1	50.7	53.7
Retired pay	7.3	8.3	9.0	9.7	10.4	11.2	12.0
Purchases	42.5	49.9	56.3	57.3	58.8	59.7	60.0
Military Assistance							
Foreign Military Sales Trust Fund	-0.6	-0.2	0.2	0.2	1.5	1.0	0.4
Other	1.1	0.7	0.6	0.5	0.5	0.5	0.5
Defense-related ERDA Programs	1.6	1.8	2.0	2.0	2.0	2.0	2.0
Other Defense-related Programs	-0.1	-0.6	--a/	--a/	--a/	--a/	--a/
Total national defense outlays	90.0	100.6	111.7	115.5	121.3	125.1	128.5
Outlays with Further Adjustments for Inflation							
Department of Defense, Military							
Pay	38.2	40.7	43.7	45.8	48.1	50.7	53.7
Retired pay	7.3	8.3	9.0	9.7	10.4	11.2	12.0
Purchases	42.5	49.9	58.1	62.4	67.8	73.1	78.0
Military Assistance							
Foreign Military Sales Trust Fund	-0.6	-0.2	0.2	0.2	1.4	0.9	0.3
Other	1.1	0.7	0.6	0.6	0.7	0.8	0.8
Defense-related ERDA Programs	1.6	1.8	2.0	2.1	2.3	2.5	2.6
Other Defense-related Programs	-0.1	-0.6	--a/	--a/	--a/	--a/	--a/
Total national defense outlays	90.0	100.6	113.6	120.8	130.8	139.1	147.4

a/ Less than \$50 million.

The projections for the military activities of the Department of Defense comprise pay for persons currently employed, pay for military retirees, ^{1/} and purchases. The projections of military and civilian pay are based on provisions of the Federal Pay Comparability Act of 1970, which are designed to maintain comparability with wages and salaries in the private sector. The projections are based on the assumption that the annual pay raises during the next five years will average 5.6 percent for general schedule and wage board employees and for military pay. Under this assumption, the cost of military and civilian pay and allowances in DoD military would rise from an estimated \$40.7 billion in fiscal year 1977 to \$53.7 billion in 1982, an increase of 32 percent.

Increases in military pay for retirees are projected on the basis of automatic cost-of-living adjustments in benefits, a rise in the number of retired personnel, and increases in the wage bases of new retirees. Retired military pay costs are projected to rise from an estimated \$8.3 billion in 1977 to \$12.0 billion in 1982, an increase of 45 percent.

The projections of DoD military purchases of goods and services are based on the budget authority targets in the second budget resolution for 1977 and estimated spending from prior-year appropriations. Under existing law commitments, the estimated 1977 budget authority for purchases is held constant in current dollar terms; the increase in associated outlays shown in Table 7 reflects the effects of recent increases in appropriations for defense purchases. The table also shows the cost of holding annual appropriations for defense purchases constant in real terms; with this discretionary adjustment for inflation, outlays for DoD military purchases would rise from an estimated \$49.9 billion in 1977 to \$78.0 billion in 1982, an increase of 56 percent. With full adjustments for inflation, the share going for purchases would rise slightly over the next five years; this projection is based on the assumption that inflation would rise at a faster rate than would employee compensation and retirement costs.

It should be noted that, in real terms, the projections with inflation adjustments hold constant the dollar value of resources for operating, maintaining, and modernizing the defense forces. They bear no relation to whether threats to U. S. national security will be increasing or decreasing and, therefore, do not necessarily imply constant defense capabilities, constant deterrence levels, or even constant defense force levels. The dollar value of the resources (that is, budget authority) required for a

^{1/} Pay for civilian retirees is included under Civil Service Retirement in the major spending category Benefit Payments for Individuals.

constant defense capability may in fact be quite different from those projected in this report. As discussed earlier, the projections do not contain funding levels which are designed to meet specific needs or complete specific projects such as the B-1 bomber or the Trident submarine. Rather, they hold constant first in current dollar terms and then in real terms the resources Congress has chosen to allocate to the general needs of national security in fiscal year 1977.

The methodology used for projections of military assistance, defense-related programs undertaken by ERDA, and other defense-related programs is the same as those described for DoD military. In the case of the Foreign Military Sales Trust Fund, the gross budget authority is the base. Gross budget authority represents the total sales recorded in the fiscal year. Trust fund receipts and outlays are estimated based on past sales and the projections of future sales. Receipts occur as foreign governments make payments to the trust fund; outlays occur as the trust fund makes payments to producers. The outlays shown in Table 7 are net outlays, i.e., gross trust fund outlays less receipts. The derivation of net budget authority and net outlays is shown in Table 8.

Table 8. Five-Year Projections of the Foreign Military Sales Trust Fund with Discretionary Inflation, by Fiscal Years, in Millions of Dollars

	1977	1978	1979	1980	1981	1982
Budget Authority (gross)	6,916	7,400	7,932	8,492	9,046	9,634
Outlays (gross)	6,600	7,509	8,738	10,117	9,752	9,085
Receipts, Foreign Military Sales	-6,800	-7,338	-8,581	-8,685	-8,807	-8,743
Net Budget Authority (gross BA minus receipts)	116	62	-649	-193	239	891
Net Outlays (gross outlays minus receipts)	-200	171	157	1,432	945	342

Gross outlays reach a peak in 1980 and then decline. This results from the very large sales recorded in fiscal year 1975 and 1976 and the long lead times given for delivery of most military purchases. Receipts from foreign governments are lower than outlays because current practices result in billings to foreign governments in advance of trust fund outlays. From fiscal years 1973 through 1976, receipts exceeded outlays by \$2.3 billion.

The projection for other defense-related programs shows net receipts dropping \$0.6 billion from 1977 to 1978. The second concurrent resolution includes an estimated \$0.6 billion in offsetting receipts which result from new stockpile disposal authority. This amount was not included in fiscal

year 1978 and subsequent years because new disposal authority has been authorized only on an irregular basis in the past. The new authority assumed in the second concurrent resolution was interpreted to be a one-time event.

Benefit Payments for Individuals

The largest single component of federal outlays is benefit payments for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals. The major federal programs included in this category are shown in Table 9. Such programs provide for both direct payments from the federal government to the individual (such as social security benefits) and for payments made indirectly through state and local governments (such as public assistance and child nutrition). Some programs provide cash payments to individuals to use at their discretion, such as social security and unemployment compensation; other programs provide specific services used by eligible individuals (such as medical services under medicare and medicaid). The benefit payments category of spending also includes retirement pay for all federal civilian employees. Retirement benefits for military personnel are included under the national defense category.

Table 9. Projections of Benefit Payments for Individuals, by Fiscal Years, in Billions of Dollars

Major Programs	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
Social security and railroad retirement	76.2	87.0	94.4	102.9	112.3	122.6	134.3
Civil service retirement	8.0	9.6	10.5	11.7	12.9	14.2	15.9
Unemployment assistance	19.8	15.8	13.1	12.0	11.4	11.1	10.9
Veterans' benefits: pensions, compensation, readjustment benefits	13.9	14.4	13.7	13.4	13.0	12.6	12.1
Medicare and medicaid	26.3	32.0	37.6	43.3	49.7	57.2	65.7
Public assistance (AFDC) and supplemental security income (SSI)	10.9	12.1	12.4	13.1	13.9	14.7	15.6
Food stamps, housing assistance, and other benefit payment programs	11.4	13.0	13.6	14.5	15.4	16.2	17.2
Total, benefit payments for individuals	166.6	183.9	195.2	211.0	228.6	248.6	271.7
Outlays with Further Adjustments for Inflation							
Social security and railroad retirement	76.2	87.0	94.4	102.9	112.3	122.6	134.3
Civil service retirement	8.0	9.6	10.5	11.7	12.9	14.2	15.9
Unemployment assistance	19.8	15.8	13.1	12.1	11.5	11.2	11.0
Veterans' benefits: pensions, compensation, readjustment benefits	13.9	14.4	14.3	14.7	14.9	15.1	15.2
Medicare and medicaid	26.3	32.0	37.6	43.3	49.7	57.2	65.7
Public assistance (AFDC) and supplemental security income (SSI)	10.9	12.1	12.4	13.1	13.9	14.7	15.6
Food stamps, housing assistance, and other benefit payment programs	11.4	13.0	13.6	14.6	15.6	16.5	17.6
Total, benefit payments for individuals	166.6	183.9	195.9	212.4	230.8	251.5	275.4

Federal benefit payments for individuals total an estimated \$184 billion in fiscal year 1977, which is 45 percent of total outlays contained in the second budget resolution. The relative share of total federal outlays allocated to these programs has more than doubled in the last 20 years. In part, this growth is the result of the introduction of new programs such as medicare, medicaid, food stamps, and housing assistance. Another factor is that benefit levels have been increased and coverage expanded under older programs, such as social security, public assistance and unemployment compensation. In 1971, the Congress also converted the federal-state public assistance program for the aged, blind, and disabled into a wholly federal program with uniform benefits and standards. As a result of all these factors, benefit payments for individuals as a percentage of GNP grew from 4 percent in 1957 to an estimated 10 percent in 1977.

Outlays in this category are relatively uncontrollable even if current legislation remains unchanged, since these programs entitle individuals to benefits if they meet eligibility requirements. The factors that can contribute to changes in total federal payments include changes in income, employment status, age, and other characteristics of the population that affect program eligibility. Another factor affecting outlays in this category is that not all who are eligible actually participate in the programs. As a result, changes in participation rates can also affect program levels. Since the laws governing payments under many of these programs mandate automatic cost-of-living adjustments, changes in inflation will also affect benefit payments. In programs that do not mandate automatic increases, the policy has been to legislate benefit increases periodically, depending on the rate of inflation. Veterans' benefits are an example of the latter.

Assuming no change in current policy but incorporating all inflation adjustments for the projections, total benefit payments for individuals show an increase in outlays from \$184 billion in 1977 to \$275 billion in 1982, an increase of 50 percent. As a result, spending for benefits would increase from 45 percent to 47 percent of the federal budget over the five-year period. However, under current policy assumptions, benefit payments would not increase as a percentage of GNP over the next five years. In fact, under the baseline economic assumptions used for this report, the ratio of benefit payments to GNP would decline slightly from 10 percent in 1977 to 9 percent in 1982.

Projections of benefit payment programs are sensitive to assumptions about future inflation and unemployment rates. As described in Chapter I, the projections shown in Table 9 assume that the unemployment rate will fall from an average of 7.5 percent in calendar year 1976 to 4.1 percent by the end of calendar year 1982. Under a less vigorous expansion path, the

unemployment rate might fall only to 5.5 percent. This would cause the projections of unemployment assistance to be \$4 billion higher in 1982 than the \$11 billion projected in Table 9. Similarly, if the rate of inflation as measured by the annual average change in the Consumer Price Index (CPI) were to remain approximately 4.6 percent, the old age and survivor component of social security outlays would be \$1 billion less in 1982 than the amount projected in Table 9.

Under the baseline economic assumptions used for this chapter, social security and railroad retirement benefits are projected to increase from an estimated \$87 billion in 1977 to \$134 billion in 1982, an increase of \$47 billion or 54 percent. The automatic cost-of-living adjustment, based on assumed increases in the CPI, accounts for about 55 percent of the projected cost increase. The remaining share of the increase is the result of projected growth in the number of retirees and disabled persons receiving benefits, and such factors as the rising wage base, which leads to higher benefit entitlements for new retirees. Increases in the cost of civil service retirement programs, which are projected to rise from an estimated \$9.6 billion to \$15.9 billion in 1982, are a result of essentially the same factors.

Outlays for unemployment assistance are projected to decline by almost \$5 billion between 1977 and 1982 as the unemployment rate declines. As noted above, this projection is very sensitive to assumptions about the level of unemployment during the projection period. The projections also assume that the average benefit payment will be adjusted by states to reflect increases in average wages. ^{1/}

Under existing law commitments, outlays for veterans' benefits are projected to decline between fiscal years 1977 and 1982. This is due to a projected decline in the number of program beneficiaries, especially for education programs under the GI bill. If benefit levels were to be held constant in real terms, however, the adjustments for inflation would more than offset the decline in beneficiaries.

The combined cost of the medicare and medicaid programs is projected to double during the next five years. This rise can be attributed to the combination of a number of factors that affect these programs. Certainly the higher increase in overall medical costs than in the CPI plays a significant role, although the differential is projected to diminish over the five-year period. For the Federal Hospital Insurance program (Medicare,

^{1/} See Robert Black and Cyrus Karr, Estimating Outlays for Unemployment Compensation Programs, Technical Analysis Paper No. 1, Congressional Budget Office, October 1976.

Part A), a combination of the higher annual increase in wages for hospital workers than for other groups in the labor sector, and the continuing rise in non labor intensive factors, contribute to the rapid growth in outlays. Under the Supplementary Medical Insurance program (Medicare, Part B), inflation, combined with greater per capita utilization of services, accounts for the increase in expenditures. Medicaid is also affected by inflation and greater utilization, as well as by a changing mix of beneficiaries. The fraction of beneficiaries requiring more expensive services is projected to increase over the next five years.

The projections for the federal share of public assistance payments (AFDC) assume a continued trend in those factors that appear to have led to a stabilization of the number of AFDC recipients. Among the factors are changes in state administrative policies (for example, a slower rate of benefit increase and a falling rate of program acceptance) and changes in the economic mix of women heading households. Projections for the supplemental security income program (SSI) are based on an anticipated modest increase in recipients. Together, AFDC and SSI are projected to increase by 29 percent from an estimated \$12.1 billion in 1977 to \$15.6 billion by 1982.

The cost of the food stamp program is also projected to diminish from an estimated \$5.5 billion in 1977 to \$5.2 billion in 1982. This slight decrease is the outcome of an estimated decline of 3 million food stamp recipients (a consequence of the rise in family income), which is not quite offset by a projected rise in the food stamp subsidy per recipient that automatically occurs when food prices rise.

Child nutrition programs, also a component of food stamps, housing assistance, and other benefit programs in Table 9, are projected to increase from \$2.8 billion in 1977 to \$3.6 billion in 1982. The increase is again the net result of factors affecting costs in different directions. Thus an anticipated decline in school enrollments is expected to reduce the number of lunches subsidized under the long-established school lunch program. However, expected increases in participation in the newer programs such as meals in summer camps and day care institutions are projected to result in a net increase in total numbers of meals subsidized over the five-year period. Automatic adjustments for changes in food prices add further to costs.

Housing assistance payments are projected to increase from an estimated \$4.0 billion in 1977 to approximately \$6.8 billion in 1982. Underlying this increase is a continuation of the public housing program and rent subsidies at the program levels provided for in fiscal year 1977. The increase depends on a complex interaction between anticipated increases in construction costs, rents for comparable housing and personal incomes.

Grants to State and Local Governments

Many payments for individuals discussed above are administered through state and local governments (for example, medicaid, public assistance, and child nutrition programs). Other grants to state and local governments constitute a major component of federal spending. These include revenue sharing, construction of highways and waste treatment plants, other transportation, community development, public service employment, education and training, and other purposes. The definition of grants to state and local governments used in this section does not include those grants which are benefit payments administered by state and local governments. ^{1/} In fiscal year 1977, outlays total \$48 billion. As shown in Table 10, spending for these grants would decline to \$45 billion by 1982 under existing law commitments, and rise to \$53 billion if discretionary inflation adjustments were made.

Table 10. Projections of Grants to State and Local Governments, Other Than Grants for Payments for Individuals, by Fiscal Years, in Billions of Dollars

Major Programs	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
Antirecession programs	2.2	5.8	5.6	2.5	1.2	0.7	0.2
Highway grants	6.4	6.3	6.6	6.9	7.4	7.9	8.4
Other transportation programs	1.7	2.3	2.6	2.8	2.7	2.9	2.9
EPA construction grants	2.4	4.1	3.8	4.0	4.2	4.2	4.2
Community and regional development grants	4.1	5.1	4.6	4.1	3.7	3.7	3.8
Elementary and secondary education grants	4.4	4.7	4.8	5.5	5.5	5.4	5.3
Revenue sharing	7.0	7.5	7.8	7.9	7.9	8.0	8.0
Manpower and social services grants	8.0	8.8	9.0	8.9	8.9	9.0	9.0
Law enforcement assistance	0.9	0.9	0.8	0.8	0.8	0.8	0.8
All other grants	3.2	2.6	2.6	2.5	2.5	2.5	2.6
Total, other grants to state and local governments	40.4	48.0	48.1	45.8	44.9	45.0	45.2
Outlays with Further Adjustments for Inflation							
Antirecession programs	2.2	5.8	5.6	2.5	1.2	0.7	0.2
Highway grants	6.4	6.3	6.6	7.0	7.5	8.0	8.6
Other transportation programs	1.7	2.3	2.6	2.8	2.8	3.0	3.3
EPA construction grants	2.4	4.1	3.8	4.2	4.8	5.2	5.7
Community and regional development grants	4.1	5.1	4.7	4.3	4.1	4.5	4.9
Elementary and secondary education grants	4.4	4.7	4.9	5.8	6.2	6.5	6.8
Revenue sharing	7.0	7.5	7.8	7.9	8.0	8.3	8.9
Manpower and social services grants	8.0	8.8	9.2	9.4	9.8	10.2	10.6
Law enforcement assistance	0.9	0.9	0.8	0.9	0.9	0.9	0.9
All other grants	3.2	2.6	2.8	2.8	3.0	3.1	3.2
Total, other grants to state and local governments	40.4	48.0	48.8	47.5	48.2	50.3	53.2

^{1/} For alternative definitions of grants to state and local governments, see Special Analyses, The Budget of the U.S. Government, Parts A and O.

As new programs have been enacted, the relative share of the budget allocated for these grants has increased substantially during the last 20 years. Over the next five years, under current policy assumptions, the relative share of total spending for such programs would decline from 12 percent in 1977 to 9 percent in 1982 if discretionary inflation adjustments are made, and to 8 percent if such adjustments are not made. The projected decline in the relative share of the budget for these grants is largely due to the assumed phaseout of special antirecession spending programs as the unemployment rate falls, and to decreasing outlays for recently expired programs such as urban renewal which have not been re-authorized.

The special antirecession programs include temporary public sector employment assistance, countercyclical revenue sharing, and local public works programs. The projections are based on the assumptions that the temporary employment assistance and countercyclical revenue sharing programs will be extended, but phased out as the unemployment rate falls. The local public works program was assumed to be a one-time commitment that would not receive any new funds beyond the \$2 billion appropriation for fiscal year 1977. Since under the baseline economic assumptions unemployment declines to 4 percent by 1982, spending for antirecession programs is projected to decline from \$5.8 billion in 1977 to \$200 million in 1982.

With the exception of temporary programs, like the antirecession programs, the projections hold constant the resources provided to grant programs. For many grant programs, this is interpreted as holding obligations constant, since budget authority is not necessarily granted every year but rather when unobligated balances reach a given level.

The federal aid highways program, which accounts for virtually all highway construction grants, appears to be constrained by the willingness and ability of states to raise matching funds. As a result, outlays were projected from an assumed constant level of obligations, determined on the basis of actual levels during recent years. The Environmental Protection Agency (EPA) grants for the construction of municipal waste treatment plants are constrained by Congressional appropriations. Obligations, therefore, are projected to remain constant at fiscal year 1977 levels throughout the 1978 to 1982 period under the existing law commitments path, and are adjusted to remain constant in real terms when outlays are adjusted for inflation.

Grants for other transportation programs consist primarily of urban mass transportation grants and grants-in-aid to airports. Obligations of grants administered by the Urban Mass Transit Administration (UMTA) are projected on the basis of 1977 program levels. It is assumed that the UMTA grant programs will be extended when the current authorization expires, and

that additional budget authority will be provided at that time. Outlays for these grants in fiscal year 1982 are projected to total \$2.2 billion under the existing law commitments and \$2.6 billion if adjusted for inflation. Budget authority for the airport grants is established by law through fiscal year 1980, and thus both projections are identical until that point. For the projection under current law commitments, it is assumed that budget authority in 1981 and 1982 will equal the 1980 level. With full adjustment for inflation, the 1980 budget authority is inflated to maintain the same real level of obligations after 1980. Outlays in fiscal year 1982 are approximately \$0.6 billion for both projections.

Outlays for community and regional development decline between fiscal year 1977 and 1980 under existing law commitments. This is largely due to the fact that 1977 to 1979 contain outlays from programs, such as urban renewal, which have been terminated.

The projections for elementary and secondary education grants are based on holding budget authority constant in current dollar terms (under existing law commitments) and real terms (assuming adjustments for inflation). The rise in outlays in fiscal years 1978 and 1979 under existing law commitments is due to the large effect on outlays of recent increases in budget authority.

The revenue sharing category includes the programs under the general heading of revenue sharing and general purpose fiscal assistance (budget function 850, see Table 15). The bulk of this category is the general revenue sharing program. The projections assume that general revenue sharing will be extended again when the present program authorization ends on September 30, 1980. Under current law, general revenue sharing grants will total \$6.7 billion in fiscal year 1977 and rise to \$6.9 billion by 1979. It is assumed for the projections under existing law commitments that the general revenue sharing program will remain at this level through 1982. If funding is adjusted for inflation to keep real dollar value constant when the program is extended in 1981, then the level of spending will rise to \$7.2 billion in 1981 and \$7.7 billion in 1982.

The other grant programs under the existing law commitments outlay path remain essentially constant throughout the projection period at the 1977 funding level. For the projection that assumes adjustments for inflation, funding for all programs is held constant in real terms, with the exception of the Title XX social services grant program, which is subject to a statutory spending ceiling. The cost of these discretionary inflation adjustments rises from \$1 billion in 1978 to \$8 billion in 1982. The effect of the inflation adjustments increases due to two factors. The first is simple

compounding (inflation adjustments on inflation adjustments). The second reason is related to the methodology used for making projections. In almost all grant programs, outlays are based either on budget authority or obligations. Thus, inflation adjustments were made first to either the budget authority or the obligations. For many of the grant programs, outlays from a given year's budget authority take place over the years following. As a result, it takes time before inflation adjustments work their way into outlays. It should be noted that this same phenomenon can be seen in defense and other federal purchases.

Net Interest

Net interest represents interest paid on that portion of the public debt held by the public. It excludes interest paid to government trust funds that hold federal securities and interest receipts of the U. S. Treasury. Net interest payments in fiscal year 1977, as assumed in the second concurrent resolution, total \$30 billion, representing 7 percent of total spending. Their relative share of the total budget has remained quite steady during the past 20 years. These payments are projected to increase to approximately \$39 billion by 1982, as shown in Table 11.

Table 11. Net Interest Projections, by Fiscal Years, in Billions of Dollars

Major Component	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
Interest function (900)	34.7	39.6	46.2	49.5	51.2	52.7	54.4
Interest received by trust funds	-7.8	-9.1	-10.5	-11.7	-12.9	-14.4	-16.2
Total interest	26.9	30.4	35.7	37.8	38.3	38.3	38.2
Outlays with Further Adjustments for Inflation							
Interest function (900)	34.7	39.6	46.3	50.3	52.4	53.9	55.6
Interest received by trust funds	-7.8	-9.1	-10.5	-11.7	-12.9	-14.4	-16.2
Total interest	26.9	30.4	35.8	38.6	39.5	39.5	39.4

Net interest costs depend upon the level of the total interest-bearing public debt and on interest rates. The debt grows by the amount of unified budget deficits, trust fund surpluses, and deficits of off-budget agencies that borrow funds from the Treasury. Interest rates depend upon the growth in the money supply and demand on the credit markets by both the public and private sectors. Table 12 gives the interest rate and budget assumptions used to derive the five-year projections of interest costs. The projections of outlays under existing law commitments have a lower growth path than outlays with further adjustments for inflation, resulting in lower budget

deficits and larger surpluses. Thus, projected interest costs under existing law commitments are somewhat lower than they would be if all programs were adjusted for inflation. Net interest outlays are also sensitive to changes in the interest rate assumptions. If interest rates were to remain constant at their current level (roughly 5 percent for 91-day Treasury bills), the reduction in net interest outlays would be approximately \$4 billion in 1978 from the amount shown in Table 11. Over the projection period, the difference would come to more than \$20 billion, with corresponding reductions in unified budget deficits.

Table 12. Assumptions Related to Interest Projections, by Fiscal Years, in Billions of Dollars

Budget Assumptions	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
Interest-bearing public debt (end-of-year) ^{a/}	619.3	703.8	761	785	804	828	856
Budget deficit (-) or surplus	-65.6	-50.6	-38	-3	34	78	126
Trust fund surplus	2.4	12.5	8	11	11	16	19
Deficits of off-budget agencies	-8.0	-8.6	-10	-11	-8	-8	-9
Outlays with Further Adjustments for Inflation							
Interest-bearing public debt (end-of-year)	619.3	703.8	766	802	821	846	873
Budget deficit (-) or surplus	-65.6	-50.6	-44	-16	12	46	82
Trust fund surpluses	2.4	12.5	8	11	11	16	19
Deficits of off-budget agencies	-8.0	-8.6	-10	-11	-8	-8	-9

Economic Assumptions	Calendar Years						
	1976	1977	1978	1979	1980	1981	1982
Treasury bill rate, 91 day bills (percent)	5.16	6.22	6.67	6.67	6.67	6.67	6.67
Yield on 3-5 year Treasury notes (percent)	7.18	7.66	6.96	7.98	7.99	7.99	7.99

^{a/} Interest-bearing public debt at the end of a given year is calculated by adding the budget deficit, trust fund surplus and off-budget deficit for that year to the interest-bearing public debt of the previous year.

Total interest-bearing public debt is assumed to rise throughout the projection period, due to continued existence of trust fund surpluses and off-budget outlays. The substantial unified budget surpluses projected are not assumed to be applied to reductions to the public debt (nor to any other specific purpose).

Other Federal Operations

This spending category includes purchase of goods and services for use in government programs such as space technology and public works, compensation of civilian agency employees (but not retirement costs), and

foreign economic and financial assistance. As assumed in the second concurrent resolution, these direct federal programs total an estimated \$50 billion in 1977 and represent 12 percent of total outlays. With adjustments for inflation, these activities are projected to remain at 12 percent of total outlays in 1982 as outlays rise to \$70 billion. Without discretionary inflation adjustments, outlays would increase only \$9 billion by 1982 and their relative share of the budget would decline to 11 percent. The primary reason for the \$9 billion increase in outlays for these programs under existing law commitments is that the projections assume that pay for civilian federal employees will be adjusted each year to maintain comparability with the private sector. Details of projections for other federal operations are contained in Table 13.

Table 13. Projections of Other Federal Operations, by Fiscal Years, in Billions of Dollars

Major Programs	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Outlays under Existing Law Commitments							
International affairs (function 150)	4.1	6.9	7.5	7.4	7.6	7.5	7.2
General science, space, and technology (function 250)	4.4	4.5	4.6	4.6	4.7	4.7	4.8
Agriculture and natural resources	7.9	8.5	8.9	10.0	10.1	10.2	10.3
Energy	2.4	4.3	4.4	4.6	4.5	5.0	4.5
Transportation and commerce	8.6	8.5	9.7	9.5	9.7	9.2	9.2
Aid to education	3.5	4.3	3.6	4.5	4.7	4.7	4.7
Other loans and financial transactions	-0.3	0.4	1.1	1.6	1.6	1.7	1.7
Veterans' hospitals and medical care	4.0	4.7	5.0	5.3	5.5	5.7	5.9
Medical research	4.9	5.1	5.5	5.6	5.8	6.0	6.3
General government and law enforcement	5.3	6.1	6.2	6.3	6.6	6.9	7.1
Undistributed offsetting receipts	-6.9	-7.7	-6.8	-7.0	-7.1	-7.8	-8.3
All other	3.1	4.3	4.6	4.7	4.9	5.0	5.2
Total, other federal operations	41.0	50.1	54.3	57.2	58.4	58.7	58.6
Outlays with Further Adjustments for Inflation							
International affairs (function 150)	4.1	6.9	7.7	8.0	8.6	9.0	9.2
General science, space, and technology (function 250)	4.4	4.5	4.7	5.0	5.3	5.6	5.9
Agriculture and natural resources	7.9	8.5	10.3	10.9	11.4	11.9	12.5
Energy	2.4	4.3	4.5	5.0	5.2	6.0	5.9
Transportation and commerce	8.6	8.5	9.9	9.8	10.2	10.0	10.3
Aid to education	3.5	4.3	3.7	4.8	5.3	5.6	6.1
Other loans and financial transactions	-0.3	0.4	1.1	1.6	1.7	1.7	1.8
Veterans' hospitals and medical care	4.0	4.7	5.1	5.5	5.8	6.1	6.5
Medical research	4.9	5.1	5.5	5.8	6.2	6.5	7.0
General government and law enforcement	5.3	6.1	6.3	6.6	7.0	7.3	7.8
Undistributed offsetting receipts	-6.9	-7.7	-6.8	-7.0	-7.1	-7.8	-8.3
All other	3.1	4.3	4.7	4.9	5.2	5.4	5.7
Total, other federal operations	41.0	50.1	56.7	60.8	64.7	67.4	70.3

International affairs programs include foreign economic and financial assistance, the conduct of foreign affairs, foreign information and exchange activities, and the Export-Import Bank. Under existing law commitments, the projections assume that the 1977 funding levels will be maintained (except for civilian federal employees) and that loan repayments will rise

according to historical patterns. Outlays for international affairs are projected to increase in fiscal year 1978 over the 1977 level due in large part to prior year commitments. Between fiscal years 1978 and 1982 outlays decrease for the projection that reflects only existing law commitments. This is because under the methodology used for projecting loans, like those made by the Export-Import Bank, the level of new loans remains constant in current terms but receipts from loans made prior to 1977 continue to rise. Thus, the net of new loans and receipts decreases. When the projections are adjusted to maintain a real constant level of activity, the additional outlays required rises from \$200 million in 1978 to \$2 billion in 1982.

The major components of the general science, space, and technology category in Table 13 are National Aeronautics and Space Administration programs and National Science Foundation funding for research and development. Under existing law commitments, outlays for these programs would rise slightly between 1977 and 1982, reflecting assumed pay increases for federal employees. The increase in outlays due to further adjustments for inflation to maintain real program levels are estimated to rise from \$200 million in 1978 to \$1.3 billion in 1982.

Energy programs are primarily those of the Energy Research and Development Administration; however, other agencies such as the Departments of Commerce and Agriculture and the Federal Energy Administration are also funded within this category. This category includes outlays for naval and strategic petroleum reserves. The methodology for estimating budget authority and outlays for naval and strategic petroleum reserves represent one of the exceptions to the general approach used elsewhere of holding resources constant throughout the projection period. The buildup of these reserves was interpreted to be a temporary or one-time need. Thus, as the projects approach completion in fiscal year 1982, outlays are projected to decrease.

A major component of the category entitled agricultural and natural resources is the farm price support program, or alternatively the Commodity Credit Corporation (CCC). The projection for the CCC made use of Department of Agriculture data and independent projections of crop yields and market prices. The analysis was based on no change in the current law. The remaining programs in this category include Corps of Engineers construction projects, the Tennessee Valley Authority, the U. S. Forest Service, and the Bureau of Reclamation and Land Management. For these programs outlays are projected to be relatively constant under current law except for increases associated with federal pay raises.

Transportation and commerce programs include payments to the Postal Service, the U. S. Coast Guard, Federal Aviation Administration operations, railway and maritime subsidies, the Small Business Administration, and the Federal Housing Administration Loan Fund. The projection for the Postal Service was based on existing law that specifies funds to be paid to the Postal Service over the projection period. One of the programs in this category is the Northeast Corridor Improvement Program. Similar to the projections for strategic and naval petroleum reserves, the projection for this program assumes that the project is for a temporary or one-time need. Thus, there are no outlays for this program after fiscal 1980, at which time sufficient funds for project completion have been included in the projection. This accounts for most of the decrease in outlays for transportation and commerce in fiscal 1981 and 1982 under existing law commitments. The projected increase in outlays in fiscal year 1978 is largely due to the spendout of prior year loan commitments. The projected increase in outlays under existing law in fiscal year 1978 for commerce and transportation is largely due to the spendout or outlay of prior year loan commitments.

The projections for other loans and financial transactions include loans made for community development and for veterans' housing. The projections are based on the assumption of a constant level of new loan activity. Since outlays are simply the net of loan repayments and loan disbursements as provided under current law, the projection under both paths is the same. This category of spending is projected to remain relatively constant at a level of \$1.5 billion over the projection period.

The category aid to education is composed primarily of federal programs that are not grants to states. The largest program is higher education with outlays of approximately \$3 billion in fiscal year 1977. Spending for education is projected to decrease slightly in fiscal year 1978 since the outlays estimated for the second concurrent resolution for fiscal year 1977 contain outlays from prior year budget authority; these would normally fall in fiscal year 1978 under the outlay rates used in these projections.

Undistributed offsetting receipts, which are deducted from federal spending to arrive at budget totals, include: (1) federal government contributions to federal employee retirement; (2) interest received by trust funds; and (3) rents and royalties received by the federal government for offshore oil leases. Outlays for the government contribution to employee retirement increases over time due to federal pay increases. Interest received by trust funds has already been included in the net interest spending category and consequently is not reflected in the total for undistributed offsetting receipts in Table 13. The projections of offshore oil

receipts depend largely on the number and value of offshore oil sites leased each year. The projections include the following estimates for offshore oil receipts for fiscal years 1978 through 1982:

<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
2.2	2.1	1.9	2.3	2.4

Most of the remaining categories of spending in Table 13 (veterans' hospital and medical care, medical research, general government, and law enforcement) are self-explanatory. Under existing law, outlays for these categories are projected to increase by more than \$3 billion between 1977 and 1982 because of federal pay increases. Adjustments for inflation in federal purchases add another \$2 billion to these categories by 1982.

The category entitled "all other" includes miscellaneous activities of the federal government ranging from the salaries and expenses for the Department of Labor to administrative expenses of the Veterans Administration. As with other categories, the increases under existing law commitments reflect projected federal pay raises.

MAJOR FUNCTIONAL CATEGORIES

Another important classification of federal spending is by the major functions or purposes being served by federal programs. The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and budget outlays for each function in its annual budget resolutions. The functional classification is a means of presenting budget authority and outlays in terms of the principal purposes that federal programs are intended to serve, regardless of the methods used to carry out the activities.

The relationship between the five spending categories used above in this chapter to discuss the spending projections and the functional classification is as follows:

- o The national defense category is the same for both classifications.
- o The bulk of the health, income security, and veterans' benefits functions are carried out through benefit payments to individuals.
- o Grants to state and local governments (other than grants for payments to individuals) are concentrated largely in functions 400, 450, 500, and 850.

Table 14. Budget Authority Projections by Function, by Fiscal Years, in Billions of Dollars

Function	1976 Actual	1977 Estimate a/	Projections b/				
			1978	1979	1980	1981	1982
National defense (050)	103.8	112.1	120.0	126.7	134.9	143.6	153.2
International affairs (150)	5.8	8.9	9.2	9.9	10.4	10.9	11.3
General science, space, and technology (250)	4.3	4.6	4.9	5.1	5.4	5.7	6.1
Natural resources, environment, and energy (300)	19.3	18.2	18.4	19.5	20.3	21.6	22.0
Agriculture (350)	4.2	2.1	2.0	2.7	2.8	2.9	3.4
Commerce and transportation (400)	20.6	17.2	19.1	19.6	20.4	23.1	24.7
Community and regional development (450)	5.6	9.5	7.8	8.0	8.5	9.1	9.7
Education, training, employment, and social services (500)	21.4	24.0	22.9	23.3	23.7	24.4	25.3
Health (550)	33.7	40.5	47.1	53.7	59.7	70.6	80.1
Income security (600)	138.9	155.9	162.2	177.1	192.6	207.6	224.7
Veterans' benefits and services (700)	19.7	20.3	20.5	21.2	21.6	22.1	22.6
Law enforcement and justice (750)	3.3	3.5	3.7	3.9	4.1	4.3	4.6
General government (800)	3.4	3.6	3.7	3.7	3.9	4.1	4.4
Revenue sharing and general purpose fiscal assistance (850)	9.5	7.6	8.0	8.0	8.1	8.6	9.2
Interest (900)	34.7	39.6	46.3	50.3	52.4	53.9	55.6
Allowances	--	.7	1.1	1.1	1.2	1.4	1.6
Undistributed offsetting receipts (950)	-14.7	-16.8	-17.3	-18.7	-20.0	-22.2	-24.5
Total	413.4	451.5	479.7	515.2	550.2	591.7	634.1

a/ Second Concurrent Resolution on the Budget (S. Con. Res. 139).

b/ Include further adjustments for inflation.

Table 15. Outlay Projections by Function, by Fiscal Years, in Billions of Dollars

Function	1976 Actual	1977 Estimate a/	Projections b/				
			1978	1979	1980	1981	1982
National defense (050)	90.0	100.6	113.6	120.8	130.8	139.1	147.4
International affairs (150)	4.1	6.9	7.7	8.0	8.6	9.0	9.2
General science, space, and technology (250)	4.4	4.5	4.7	5.0	5.3	5.6	5.9
Natural resources, environment, and energy (300)	11.3	16.2	17.8	19.0	20.2	21.9	22.7
Agriculture (350)	2.5	2.2	2.6	2.9	3.1	3.3	3.4
Commerce and transportation (400)	17.2	17.4	19.3	19.8	20.8	21.3	22.5
Community and regional development (450)	5.3	9.0	8.7	8.1	7.6	8.0	8.6
Education, training, employment, and social services (500)	18.1	22.2	22.0	22.4	23.0	23.5	24.2
Health (550)	33.5	38.9	45.3	51.0	57.9	65.9	74.9
Income security (600)	126.6	137.2	143.5	153.9	165.6	178.6	193.8
Veterans' benefits and services (700)	18.4	19.5	20.1	20.9	21.3	21.8	22.3
Law enforcement and justice (750)	3.3	3.6	3.7	3.9	4.0	4.3	4.5
General government (800)	2.9	3.5	3.6	3.7	3.9	4.1	4.4
Revenue sharing and general purpose fiscal assistance (850)	7.1	7.7	7.9	8.0	8.1	8.4	8.9
Interest (900)	34.7	39.6	46.3	50.3	52.4	53.9	55.6
Allowances	--	.8	1.2	1.2	1.3	1.5	1.7
Undistributed offsetting receipts (950)	-14.7	-16.8	-17.3	-18.7	-20.0	-22.2	-24.5
Total	364.8	413.1	450.7	480.1	513.9	547.8	585.7

a/ Second Concurrent Resolution on the Budget (S. Con. Res. 139).

b/ Include further adjustments for inflation.

- o Net interest consists of the interest function and the interest received by trust funds, which comprise approximately one-half the undistributed offsetting receipts function.
- o Other federal operations are distributed throughout all functional categories except national defense and interest.

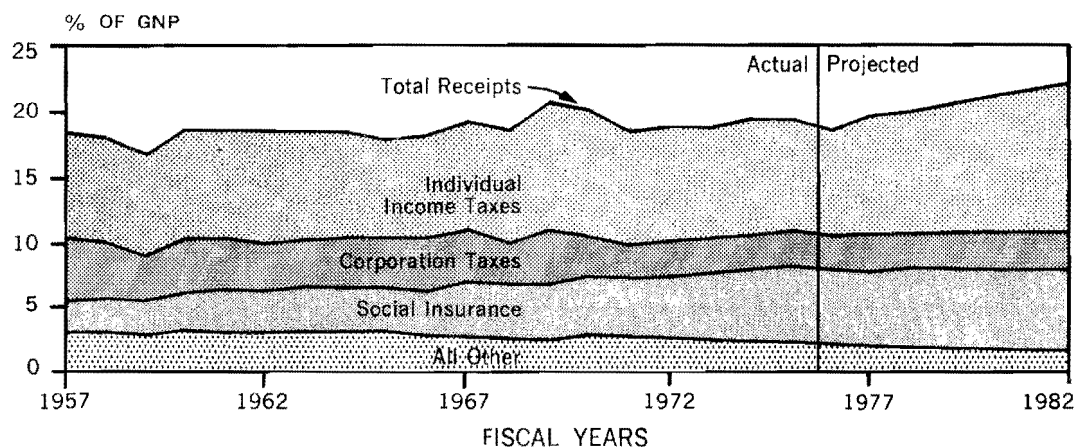
Tables 14 and 15 present the five-year projections of budget authority and outlays by the 17 major functions used for the Congressional budget resolutions. The distribution of budget authority and outlays among these functions for fiscal year 1977 is identical to the distribution contained in the second concurrent resolution. The projections for 1978-1982 include discretionary inflation adjustments.

Since the inflation adjustments used for the projections are relatively uniform for most federal programs, the percentage breakdown of projected total outlays by functional category changes little between 1977 and 1982. The budget share of the health function increases, largely because cost increases are assumed to continue to be more rapid for the medicare and medicaid programs than for other programs. This increase is offset by declining shares for community and regional development, education, training, employment and social services, and veterans' benefits and services functions, as special antirecession measures phase out and the number of veterans receiving benefits declines.

Projections of federal revenues for the next five years are presented in this chapter. Since taxes are levied on current dollar tax bases, the revenue projections are automatically adjusted for inflation; therefore, only a single set of estimates is shown here. As in the case of budget outlays, all revenue projections reflect current policy and it is assumed that there are no changes in the tax law during the projection period.

Total federal receipts grew fourfold between fiscal years 1956 and 1976 -- from \$75 billion to \$300 billion. Relative to the size of the economy, however, receipts have increased very little -- from 18 percent of the gross national product (GNP) in 1956 to 19 percent in 1976. However, because tax receipts fluctuate greatly with economic cycles, there has been substantial variation in receipts as a percentage of GNP within the past two decades. These cyclical variations, by revenue source, are shown in Chart 5. Under current policy assumptions, total receipts are expected to grow to \$668 billion by fiscal year 1982 or 22 percent of GNP.

Chart 5.
FEDERAL REVENUES AS A PERCENTAGE OF GNP



The degree to which the federal government relies on various sources of revenue has shifted markedly during the past two decades. Federal receipts by source, both as a percentage of GNP and as a proportion of total budget receipts, are displayed in Table 16. Individual income, corporation income, and social insurance taxes together now provide about 90 percent of

total federal revenue. The relative share of individual income taxes as a revenue source has remained roughly constant at 42 to 45 percent during the last twenty years. Both because of increases in the tax rates and in the taxable earnings bases, the share of the social insurance taxes (primarily for social security and unemployment insurance), however, has increased from 12.5 percent to nearly one-third of total receipts. Corporation income taxes as a source of federal revenue declined significantly, from 28 percent in 1956 to only 14 percent in 1976. This resulted primarily from the introduction of such changes as the investment tax credit and accelerated depreciation, rather than from explicit tax rate reductions -- although the rate itself was reduced from 52 percent to 48 percent during the period. Also, the decline of corporate earnings from 11.5 percent of the GNP in 1956 to just over 8.5 percent in 1976 is responsible for part of this pattern shift. Other receipts, which include a large number of miscellaneous items, such as excises and estate and gift taxes, now account for only slightly more than 10 percent of total receipts. These historical relationships are shown in Chart 6.

Table 16. Composition of Federal Receipts, 1957-1982

As a Percent of GNP						
Source	1957	1962	1967	1972	1977	1982
Individual income taxes	8.2	8.4	8.0	8.5	8.8	11.3
Corporation income tax	4.9	3.8	4.4	2.9	3.2	3.0
Social insurance taxes and contributions	2.3	3.1	4.3	4.8	5.8	6.2
Other taxes and receipts	3.0	3.0	2.7	2.5	2.0	1.5
Total receipts	18.5	18.3	19.3	18.8	19.7	22.1

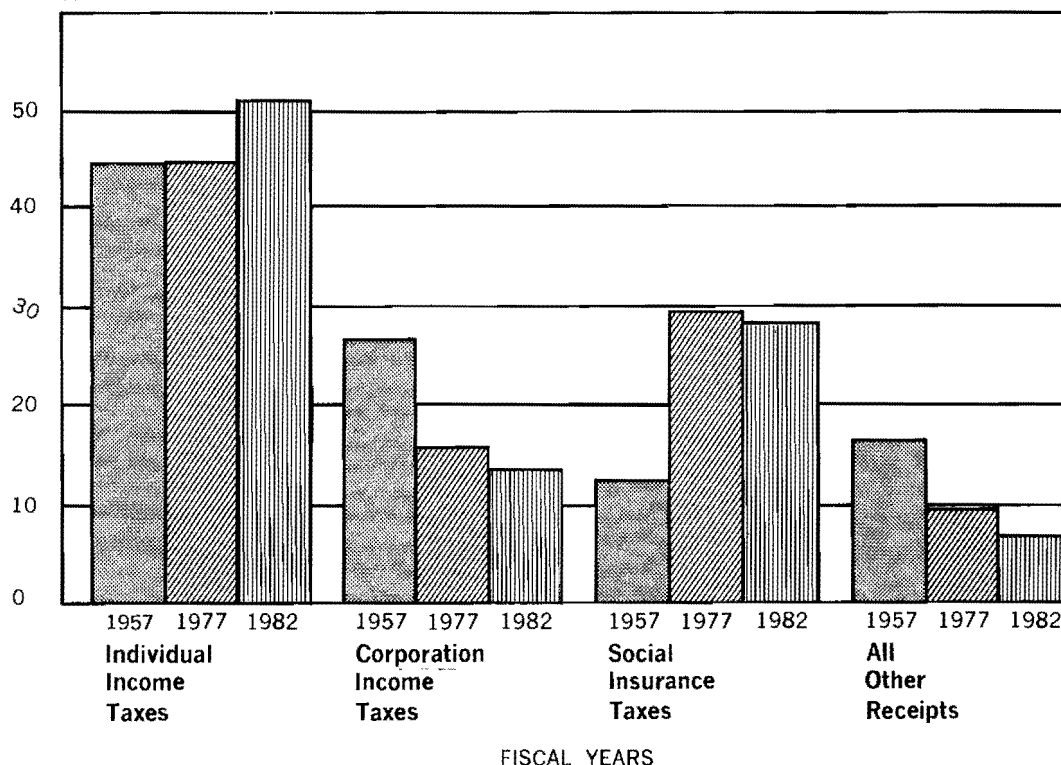
As a Percent of Total Budget Receipts						
Individual income taxes	44.5	45.7	41.1	45.4	44.6	51.0
Corporation income tax	26.5	20.6	22.7	15.4	16.1	13.8
Social insurance taxes and contributions	12.5	17.0	22.2	25.8	29.5	28.1
Other taxes and receipts	16.5	16.5	13.8	13.3	9.7	6.9
Total receipts	100.0	100.0	100.0	100.0	100.0	100.0

If tax laws are not changed, it is estimated that the proportion of total federal revenue derived from the individual and corporation income taxes and the various social insurance taxes would rise to 93 percent during the next five years. However, a somewhat smaller share of the total would be generated from payroll taxes and a larger share would come from the individual income tax. The corporation income tax would continue to account for about 14 percent of total revenue in fiscal year 1982. The share of federal revenue derived from the taxes on personal income would continue to rise because these taxes are the most responsive to changes in the gross national product.

Chart 6.

COMPOSITION OF FEDERAL REVENUES

% OF BUDGET RECEIPTS



PROJECTION ASSUMPTIONS

Revenue projections are quite sensitive to the assumptions made about the underlying economic conditions. Assumed values of the key variables most important for projecting federal revenue are shown in Table 17. These include wage and salary income, taxable personal income (TPI), ^{1/} and corporate profits. Individual income tax and payroll tax

^{1/} Taxable personal income is the aggregate income concept closest to the base on which the individual income tax is levied. It is equal to total personal income less the sum of nontaxable transfer payments and wage supplements plus personal contributions for social insurance.

collections are almost solely related to the growth rate of the first two variables while corporation income taxes depend on what happens to corporate profits. The average annual growth rates of wages and salaries and TPI between 1976 and 1982 are projected to be just under 11 percent annually. During the same period, corporate profits are expected to increase at about a 12.5 percent average annual rate. Despite the faster growth rate projected for corporate profits, individual income taxes will represent a larger proportion of total 1982 receipts because they are much more responsive to income changes than is the corporation income tax.

Table 17. Selected Economic Variables Underlying the Revenue Projections for 1977-1982, by Calendar Years, in Billions of Dollars

Calendar Years	Wages and Salaries	Corporate Profits	Taxable Personal Income <u>a/</u>
1976	893.5	148.7	1,175.3
1977	1,006.1	167.6	1,312.2
1978	1,118.5	190.4	1,463.7
1979	1,236.1	219.3	1,624.0
1980	1,366.6	251.0	1,794.7
1981	1,507.7	274.6	1,979.6
1982	1,665.2	299.1	2,185.7

NOTE: Projected values for 1976 through 1982 shown above are for the CBO baseline economic path.

a/ Taxable personal income is the aggregate income concept closest to the income base on which the individual income tax is levied. It is equal to total personal income less the sum of nontaxable transfer payments and wage supplements plus personal contributions for social insurance.

As indicated earlier, the projections are made under current policy assumptions regarding tax legislation. This is to retain consistency with the outlay projections and also is necessary because several existing provisions are due to change within the next five years. Thus, it is assumed that the tax laws in effect in calendar 1976 -- including all the recently enacted

provisions of the Tax Reform Act of 1976 -- remain in effect through 1982. 1/ The full amount of the earned income credit is treated as a tax reduction -- rather than an expenditure item -- and has been subtracted from the individual income tax receipts shown below. 2/ The maximum taxable earnings ceiling for social security is assumed to rise from \$15,300 in calendar year 1976 to \$24,000 in 1982. Also, it is assumed that the 11.7 percent employee and employer social security tax rate rises to 12.1 percent in calendar year 1978 and to 12.6 percent in 1981, as provided for in current law. Finally, it is assumed that the tax rate and taxable earnings increases in the Unemployment Compensation Amendments of 1976 become effective as scheduled.

REVENUE PROJECTIONS

The total federal receipts projections, by source, are shown in Table 18. Total revenue is expected to rise from \$300 billion in fiscal year 1976 to \$668 billion in fiscal year 1982. Fifty-seven percent of the \$368 billion revenue increase is attributable to higher individual income tax collections and 14 percent to increased corporation income taxes. Thus, together, the individual and corporation income taxes will account for 71 percent of the increase in total revenue. Almost all -- 26 percent -- of the remaining increase will be from additional social insurance collections. The other 3 percent will be from the growth of all other revenue sources.

Because of these changes, the distribution of revenue by source is projected to shift somewhat between 1977 and 1982. The individual income and corporate profits taxes are expected to raise a larger share of total revenue by 1982 -- increasing from 61 percent in 1977 to 65 percent in 1982. The share raised by the social insurance taxes is projected to fall slightly from 29.5 percent to 28 percent between 1977 and 1982.

1/ In particular, it is assumed that the \$35 per capita tax credit and earned income credit are renewed when they expire on December 31, 1977. It is also assumed that the corporation surtax reduction and the 10 percent investment tax credit remain in effect for the full projection period.

2/ The Office of Management and Budget treats the refundable portion of the earned income credit as an outlay in the income security category of the budget. Since the Congressional Committees on the Budget have not adopted this practice, the full amount of the earned income credit is still shown in the revenue section of the budget in this report.

Table 18. Projections of Federal Budget Receipts by Source, by Fiscal Years, in Billions of Dollars

Source	1976 Actual	1977 Estimate	Projections				
			1978	1979	1980	1981	1982
Individual income taxes	130.8	161.7	188	219	255	295	341
Corporation income taxes	41.4	58.5	58	67	77	85	92
Social insurance taxes and contributions	92.7	107.1	124	139	152	170	188
Excise taxes	17.0	17.8	18	19	19	20	20
Estate and gift taxes	5.2	6.0	6	6	7	7	8
Customs duties	4.1	4.4	5	5	6	6	7
Miscellaneous receipts	8.0	7.0	8	9	9	10	11
Total	299.2	362.5	407	464	526	594	668

During the next five years, both current dollar GNP and taxable personal income are assumed to rise at about 11 percent annually. Total revenue is projected to grow at a 14 percent annual rate. Thus, by 1982, for each 1.0 percent increase in GNP there is about a 1.2 percent associated increase in total federal revenue. This is due in large part to the individual income tax, which is especially responsive to changes in economic conditions because of its progressive rate schedule. Thus, there is about a 1.5 percent increase in individual income tax receipts associated with every 1.0 percent increase in the GNP. All the other major revenue sources increase at slower rates in response to a given percentage change in the gross national product.

APPENDIXES

APPENDIX A FEDERAL EXPENDITURES ON A NATIONAL INCOME ACCOUNTS BASIS

The unified budget and the federal sector of the national income accounts (NIA) both measure receipts and expenditures of the federal government. The national income accounts, however, have as their special focus current income and production, and are, therefore, the most widely used indicator of aggregate economic activity.

The distinction between the unified budget and the NIA federal sector arises principally from netting differences, coverage differences, timing differences, and the NIA's exclusion of financial transactions. Thus, both additions to and subtractions from the unified budget are required to obtain the national income accounts measure. A simple computerized model has been designed to make these unified budget-NIA adjustments for CBO's current policy budget projections. The foundation of the model is the simple assumption that previous years' relationships will continue to hold. The soundness of this assumption is examined below.

The federal government's expenditures on a national income accounts basis are divided into several categories: defense and nondefense purchases, domestic and foreign transfers, grants-in-aid to state and local governments, domestic and foreign interest, and subsidies less current surplus of government enterprises. CBO's computer model distributes federal sector outlays among these categories, again on the basis of their composition in previous years.

DIFFERENCES BETWEEN THE UNIFIED BUDGET AND FEDERAL EXPEN- DITURES ON A NATIONAL INCOME ACCOUNTS BASIS

Since the national income accounts focus on current income and production, they exclude transactions such as lending and borrowing which are merely asset and liability transfers. These activities certainly influence production and income but are not appropriately included in their measurement. The interest expended or earned as a result of financial transactions is, however, included in the NIA under the net interest category.

Just as lending and borrowing are excluded as exchanges of assets, so are bonuses paid on Outer Continental Shelf (OCS) oil leases and purchases and sale of land. The unified budget treats OCS bonuses as proprietary

receipts which are offset against outlays. This procedural difference and others mean that the federal surplus or deficit varies, depending on whether it is measured in unified budget or NIA terms.

Other distinctions between the NIA and unified budget result from different treatment of offsetting receipts or expenditures offset by intra-governmental deductions. Government contributions for employee retirement are one example of such a netting adjustment. In the unified budget these contributions are not reflected in the totals since they are offset by intragovernmental transactions. In the NIA, however, contributions to government employee retirement are regarded as part of employee compensation, a practice comparable to private sector accounting. Thus, in the general case, these payments fall into nondefense purchases; for government enterprises, retirement contributions are reflected in the current deficit. Other netting and grossing items include imputed contributions for social insurance for unemployment compensation and for workmen's compensation.

Another reconciliation item between the national income accounts and unified budget is timing adjustments. The national income accounts are on an accrual basis while the unified budget, except for interest on the public debt, is on a cash basis. Major timing differences occur in the defense area, where the unified budget records outlays as they are made, but the NIA records them at time of delivery. Another example of a timing adjustment involves the difference between outlays from the unemployment trust fund and actual unemployment benefits paid.

Coverage differences comprise a final category of adjustments. Such differences involve the NIA's geographical exclusions of transactions with Puerto Rico, the Virgin Islands, and other U. S. territories, and inclusion of certain foreign currency transactions not in the budget and transactions of certain off budget agencies.

The CBO model does not keep track of the various reasons behind each of the adjustments it makes. For an indication of the magnitude of the various kinds of adjustments, Table A-1 shows actual adjustment values for 1975 and OMB's 1977 estimate of the unified budget-NIA translation. For 1977, adjustments are shown only as a percentage of unified budget total expenditures. This estimate was prepared in early 1976, and the dollar amounts are no longer timely.

Table A-1 indicates that the largest percentage changes from 1975 to 1977 occurred in the net lending and Outer Continental Shelf leases categories. Coverage and netting differences, as well as net lending, account for large absolute value adjustments from the unified budget to the NIA.

Table A-1. Adjustments Between the Unified Budget and Federal Expenditures,
National Income Accounts

	Fiscal Years		
	1975 Actual (\$)	1975 Actual (%)	1977 Estimate (%)
Unified Budget Outlays	324.6	100.0	100.0
Less: Coverage Differences			
Geographic	2.0	.6	.6
Other	-9.7	-3.0	-2.9
Financial Transactions			
Net lending	12.3	3.8	3.1
Other	-.3	-.1	-.1
Net purchases of land			
Outer Continental Shelf	-2.0	-.6	-1.4
Other	.4	.1	.1
Plus: Netting Differences			
Contribution to government employee retirement funds	5.1	1.6	1.5
Other	2.4	.7	.7
Timing Differences			
Purchases of goods and services	-.6	-.2	-.1
Other	-.2	-.1	-.0
Miscellaneous	.1	.0	.0
Federal Government Expenditures, National Income Accounts	328.7	101.3	102.6

THE CBO NIA MODEL

The CBO national income accounts model is a simple tabulator which makes adjustments between the unified budget and the NIA at a level of detail somewhat more aggregated than account level. Fixed percentage adjustments are made based on the percentage adjustment in 1974. Changes were made for 1974 one-time only adjustments and for accounts whose purpose has changed. Items in the NIA but not in the unified budget are computed by hand. NIA federal sector dollars in each account or account grouping are divided among expenditure categories based on their distribution in 1974.

The NIA model has been functioning only a short period of time and has not yet been completely validated. Neither has the assumption been fully assessed that this year's adjustments and distribution over expenditure categories look very much like a previous year's. It appears now that this assumption may be less inaccurate for nonrevolving funds than for revolving or public enterprise funds. However, whether the assumption is satisfactory in the aggregate seems more important than its appropriateness for any single account.

FEDERAL EXPENDITURES, NATIONAL INCOME ACCOUNTS, 1977-1982

Table A-2 displays national income account expenditures derived by the NIA tabulator from the 1977 unified budget based on the second concurrent resolution and from the current policy projections for 1978-1982. The total expenditure figures compare well with NIA estimates for the same period appearing in the Survey of Current Business ^{1/} and in Data Resources Review. ^{2/} The particular numbers obtained for the total and for any expenditure category are, however, sensitive to the economic and budget assumptions underlying the NIA estimates. Different assumptions, as well as different procedures for deriving NIA estimates, explain the variation between these and other NIA projections.

Table A-2. Estimates of Federal Expenditures, National Income Accounts, 1977-1982

	1977 Estimate	Projections				
		1978	1979	1980	1981	1982
Purchases	145.3	162.3	171.8	183.5	195.3	207.4
Defense	(93.5)	(105.3)	(112.1)	(120.2)	(128.4)	(136.7)
Nondefense	(51.9)	(57.0)	(59.7)	(63.3)	(66.9)	(70.7)
Transfer payments	170.6	180.8	195.0	211.1	229.5	250.6
Domestic	(166.1)	(175.8)	(190.2)	(206.0)	(224.1)	(244.9)
Foreign	(4.5)	(4.6)	(4.9)	(5.1)	(5.4)	(5.7)
Grants	70.7	73.7	75.4	78.4	83.3	89.2
Net interest paid	28.1	33.7	37.4	39.2	40.8	42.5
Subsidies less current surplus	6.7	7.2	8.8	10.3	11.4	12.6
Subsidies	(6.5)	(7.7)	(9.0)	(10.2)	(11.0)	(12.0)
Less: current surplus	(.1)	(-.6)	(-.2)	(.2)	(.4)	(.7)
Total	421.4	457.7	488.4	522.6	560.3	602.2

^{1/} U. S. Department of Commerce, Survey of Current Business, "Federal Budget Developments," Volume 56, October 1976.

^{2/} Data Resources Review, "The Fiscal 1977 Budget: Appropriations and Implications," Volume V, October 1976.

APPENDIX B FULL-EMPLOYMENT BUDGET SURPLUS

The full-employment budget surplus (FES) is the difference between federal receipts and outlays that would be generated were the economy operating at full employment. ^{1/} This contrasts with the actual budget surplus in which both receipts and outlays depend on the current level of economic activity. Thus, the two measures coincide when the economy is operating at potential. The level of the FES is a useful concept since it focuses attention on how much of the actual surplus or deficit is due to departures from full employment. Yet, it is the change in the full-employment surplus that is important in measuring the extent of fiscal stimulus or restraint.

The purpose of this appendix is to present estimates of the full-employment surplus, based on the current policy projections contained in this report. The estimates are based on the projections which contain adjustments for inflation in all programs. To compute full-employment receipts, assumptions are necessary about the growth of potential or full-employment output, the full-employment unemployment rate, and full-employment shares and tax rates for personal income, payrolls, corporate profits, and indirect business taxes. It has been assumed that, starting in early 1973, full-employment or potential output has grown at an annual rate of 3.5 percent. Two alternative assumptions about the full-employment unemployment rate have been made, namely 4 percent and 5 percent. In years when actual unemployment exceeds these levels, actual receipts fall short of full-employment receipts. Historical data, anticipated legislative changes, and anticipated average tax rate changes due to the progressive nature of the income tax structure are the basis for estimating income shares and tax rates.

The computation of full-employment outlays involves determining how much would be spent on certain categories of outlays with the economy at full employment. The major item is unemployment compensation. Others are AFDC, food stamps, OASI and DI, SSI, and medicaid. In years of less than full employment, actual outlays on these programs are swollen above

^{1/} Full-employment refers to a situation in which employment is as high as possible without labor shortages or accelerating inflation. This has always been less than complete utilization of labor and has been associated here with overall unemployment rates of 4 and 5 percent.

their full-employment levels and hence full-employment outlays fall short of actual outlays.

Table B-1 presents full-employment receipts and outlays on the basis of a 4 percent unemployment rate. The table shows that in fiscal year 1976, the reduced tax revenues and increased outlays, which accompanied the slow pace of economic activity, produced an actual budget deficit of \$63.2 billion, ^{1/} far below the full-employment surplus of \$3.4 billion. The difference is a measure of the effects of the recession on the budget. Through fiscal year 1981 the projection of the actual surplus is less than the FES. This gap becomes smaller, until in fiscal year 1982 actual and full-employment budgets are nearly equal. The reason is simply that the economy is projected to approach 4 percent unemployment gradually, reaching that level in 1982. Using an unemployment rate of 5 percent leads to a much smaller full-employment surplus than a 4 percent rate. This is seen in Table B-2. On a 5 percent basis, the full-employment budget does not shift from deficit to surplus until 1980.

Table B-1. Actual and Full-Employment^{a/} Receipts, Outlays, and Surplus
Fiscal Years, in Billions of Dollars, NIA Basis

Date	Projected Actual Revenues ^{b/}	Projected Actual Expenditures ^{b/}	Projected Actual Surplus	Change in Actual Surplus	Full Employment Revenues	Full Employment Expenditures	Full Employment Surplus	Change in Full Employment Surplus
1976	311.5	374.7	-63.2	---	360.4	357.0	3.4	---
1977	375.0	421.4	-46.4	+17	409.3	410.2	-0.9	-4.3
1978	420.5	457.7	-37.2	+9.0	456.4	450.2	6.2	+7.1
1979	478.5	488.4	-9.9	+27.3	503.9	484.6	19.3	+13.1
1980	541.5	522.6	18.9	+28.8	554.9	520.1	34.8	+15.5
1981	610.5	560.3	50.2	+31.1	616.3	558.6	57.7	+22.9
1982	685.5	602.2	83.3	+33.1	686.0	601.0	85.0	+27.3

^{a/} These calculations assume a full employment unemployment rate of 4 percent.

^{b/} Projected revenues and expenditures are on a national income account basis. See Appendix A.

^{1/} This deficit and all the other figures in this section are measured according to national income accounting concepts which differ slightly from the accounting concepts used in calculating the unified budget (see Appendix A). National income concepts are more useful as measures of economic stimulus and restraint.

Table B-2. Full-Employment Surplus (FES), Two Alternative Definitions of Full Employment

Date	4 Percent Unemployment		5 Percent Unemployment	
	FES	Change in FES	FES	Change in FES
1976	3.4		-10.7	
1977	-0.9	-4.3	-17.1	-6.4
1978	6.2	7.1	-12.1	5.0
1979	19.3	13.1	-1.2	10.9
1980	34.8	15.5	11.6	12.8
1981	57.7	22.9	31.4	19.8
1982	85.0	27.3	55.0	23.6

The level of the actual surplus or deficit is a weak measure of the impact of fiscal policy, since its value is highly dependent on the current level of economic activity. For example, income tax receipts depend on the level of income, which is determined by private as well as public sector activity. The level of the FES avoids this problem by evaluating receipts and outlays at potential, which is to a large extent independent of the current level of business activity. However, there are serious possibilities for error in measuring the FES; it is difficult to know exactly what the economy's potential is and what tax rates and income shares would be if the economy were at potential. For these and other reasons, even the FES should be considered a crude measure of fiscal policy.

From fiscal year 1976 to fiscal year 1977, the actual deficit is projected to decrease, but the FES shifts from surplus to deficit (4 percent basis) or shows a growing deficit (5 percent basis). This happens because the assumed improvement in output generates revenues and reduces certain kinds of outlays, changes which reduce the actual deficit but do not affect the full-employment budget. From 1977 through 1982, however, both the actual and the FES budgets show decreasing deficits or growing surpluses. These trends indicate that a current policy budget implies a growing degree of fiscal restraint over time.

APPENDIX C

PROJECTIONS UNDER MORE RAPID ECONOMIC EXPANSION

As discussed in Chapter I, the baseline economic assumptions are consistent with the long-range assumptions used by both Committees on the Budget for the second concurrent resolution. The baseline path assumes real economic growth, as measured by the gross national product in constant dollars, will average 5.5 percent during the next three years and then taper down to 4.5 percent by 1982, as the unemployment rate falls below 5.0 percent in 1980 and reaches 4.1 percent by the end of the projections period. This path represents only one of several alternative paths which the economy may follow over the next five years. A lower growth path is discussed in Chapter I. This appendix contains projections under an economic path which reaches approximately the same unemployment rate by 1982 as the baseline path, but does so by means of more rapid economic expansion in 1978 and 1979.

The more rapid short-run economic expansion path assumptions are consistent with those used by the staff of the Joint Economic Committee for analyzing federal budget requirements. This path, shown in Table C-1, assumes real growth of 6.4 and 5.8 percent in 1978 and 1979, followed by a tapering to 3.9 percent in 1982. The unemployment rate reaches 4.0 percent by the end of 1981. The annual percent change in the CPI is assumed to rise from 5.0 percent in 1977 to 6.1 percent by 1982. This path produces only a slightly higher real GNP in 1982 than the baseline assumption, but the five year pattern of more rapid growth at first, followed by a tapering, produces higher output and lower unemployment during the intermediate years. The Joint Economic Committee has argued that such a pattern of tapering growth reduces the danger of overshooting the full employment target and touching off a new burst of inflation.

Table C-1. Economic Assumptions, 1976-1982, by Calendar Years

Selected Economic Variables	1976	1977	1978	1979	1980	1981	1982
Baseline Assumptions							
Gross National Product (GNP)							
Current dollar GNP (in billions)	1,697.7	1,884.5	2,085.2	2,304.4	2,547.0	2,808.7	3,102.6
Real GNP (in billions of 1972 dollars)	1,267.7	1,336.5	1,410.9	1,488.5	1,567.4	1,641.3	1,714.6
Growth rate of real GNP	6.4	5.4	5.6	5.5	5.3	4.7	4.5
Unemployment rate (percent)	7.6	6.8	5.9	5.3	4.8	4.4	4.1
Consumer price index (percent change)	5.7	5.0	4.8	4.8	5.0	5.3	5.8
More Rapid Economic Expansion							
Gross National Product (GNP)							
Current dollar GNP (in billions)	1,697.7	1,884.5	2,103.3	2,335.1	2,585.8	2,855.0	3,147.6
Real GNP (in billions of 1972 dollars)	1,267.7	1,336.5	1,422.7	1,505.8	1,584.8	1,656.7	1,721.9
Growth rate of real GNP	6.4	5.4	6.4	5.8	5.2	4.5	3.9
Unemployment rate (percent)	7.6	6.8	5.7	5.0	4.5	4.2	4.0
Consumer price index (percent change)	5.7	5.0	4.8	4.9	5.3	5.7	6.1

As was the case with the baseline assumptions, more rapid economic expansion path does not represent a necessary or predicted consequence of the budgetary projections associated with it. The budget projections show what the budget would look like if the economy were to achieve the more rapid expansion path.

Table C-2 presents projections of receipts, outlays, and the deficit or surplus under the assumption of more rapid economic expansion. The results show that receipts increase more rapidly in fiscal years 1978 and 1979 under the alternative path than under the baseline path, largely due to the higher rate of economic growth. Outlays under both paths are roughly the same in fiscal years 1978 through 1980, but diverge in fiscal year 1981 and 1982 due to the different rates of inflation under the two paths in these years.

Table C-2. Effects of More Rapid Economic Expansion on Budget Projections, by Fiscal Years, in Billions of Dollars

	1977	1978	1979	1980	1981	1982
Total Receipts						
Baseline economic assumptions	362.5	407	464	526	594	668
More rapid economic expansion	362.5	410	471	535	604	678
Total Outlays <u>a/</u>						
Baseline economic assumptions	413.1	451	480	514	548	586
More rapid economic expansion	413.1	451	482	517	555	595
Budget Deficit (-) or Surplus						
Baseline economic assumptions	-50.6	-44	-16	12	46	82
More rapid economic expansion	-50.6	-41	-11	18	47	83

a/ Includes further adjustments for inflation.

