

UPDATE TO FIVE-YEAR BUDGET PROJECTIONS: FISCAL YEARS 1978-1982

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PREFACE

Section 308(c) of the Congressional Budget Act of 1974 (Public Law 93-344) requires the Congressional Budget Office to issue federal budget projections as soon as practicable after the beginning of each fiscal year. This report is an update of the Five-Year Budget Projections: Fiscal Years 1978-1982 by the Congressional Budget Office (CBO), released on December 1, 1976. The update was prepared for the House and Senate Committees on the Budget for use in their consideration of the First Concurrent Resolution on the Budget for Fiscal Year 1978.

The projections presented in this report are based on the estimated budget revenues and outlays specified in the Third Concurrent Resolution on the Budget for Fiscal Year 1977. 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 as a forecast of what will occur.

The budget estimates in this report are based on the economic assumptions underlying the third concurrent resolution. Since the passage of the third concurrent resolution, the economic outlook has changed somewhat. The projections in this report do not include the effects of the changes. Also, the projections do not take into account budgetary developments subsequent to the passage of the third concurrent resolution, such as the withdrawal of the President's fifty dollar tax rebate proposal or the effects of a potential "shortfall" in federal outlays in fiscal year 1977.

Alice M. Rivlin
Director

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July 1, 1977



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SUMMARY

This report presents an update of estimates of what would happen to the federal budget over the next five years (fiscal years 1978-1982) under specified economic conditions, if current policies of spending and taxation were continued unchanged. That is, it projects the revenues that would be generated under current tax laws and outlays that would result from continuing federal spending programs at the levels specified in the Third Concurrent Resolution on the Budget for Fiscal Year 1977. In addition, this report contains estimates of the changes to current policy outlays and taxes that would be required if the economy were to reach a 4.5 percent unemployment rate by the end of calendar year 1982.

The projections show that:

- o Under current policy assumptions, spending would grow by over 40 percent by fiscal year 1982 and receipts would rise by almost 90 percent.
- o If an unemployment rate of 4.5 percent were to be achieved by the end of 1982, federal stimulus over and above that provided by current policy budgets would be necessary. The stimulus could be provided by tax cuts of \$70 to \$134 billion or expenditure increases of \$55 to \$105 billion, depending on assumptions about the nonfederal sectors of the economy.
- o It would be possible to balance the federal budget by fiscal year 1982 and achieve a 4.5 percent unemployment rate only if autonomous demand in the nonfederal sectors of the economy is stronger than the historical experience of the last decade.

Current policy outlays are projected to rise from \$417.45 billion in fiscal year 1977, as assumed in the third concurrent resolution, to \$597 billion in 1982. Under current policy assumptions, projected outlays do not rise as fast as GNP. Federal outlays as a percent of GNP drop from 23 percent for fiscal year 1977 to 20 percent for fiscal year 1982.

The difference between the level of outlays in the third concurrent resolution for fiscal year 1977 and current policy outlays in fiscal year 1982 is \$180 billion. Almost one-half is due to projected increases in social security, medicare, and medicaid payments. About one-fourth is due to discretionary inflation adjustments in grants to state and local governments,

veterans' benefits, defense purchases, and other federal purchases. Another one-sixth is for increases in pay for federal employees and retirement benefits for former civilian and military employees. The rest of the increases are comprised mainly of increased spending for interest on the public debt, outlays for programs approved prior to fiscal year 1977, and economic stimulus programs assumed in the third concurrent resolution.

The third concurrent resolution increased the budget authority and outlay ceilings of the second concurrent resolution to provide room for economic stimulus programs proposed by President Carter. With the exception of employment and training assistance and community service employment for older Americans, all the economic stimulus programs are assumed to be of a one-time or of a temporary nature. For one-time programs, no new budget authority is projected for fiscal years 1978-1982. For temporary programs, budget authority is projected to decrease as the unemployment rate falls.

Under current policy, total revenues are projected to rise from \$347.7 billion in fiscal year 1977, as assumed in the third concurrent resolution, to \$660 billion in fiscal year 1982. This represents an average annual growth rate of about 13.5 percent during the same time that taxable personal income is assumed to rise by slightly more than 10.5 percent per year. This is due in large part to individual income taxes, which are especially responsive to changes in economic conditions because of the progressive tax structure. The share of total revenues generated by individual income taxes is projected under current law to rise from 46 percent in fiscal year 1977 to 51 percent in fiscal year 1982. Total receipts as a percent of GNP are projected to rise from 19 percent in fiscal year 1977 to 22 percent in fiscal year 1982.

The projections of current policy receipts assume adoption of the tax features included in President Carter's fiscal stimulus program. The major item, a general refundable rebate of \$50 for each taxpayer, spouse, child, and other dependent, has no direct effect on receipts projections for fiscal years 1978-1982. Consequently, the President's decision to drop the fifty dollar rebate proposal has no direct effect on the projections. The components of the fiscal stimulus program that affect fiscal year 1978 receipts are the tax simplification and reform program (a \$5.4 billion reduction in receipts) and the business tax reduction program (a \$2.7 billion reduction in receipts). Projected current policy receipts in fiscal years 1979-1982 are not affected by the stimulus program.

This report presents projections through fiscal year 1982 of federal spending and receipts, based on the assumptions that current policies will remain unchanged, as did its predecessor.^{1/} Unlike the earlier report, however, this one also contains estimates of the changes to current policy expenditures or receipts that are consistent with a 4.5 percent unemployment rate by the end of calendar year 1982, under alternative assumptions about the strength of nonfederal demand.

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. Rather, they are presented to provide a useful analytical base from which various budget alternatives may be evaluated.

CHANGES SINCE LAST REPORT

The previous projections report was based on the Second Concurrent Resolution on the Budget for Fiscal Year 1977 and a set of economic assumptions that included growth rates in real gross national product (GNP) of 6.4 percent in calendar year 1976, 5.4 percent in 1977, and 5.5 percent thereafter until the unemployment rate approached 4.0 percent. Subsequent developments revealed that these economic assumptions were somewhat optimistic. The growth rate for calendar year 1976 was closer to 6.2 percent. For 1977 and 1978, later forecasts predicted real growth rates of approximately 4.7 and 5.0 percent, respectively. As a result of the revised economic outlook, President Carter submitted an economic stimulus package shortly after taking office. The Congress, in turn, approved the Third Concurrent Resolution on the Budget for Fiscal Year 1977, S. Con. Res. 10. The third concurrent resolution raised the spending ceilings and lowered the receipts floor from the second concurrent resolution levels, providing room for subsequent action on economic stimulus legislation. The third concurrent resolution is the base for the projections in this report; the economic assumptions used take into account the revised economic outlook.

The projections reported here do not take into account any economic or budgetary developments subsequent to the passage of the third concurrent

1/ Five-Year Budget Projections: Fiscal Years 1978-1982, CBO Report, December 1, 1976.

resolution, such as the withdrawal of the President's \$50 tax rebate proposal or the lower than anticipated unemployment rate in February, March, and April and the higher than anticipated increase in the consumer price index (CPI) in the first quarter of 1977. Also, note that the fiscal year 1977 spending levels are the ceilings applied in the third concurrent resolution. As such, they do not contain any possible effects of the spending shortfall that appears to be developing for fiscal year 1977.

ECONOMIC ASSUMPTIONS

Inflation, unemployment, and other levels of economic activity have a major effect on receipts and outlays. In order to develop budget projections, explicit assumptions must be made about what will happen to the economy over the next five years. The assumptions used for this projections update are consistent with the long-range assumptions used by both Committees on the Budget for the third concurrent resolution for fiscal year 1977. The assumptions in Table 1 reflect a forecast for 1977 and 1978 and a trend projection for 1979-1982. The economic path assumes that real growth, as measured by the gross national product, will average slightly below 5 percent between 1977 and 1982, and then drop to 4.4 percent in 1982. The rate of inflation, as measured by the annual percent change in the Consumer Price Index (CPI), is assumed to fall from 5.9 percent in 1977 to 5.2 percent in 1980 and then rise to 5.6 percent by 1982, as the unemployment rate reaches 4.5 percent.

As shown in Table 1, these assumptions are somewhat less optimistic than those underlying the December 1, 1976, report. Specifically, the growth rates in this report are lower, and the inflation and unemployment rates are higher. This reflects the revised economic outlook following the slowdown in the recovery during the second half of calendar year 1976, and effects of the cold weather in December of 1976 and January of 1977. ^{2/}

Several points concerning the economic assumptions should be emphasized. First, the assumptions for 1979-1982 are not an economic forecast. Rather, they are trend projections that ignore cyclical movements in the economy. Long-run historical patterns were used to generate the allocation of income shares, the required money stock growth, and other variables needed to project budget revenues and outlays.

^{2/} These assumptions do not reflect the largely unanticipated decreases in the unemployment rate in February, March, and April of 1977 and the higher than anticipated rate of inflation in the first quarter of 1977.

TABLE 1. ECONOMIC ASSUMPTIONS, 1976-1982: BY CALENDAR YEARS

Selected Economic Variables	1976	1977	1978	1979	1980	1981	1982
Assumptions for Projections Update							
Gross National Product (GNP)							
Current dollar GNP (in billions)	1,692.4	1,864.4	2,065.0	2,276.8	2,510.9	2,770.9	3,049.4
Real GNP (in billions of 1972 dollars)	1,265.0	1,324.6	1,390.8	1,456.0	1,528.8	1,605.2	1,676.4
Growth rate of real GNP	6.2	4.7	5.0	4.7	5.0	5.0	4.4
Unemployment Rate (percent)	7.7	7.3	6.5	6.1	5.5	5.0	4.5
Consumer Price Index (percent change)	5.7	5.9	5.4	5.4	5.2	5.3	5.6
Assumptions for December 1, 1976, Report							
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

Second, nothing explicit has been assumed about the sources of economic demand necessary to generate the growth path. As will be shown later, several different scenarios are consistent with the path.

Finally, the path should not be considered as a "target" or recommended path. It is possible for government economic policies (or other forces) to decrease unemployment faster than is assumed, presumably at a cost of more rapid inflation. Similarly, it is possible for government policies to hold inflation to rates lower than those assumed, presumably at the cost of higher unemployment.

CURRENT POLICY PROJECTIONS

The estimates of current policy receipts and outlays that are 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 Third Concurrent Resolution on the Budget for Fiscal Year 1977. Exceptions to

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this rule are programs that are of a temporary nature. The third concurrent resolution contained economic stimulus items that, under current policy, would be eliminated by fiscal year 1978 or phased out over the next five years. Examples of the temporary stimulus items are the fifty dollar tax rebate and the extra funding for urban public works.

For the projection of current policy receipts, the basic assumption is that present federal tax laws will 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 extended at least through September 30, 1982. The same assumption was made for the changes in the standard deduction and business tax credits that formed a part of the assumptions underlying the receipts floor in the third concurrent resolution. The fifty dollar rebate was assumed to be a one-time event and was not extended into fiscal year 1978.

Current policy spending projections assume that: all programs will continue except for those that are clearly temporary; 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, for federal programs in which funding levels appear to be discretionary, funding is held constant in real terms.

PROJECTIONS OF TOTAL OUTLAYS, TOTAL RECEIPTS, AND THE DEFICIT

Chapter 2 of Budget Options for Fiscal Year 1978 ^{3/} examined the compatibility of a balanced budget by 1981 or 1982 with healthy economic growth. From the discussion in that report to the budget committees, it was clear that maintaining both current policy expenditures and receipts would not be compatible with an economic growth path leading to full employment by 1982 without historically unprecedented strength of autonomous demand in the nonfederal sectors of the economy. The reason for this is simply that, in the absence of such unprecedented behavior by the nonfederal sectors, current policy receipts and expenditures will not generate enough growth in total demand to reach the GNP path required to achieve 4.0 to 4.5 percent unemployment by 1982. Due to the progressive nature of federal income

^{3/} Budget Options for Fiscal Year 1978, CBO Report, February 1977, pp. 25-39.

taxes, the amount of income taken out of the economy by taxes, under current policy assumptions, grows at a faster rate than the income being returned to the economy by expenditures. In addition to the federal sector, the other possibility for generating the demand necessary to achieve the growth path assumed for the projections in this report is the nonfederal sectors of the economy, specifically, consumer demand, business investment, net exports, and state and local government purchases. CBO has examined the past behavior of nonfederal demand and found that, if the economy were to reach 4.5 percent unemployment by 1982, the growth required in these sectors in conjunction with continued current policy federal taxes and expenditures is well outside the range of historical experience.

Given that maintenance of both current policy taxes and expenditures are incompatible with achieving the economic growth assumed in Table 1, the question arises as to what tax cuts (from current policy taxes) or expenditure increases (over and above current policy expenditures) are compatible with the economic assumptions. The answer depends to a large extent on assumptions about the behavior of nonfederal sectors.

Table 2 assumes current policy outlays and shows the tax cuts from current policy receipts that would be needed to achieve the economic growth assumed in Table 1. Under the assumption of continuing moderate nonfederal demand ^{4/} and current policy outlays, significant tax cuts -- totalling \$134 billion by 1982 -- would be needed to reach the assumed unemployment rate. If autonomous demand in the nonfederal sectors grows from moderate to strong by 1981, smaller tax cuts would be needed. Under the less optimistic assumption about nonfederal demand, the federal deficit would still be sizeable by 1982 -- approximately \$72 billion. If nonfederal demand were to become stronger, the \$70 billion in tax cuts needed to achieve a 4.5 percent unemployment rate by 1982 imply a budget that is almost balanced by fiscal year 1982, the deficit being \$8 billion.

^{4/} Briefly, moderate demand in the nonfederal sectors means consumption, investment, and other nonfederal demand that are in line with the historical experience of the last decade. For example, under moderate nonfederal demand, the savings rate is assumed to be between 6 and 7 percent. The growth rate for investment is assumed to be 1 percent greater than the GNP growth rate. Under strong nonfederal demand, the savings rate is assumed to be less than 6 percent and the growth rate for investment is assumed to be 2 percent greater than the GNP growth rate. A more complete discussion of alternative characterizations of nonfederal demand is contained in a forthcoming CBO Technical Analysis Paper entitled Closing the Fiscal Policy Loop -- A Long-Run Analysis.

TABLE 2. CURRENT POLICY OUTLAYS AND ALTERNATIVE RECEIPT PROJECTIONS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1977	1978	1979	1980	1981	1982
Current Policy Outlays	417.45	460	491	522	559	597
Current Policy Receipts	347.70	400	457	520	590	660
Tax changes required						
Assuming continuing moderate nonfederal demand	--	--	-14	-58	-100	-134
Assuming strong nonfederal demand by 1982	--	--	-14	-36	-49	-70
Deficits (-) or Surplus						
Assuming moderate nonfederal demand	-69.75	-60	-48	-60	-69	-72
Assuming strong nonfederal demand by 1982	-69.75	-60	-48	-39	-18	-8

Table 3 assumes current policy receipts and shows the outlay increases over and above current policy that would be needed to reach the assumed growth path. Under the assumption of continued moderate nonfederal demand, sizeable expenditure increases above current policy -- \$105 billion by 1982 -- would be needed to reach the assumed 4.5 percent unemployment rate. This would mean a fiscal year 1982 deficit of \$42 billion. On the other hand, if nonfederal demand were to become stronger, smaller expenditure increases above current policy would be needed -- approximately \$55 billion by 1982. Under this assumption, the budget would run a slight deficit in fiscal year 1981 (\$7 billion) and a slight surplus in fiscal year 1982 (\$7 billion).

Tables 2 and 3 present only a few of the many possible configurations of nonfederal demand and of the combinations of receipts and expenditures that are compatible with the economic assumptions in Table 1. In addition, some uncertainty exists concerning all the estimates since they were generated from models that reflect historical relationships between the budget and the economy. Nevertheless, the message conveyed by Tables 2 and 3 is clear. It is unlikely that the budget can be balanced by fiscal year

TABLE 3. CURRENT POLICY RECEIPTS AND ALTERNATIVE OUTLAY PROJECTIONS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1977	1978	1979	1980	1981	1982
Current Policy Receipts	347.70	400	457	520	590	660
Current Policy Outlays	417.45	460	491	522	559	597
Expenditure changes required						
Assuming continued moderate nonfederal demand	--	--	9	41	74	105
Assuming strong nonfederal demand by 1982	--	--	9	26	37	55
Deficit (-) or Surplus						
Assuming continued moderate nonfederal demand	-69.75	-60	-44	-44	-43	-42
Assuming strong nonfederal demand by 1982	-69.75	-60	-44	-29	-7	7

1982 and unemployment of 4.5 percent achieved unless demand in the nonfederal sectors of the economy proves to be strong during the next five years. In the absence of strong nonfederal demand, it will take continuing federal deficits, ranging from \$40 to \$70 billion, to achieve sufficient economic growth to bring the unemployment rate down to 4.5 percent by 1982.

CHAPTER II. FEDERAL SPENDING

This chapter provides further details on the current policy projections of federal spending. The chapter begins with a discussion of the current policy methodology in general and how the economic stimulus items in the third concurrent resolution were treated. Next, it presents the components of the outlay increases. The chapter then discusses a partitioning of federal spending into the categories of national defense, contributory benefit programs, noncontributory benefit programs, grants to state and local governments, net interest, and other federal operations. The concluding section presents the spending projections in terms of the 17 major functional categories used for Congressional budget resolutions.

The following are the major methodological assumptions underlying the spending projections ^{1/}:

- 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 appropriations 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 (shown in the first 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 com-

^{1/} A detailed discussion of projections methodology, on a program-by-program basis, can be found in Five-Year Budget Projections: Fiscal Years 1978-1982, Technical Background, CBO Report, December 1976.

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missions. 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 assumed for the third concurrent resolution. In most cases, the provision of the same level of resources was interpreted as the provision of the same level of budget authority. Outlays for these discretionary programs were estimated by applying spendout rates to the budget authority levels.^{2/} With few exceptions, the projections do not include 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. No attempt was made in this analysis to determine what specific projects could be funded under these assumptions.

- 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 projections 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 estimated under the category "allowances for payraises" and then

^{2/} For programs that do not receive new budget authority every year, the "same level of resources" was interpreted to be the same level of obligations. Outlays were estimated by applying spendout rates to the obligation levels.

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. For these programs, however, 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 nondiscretionary 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.

ECONOMIC STIMULUS PROGRAMS IN THE THIRD CONCURRENT RESOLUTION

As discussed in Chapter I, the third concurrent resolution increased the budget authority and outlay ceilings of the second concurrent resolution to provide room for economic stimulus programs. In making the projections, estimates were made for three types of stimulus programs: one-time programs, temporary (but not one-time) programs, and permanent programs.

No new budget authority was projected in fiscal year 1978 for one-time programs. Any fiscal year 1978 outlays for these programs represent the spendout of fiscal year 1977 budget authority. An example of a one-time program is the local public works program, for which \$4.0 billion was assumed for the fiscal year 1977 third concurrent resolution.

Temporary, but not one-time programs, are for the most part those stimulus programs that are keyed to the unemployment rate. New budget authority has been projected for these programs in fiscal year 1978. As the national unemployment rate is projected to decrease, the current policy budget authority and outlays for temporary programs, such as counter-cyclical revenue sharing and temporary employment assistance, decrease.

Permanent stimulus programs are those projected to remain at their 1977 levels in real terms in fiscal years 1978-1982. Only two accounts fall into this category; both provide funds to combat structural unemployment. Of the \$17.0 billion in budget authority added in the third resolution for

economic stimulus, about \$1.5 billion was assumed to be for permanent structural unemployment programs.

The following list of the individual programs includes a description of how the programs were handled in the current policy projections:

- o EPA Construction Grants Reimbursement Payment -- one-time. There is about \$320 million in budget authority (BA) and \$260 in outlays in the third resolution. No new BA was projected for fiscal years 1978-1982. Outlays in 1978 (\$60 million) represent outlays from the 1977 BA.
- o Local Public Works -- one-time. No new BA is projected for fiscal year 1978. Outlays in 1978 and 1979 represent outlays from 1977 BA.
- o Recreation Programs -- one-time. Since the \$400 million for BA and \$300 million in outlays were assumed to be of a one-time nature, the current policy projections contain no new BA in 1978-1982. Fiscal year 1978 contains outlays of \$100 million from the 1977 BA.
- o Emergency Fuel Bill Assistance -- one-time. Since the \$200 million in BA and outlays were assumed to be of a one-time nature, the current policy projections contain no funds for emergency fuel bill assistance in 1978-1982.
- o Fifty-Dollar Payments to SSI Recipients and the Refunds in Excess of Tax Liability -- one-time. Since the \$3.2 billion in BA and outlays in the third resolution were assumed to be of a one-time nature, the current policy projections contain no BA or outlays in 1978-1982 for these items.
- o Countercyclical Fiscal Assistance -- temporary. The program decreases in fiscal years 1978-1982 as the unemployment rate declines. Using formulas in the proposed legislation, outlays drop to zero by 1981.
- o Temporary Employment Assistance (TEA) -- temporary. Projections for TEA, Title VI of the Comprehensive Employment and Training Act (CETA), are keyed to the unemployment rate and decrease in fiscal years 1978-1982 as the unemployment rate drops. BA decreases from \$7.1 billion in 1977 to \$1.2 billion in 1982. Outlays go from \$2.7 billion in 1977 and \$5.0 billion in 1978 to \$1.2 billion in 1982.

- o Employment and Training Assistance (ETA), other CETA titles -- permanent. Projections for ETA were based on the assumption that the programs are to combat structural unemployment. Consequently, they were carried into fiscal years 1978-1982.
- o Older Americans Community Service Employment -- permanent. The funds assumed for the third resolution for this program were interpreted to be funds to combat structural unemployment (\$59 million for BA and \$30 million for outlays). Consequently, they were carried into fiscal years 1978-1982.

EFFECTS OF THE SHORTFALL IN SPENDING FOR 1977

It now appears that there will again be a shortfall in federal spending in fiscal year 1977, as there was in fiscal year 1976 and the transition quarter. The magnitude of the shortfall is difficult to estimate. Fiscal year 1977 outlays will, in all likelihood, be \$8.0 to \$14.0 billion below the \$417.45 billion ceiling of the third concurrent resolution. Approximately \$3.0 billion of this represents the outlay effect of the withdrawal of the fifty dollar rebate proposal.

A shortfall in fiscal year 1977 outlays has little direct effect on projections for 1978-1982:

- o For entitlement programs, outlays are determined by formulas that respond to economic and demographic factors rather than prior-year outlay levels.
- o For most discretionary programs, the projections are driven by the fiscal year 1977 budget authority. Outlays are derived by applying spendout rates to budget authority and not by simply inflating the fiscal year 1977 outlays.

On the other hand, the shortfall in fiscal year 1977 may mean that the basic spendout rates assumed for discretionary programs are too high. CBO did not undertake a comprehensive review of spendout rates prior to making the projections presented in this report.

PROJECTED INCREASES IN FEDERAL SPENDING

Under existing law commitments and the economic assumptions given in Chapter I, total federal outlays would rise from \$417.45 billion in fiscal year 1977 to \$552 billion in 1982. Even with discretionary inflation

increases, current policy outlays do not rise as fast as GNP, reaching a level of \$597 billion by 1982. As a percent of GNP, they fall from an estimated 23 percent for 1977 to 20 percent in 1982.

Table 4 shows the changes to fiscal year 1977 outlays of \$417.45 on a current policy basis. The projected outlays of \$460 billion in fiscal year 1978 exceed the third concurrent resolution level by \$43 billion, of which \$9 billion represents increased outlays for social security, \$5 billion represents increased outlays for medicare and medicaid, and so forth.

Part of the increases in outlays under existing law commitments is for the lagged effect of prior appropriation increases. In fiscal year 1975, budget authority for Department of Defense, Military was \$85 billion. In fiscal year 1977, the budget authority assumed for the third concurrent resolution was approximately \$109 billion. A significant part of the \$24 billion increase in budget authority since fiscal year 1975 is for procurement programs. Since these programs hit their peak spending three to five years after budget authority is approved, the budget authority increases voted in fiscal year 1976 and 1977 turn into outlay increases in 1978 through 1980.

Major differences between the increases projected in the earlier report and this report are for social security, medicare and medicaid, civil service and military retirement, and the category entitled "all other federal spending." The social security increases in the updated projections are greater than in the December 1, 1976, projections due to a reestimate of the disability insurance part of the CBO social security projections model, higher assumed rates of inflation, and a recent Supreme Court decision granting survivor benefits to widowers. On the other hand, the updated medicare and medicaid estimate is lower due to a downward reestimate in medicaid caused by revised projections of future caseloads. Projections of outlays for civil service and military retirement are higher due to upward revisions in estimates of the number of retirees. In the December 1, 1976, report, the category entitled "all other federal spending" contained negligible increases in 1978 and 1979. The increases in Table 4 reflect the effect of the stimulus programs (local public works and public service employment, etc.) assumed in the third concurrent resolution.

Another way of looking at the projected changes in spending under current policy assumptions is to partition these changes into the three categories of noninflation related changes, nondiscretionary inflation changes, and discretionary inflation increases. The noninflation related changes refer to outlay increases due to population, or demographic, changes in entitlement programs and the lagged effect of prior appropriation increases in discretionary programs. Nondiscretionary inflation changes are the outlay increases due to cost-of-living adjustments in programs that are

TABLE 4. PROJECTED INCREASES IN FEDERAL OUTLAYS: BY FISCAL YEARS,
IN BILLIONS OF DOLLARS

	1978	1979	1980	1981	1982
Fiscal Year 1977 Total Outlays	417.45	417.45	417.45	417.45	417.45
Add: Commitments Under Existing Law					
Social security	9	18	29	40	52
Medicare and medicaid	5	10	16	23	31
Pay increase for federal employees	4	7	11	15	19
Retired military pay and civil service retirement	3	5	8	10	14
Net interest	5	7	8	8	8
Defense purchases (lagged effect of prior appropriations increases)	6	9	10	11	11
All other federal spending (net)	6	4	--	--	--
Subtotal, projected outlays under existing law commitments	455	477	498	524	552
Add: Further Adjustments for Inflation					
Maintain 1977 value of defense purchases	2	6	10	15	20
Maintain 1977 value of grants and other federal purchases	2	5	10	15	19
Cost-of-living increase for veterans' benefits	1	2	3	4	5
Indirect effect on interest of further adjustments for inflation	--	1	1	1	1
Total, projected outlays with further adjustments for inflation	460	491	522	559	597

indexed for inflation, like social security and food stamps. The discretionary inflation increases are the additional adjustments for inflation that the Congress would have to make if it were to grant inflation adjustments to all programs.

The increases in outlays between fiscal years 1977 and 1982 are shown in Table 5. Note that for fiscal year 1978 over 60 percent (or \$26 billion) of the \$43 billion increase over fiscal year 1977 outlays is for noninflation related items. However, by fiscal year 1982, noninflation related changes comprise only about 28 percent of the \$180 billion increase over fiscal year 1977 outlays. The table shows that in the short-run increases in current policy outlays are driven in large part by the demographic changes and prior-year decisions, while in the longer, multiyear time frame, the increases are dominated by the effects of inflation.

TABLE 5. PROJECTED INCREASES IN OUTLAYS ON A CURRENT POLICY BASIS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978	1979	1980	1981	1982
Third Concurrent Resolution for 1977	417.45	417.45	417.45	417.45	417.45
Noninflation Related Change	26	33	38	44	50
Nondiscretionary Inflation	12	26	42	63	84
Subtotal, Outlays under Existing Law	455	477	498	524	552
Discretionary Inflation	5	15	24	35	46
Total, Current Policy Outlays	460	491	522	559	597

COMPOSITION OF FEDERAL SPENDING

In past projections reports, federal spending has been divided into the major budget components of national defense, benefit payments for individuals, grants to state and local governments, net interest, and other

federal operations. The largest single category at present is benefits for individuals, a category that includes benefit payments as diverse as food stamps and civil service retirement payments. For this report, this category is split into two parts: benefit payments arising from contributory programs (like civil service retirement and social security) and other benefits (like food stamps and supplemental security income). ^{3/}

Table 6 shows the historical composition of federal spending between 1957 and the third concurrent resolution for 1977. In recent years the allocation of spending among major components has changed significantly. Contributory benefit payments have grown from 13 percent of outlays in 1957 to about 35 percent for 1977. On the other hand, national defense has decreased as a fraction of the total budget, from about 50 percent in 1957 to about 24 percent in 1977.

TABLE 6. MAJOR COMPONENTS OF SPENDING AS A PERCENT OF TOTAL OUTLAYS: BY FISCAL YEARS

Major Components	1957	1962	1967	1972	1977
National Defense	55.1	47.2	43.7	33.3	24.0
Contributory Benefit Payments for Individuals	13.3	19.3	19.9	26.9	34.7
Other Benefit Payments for Individuals	7.0	6.1	5.4	9.8	9.7
Grants to State and Local Governments	2.7	4.3	6.4	9.0	11.6
Net Interest	7.0	6.4	6.5	6.7	7.0
Other Federal Operations	14.9	16.7	18.1	14.2	13.0
Total	100.0	100.0	100.0	100.0	100.0

^{3/} This breakdown was first used in Budget Options for Fiscal Year 1978, CBO Report, February 1977.

Table 7 contains the projections for each of the major components of federal spending. As the table shows, on a current policy basis the relative composition of federal spending changes slightly between 1977 and 1982. Contributory benefit payments rise from 35 percent to 38 percent of the budget, while grants to state and local governments drop from about 12 percent of the budget to 10 percent. This change in composition is due first to increases in social security and medicare outlays (over and above those caused by inflation) because of demographic factors. The second reason is the phaseout of the temporary stimulus grant programs, such as the urban public works and countercyclical revenue sharing programs, which lowers the fraction of the budget that is allocated to grants to state and local governments.

MAJOR FUNCTIONAL CATEGORIES

Another important classification of federal spending is by the major functions. 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 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 relationship between the six spending categories used above 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 (i.e., the sum of contributory and noncontributory benefit payments).
- o Grants to state and local governments (other than grants for payments to individuals) are concentrated largely in functions 400, 450, 500, and 850.
- 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.

TABLE 7. MAJOR COMPONENTS OF BUDGET OUTLAY PROJECTIONS

Major Component	1976 (Actual)	1977 (Third Concurrent Resolution)	Projections				
			1978	1979	1980	1981	1982
In Billions of Dollars							
National Defense	90.0	100.1	111.2	121.6	130.6	139.5	148.3
Contributory Benefit Pay- ments for Individuals	130.2	145.0	157.3	172.1	188.4	208.1	229.0
Other Benefit Payments for Individuals	37.1	40.5	41.2	44.1	47.3	50.4	53.8
Grants to State and Local Governments	40.3	48.5	55.0	54.2	53.5	55.2	57.5
Net Interest	26.8	29.4	35.1	37.3	38.4	38.7	39.1
Other Federal Operations	42.0	54.1	60.9	62.0	64.3	67.5	70.1
Total	366.5	417.4	460.5	491.0	522.2	558.9	597.3
As a Percent of Total Outlays							
National Defense	24.6	24.0	24.2	24.8	25.0	25.0	24.8
Contributory Benefit Pay- ments for Individuals	35.5	34.7	34.2	35.1	36.1	37.2	38.3
Other Benefit Payments for Individuals	10.1	9.7	9.0	9.0	9.1	9.0	9.0
Grants to State and Local Governments	11.0	11.6	11.9	11.0	10.3	9.9	9.6
Net Interest	7.3	7.0	7.6	7.6	7.4	6.9	6.6
Other Federal Operations	11.5	13.0	13.2	12.6	12.3	12.1	11.7
Total	100.0	100.0	100.1	100.1	100.2	100.1	100.0
As a Percent of GNP							
Total	22.7	23.0	22.9	22.1	21.3	20.7	20.0

Tables 8 and 9 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 third 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 percent 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. Increases for social security in the income security function are offset by projected decreases in unemployment compensation. The projected declining shares for the community and regional development and the education, training, employment and social services functions are due to the phasing out of certain antirecession programs. The declining share for veterans' benefits and services is due to the projected decline in the number of veterans receiving benefits.

TABLE 8. BUDGET AUTHORITY PROJECTIONS BY FUNCTION: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Function	1976 (Actual)	1977 (Third Concurrent Resolution)	Projections				
			1978	1979	1980	1981	1982
National Defense (050)	103.8	108.8	118.4	127.6	136.3	144.7	153.6
International Affairs (150)	6.6	7.9	7.5	8.5	8.7	9.2	9.7
General Science, Space, and Technology (250)	4.3	4.5	4.8	5.1	5.4	5.7	6.0
Natural Resources, Environ- ment, and Energy (300)	19.3	18.7	20.0	20.7	21.4	22.6	23.5
Agriculture (350)	4.2	2.3	2.8	3.7	3.3	3.0	3.6
Commerce and Transpor- tation (400)	20.9	17.3	19.1	19.8	21.7	23.8	25.2
Community and Regional Development (450)	5.8	12.9	7.4	8.0	8.5	9.1	9.7
Education, Training, Em- ployment, and Social Services (500)	21.2	30.4	27.5	27.9	28.4	28.8	30.1
Health (550)	33.6	40.6	47.5	53.4	58.9	69.5	78.9
Income Security (600)	139.2	170.9	175.1	191.0	206.7	222.8	239.0
Veterans' Benefits and Services (700)	19.7	18.9	19.3	20.7	21.4	22.1	22.8
Law Enforcement and Justice (750)	3.3	3.5	3.7	3.9	4.2	4.4	4.7
General Government (800)	3.3	3.5	3.6	3.9	4.2	4.4	4.6
Revenue Sharing and General Purpose Fiscal Assistance (850)	9.5	9.5	9.8	9.1	8.5	8.7	9.3
Interest (900)	34.6	38.0	44.2	47.0	48.7	49.6	50.8
Allowances (920)	--	0.8	1.0	1.1	1.0	1.1	1.2
Undistributed Offsetting Receipts (950)	-14.7	-15.6	-16.0	-17.3	-17.7	-18.6	-20.1
Total	414.5	472.9	495.7	534.0	569.6	610.8	652.6

TABLE 9. OUTLAY PROJECTIONS BY FUNCTION: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Function	1976 (Actual)	1977 (Third Concurrent Resolution)	Projections				
			1978	1979	1980	1981	1982
National Defense (050)	90.0	100.1	111.2	121.6	130.6	139.5	148.3
International Affairs (150)	5.1	6.8	7.0	6.9	7.1	7.6	7.9
General Science, Space, and Technology (250)	4.4	4.4	4.6	4.9	5.2	5.6	5.9
Natural Resources, Environ- ment, and Energy (300)	11.3	17.2	19.3	20.1	20.1	21.4	22.0
Agriculture (350)	2.5	3.0	3.1	2.8	3.4	3.7	4.0
Commerce and Transpor- tation (400)	17.2	16.0	19.5	19.8	20.6	21.2	22.2
Community and Regional Development (450)	5.4	8.4	10.7	9.6	8.0	8.1	8.7
Education, Training, Em- ployment, and Social Services (500)	18.2	22.7	27.3	27.8	28.1	28.5	28.9
Health (550)	33.4	39.3	44.9	50.6	56.2	64.6	73.0
Income Security (600)	126.6	141.3	147.2	158.8	173.0	187.5	203.5
Veterans' Benefits and Services (700)	18.4	18.1	19.4	20.4	21.1	21.7	22.5
Law Enforcement and Justice (750)	3.3	3.6	3.8	3.9	4.1	4.4	4.6
General Government (800)	2.9	3.5	3.7	3.9	4.2	4.3	4.6
Revenue Sharing and General Purpose Fiscal Assistance (850)	7.1	9.9	9.7	9.1	8.5	8.6	9.2
Interest (900)	34.6	38.0	44.2	47.0	48.7	49.6	50.8
Allowances (920)	--	0.8	1.1	1.2	1.1	1.2	1.3
Undistributed Offsetting Receipts (950)	-14.7	-15.6	-16.0	-17.3	-17.7	-18.6	-20.1
Total	365.6	417.45	460.5	491.0	522.2	558.9	597.3

CHAPTER III. FEDERAL REVENUES

Updated 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. As in the case of the budget outlays, all revenue projections reflect current policy as defined by the Third Concurrent Resolution on the Budget for Fiscal Year 1977.

Under this assumption, it is estimated that the proportion of total federal revenues derived from the individual and corporation income taxes and the various social insurance taxes would rise to almost 93 percent during the next five years. A somewhat smaller share of the total would be generated from payroll taxes and the corporation income tax, however, while a larger share would come from the individual income tax. 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.

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 revenues are shown in Table 10. These include wage and salary income, taxable personal income (TPI), ^{1/} and corporate profits. Individual income tax and payroll tax 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. Under the updated economic assumptions, 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 only about a 9.0 percent average annual rate. Individual income taxes, therefore, will represent a larger proportion of total 1982 receipts because they are much more responsive to income changes than are corporation income taxes.

^{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.

TABLE 10. SELECTED ECONOMIC VARIABLES UNDERLYING THE
REVENUE PROJECTIONS FOR 1977-1982: BY CALENDAR
YEARS, IN BILLIONS OF DOLLARS

Calendar Years	Wages and Salaries	Taxable Personal Income <u>a/</u>	Corporate Profits
1976	890.4	1,168.8	147.9
1977	991.5	1,291.5	162.7
1978	1,116.1	1,435.4	178.7
1979	1,238.7	1,587.8	194.8
1980	1,366.9	1,756.4	211.1
1981	1,508.6	1,943.0	230.5
1982	1,662.2	2,145.4	248.0

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 the assumptions regarding taxes and spending in the third concurrent resolution for 1977. This is to retain consistency between the tax and the outlay projections. Thus, it is assumed both that the tax laws in effect in calendar year 1976 -- including all the provisions of the Tax Reform Act of 1976 -- and the tax measures in President Carter's package are enacted, and remain in effect through 1982. In particular, it is assumed that the \$35 per capita tax credit and earned income credit in the Tax Reform Act of 1976 will be renewed. (They are scheduled to expire on December 31, 1977.) It is also assumed that the corporation surtax reduction and the 10 percent investment tax credit will remain in effect during the projection period. 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/

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.

The projections also assume adoption of the tax features included in President Carter's fiscal stimulus program. The major item for 1977 was to be a general refundable rebate of \$50 for each taxpayer, spouse, child, and other dependent. Also, a \$50 payment was to go to social security beneficiaries, those receiving supplemental security income (SSI) payments, and persons receiving railroad retirement payments. The fifty dollar rebate and social security payment would have amounted to a revenue loss of about \$11.4 billion in 1977.

The second feature requested was a tax simplification for taxpayers who use the standard deduction. This was to be accomplished by substituting a flat deduction of \$2,400 for single people and \$2,800 for married couples for the present complex set of standard deduction provisions. The standard deduction simplification measure would have resulted in a reduction of receipts of \$1.5 billion in fiscal year 1977 and \$5.4 billion in fiscal year 1978.

The third tax reduction in President Carter's economic stimulus package was a tax cut for businesses. It was proposed that companies be given the option of a 2 percentage point increase in the generally applicable 10 percent investment credit or, alternatively, a refundable 4 percent credit against income tax based on the business' payroll tax social security tax liability. In fiscal year 1977, this provision would have resulted in a tax reduction of \$0.9 billion and in fiscal year 1978, a reduction of \$2.7 billion. The budget costs of all the Administration's initial tax-related proposals are shown in Table 11. 3/

The other tax assumptions used in these revenue updates affect the social insurance receipts. The maximum taxable earnings ceiling for social security is assumed to rise from \$15,300 in calendar year 1976 to \$24,600 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.

3/ After the initial submission of the stimulus package, economic conditions improved and the President withdrew his request for the fifty dollar rebates, the payments to transfer beneficiaries, and the business tax cuts. While the Congress accepted his request concerning withdrawal of personal payments, it passed a tax reduction bill which still includes business tax cuts (in somewhat different form than originally requested) and the standard deduction simplification. As enacted, the bill (Public Law 95-30) will involve a \$2.6 billion revenue loss in fiscal year 1977 and other new provisions that involve a \$9.9 billion loss in 1978.

**TABLE 11. BUDGET COSTS OF THE ADMINISTRATION'S INITIAL
TAX SIMPLIFICATION AND REFORM PROPOSALS:
BY FISCAL YEARS, IN BILLIONS OF DOLLARS**

	1977	1978
Rebate and Social Security Payment Program		
Fifty dollar per capita rebate		
Reduction of tax	8.2	--
Refunds in excess of liability	1.4	--
Total	9.6	--
Fifty dollar payment to social security and railroad retirement beneficiaries	1.8	--
Total rebate program	11.4	--
Simplification and Reform Program		
Replace the current law standard deduction with a flat reduction of \$2,400 for single returns and \$2,800 for joint returns <u>a/</u>	1.5	5.4
Business Tax Reduction Program		
Optional increase in the investment tax credit or 4 percent of employers' social security tax payments	0.9	2.7
TOTAL	13.8	8.1

a/ Includes extension of the \$35 general tax credit to those with age or blindness exemptions.

REVENUE PROJECTIONS

The total federal receipts projections, by source, are shown in Table 12. Total revenue is expected to rise from \$300 billion in fiscal year 1976 to \$660 billion in fiscal year 1982. Fifty-eight percent of the \$361 billion revenue increase is attributable to higher individual income tax collections and 12 percent to increased corporation income taxes. Thus, together, the

individual and corporation income taxes will account for 70 percent of the increase in total revenue. Almost all -- 27 percent -- of the remaining increase will be from additional social insurance collections. The other 3 percent will be from growth of all other revenue sources.

TABLE 12. PROJECTIONS OF FEDERAL BUDGET RECEIPTS BY SOURCE:
BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Source	1976 (Actual)	1977 (Third Concurrent Resolution)	Projections				
			1978	1979	1980	1981	1982
Individual Income Taxes	130.8	149.4	183	216	252	294	339
Corporation Income Taxes	41.4	54.2	58	65	71	78	85
Social Insurance Taxes and Contributions	92.7	108.7	123	137	156	175	189
Excise Taxes	17.0	17.9	18	19	19	20	20
Estate and Gift Taxes	5.2	5.9	6	6	7	7	8
Customs Duties	4.1	4.7	5	6	6	7	8
Miscellaneous Receipts	8.0	6.9	7	8	9	10	11
Total	299.2	347.7	400	457	520	590	660

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 58 percent in 1977 to 64 percent in 1982. The share raised by the social insurance taxes is projected to fall slightly from 31 percent to 29 percent between 1977 and 1982.

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 1.3 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; 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.

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