

OVERVIEW OF THE 1978 BUDGET: AN ANALYSIS OF PRESIDENT CARTER'S REVISIONS

Staff Working Paper

March 1977



Congress of the United States
Congressional Budget Office
Washington, D.C.

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PREFACE

This analysis of President Carter's 1978 budget revisions has been prepared as a follow up to our earlier analysis of President Ford's proposals that were submitted to the Congress in January. The analysis is quite brief and focuses on only the major aspects of the Carter budget revisions.

Alice M. Rivlin
Director

March 7, 1977

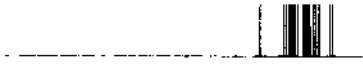


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The budget revisions submitted by President Carter on February 22 represent a significant departure from a current-policy budget based on the Second Concurrent Resolution on the 1977 Budget. The bulk of this departure consists of various economic stimulus proposals.

ECONOMIC STIMULUS PROPOSALS

The Carter Administration stimulus package's two-year budget cost of \$31.6 billion is about equally divided between fiscal year 1977 and fiscal year 1978, although the relative extent of spending and tax provisions for each year differ. The basic elements of this recovery package were chosen to provide immediate stimulus, to promote a sustained rise in economic recovery, and to retain flexibility for future budgetary decisions.

Immediate stimulus would be provided by a one-time \$50 rebate on 1976 taxes and a \$50 payment to individuals not required to file tax returns. The payments, amounting to \$11.4 billion, would be received in the second quarter of calendar year 1977. A permanent increase and simplification in the personal standard deduction would provide tax relief of \$1.5 billion in fiscal year 1977 and \$5.7 billion in fiscal year 1978 when fully in effect. A final tax proposal would reduce business taxes by \$0.9 billion in fiscal year 1977 and \$2.4 billion in fiscal year 1978, through a choice between two tax credits: an additional 2 percentage point investment tax credit or a refundable credit of 4 percent of payroll tax payments.

In fiscal year 1978, as the economic impact of tax rebates drops off, spending provisions would provide continued stimulus. The exact dollar amount of spending is difficult to forecast, since it depends on the speed with which programs are initiated and projects completed. Roughly, the spending components will cost \$1 to \$2 billion above current policy in fiscal year 1977 when the programs are initiated and \$7 to \$8 billion in fiscal year 1978 when they are in full swing. The programs are designed so that their budget cost and economic stimulus decline if the economy improves.

The Carter Administration is proposing an increase in state and local public service jobs from the current level of 310,000 jobs to 600,000 by the end of fiscal year 1977 and 725,000 in fiscal year 1978. Also proposed are increases in training and youth programs that would cost approximately \$0.3 billion in fiscal year 1977 and \$1.6 billion in fiscal year 1978. A \$2 billion increase in public works authorization in each fiscal year would, given the lagged response of outlays for this program, lead to spending increases of less than \$0.5 billion in fiscal year 1977 and \$1.5 to \$2.0 billion in fiscal year 1978. The Administration's final economic stimulus proposal is for an extension of the countercyclical revenue sharing program through 1982, an increase in the program's annual authorization of \$1 billion, and a change in its funding formula. Specifically, quarterly payments to states and localities will be based on tenths of a percentage point of unemployment above 6 percent rather than the current half of a percentage point basis. The estimated budget cost of these revisions above current policy is \$0.9 billion in fiscal year 1977 and fiscal year 1978.

CBO's estimate of the impact of President Carter's economic recovery package (as compared to current policy based on the second budget resolution for 1977) is presented in Table 1. The proposals would add an estimated \$14 billion to constant-dollar GNP (1972 prices) by the fourth quarter of calendar year 1977 and \$18 billion by the fourth quarter of calendar year 1978. Compared to projected constant-dollar GNP without any change from the Second Concurrent Resolution on the 1977 Budget, the stimulus provided by the Administration's package would add approximately 1.0 percent to constant-dollar GNP by the end of 1977 and 1.3 percent by the end of 1978.

The overall rate of unemployment would be reduced under this program by an estimated 0.5 percentage points by the end of calendar year 1977 and 0.7 percentage points by the end of 1978. Instead of a no-policy-change forecast of 7.2 to 7.9 percent unemployment at the end of 1977, enactment of the Carter proposals would lead to a projected range of 6.7 to 7.4 percent. For the end of 1978, the estimated range for the unemployment rate is 6.5 to 7.5 percent without the Carter proposals and 5.8 to 6.8 percent with their enactment.

The rate of inflation during 1977 and 1978 would not be significantly affected by the stimulus package, as the inflation impact of fiscal stimulus builds up slowly. By 1980, adoption of

TABLE 1. ESTIMATED ECONOMIC IMPACT OF ADMINISTRATION FISCAL POLICY PROPOSALS, FOURTH QUARTERS OF 1977 AND 1978

	<u>1977</u>	<u>1978</u>
	<u>Fourth Quarter</u>	<u>Fourth Quarter</u>
Constant-Dollar GNP (\$ billion, 1972 prices):		
Projected range without stimulus	1325 to 1350	1370 to 1420
Effect of Carter Administration proposals	+14	+18
Unemployment Rate (percentage points):		
Projected range without stimulus	7.2 to 7.9	6.5 to 7.5
Effect of Carter Administration proposals	-0.5	-0.7
	<u>1979</u>	<u>1980</u>
	<u>Fourth Quarter to</u>	<u>Fourth Quarter</u>
Inflation Rate (percentage points):		
Projected range without stimulus	n.a.	
Effect of Carter Administration proposals	0.2 to 0.4	

SOURCE: Congressional Budget Office.

the Carter stimulus proposals will add an estimated 0.2 to 0.4 percentage points to the rate of inflation. That is, if inflation in the absence of the proposals proceeded at a rate of 5.0 percent per year, enactment of the proposals would raise the rate to 5.2 to 5.4 percent.

REVISED ECONOMIC OUTLOOK

The Congress adopted on March 3 a third budget resolution for 1977 which incorporates the economic stimulus increases proposed by the Carter Administration. Although cold weather cut sharply into production and employment in January and February, the outlook now for the rest of 1977 is for resumption of economic growth at a rate faster than the disappointing last half of 1976. By the fourth quarter of this calendar year, the CBO projects the unemployment rate in the 6.7 to 7.4 percent range, well below the 7.9 percent of the last quarter of 1976. The rate of consumer price inflation during 1977 (fourth quarter to fourth quarter) is estimated at 5.5 to 6.8 percent, a little worse than the rate during 1976 when declining food prices pulled down the aggregate, but far better than the double-digit rates of 1974. These projections are summarized in Table 2.

Besides the fiscal stimulus measures, some of the factors contributing to this favorable outcome are interest rates still close to their recession lows in spite of recent increases, ample availability of mortgage funds, and generally low inventory-to-sales ratios which should lead to several quarters of high inventory investment. Demands for new plant and equipment and for exports (in constant dollars) are projected to grow somewhat less rapidly than in earlier recoveries. State and local purchases are also assumed to grow much more slowly than in the past except when they are boosted by federal grants.

Growth during 1977 may well follow a highly irregular quarter-to-quarter pattern. A rebound from the weather-caused reductions and a move toward rapid inventory accumulation are very likely with double-digit rates of growth in real GNP or industrial production in the spring a distinct possibility. Last year many forecasters, including those at CBO, were misled by a similar inventory swing in the late winter and spring and failed to anticipate the return to a slower rate of recovery later in the year. We may need to guard against making a similar error this year.

TABLE 2. ECONOMIC PROJECTIONS BASED ON THE THIRD CONCURRENT RESOLUTION FOR 1977

Economic Variables	Levels			Rates of Change (percent)	
	1976:4 (actual)	1977:4	1978:4	1976:4 to 1977:4	1977:4 to 1978:4
GNP (billions of current dollars)	1744	1910 to 1970	2075 to 2205	10.0 to 13.0	8.0 to 12.5
GNP (billions of 1972 dollars)	1280	1335 to 1365	1390 to 1440	4.8 to 6.3	3.5 to 5.5
General Price Index (GNP deflator, 1972 = 100)	136	142 to 145	149 to 155	4.8 to 6.3	4.5 to 6.5
Consumer Price Index (1967 = 100)	174	183 to 186	191 to 197	5.5 to 6.8	4.5 to 6.5
Unemployment Rate (percentage points)	7.9	6.7 to 7.4	5.8 to 6.8	--	--

SOURCE: Congressional Budget Office

For 1978 prospects at this early date are for less growth than in 1977. We anticipate a rate of real growth in the range of 3.5 to 5.5 percent (fourth quarter to fourth quarter), compared to 4.8 to 6.3 for 1977. The stimulus package adds about 1 percent to the rate of growth in 1977 and reduces the unemployment rate by about 0.5 percentage points by the end of the year. During 1978, however, the stimulus package serves in large part to preserve the gains made during 1977. Inventory demands should slow down during 1978 as well.

It is possible that a substantial plant and equipment boom or a surge of exports would offset these retarding forces. But it is equally possible that the rate of increase of consumer spending could slow down somewhat or that housing activity could level off or decline. 1978 will be the third year of recovery from the 1973-75 recession, and the historical record warns us to look for signs of weakness or stagnation by that stage of the recovery process.

If the economy does follow the projected path shown in Table 2, then by the end of 1978, there will still be large amounts of idle labor and capital. The projected unemployment rate of 5.8 to 6.8 percent is well above the prerecession rate of 4.9 percent. Excess capacity margins, in contrast, are not exceptionally large, since capacity growth has been limited by lagging spending on plant and equipment. Nevertheless, a study of probable demands and capacity for five groups of major industrial materials suggests that the economy will not face widespread materials shortages between now and the end of 1978. The possibility of recurrence of energy bottlenecks arising from a hot summer, another cold winter, or other unusual developments cannot be dismissed. Utilization rates in other industries may rise quite rapidly in the spring of this year if there is substantial inventory rebuilding following the cold weather. After that, however, there should be very little if any further increase in pressure on materials capacity. Furthermore, with the slow growth being experienced by other industrial countries, there should be capacity margins abroad available to relieve any materials shortages here.

Under these circumstances, any large-scale acceleration in the rate of inflation is not foreseen. The unusual weather patterns this winter will probably add 0.5 to 1.0 percentage points to the rate of inflation in consumer prices in 1977, led by food and natural gas prices. Barring continued special commodity

developments, however, it seems unlikely that by the end of 1978 the economy will be in a demand position sufficiently tight to cause the overall inflation rate to move upward significantly.



President Carter's 1978 budget revisions would change federal receipts very little and also would essentially maintain past trends in the various sources from which federal revenue is derived. President Ford had proposed several changes that would have shifted total federal tax burdens more toward those at the bottom of the income scale, whereas, the Carter proposals for individuals are targeted to provide most of their aid to middle-income families.

As compared with current law revenue collections, the Carter budget revisions would reduce revenues by \$10.7 billion in fiscal year 1977 and by \$15.8 billion in 1978. For 1977, the proposed cuts consist primarily of several fiscal stimulus measures; for 1978, they represent both the outyear effect of the stimulus proposals and the beginnings of the tax simplification and reform measures that President Carter has discussed in the past.

PRESIDENT CARTER'S REVENUE PROPOSALS

Under President Carter's revenue proposals, total receipts estimated for fiscal year 1978 would amount to \$401.6 billion. 1/

This \$15.8 billion revenue reduction is the sum of \$7.8 billion from extending the temporary provisions of existing law and a further \$7.9 billion cut from the tax provisions in the recently-submitted fiscal stimulus package. In the aggregate, the Carter proposals include individual income tax cuts of \$12.9 billion and corporation income tax reductions of \$3.1 billion. No major changes in the social insurance contributions or any of the other revenue sources were proposed. 2/

1/ Under the budget conventions employed by the Congress, \$905 million of earned-income credit payments would be subtracted and net revenue would be shown as \$400.7 billion.

2/ In the budget revisions, it is assumed that tax changes already scheduled to take place under current law -- such as the increases in the social security taxable earnings ceiling and the rate increases -- occur as planned.

The Carter revenue program and its major components by source are shown in table 3. The major changes described in the following sections include items representing both extensions of current law and new proposals.

TABLE 3. SUMMARY OF PRESIDENT CARTER'S REVENUE PROPOSALS FOR FISCAL YEAR 1978, IN BILLIONS OF DOLLARS

Revenue source	Extension of temporary provisions of Tax Reform Act of 1976	New Carter proposals	Total revenue reduction
Individual income tax	-6.8	-6.1	-12.9
Corporation income tax	-1.0	-1.8	- 3.1
Total	-7.8	-7.9	-15.8

NOTE: Detail may not add to totals because of rounding.

SOURCE: Fiscal Year 1978 Budget Revisions, p. 22.

Extension of Temporary Provisions of the Tax Reform Act of 1976

President Carter proposes to extend the following features of the Tax Reform Act of 1976 which are now scheduled to expire at the end of calendar year 1977:

- o the \$35 per capita credit for each taxpayer and dependent exemption or the alternative credit equal to 2 percent of taxable income, up to a maximum of \$180, whichever is larger;
- o the earned-income credit, generally available to low-income families with dependents; and
- o the corporate surtax exemption which provides lower tax rates on the first \$50,000 of corporate net income.

President Carter proposes only a one-year extension of these three provisions so as to give the Administration and the Congress time to consider the more comprehensive tax reform proposals that will be submitted later in the year.

The Economic Stimulus Package

The tax part of the Carter economic stimulus package for fiscal 1978 consists of: (1) a permanent simplification of the standard deduction under the individual income tax; and (2) a permanent reduction of business taxes.

The minimum standard deduction now allowed for individuals is \$1,700 for single returns and \$2,100 for married couples filing jointly. The percentage standard deduction is equal to 16 percent of adjusted gross income up to a maximum of \$2,400 for single returns and \$2,800 for joint returns. President Carter proposes to replace these provisions with a flat standard deduction of \$2,200 for single persons and \$3,000 for married couples. This would be effective May 1, 1977 and would be a permanent change in the law. The fiscal year 1978 revenue loss associated with this change is estimated to be \$5.6 billion.

The other permanent tax change proposed by President Carter is a reduction in business taxes to be effected either through a 2 percentage point increase in the investment tax credit or a refundable credit against income taxes equal to 4 percent of a company's social security tax liability. Businesses would be given the opportunity to choose whichever of the two provisions was most favorable for them, but would not be permitted to change once their choice was made. This proposal would reduce receipts by \$2.3 billion in fiscal year 1978. 1/

The effect of the Carter individual income tax proposals on the liability of a 4-person family at different income levels as compared with their liabilities under current law is shown in table 4.

1/ The reason that only \$1.8 billion is shown for corporation income tax changes in Table 3 above is that \$0.5 billion of the revenue loss from this change would accrue to noncorporate businesses.

TABLE 4. COMPARISON BETWEEN PRESIDENT CARTER'S INDIVIDUAL INCOME TAX PROPOSALS AND CURRENT LAW BUDGETS, FOUR-PERSON FAMILY, FILING JOINT RETURN FOR CALENDAR YEAR 1978

AGI (\$)	Current law liability	Liability under President Carter's proposals	Difference: President Carter's Proposals minus current law
3,000	-300 <u>a/</u>	-300	0
5,000	-300 <u>a/</u>	-300	0
10,000	651	480	-171
15,000	1,552	1,420	-132
20,000	2,530	2,530	0

NOTE: Tax liabilities calculated from statutory provisions.

a/ The negative tax liability reflects the refundable earned-income credit.

CHANGES FROM THE FORD BUDGET

In the budget submitted last January, President Ford proposed several changes that would have resulted in total fiscal year 1978 revenue of \$393.0 billion (in Table 5, revised economic assumptions and other factors would now make this \$394.9 billion). This involved a net reduction of \$22.5 billion.

TABLE 5. COMPARISON BETWEEN PROPOSED FORD AND CARTER REVENUE PROPOSALS,
FISCAL YEAR 1978, IN BILLIONS OF DOLLARS

Item	Ford budget	Carter budget	Difference
Estimated revenue under current tax law (under revised economic assumptions)	417.4	417.4	--
Proposed changes:			
Individual income tax	-19.2	-12.9	-6.3
Corporation income tax	- 4.7	- 2.8	-1.9
Social insurance contri- butions and taxes	1.3	--	1.3
All other	0.1	--	0.1
Subtotal	-22.5	-15.8	-6.7
Total	394.9	401.6	-6.7

NOTE: Details may not add to totals because of rounding.

SOURCE: Fiscal Year 1978 Budget Revisions, p. 22.

As indicated above, President Carter proposes \$15.8 billion of revenue reductions. Thus, President Ford proposed cutting federal revenue by \$6.7 billion more than is proposed by President Carter. The Ford proposals included a cut in individual income taxes that is \$6.3 billion greater than suggested by President Carter; a cut in the corporation income tax \$1.9 billion more than proposed by Carter; and an increase in social insurance taxes and other receipts of \$1.4 billion.

The major Ford proposals in the individual income tax were to: (1) increase the personal exemption from \$750 to \$1,000; raise the minimum standard deduction to \$1,800 for single persons and \$2,500 for married couples filing joint returns; (3) lower the marginal tax in all taxable income classes below \$10,000; and (4) eliminate the earned-income credit. The net effect of these proposals would have been to increase tax burdens for those in the very lowest income classes because of the elimination of the earned-income credit and spread the remaining individual tax decreases fairly evenly among families with incomes of \$10,000 and above.

Along with the individual income tax decreases, President Ford had also proposed raising the social security payroll tax (over and above the already-scheduled increases) starting January 1, 1978. Since the payroll tax is generally considered to be regressive, this increase along with the elimination of the earned-income credit would have been burdensome for low-income workers.

The January Ford budget also had several proposals that would have lowered business taxes. These included proposals to: (1) reduce the maximum corporate tax rate to 46 percent; (2) make permanent the 10 percent investment tax credit; (3) permit accelerated depreciation for new investment in areas with high unemployment; and (4) the start of a scheme to integrate partially the individual and corporation income taxes. Except for the optional increase in the investment tax credit that is included in the stimulus part of the tax package and the one-year extension of the lowered surtax exemption, all the business provisions have been dropped in the Carter budget revisions.

President Carter has omitted any proposal for increasing the social security and railroad retirement payroll taxes. Under current law, the social payroll tax is already mandated to rise to 6.05 each (12.1 percent total) on employers and employees starting January 1, 1978. Also, because of price and wage increases, it is expected that the higher rate will be levied on a taxable earnings base of about \$17,700 in calendar year 1978 -- as opposed to the 1977 base of \$16,500. President Ford had proposed an additional rate hike of 0.2 percentage points effective January 1, 1978 which he said was needed as the first step in placing the social security trust fund on a sounder financial basis. However, there is no consensus as to whether such tax hikes are needed for the soundness of the trust funds.

The 1978 budget revisions proposed by President Carter would maintain the recent rate of growth of federal spending (10 percent annually) and also would essentially maintain past trends in the relative program mix in the budget. President Ford had proposed to reduce sharply the rate of growth in federal spending (to 7 percent) through a series of budget reductions. President Ford also proposed to reverse the past trend in the shift of budgetary resources from national defense to various grant and benefit payment programs.

The Carter budget revisions would add \$6.2 billion in outlays in fiscal year 1977 and \$19.4 billion in 1978 to the spending levels proposed by President Ford in January. These proposed increases are mostly for several fiscal stimulus measures (\$5.3 billion in 1977 and \$8.7 billion in 1978) and to restore various outlay reductions proposed by President Ford (\$1.0 billion in 1977 and \$8.3 billion in 1978) as shown below in Table 6.

TABLE 6. MAJOR CHANGES FROM FORD BUDGET, OUTLAYS IN BILLIONS, BY FISCAL YEAR

Major Changes	1977	1978
Ford January budget	411.2	440.0
Carter revisions:		
Fiscal stimulus measures	5.3	8.7
Restoration of Ford outlay reductions	1.0	8.3
Reduction of Ford outlay increases	-0.3	-1.4
Reestimates	-0.7	0.9
Other Carter changes	0.8	2.9
Carter February budget	417.4	459.4

The largest proposed outlay increases over the January Ford budget are for benefit payments for individuals and grants to state and local governments, as shown in Table 7. Proposed outlays for national defense in 1978 are reduced slightly in the Carter budget revisions, but would still represent a significant growth over estimated 1977 defense spending.

TABLE 7. COMPOSITION OF CARTER BUDGET REVISIONS BY MAJOR CATEGORY, OUTLAYS IN BILLIONS, BY FISCAL YEAR

Major Category	1977	1978
National defense	--	-0.3
Benefit payments for individuals	3.6	4.2
Grants to state and local governments	1.9	9.8
Net interest	0.3	2.1
Other federal operations	0.4	3.7
Total increase in budget outlays	6.2	19.4

CHANGES FROM THE FORD BUDGET

This section provides a brief description of the major changes proposed by President Carter in the January budget submitted by President Ford.

Fiscal Stimulus Measures

The Carter budget proposes increased spending for seven fiscal stimulus measures to reduce unemployment and to increase the rate of economic growth. ^{1/} As shown in Table C, these measures are:

- (1) \$50 one-time payments in 1977 to social security, supplemental security income, and railroad retirement recipients.

^{1/} See chapter I for a discussion of the economic impact of these fiscal stimulus measures.

- (2) \$50 one-time payments in 1977 to recipients of the earned income credit and certain other persons with earned income but limited tax liability.
- (3) Payments to businesses in 1978 for increased employment. President Carter proposes the adoption of a tax credit against business income taxes for expanded employment. Where the allowable tax credit exceeds tax liability, payments would be made to business firms. 1/
- (4) Expand the number of federally funded public service jobs from the current level of 310,000 to 600,000 by the end of 1977 and to 725,000 during 1978.
- (5) Expand outlays for other training and employment programs to provide skills and work opportunities for the unemployed, with a special emphasis on youth and Vietnam-era veterans.
- (6) Increase grants to state and local governments by \$4.0 billion for accelerated public works projects.
- (7) Extend and expand the countercyclical revenue sharing program which provides funds to states and localities experiencing high rates of unemployment. A new formula is proposed to increase the amounts allocated to areas with high unemployment.

1/ See chapter II for further details.

TABLE 8. CARTER FISCAL STIMULUS MEASURES, OUTLAYS IN BILLIONS,
BY FISCAL YEAR

Item	1977	1978
\$50 payments to social security, supplemental security income, and railroad retirement recipients	1.8	--
\$50 payments to recipients of the earned income credit	1.4	--
Employment tax credit	--	0.2
Public service employment	0.7	3.4
Expanded training and employment programs	0.3	1.6
Local public works	0.2	2.0
Antirecession fiscal assistance	0.9	1.6
	---	---
Total	5.3	8.7

Restoration of Ford Reductions

The Ford budget had proposed a series of budget outlay reductions totaling \$1.2 billion in 1977 and \$12.4 billion in 1978. The Carter budget revisions restore the bulk of these proposed spending reductions by adding \$1.0 billion in 1977 and \$8.3 billion in 1978. The major Ford reduction proposals that President Carter does not endorse include:

- o Phasing out temporary public service employment assistance
- o Consolidating child nutrition programs and limiting aid to needy children
- o Tightening food stamp eligibility
- o Eliminating the earned income credit
- o Limiting GI bill eligibility to eight years

- o Limit increases in hospital per diem costs and physician charges under medicare to 7% annually and charge beneficiaries 10% coinsurance for hospital costs 1/

Other restorations of President Ford's reduction proposals are shown in Table 9.

TABLE 9. FORD BUDGET REDUCTIONS THAT ARE NOT ENDORSED BY PRESIDENT CARTER, OUTLAYS IN BILLIONS, BY FISCAL YEAR

Function and reduction item	1977	1978
National defense:		
Dispose of excess stockpile materials	--	0.2
International affairs:		
Decrease security supporting assistance and Peace Corps	--	0.2
Commerce and transportation:		
Hold Federal-aid-highway grants to \$6.5 billion obligation level	--	0.2
Other reductions	*	0.1
Education, training, employment and social services:		
Phase out temporary employment assistance	--	1.1
Reduce postsecondary student and institutional assistance	*	0.4
Reduce discretionary employment and training assistance and summer youth programs	--	0.2
Do not extend special day care grants	--	0.2
Other	--	0.1
Health:		
Limit hospital reimbursements, freeze medicare physician charges, and apply 10% coinsurance	0.2	1.7
Consolidate 20 health programs and other	*	0.1
Income security:		
Consolidate child nutrition programs	--	1.2
Tighten food stamp eligibility	0.7	0.9
Eliminate the earned income credit	--	0.8
Phase out student benefits under social security	*	0.2
Veterans benefits and services:		
Limit GI bill eligibility to 8 years	--	0.5
All other	*	0.2
Total restorations	1.0	8.3

* Less than \$50 million.

1/ The Carter budget proposes other cost controls for medicare that would reduce outlays by \$695 million in 1978 compared to reductions totaling \$2.4 billion proposed by the Ford Administration.

Reduction of Ford Increases

President Ford had proposed program increases of \$1.2 billion in 1977 and \$7.0 billion in 1978. The Carter February budget submission adopts most of the Ford budget program increases for 1978, but reduces the amount requested for defense procurement and other related activities by \$0.7 billion; does not support the Ford proposal for catastrophic protection under medicare (\$0.6 billion); and shifts the initiation of the 3-year balance-of-payments loan for Portugal to 1978, thus reducing 1977 outlays by \$0.3 billion. The effect of these reductions is shown in Table 10 below.

TABLE 10. FORD BUDGET INCREASES THAT ARE REDUCED IN THE CARTER REVISIONS, OUTLAYS IN BILLIONS, BY FISCAL YEAR

Function and item	1977	1978
National defense:		
Increase defense procurement, and research, development, test and evaluation	--	-0.4
Acquire strategic stockpile materials	--	-0.2
Modify personnel and retirement systems	--	-0.1
International affairs:		
Loan to Portugal	-0.3	--
Natural resources, environment, and energy:		
Establish an Energy Independence Authority and increase energy research and development	--	-0.1
Health:		
Provide catastrophic protection under medicare	--	-0.6
Total reductions	-0.3	-1.4

Budget Reestimates

The Carter budget revisions contain several budget reestimates which reduce estimated outlays in 1977 by \$0.7 billion and raise 1978 spending by \$0.9 billion. Anticipated improvements in the level of unemployment as a result of the fiscal stimulus proposals are estimated to reduce unemployment compensation outlays by \$1.0 billion in 1977 and \$1.2 billion in 1978. The larger budget deficits proposed by President Carter and slightly higher assumed interest rates raise estimated outlays for interest on the public debt by \$0.3 billion in 1977 and \$2.2 billion in 1978. Earlier than anticipated repayment of the 1975 loan to the Federal Home Loan Mortgage Corporation reduces 1977 budget outlays for the Federal Home Loan Bank Board by \$379 million. Rescheduling of certain Outer Continental Shelf sales shifts \$300 million in estimated receipts from 1977 to 1978, thus adding to 1977 outlays and lowering 1978 outlays by this amount.

TABLE 11. CARTER BUDGET REESTIMATES, OUTLAYS IN BILLIONS,
BY FISCAL YEAR

Function and item	1977	1978
International affairs:		
Security supporting assistance	0.1	0.1
Commerce and transportation:		
Federal Home Loan Bank Board	-0.4	*
Income security:		
Unemployment insurance	-1.0	-1.2
Interest:		
Interest on the public debt	0.3	2.2
Undistributed offsetting receipts:		
OCS rents and royalties	0.3	-0.3
Other	*	0.1
Total	-0.7	0.9

Other Carter Budget Changes

The Carter budget revisions include other proposals to increase 1977 spending by \$0.8 billion and 1978 outlays by \$2.9 billion. The major items include:

- o Accelerate the petroleum storage program to store 20 million barrels of petroleum by December 1978 and 500 million barrels by the end of 1980 (\$858 million in 1978)
- o Extend for one year the federal supplemental benefits program which is scheduled to expire March 31, 1977 and reduce the length of maximum benefits from 26 to 13 weeks (\$500 million in 1977 and \$400 million in 1978)
- o Provide cost-of-living increases for 1978 veterans compensation and pensions based upon the anticipated percentage increase in the Consumer Price Index (\$408 million)

Other budget changes include deleting 1978 funds for 19 water resources development projects to review their environmental and economic impact (reduces 1978 outlays by \$289 million); providing funds to cover the cost of extending the phasing to full cost recovery of postal rates for certain users (adds \$233 million in outlays); increasing outlays for railroad assistance by \$173 million, including \$135 million for the purchase of redeemable preference shares and \$38 million more in aid for Amtrak; establishing a new program under medicaid to screen all children from low-income families for medical problems and, where necessary, provide follow-up treatment (\$180 million in outlays); proposing legislation to authorize the investment of government balances held by financial institutions in the form of demand deposits (would reduce outlays by \$150 million in 1978); and limiting increases in hospital reimbursements under medicaid to 9 percent annually (would reduce 1978 outlays by \$134 million). These and other smaller changes are summarized in Table 12 below.

TABLE 12. OTHER CARTER BUDGET CHANGES, OUTLAYS IN BILLIONS,
BY FISCAL YEAR

Function and item	1977	1978
National defense:		
Increase combat capability	--	0.1
International affairs:		
Loan to Portugal	--	0.2
Security supporting assistance and other	*	0.1
Natural resources, environment and energy:		
Delete funds for 19 water resources development projects	--	-0.3
Accelerate petroleum storage program	--	0.9
5-year program to upgrade parks and wildlife refuges	*	0.1
Strengthen EPA regulatory functions and increase State grants for environmental control and planning	--	0.1
Commerce and transportation:		
Postal Service payments	--	0.2
Increased railroad assistance	--	0.2
Community and regional development:		
Disaster relief	0.1	--
Health:		
Child health and rural health legislation	--	0.2
Limit hospital reimbursements under medicaid	--	-0.1
Income security:		
Extend federal supplemental unemployment benefits	0.5	0.4
Increase assistance for subsidized housing units and other housing assistance	*	0.1
Effect of proposed increased standard deduction for the earned income credit	--	0.1
Veterans' benefits and services:		
Cost-of-living increase for veterans compensation and pensions	--	0.4
Interest:		
Invest government balances held by private financial institutions	-*	-0.2
All other, net	*	0.4
Total changes	0.8	2.9

* Less than \$50 million.

CHANGES FROM CURRENT PROGRAMS

Another way of analyzing the Carter budget revisions is in terms of departures from current spending policies. Table 13 presents the Carter budget proposals in terms of changes from the January budget estimate of what spending would be under an extension of current programs without new policy initiatives. President Ford proposed a \$5 billion reduction in 1978 outlays below the Office of Management and Budget estimate of spending under current programs.

The effect of President Carter's proposals, including the fiscal stimulus measures, would be to raise outlays \$14 billion above the January OMB estimate of current program spending levels. A major portion of this increase is accounted for by the proposed fiscal stimulus measures. In addition, the Carter budget adopts the bulk of the spending increases proposed by President Ford, and adds another \$3.5 billion of outlay increases in 1978. The Carter budget also adopts \$0.4 billion of outlay reductions proposed by President Ford for 1978 and adds another \$0.6 billion of new outlay reductions.

TABLE 13. SUMMARY OF CARTER BUDGET REVISIONS, OUTLAYS IN BILLIONS, BY FISCAL YEAR

	1977	1978
Current programs, unchanged - January budget estimate	411.2	445.4
Carter fiscal stimulus measures (see Table 8)	5.3	8.7
Other proposed increases:		
Ford proposed increases adopted by Carter	0.9	5.5
Other Carter increases (see Table 12)	0.8	3.5
Proposed decreases:		
Ford proposed decreases adopted by Carter	-0.1	-4.0
Other Carter decreases (see Table 12)	--	-0.6
Budget reestimates (see Table 11)	-0.7	0.9
Total budget outlays	417.4	459.4

Ford Increases Adopted by Carter


The Ford spending increases adopted by President Carter total \$5.5 billion for 1978. The major terms include --

- o Increase real defense spending (\$1.5 billion)
- o Provide capital replenishment for international financial institutions, participate in the balance-of-payments loan program for Portugal, increase economic development assistance to less-developed countries and other international affairs activities (\$0.5 billion)
- o Upgrade the nation's parks and wildlife refuges, increase funding for energy conservation and research development programs, increase production of enriched uranium and other natural resources, environment and energy items (\$1.2 billion)
- o Fund the airport grants program at the full authorized level, increase the number of mass transit grants, increase Coast Guard activities to improve navigation and marine safety, increased funding for the Federal Aviation Administration and for the Northeast Corridor railway improvement program (\$0.8 billion)
- o Provide full funding for the basic education grant program and other education and related activities (\$0.6 billion). The Carter budget also adds additional funds for student aid to increase the maximum award for basic opportunity grants from \$1,400 to \$1,600.

Ford Reductions Adopted by Carter

The Carter revisions adopt with some modifications several Ford outlay reduction proposals for 1978, which total \$4.0 billion. The major items include --

- o Limit impacted school aid to those school districts where federal activities impose a real economic burden (1978 outlay savings of \$317 million)
- o Reduce student benefits under social security and other benefit changes to produce 1978 outlay savings of \$777 million. President Ford proposed to phase out student benefits entirely, but the Carter budget proposes to reduce the benefits to the maximum level provided by basis education opportunity grants (\$1,600 under the Carter budget)

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- o Limit increases in hospital reimbursements under medicare to 9% annually (compared to 7% annually under the Ford budget) which would lower 1978 outlays by \$695 million.
 - o Require private health insurance reimbursement VA hospital treatment of non-service-connected disabilities, eliminate duplicate burial benefits for veterans, and reduce overpayments under the GI bill by reinstituting attendance certification for a 1978 outlay saving of \$415 million.

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