

OVERVIEW OF THE 1978 BUDGET: AN ANALYSIS OF PRESIDENT FORD'S PROPOSALS

Staff Working Paper

January 1977



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C.

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The Congress of the United States
Congressional Budget Office

NOTES

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

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

PREFACE

This analysis of President Ford's 1978 budget proposals has been prepared at the request of the House Committee on Appropriations for use in briefing members of the Committee and to assist the Committee in preparing its budget recommendations to the House Committee on the Budget. This analysis is also being made available to other Members of Congress and Congressional staffs to assist their examination of the Ford budget proposals.

All units of the Congressional Budget Office contributed to the preparation of this analysis, which was coordinated by the Budget Analysis Division.

Alice M. Rivlin
Director

January 28, 1977

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SUMMARY

The Ford budget for fiscal year 1978 recommends outlays of \$440 billion, receipts of \$393 billion, and a budget deficit of \$47 billion. The budget also includes specific recommendations for fiscal year 1979, as well as some tax proposals for 1980, 1981 and 1982. The Ford proposals, as summarized in the following table, are projected to move the budget into a surplus in 1980.

FORD BUDGET PROPOSALS, BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1977	1978	1979	1980	1981	1982
Receipts:						
Under current tax law, extended	360.9	407.6	465.0	526.4	584.6	634.8
Proposed tax reductions	-7.2	-16.3	-17.6	-28.3	-45.4	-62.3
Proposed tax increases	.3	1.7	7.0	11.9	13.9	14.8
	<u>354.0</u>	<u>393.0</u>	<u>454.0</u>	<u>510.0</u>	<u>553.1</u>	<u>587.3</u>
Budget receipts	<u>354.0</u>	<u>393.0</u>	<u>454.0</u>	<u>510.0</u>	<u>553.1</u>	<u>587.3</u>
Outlays:						
Current programs, unchanged	411.2	445.4	472.7	502.1	531.5	564.8
Proposed increases	1.2	7.0	15.7	21.1	26.7	30.1
Proposed reductions	-1.2	-12.4	-22.4	-26.6	-31.3	-36.2
	<u>411.2</u>	<u>440.0</u>	<u>466.0</u>	<u>496.6</u>	<u>527.0</u>	<u>558.7</u>
Budget outlays	<u>411.2</u>	<u>440.0</u>	<u>466.0</u>	<u>496.6</u>	<u>527.0</u>	<u>558.7</u>
Deficit (-) or Surplus:						
Under current programs unchanged	-50.3	-37.8	-7.7	24.3	53.0	70.0
Under Ford budget proposals	-57.2	-47.0	-11.6	13.4	26.1	28.6

RECEIPTS

The Ford budget proposes a reduction in income taxes, retroactive to January 1, 1977, that would provide \$7.2 billion of tax relief in 1977 and \$14.7 billion in 1978 relative to extension of current tax law. President Ford also proposes further income tax cuts of \$7.3 billion in 1980, \$19.6 billion in 1981, and \$30.6 billion in 1982. These future-year tax cuts are designed to offset the projected rise in effective tax rates that otherwise would occur as inflation and increases in real income move taxpayers into higher tax brackets.

President Ford also proposes other changes in the structure of the income tax system, such as integration of the individual and corporation income taxes. He also proposes to increase social security tax rates to maintain a surplus in the social security trust funds. Under current law, the social security system could, if current trends continue, use up the trust funds' resources by 1982.

Taking all the tax proposals into account, total estimated receipts would increase by 11 percent in 1978 (from \$354 to \$393 billion) and by 15.6 percent in 1979 (from \$393 to \$454 billion).

OUTLAYS

The Ford budget proposes to reduce the annual rate of increase in budget outlays from the recent average of 10 percent to 7 percent in 1978 and to less than 6 percent in 1979. This would be achieved by a series of budget reduction proposals totalling \$12.4 billion in 1978 and \$22.4 billion in 1979. Over 60 percent of these reduction proposals would require substantive legislation which the Congress has generally rejected in the past. The reduction proposals are concentrated largely in the income security, health, and education, training, employment, and social services functions. They include such items as consolidating child nutrition grant programs, limiting the annual rise in medicare reimbursements to 7 percent, and phasing out temporary employment assistance. If these reduction proposals are not accepted, budget outlays would rise to \$452.4 billion in 1978 (up 10 percent from 1977), and the budget deficit would be \$59.4 billion.

The Ford budget also proposes significant program increases totalling \$7.0 billion in 1978 and \$15.7 billion in 1979. The major portion of these increases are for defense procurement and for various natural resources, environment, and energy programs.

The major trend in the composition of federal budget outlays over the last 20 years has been the rapid growth of domestic assistance programs -- such as social security, medicare, and various grants to state and local governments -- and a corresponding relative decline in spending for direct federal operations, particularly for defense. The Ford budget would reverse this trend. Spending for national defense under the Ford

proposals would rise from 24.3 percent of total estimated budget outlays in 1977 to 25.5 percent in 1978, 26.6 percent in 1979, and a projected 28.5 percent in 1982. Spending for domestic assistance programs would fall from 56.1 percent in 1977 to 54.4 percent in 1978, 53.7 in 1979 and remain at this level through 1982.

Measured in constant (fiscal year 1972) prices, total federal outlays under the Ford budget would increase only 1 percent in 1978 over 1977 and would not increase at all in 1979. (During the past ten years, federal spending in real terms has increased at an average annual rate of 2.7 percent.) However, real spending for national defense programs would rise by 5 percent in 1978 and by another 3 percent in 1979. Grants to state and local governments would be cut by 7 percent in real terms in 1978 and again by 10 percent in 1979.

A significant budget proposal for 1979 is to restore the transactions of such off-budget entities as the Federal Financing Bank and the Postal Service fund to the budget. Net off-budget spending has grown significantly in recent years. This spending does not differ in nature or concept from spending under similar programs included in the unified budget. Inclusion of off-budget spending would add an estimated \$10.9 billion to 1979 outlays and raise the budget deficit by the same amount.

ECONOMIC OUTLOOK

The short-run economic forecast underlying the Ford budget is more optimistic than the most recent forecast made by the Congressional Budget Office (CBO). The CBO forecast does not assume any new economic stimulus measures that reportedly will be proposed by President Carter and by the budget committees. The Ford budget does provide for some additional economic stimulus in 1977 and 1978 as the result of the proposed income tax reductions. This is calculated by OMB to add \$6.9 billion to the budget deficit in 1977 and \$9.2 billion in 1978. The Ford budget proposes no new funds in 1978 for temporary public service jobs, local public works, or antirecession financial assistance for state and local governments.

CBO estimates that the Ford budget proposals would add roughly 80,000 jobs above a current-policy budget by the end of 1977 and about 130,000 jobs by the end of 1978. Employment changes of this magnitude would lower the unemployment rate by only about 0.1 percentage point below CBO current-policy projections, to 7.0 to 7.7 percent at the end of 1977 and 6.5 to 7.5 percent at the end of 1978. As shown in the table below, the Ford Administration's economic projections fall at the optimistic end of these ranges.

COMPARISON OF FORD BUDGET AND CBO ECONOMIC FORECASTS, BY
CALENDAR YEARS

Selected Economic - Variables	Ford Budget Forecast	CBO Forecast with Ford Budget Fiscal Policy Proposals
Economic Growth (percentage change of constant-dollar GNP)		
1976 to 1977	5.2	3.7 to 5.2
1977 to 1978	5.1	3.2 to 5.7
Inflation (percentage change in Consumer Price Index)		
1976 to 1977	5.1	4.3 to 5.8
1977 to 1978	5.4	3.8 to 5.8
Unemployment Rate (average annual percentage)		
1977	7.3	7.3 to 7.9
1978	6.6	6.7 to 7.7

The pace of recovery from the 1973-1975 recession has been irregular and, on balance, disappointing. During the economic lull in the second half of 1976, growth of real gross national product (GNP in dollars of constant purchasing power) fell below a 4 percent annual rate and the unemployment rate rose from 7.6 percent in June (seasonally adjusted), to 7.8 percent in December, far above the 7 percent rate which many forecasters were expecting before the onset of the lull. The rate of inflation, while it is a bit more favorable than early assumptions, remains in the neighborhood of 5 percent per year, fairly high by historical standards.

The most recent monthly statistics indicate that the worst of the 1976 lull is ending. Retail sales and industrial production have picked up. The Commerce Department's index of leading indicators rose a strong 1 percent in November following a period of decline. The unemployment rate fell slightly between November and December. The lull does not appear to be turning into a recession, as some feared it would.

But neither are current rapid rates of improvement likely to be sustained, if current fiscal and monetary policies are continued. In part at least, the recent increases represent recovery from the primary and secondary effects of the Ford strike, and possibly from the effects of earlier shortfalls in federal spending. These catch-up increases are likely to subside after the first months of 1977 in the absence of changes in economic policies.

FISCAL POLICY CHANGES IN THE FORD BUDGET

The budget submitted by President Ford provides a small amount of economic stimulus above a current-policy budget. Adoption of Ford proposals would add an estimated 0.4 percent to real output (GNP in dollars of constant purchasing power) by the end of 1977 and 0.5 percent by the end of 1978. Changes of this size are not enough to cause significant departures from current-policy projections of unemployment and inflation. Thus, the Ford budget does not represent a major change in economic policy as far as its impact on the economy is concerned.

The figures in Table 1 represent a summary of President Ford's proposed departures from current policy which, if adopted, would have a significant impact on the economy. Omitted from the table are those differences between the Ford budget and a current policy budget which simply reflect different estimating procedures or which have negligible impact on the economy.

TABLE 1. DEPARTURES FROM CURRENT FISCAL POLICY, FORD BUDGET

	Ford Budget Less Current Policy Budget (billions of current dollars)	
	Fiscal Year 1977	Fiscal Year 1978
Tax Changes: total	-7	-15
Individual income tax reductions	-6	-12
Corporation income tax reductions	-1	- 4
Other tax changes	0	1
Spending Changes: total	-2	- 7
Purchases of goods and services	0	- 1
Transfer payments to persons	0	- 2
Grants to state and local governments	-2	- 4

SOURCE: The Budget of the United States Government, Fiscal Year 1978.

NOTE: The estimates in this table follow national income and product budget categories, which are more useful for measuring economic impact than the unified budget concepts used elsewhere in this report.

On the tax side, President Ford proposes reductions below current policy amounting to about \$7 billion in 1977 and about \$15 billion in 1978. Most of this change is due to proposed individual income tax reductions, including an increase in the personal exemption, a reduction in tax rates in lower and middle-income tax brackets, and an increase in the low-income allowance. These reductions are partly offset by elimination of the \$35 per capita tax credit and the earned income credit. The Ford Administration also proposes business tax reductions, including a two percentage-point rate reduction -- from 48 percent to 46 percent -- on corporation income in excess of \$50,000 and a gradual integration of the corporation and individual income taxes. With respect to payroll taxes, increases above current policy are proposed beginning in 1978. A number of other proposed changes have minor effects on estimated revenues (see Chapter II for further details).

On the spending side, there are a great many more proposals than on the tax side. Some of the more important items are (see Chapters III and IV for further details):

- o increases in defense spending,
- o increases in spending on energy research and on enriched uranium,
- o limitations on medicare hospital reimbursements and allowable physician charges,
- o phasing out of student benefits and other changes in social security,
- o reduction of assistance to higher education institutions,
- o phasing out of the temporary employment assistance program, and no new funds for local public works or counter-cyclical revenue sharing,
- o tightening of eligibility standards for food stamps, and
- o reduction of funds for child nutrition programs.

Accompanying the Ford budget is a set of economic projections thought to be consistent with the fiscal policy proposals. The rate of growth of constant-dollar GNP is projected at 5.2 percent from 1976 to 1977 and 5.1 percent from 1977 to 1978. These rates of growth are lower than the gain from the recession year of 1975 to 1976, but they are higher than the annual rate of growth during the second half of 1976.

Accompanying the economic growth is a projected decline in the unemployment rate, from 7.7 percent in 1976 to 7.3 percent in 1977 to 6.6 percent in 1978 (annual averages). Inflation, as measured by the rate of increase of the consumer price index, is projected at 5.1 percent from 1976 to 1977 and 5.4 percent from 1977 to 1978.

CBO ANALYSIS OF THE FORD FISCAL POLICY PROPOSALS

The economic impact of the Ford tax and spending proposals is not necessarily measured by the dollar amounts shown in Table 1. Some kinds of budgetary changes have greater impact per dollar on employment and inflation than others. The general (but not unanimous) view among economists is that purchases of goods and services have greater impact per dollar than individual income tax changes or than transfer payments (such as social security or unemployment insurance). The impact of grants to state and local governments can vary widely. At one extreme grants can be used for purely financial transactions such as paying off debts or funding a pension system; at the other extreme, grants can be used to hire additional employees for special employment and training programs with the possibility of a greater impact per dollar on employment than other outlays. Judgments about these factors are necessarily uncertain, but they are essential in order to assess the economic effects of the Ford budget.

CBO's estimate of the impact of President Ford's tax proposals (as compared to current policy) is that they would add an estimated \$9 billion to constant-dollar GNP (1972 prices) by the last quarter of 1977, and to add \$14 billion by the last quarter of 1978. As Table 2 shows, the current-policy level of GNP at the end of 1978 is estimated in the neighborhood of \$1,400 billion, so that the stimulus provided by the tax proposals of the Administration would add approximately 1 percent to constant-dollar GNP. The tax side of President Ford's proposals would reduce the unemployment rate by roughly 0.2 percentage points by the end of 1977

and 0.4 percentage points by the end of 1978. The inflation impact of tax cuts builds up very slowly, reaching an estimated 0.3 to 0.5 percentage points by 1980. That is, if the inflation rate in the absence of changes in policy were 4.5 percent, adoption of the tax side of the Ford budget proposals would raise it to 4.8 to 5.0 percent.

TABLE 2. ESTIMATED ECONOMIC IMPACT OF ADMINISTRATION FISCAL POLICY PROPOSALS, FOURTH QUARTERS OF 1977 AND 1978

	1977 4th Quarter	1978 4th Quarter
Constant-Dollar GNP (\$ billions, 1972 prices)		
Current policy level	1325 to 1350	1370 to 1420
Effect of Ford Administration proposals: total	5	7
Tax proposals	9	14
Spending proposals	-4	-7
	1977 4th Quarter	1978 4th Quarter
Unemployment Rate (percentage points)		
Current policy level	7.1 to 7.8	6.6 to 7.6
Effect of Ford Administration proposals: total	-0.1	-0.1
Tax proposals	-0.2	-0.4
Spending proposals	0.1	0.3
	1979 4th Quarter to 1980 4th Quarter	
Inflation Rate (percentage points)		
Current policy level	n.a.	
Effect of Ford Administration proposals: total	0.1	
Tax proposals	0.3 to	0.5
Spending proposals	-0.2 to	-0.4

SOURCE: Congressional Budget Office.

On the spending side, the Ford budget proposals are estimated to reduce real GNP by \$4 billion by the end of 1977. During 1978 the effects of net reductions in spending build up to an estimated decrease of \$7 billion, or 0.5 percent, by the end of the year. This output decrease is estimated to add 0.3 percentage points to the unemployment rate by the end of 1978, a bigger impact than would accompany a typical reduction of 0.5 percent in output because of the sizable cuts in direct employment programs. The spending proposals would reduce the rate of inflation by an estimated 0.2 to 0.4 percentage points by 1980.

Taken together, the tax and spending proposals are estimated to provide moderate net stimulus to output and employment. By the end of 1977, the entire budget is estimated to add \$5 billion, or 0.4 percent to real GNP and reduce unemployment by 0.1 percentage point, as compared to a current policy budget. By the end of 1978, the net effect on real output is estimated at \$7 billion or 0.5 percent, and the reduction of the unemployment rate again at 0.1 percent. The small unemployment effect translates into a 0.1 percent estimated effect on inflation by 1980. Adoption of additional payroll tax increases proposed for 1979 and 1980 would add to the inflation effect.

THE ECONOMIC OUTLOOK UNDER THE FORD BUDGET

Fiscal policy is only one of many factors which influence the economic outlook. Household spending and saving decisions, business decisions to buy new plant and equipment, state and local outlay increases or cutbacks, purchases by foreign businesses and governments, and changes in monetary policy are among the other major influences. The Ford Administration projections of the economic outlook, summarized earlier, take an optimistic view of these private demand factors compared to a recent CBO report, The Disappointing Recovery. Consequently, the Ford economic projections of real GNP and unemployment lie at the optimistic end of CBO projections which take the Ford fiscal proposals into account.

According to the Ford Administration, GNP in 1972 dollars will grow by 5.2 percent from 1976 to 1977 (calendar year averages) and by 5.1 percent from 1977 to 1978 (see Table 3). The CBO estimated growth ranges, after taking account of the impact of the Ford proposals, are 3.7 to 5.2 percent from 1976 to 1977 and 3.2 to 5.7 percent from 1977 to 1978. Ford Administration projections are at the upper end of the CBO range in 1977 and much nearer the upper than the lower end in 1978.

ERRATA SHEET for CBO Staff Working Paper, Overview of the 1978 Budget:
An Analysis of President Ford's Proposals, January 1977

The word "increase" should be inserted after "outlay" on the first line of page 29.

The word "training" should be substituted for the word "primary" in the second sentence of the first full paragraph on page 99.

The words "is estimated" should be substituted for "Congress approved" in the first sentence of the second paragraph on page 137. Also, in the second sentence of this paragraph, "\$1.6 billion or 37 percent" should be changed to "\$1.8 billion or 43 percent".

Page 155, third paragraph, the phrase "\$6 billion in fiscal year 1978" should be deleted.

TABLE 3. COMPARISON OF FORD ADMINISTRATION AND CBO ECONOMIC FORECASTS, YEARLY AVERAGES

	Ford Administration Forecast	CBO Forecast with Ford Fiscal Policy Proposals
Economic Growth (percent change of constant-dollar GNP)		
1976 to 1977	5.2	3.7 to 5.2
1977 to 1978	5.1	3.2 to 5.7
Inflation (percent change in Consumer Price Index)		
1976 to 1977	5.1	4.3 to 5.8
1977 to 1978	5.4	3.8 to 5.8
Unemployment Rate (percentage points)		
1977	7.3	7.3 to 7.9
1978	6.6	6.7 to 7.7

SOURCES: The Budget of the United States Government, Fiscal Year 1978, p. 41; Congressional Budget Office.

NOTE: The figures in this table refer to annual averages and percent changes in annual averages, and therefore differ somewhat from the end-of-year fourth quarter figures shown in Tables 2 and 4.

The rate of inflation projected by the Ford Administration, 5.1 percent from 1976 to 1977 and 5.4 percent from 1977 to 1978, lies within the CBO ranges of 4.3 to 5.8 and 3.8 to 5.8. In the second year the Ford projection is nearer the upper end of the CBO range than in the first year.

The Ford Administration projection of the 1977 unemployment rate, 7.3 percent, is at the low end of the CBO range of 7.3 to 7.9 percent. For 1978, the Ford projection of 6.6 percent is

slightly below the CBO range of 6.7 to 7.7 percent. Thus, if the CBO range is realistic, then the unemployment rate projected by the Ford Administration requires more stimulative policies than President Ford has proposed.

THE ECONOMIC OUTLOOK UNDER OTHER POLICIES

The CBO report also analyzes the impact of a number of alternative policy options and three hypothetical policy combinations. The effects of these three combinations, in terms of departures from current-policy economic projections, are compared with the effects of the Ford budget in Table 4.

TABLE 4. ECONOMIC FORECASTS, FOURTH QUARTERS OF 1977 AND 1978

	Continuation of Current Policy	Differences from Current Policy (percentage points)			
		Ford Proposals	Hypothetical #1	Policy Combinations #2	Combinations #3
Economic Growth (percent change in constant-dollar GNP)					
1976:4 to 1977:4	3.5 to 5.0	0.4	0.7	1.0	1.7
1977:4 to 1978:4	3.0 to 5.5	0.1	0.1	0.4	0.5
Unemployment Rate (percentage points)					
1977:4	7.1 to 7.8	-0.1	-0.2	-0.5	-0.7
1978:4	6.6 to 7.6	-0.1	-0.3	-0.7	-0.9
Inflation Rate (percent change in Consumer Price Index)					
1979:4 to 1980:4	n.a.	0.1	0.1 to 0.2	0.3 to 0.5	0.4 to 0.7

SOURCE: Congressional Budget Office.

NOTE: The figures in this table refer to the fourth quarters of 1977 and 1978 and therefore differ somewhat from the projections of annual averages and their changes shown in Table 3.

The first two columns of the table summarize projections based on current policy and the differences from current policy which the Ford budget is estimated to bring. The third column summarizes the estimated impact of one of the hypothetical policy combinations described in the report, consisting of an \$8 billion personal tax rebate, a \$5 billion (annual rate) continuing personal tax reduction, and a \$2.5 billion (annual rate) continuing corporate tax reduction. This combination is estimated to add slightly more stimulus than the Ford package. It adds 0.7 percent to economic growth during 1977 but only 0.1 percent in 1978. The eventual inflation impact of the package is estimated at 0.1 to 0.2 percentage points due to this policy.

A second policy combination considered in the report would add to the first combination a \$5 billion (annual rate) continuing increase in countercyclical revenue sharing and public service employment and a \$6 billion authorization for accelerated public works, with spending taking place slowly over several years. This policy combination is similar in broad outline to proposals by the Carter Administration. It adds an estimated 1 percent to growth during 1977 and 0.4 percent in 1978. It reduces unemployment an estimated 0.5 percent by the end of 1977 and 0.7 percent by the end of 1978. If private demands turn out to be in the middle of CBO's projected range, then fiscal stimulus of this magnitude would probably be needed to reach the Ford Administration's own unemployment projection for 1978.

A third policy combination would double the dollar amount of the tax options of the first combination and add in the spending increases of the second policy combination. This relatively large stimulus package would increase real GNP growth in 1977 by an estimated 1.7 percent in 1977 and 0.5 percent in 1978. Its estimated effects are shown in the fourth column of Table 3. If private demands turn out to be in the middle of CBO's projected ranges, then it would probably take fiscal stimulus of this magnitude to reduce unemployment close to 6 percent by the end of 1978.

This chapter provides a summary of recent revenue trends, President Ford's revenue proposals, and some alternative revenue options.

REVENUE TRENDS

Total federal receipts have grown more than fourfold between fiscal years 1957 and 1977 -- from \$80 billion to an estimated \$354 billion in the Ford budget. Compared to the size of the economy, however, receipts have remained relatively stable at between 18 and 19 percent of the gross national product (GNP).

The individual income, corporation income, and social insurance taxes together now provide about 90 percent of total federal revenue. The relative share of individual income taxes as a revenue source has remained roughly constant at 42 to 45 percent during the last twenty years. However, the degree to which the Federal Government relies on other sources of revenue has shifted markedly during the past two decades.

Because of increases both in the tax rates and in the taxable earnings bases, the share of the social insurance taxes (primarily for social security and unemployment insurance) has increased from 12.5 percent to nearly one-third of total receipts since 1957. During the same period, corporation income taxes as a source of federal revenue have declined significantly, from 26.5 percent in 1957 to only 16 percent in 1977. This has resulted primarily from the introduction of such changes as the investment tax credit and accelerated depreciation, rather than from explicit tax rate reductions -- although the rate itself was reduced from 52 percent to 48 percent during the period. Also, the decline of corporate earnings from 10.9 percent of the GNP in 1957 to just over 9 percent in 1977 is responsible for part of this pattern shift.

All other receipts which include a large number of miscellaneous items, such as excise and estate and gift taxes, now account for only slightly more than 10 percent of total receipts as compared with their 16.5 percent share in 1957.

Under the law as modified by President Ford's revenue proposals these relative shares by source of the \$393.0 total receipts estimated for fiscal year 1978 remain about the same. 1/ Individual income taxes would produce 44 percent of the total; the corporation income tax, 15 percent; social insurance taxes, 32 percent; and all other sources, 9 percent.

PRESIDENT FORD'S REVENUE PROPOSALS

In total, President Ford proposes tax reductions of \$22.5 billion. This is the sum of the \$14.7 billion reduction resulting from new proposals and \$7.8 billion reduction from extension of current law. These include individual income tax relief of \$19.2 billion and corporate tax cuts of \$4.7 billion for fiscal year 1978. In addition, he again proposes increasing the social security tax rate, which would raise \$1.3 billion. These proposals are quite similar to those he first made in October 1975 and also submitted in the January 1976 Budget.

Even though some of the changes will reduce aggregate revenue by the same amount as extending the temporary provisions of the Tax Reform Act of 1976, many of the proposals involve tax relief for groups quite different from those benefitting from the 1976 law. For example, under current law the general tax credit of \$35 per exemption and the earned-income credit for low-income workers will expire on December 31, 1977. President Ford does not call for their renewal. However, his proposals would make permanent the larger corporate surtax exemption which is also scheduled to expire at the end of calendar 1977.

The total revenue program and its major components by source are shown in Table 5. The major changes described in the following sections include items representing both extensions of current law and new proposals.

1/ Under the budget conventions employed by the Congress, \$835 million of earned income credit payments would be subtracted and net revenue would be shown as \$392 billion.

TABLE 5. SUMMARY OF PRESIDENT FORD'S REVENUE PROPOSAL FOR FISCAL YEAR 1978, IN BILLIONS OF DOLLARS

Revenue Source	Extension of Temporary Provisions of Tax Reform Act of 1976	New Ford Proposals	Total Revenue Reduction
Individual Income Tax	-6.8	-12.4	-19.2
Corporation Income Tax	-1.0	-3.7	-4.7
Social Insurance Contributions and Taxes	--	1.3	1.3
Other Receipts	--	0.1	0.1
All	-7.8	-14.7	-22.5

Individual Income Tax Proposals

The major changes proposed for the individual income tax are to:

- o increase the personal exemption from \$750 to \$1,000, replacing the current \$35 per exemption tax credit and the alternative credit of 2 percent of taxable income up to \$9,000;
- o raise the low-income allowance from \$1,700 to \$1,800 for single persons and from \$2,100 to \$2,500 for married couples filing joint returns;
- o lower the bottom marginal tax rate to 12 percent and the rates in all taxable income classes below \$10,000; and
- o eliminate the earned-income credit now available to low-income families.

As indicated above, the net revenue effect of these individual income tax changes is a \$19.2 billion cut in fiscal year 1978. For a married couple with two children not eligible for the earned-income credit, these proposals would raise the tax-free level of income slightly from its current \$6,100 level to \$6,500. However, the tax-free income level would drop slightly -- from \$6,860 to

\$6,500 -- if the couple uses the earned-income credit. Thus, low-income families who lose the earned-income credit would be worse off financially. And when the social security tax hike is taken account of, low-income earners would pay much higher taxes than they do now (see Table 6). The cut in marginal tax rates means that reductions for others would be spread fairly evenly among most taxpayers.

Corporate Tax Proposals

The major proposed changes in business taxes are to:

- o reduce the maximum corporate tax rate from 48 to 46 percent;
- o make permanent the corporate surtax exemption provision which provides a lower tax rate on the first \$50,000 of corporate income;
- o make permanent the 10 percent investment tax credit which reverts to 7 percent at the end of 1980 under current law;
- o permit accelerated depreciation for new plant and equipment in areas with unemployment rates of 7 percent or higher;
- o provide for a corporate deduction for a portion of dividends paid and an adjustment at the shareholder level for the remaining corporate tax on dividend distributions so as to integrate partially the individual and corporate income taxes; and
- o repeal the current-law provision that allows funding Employee Stock Ownership Plans (ESOPs) through supplemental investment tax credits.

These proposals for corporations would result in a \$5.0 billion income tax cut and \$0.3 hike in revenue (resulting from repeal of ESOPs), for a net reduction of \$4.7 billion in 1978.

Payroll Tax Proposals

President Ford proposes a gradual increase of the combined employer-employee social security (and railroad retirement) payroll

TABLE 6. COMPARISON BETWEEN PRESIDENT FORD'S TAX PROPOSALS AND CURRENT LAW BURDENS: INDIVIDUAL INCOME AND EMPLOYEE SOCIAL SECURITY TAX LIABILITY, ONE-EARNER, FOUR-PERSON FAMILY, FILING JOINT RETURN FOR CALENDAR YEAR 1978

AGI (\$)	Income Tax Liability	Employee Social Security Payroll Tax	Total Tax
<u>Current Law</u>			
3,000	-300 <u>a/</u>	182	-118
5,000	-300 <u>a/</u>	303	3
10,000	651	605	1,256
15,000	1,552	908	2,460
20,000	2,530	1,071	3,601
25,000	3,640	1,071	4,711
30,000	4,904	1,071	5,975
50,000	11,510	1,071	12,581
<u>President Ford's Proposals</u>			
3,000	0	185	185
5,000	0	308	308
10,000	485	615	1,100
15,000	1,325	922	2,247
20,000	2,280	1,089	3,369
25,000	3,370	1,089	4,459
30,000	4,648	1,089	5,737
50,000	11,180	1,089	12,269
<u>Difference: President Ford's Proposals Minus Current Law</u> ("+" = tax increase; "-" = tax decrease)			
3,000	300	3	303
5,000	300	5	305
10,000	-166	10	-156
15,000	-227	14	-213
20,000	-250	18	-232
25,000	-270	18	-252
30,000	-256	18	-238
50,000	-330	18	-312

SOURCE: Supplemental Materials to Accompany the White House Fact Sheet on the President's Tax Message, January 4, 1977, Tables 9 and 12.

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

tax with the increases phased in as follows:

- o a 0.2 percentage point increase effective January 1, 1978 (in addition to the 0.4 percentage point increase already mandated under current law, so the total hike would be 0.6 percentage point);
- o a 0.6 percentage point increase effective January 1, 1979; and
- o a 0.3 percentage point increase effective January 1, 1980.

An additional 0.5 percentage point increase on January 1, 1981, already mandated under current law, would remain unchanged. Therefore, the total employee-employer tax rate would rise from 11.7 percent in January 1977 to 13.2 percent in 1980 and to 13.5 percent in January 1981.

Virtually all of the increase in the revenue proposals comes from higher social security (and railroad retirement) taxes. These plus unemployment insurance taxes are already scheduled to increase during fiscal year 1978. The unemployment insurance taxable earnings base will rise from \$4,200 to \$6,000 on January 1, 1978; this will raise about \$2.5 billion additional revenue. Also, the social security payroll tax rate goes from 5.85 percent each on employees and employers to 6.05 percent each on January 1, 1978 (12.1 percent total). It is expected that, because of price and wage increases, the higher payroll tax rate will be levied on a taxable earnings base of about \$17,700 in calendar 1978 -- as opposed to the calendar year 1977 base of \$16,500 -- and perhaps as much as \$19,200 in 1979. Thus under President Ford's proposal, the social security payroll tax paid by each worker with earnings at or above the taxable earnings ceiling would rise from \$965 in calendar year 1977 to \$1,238 in 1979.

Other Proposals

President Ford also recommends several other changes in current tax law which, combined, are estimated to cost about \$100 million in fiscal year 1978. The miscellaneous proposals include:

- o reducing from 4 percent to 2 percent the excise tax now levied on the net investment income of private foundations;

- o excluding all charitable contributions from the base of the minimum tax on preference income;
- o giving state and local governments the option of issuing taxable securities in return for a federal subsidy equal to 30 percent of their net interest cost;
- o providing a 15 percent tax credit to homeowners for the cost of insulation and storm windows; and
- o extending the federal highway program and the highway trust fund taxes scheduled to expire in September 1979.

ALTERNATIVE REVENUE OPTIONS

The particular items in President Ford's tax package are not unique and the same amount of revenue reduction could be achieved in a number of different ways. As already noted, by itself simple extension of individual and corporation income tax provisions now scheduled to expire at the end of calendar year 1977 involves a tax reduction of \$7.8 billion.

In the individual income tax, it would be possible to raise -- rather than eliminate -- the \$35 per capita exemption credit to \$70 at roughly the same cost in revenue (\$11-\$12 billion) as is involved in President Ford's proposal to raise the personal exemption to \$1,000.

Another item that would be particularly helpful to the working poor would be extension of the earned-income credit to all married couples with low wages rather than limiting it only to those with dependents, as is now the case. Such an extension would only involve a revenue reduction of about \$1 billion and be especially beneficial to low-income workers in light of the social security payroll tax hike scheduled for 1978.

There are many changes other than those proposed by President Ford to provide additional tax reductions for businesses or provide cuts that are distributed differently among various kinds of enterprises. Tax cuts based on a company's employment level might lead to increased hiring and higher overall employment. Another alternative is a temporary increase in the investment tax credit limited to investment made during 1977 and 1978. If structured in this way,

there might be a spur to rapid investment activity and presumably quicker economic stimulus. A further reduction in corporate tax rates, however, would provide broad relief to all corporations.

Various combinations of alternative provisions which might be proposed are not listed since the number is literally infinite. It is possible to devise a package of tax proposals of any size that is deemed appropriate on fiscal policy grounds. And within any total, the net revenue loss (there might be some gain and some loss provisions) could be distributed between individuals and other groups in whatever way the Congress believes appropriate.

The 1978 budget proposed by President Ford would reduce sharply the rate of growth of federal spending and reverse past trends in the relative program mix in the budget. This would be accomplished through a series of major changes to current programs as well as some new initiatives beginning in some cases in fiscal year 1977 and continuing over the next several years. Table 7 below shows the aggregate amounts of these changes and how they affect program spending under current law.

TABLE 7. FORD SPENDING PROPOSALS, BY FISCAL YEAR,
IN BILLIONS OF DOLLARS

	1977	1978	1979	1980	1981	1982
Current programs, under current law	411.2	445.4	472.7	502.1	531.5	564.8
Proposed increases	1.2	7.0	15.7	21.1	26.7	30.1
Proposed decreases	-1.2	-12.4	-22.4	-26.6	-31.3	-36.2
Budget outlays	411.2	440.0	466.0	496.6	527.0	558.7

SOURCE: The Budget of the United States Government, Fiscal Year 1978.

More than any budget in recent years, the 1978 budget focuses on multiyear budget proposals to accomplish proposed policy objectives. Individual spending proposals for fiscal year 1979 are given high visibility in the budget document. Aggregate 1980-1982 projections of these proposals are also included in the budget. This emphasis on multiyear budgeting is in keeping with many of the provisions of the Congressional Budget Act of 1974.

This chapter provides a summary discussion of the proposed changes in the growth of federal spending and the program mix during the next five years. It also provides a brief description on the major program changes proposed by President Ford for 1978 and 1979.

BUDGET GROWTH

During the past 20 years, federal outlays have increased from \$77 billion in fiscal year 1957 to an estimated \$411 billion in 1977. This represents an average annual increase of close to 9 percent. During the past 10 years, the average annual increase has been 10 percent.

President Ford proposes to reduce this rate of growth in federal expenditures to 7 percent in 1978 and to less than 6 percent in 1979. between 1979 and 1982, the budget projects that federal spending under the Ford proposals would grow an average of about 6 percent each year. This slow down in the growth of spending would be achieved primarily by a series of budget reductions totalling \$12.4 billion in 1978 and rising to \$36 billion by 1982. If these reductions were restored to the budget, and the proposed program increases approved, total outlays would increase by 10 percent in 1978, continuing the recent trend.

Real Growth

A large portion of the past growth in federal spending has been due to the effects of inflation. Thus, it is useful to set aside these effects in analyzing budget growth. Measured in constant dollars, the recent growth in federal spending has been significantly less than when calculated in current prices. As shown in Table 8, total federal spending in real terms doubled between 1957 and 1977; when measured in current prices, it increased more than five times. This amounts to an average annual rate of real growth of somewhat less than 4 percent during the past 20 years, and less than 3 percent during the last 10 years.

When put into constant (fiscal year 1972) prices, the Ford budget proposals would result in a real growth of only 1 percent in 1978 for total outlays and zero real growth in 1979.

TABLE 8. GROWTH IN BUDGET OUTLAYS, BY FISCAL YEARS
IN BILLIONS OF DOLLARS

Measure	1957	1967	1977 est.	1978 est.	1979 est.	1982 proj.
Total budget outlays:						
In constant prices	76.7	158.3	411.2	440.0	466.0	558.7
In constant (fiscal year 1972) prices	137.2	212.1	278.0	281.0	281.0	na
Ratio of federal spending to GNP (%):						
In current prices	17.7	20.4	22.5	21.6	20.5	19.1
In constant (1972) prices	20.3	21.3	21.1	20.3	19.3	na

SOURCE: The Budget of the United States Government, Fiscal Year 1978.

Spending Relative to GNP

Another way to examine budget growth trends is to compare federal spending to the gross national product (GNP), the most widely used measure of the size of the economy. During the past 20 years federal spending has increased at a faster rate than the total economy. Consequently, total federal outlays as a percent of GNP has risen from 17.7 percent in 1957 to an estimated 22.5 percent in 1977.

Much of the increase in this ratio has occurred since 1974 when federal outlays as a percentage of GNP were 19.8 percent. This recent rise in federal spending relative to the total economy is largely a result of the current recession, which gathered momentum at the beginning of fiscal year 1975. The effect of the recession was to raise federal spending (for such programs as unemployment compensation, food stamps, public service jobs, and welfare payments) and to lower GNP from what it would have been under a full-employment economy. Thus, the recession can be seen to have pushed federal spending up and GNP down.

The Ford budget would hold the growth in federal spending to less than the projected growth in the economy, so that budget outlays as a percentage of GNP would fall from 22.5 percent in 1977 to 21.6 percent in 1978 and 20.5 percent in 1979. The budget also projects that by 1982, the ratio of federal spending to GNP would fall to close to 19 percent under the Ford proposals.

SPENDING MIX

The major trend in the mix of federal spending during the past 20 years has been a rapid growth in benefit payments for individuals -- such as social security, medicare and medicaid, veterans' benefits, food stamps and public assistance -- and grants to state and local governments. At the same time the share of the budget allocated to national defense has fallen markedly. Table 9 shows three measures of the change in budget composition between 1957 and 1977 and the effect of President Ford's proposals.

The Ford budget would reverse the past trend in the shift of budgetary resources from national defense to various grant and benefit payment programs. Spending for national defense would rise from 24.3 percent of total estimated outlays in 1977 to 25.5 percent in 1978, 26.6 percent in 1979, and 28.5 percent in 1982. Spending for grants to state and local governments would be reduced from 11.4 percent of total outlays in 1977 to 10.5 percent in 1978, 9.5 percent in 1979, and 7.7 percent in 1982. Benefit payments for individuals as a share of total spending would be reduced slightly from 44.7 percent in 1977 to 44.0 percent in 1978, 44.2 percent in 1979, and then rise to 46.0 percent in 1982.

Measured in constant prices the shift in budget allocations under the Ford budget is even more striking. As shown in Table 10, defense spending in real terms would grow by 5 percent in 1978 and by another 3 percent in 1979. Spending for grants to state and local governments would be reduced by 7 percent in 1978 and again by 10 percent in 1979. Benefit payments for individuals would be held constant in real terms.

TABLE 9. COMPOSITION OF BUDGET OUTLAYS, IN CURRENT PRICES
IN FISCAL YEAR

A. BILLIONS OF DOLLARS IN CURRENT PRICES

Major Category	1957	1967	1977 est.	1978 est.	1979 est.	1982 proj.
National defense	42.3	69.1	100.1	112.3	123.8	159.0
Benefit payments for individuals	15.6	40.1	183.7	193.6	206.2	257.0
Grants to state and local governments <u>a/</u>	2.1	10.2	46.9	46.1	44.1	43.0
Net interest	5.4	10.3	29.8	31.1	32.7	34.8
Other federal operations	11.3	28.6	50.7	56.9	59.2	64.8
Total budget outlays	76.7	158.3	411.2	440.0	466.0	558.7

B. PERCENTAGE DISTRIBUTION OF BUDGET OUTLAYS

National defense	55.1	43.7	24.3	25.5	26.6	28.5
Benefit payments for individuals	20.3	25.3	44.7	44.0	44.2	46.0
Grants to state and local governments <u>a/</u>	2.7	6.4	11.4	10.5	9.5	7.7
Net interest	7.0	6.5	7.2	7.1	7.0	6.2
Other federal operations	14.7	18.1	12.3	12.9	12.7	11.6
Total budget outlays	100.0	100.0	100.0	100.0	100.0	100.0

C. OUTLAYS AS A PERCENTAGE OF GNP

National defense	9.8	8.9	5.5	5.5	5.5	5.4
Benefit payments for individuals	3.6	5.2	10.1	9.5	9.1	8.8
Grants to state and local governments <u>a/</u>	0.5	1.3	2.6	2.3	1.9	1.5
Net interest	1.2	1.3	1.6	1.5	1.4	1.2
Other federal operations	2.6	3.7	2.8	2.8	2.6	2.2
Total budget outlays	17.7	20.4	22.5	21.6	20.5	19.1

SOURCE: The Budget of the United States Government, Fiscal Year 1978,
and The Congressional Budget Office.

a/ Excludes payments for individuals which are channeled through
state and local governments, e.g., public assistance, food
stamps and medicaid.

TABLE 10. COMPOSITION OF BUDGET OUTLAYS, IN CONSTANT
(FISCAL YEAR 1972) PRICES, BY FISCAL YEAR

A. BILLIONS OF DOLLARS IN CONSTANT PRICES

Major Category	1957	1967	1977 est.	1978 est.	1979 est.
National defense	74.0	93.2	67.0	70.2	72.5
Benefit payments for individuals	23.2	50.1	128.0	128.1	129.7
Grants to state and local governments <u>a/</u>	3.9	14.0	31.4	29.1	26.2
Net interest	16.1	16.1	17.7	18.3	18.1
Other federal operations	20.0	38.7	33.9	35.3	34.5
Total budget outlays	137.2	212.1	278.0	281.0	281.0

B. PERCENTAGE DISTRIBUTION OF BUDGET OUTLAYS IN
CONSTANT PRICES

National defense	53.9	43.9	24.1	25.0	25.8
Benefit payments for individuals	16.9	23.6	46.0	45.6	46.2
Grants to state and local governments <u>a/</u>	2.8	6.6	11.3	10.4	9.3
Net interest	11.7	7.6	6.4	6.5	6.4
Other federal operations	14.6	18.2	12.2	12.6	12.3
Total budget outlays	100.0	100.0	100.0	100.0	100.0

C. OUTLAYS AS A PERCENTAGE OF GNP IN CONSTANT PRICES

National defense	11.0	9.4	5.1	5.1	5.0
Benefit payments for individuals	3.4	5.0	9.7	9.3	8.9
Grants to state and local governments <u>a/</u>	0.6	1.4	2.4	2.1	1.8
Net interest	2.4	1.6	1.3	1.3	1.2
Other federal operations	3.0	3.9	2.6	2.6	2.4
Total budget outlays	20.3	21.3	21.1	20.3	19.3

SOURCE: The Budget of the United States Government, Fiscal Year 1978.

a/ Excludes payments for individuals which are channeled through state and local governments, e.g., public assistance, food stamps and medicaid.

1978 BUDGET

Although the 1978 outlays proposed in the Ford budget represent an increase of \$28.8 billion over 1977 spending, the budget actually represents a reduction of as much as \$11 billion from what fiscal 1978 spending would be under an extension of current programs without new initiatives. The 1978 cost of program under current law is estimated at \$445.4 billion in the budget. The Congressional Budget Office (CBO) has recently estimated that the cost of current spending policies in 1978 would be \$451 billion. 1/

The primary difference between these two estimates of 1978 current spending policies involves different treatment for inflation allowances and for the extension of certain temporary antirecession programs such as countercyclical revenue sharing. The CBO "current policy" projection includes inflation adjustments for most all federal activities, whereas the Ford budget "current services" estimates includes such adjustments only where required by law and for defense purchases. The CBO projection also includes extension of temporary antirecession programs (with phaseout as the unemployment rate falls) which is not included in the Ford budget estimate.

The 1978 budget document shows that if inflation adjustments for all programs and the costs of renewal of temporary antirecession programs were included, the 1978 "current services" outlay estimate would be \$449.5 billion, very close to the CBO projection of \$451 billion. 2/ The remaining difference between the two estimates is due mainly to the use of different economic assumptions.

Change from 1978 Current Services

President Ford proposes program increases totalling \$7.0 billion from the \$445.4 budget estimate of "current services" in 1978, and \$12.4 billion in program reductions. Table 11 summarizes the major net changes from 1977 and from 1978 current services shown in the budget. Table 12 shows the proposed increases and decreases from the 1978 current services estimates for each major function. The list of specific program increases and decreases are displayed on pages 10 to 16 and 18 to 24 of the 1978 budget document.

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

2/ The Budget of the United States Government, Fiscal Year 1978,
page 5.

TABLE 11. SUMMARY OF PROPOSED OUTLAY CHANGES
IN FISCAL YEAR 1978, IN BILLIONS OF DOLLARS

Function	Total Change from 1977	of which	
		Estimated Current services cost changes	Proposed policy changes, net
National defense (050)	12.2	10.6	1.6
Income security (600)	5.8	9.8	-4.0
Health (550)	3.9	5.9	-2.0
Commerce & transportation (400)	3.2	2.9	0.3
Natural resources, environ- ment & energy (300)	2.6	1.5	1.1
Education, training, employ- ment, & social services (500)	-1.7	0.2	-1.9
All other, net	<u>2.8</u>	<u>3.3</u>	<u>-0.5</u>
Total	28.8	34.2	-5.4

SOURCE: The Budget of the United States Government, Fiscal Year 1978.

Estimated current services cost increases account for \$10.6 billion of the \$12.2 billion total outlay increase for national defense programs in 1978. The current services cost increases consist of projected comparability adjustments for military and civilian pay (\$2.4 billion); estimated increases in retired military personnel (\$0.8 billion); and increases in defense purchases resulting from anticipated inflation, the 1978 effects of increases in budget authority in 1977 and prior years, and expected changes in spending patterns for prior year appropriations (\$6.4 billion). The \$1.6 billion net estimate in proposed policy changes are due to increases in real spending of \$0.6 billion in operations and maintenance, \$0.6 billion in procurement programs, and \$0.6 billion in research and development partially offset by real reductions in manpower and construction programs.

The estimated \$5.8 billion increase for income security outlays from 1977 is composed of \$9.8 billion of current services cost increases, of which \$8.4 billion are for social security payments, and \$4.0 billion of policy decreases which include

- o phasing out student benefits and other social security changes (\$1.0 billion)
- o replacing 15 present child nutrition programs with a single block grant to states (\$1.2 billion)
- o tightening food stamp eligibility standards (\$0.9 billion)
- o eliminating the earned income credit (\$0.8 billion). 1/

The \$3.9 billion increase in health spending reflects current law increases in outlays for medicare, medicaid, and other health programs estimated at \$5.9 billion over 1977 levels. However, President Ford proposes to limit the annual rise in medicare hospital and physician charges to 7 percent, charge medicare beneficiaries 10 percent coinsurance for covered services of hospital-based physicians, consolidate 20 health programs -- including medicaid -- into a single health care block grant to states, and various other measures to produce \$2.7 billion in outlay reductions in 1978 (and \$7.3 billion in 1979). These reductions would be partially offset by the President's proposal to provide catastrophic coverage for persons eligible for medicare and to limit beneficiary liability to \$500 a year for hospital services and to \$250 a year for physicians' services.

The \$3.2 billion increase in commerce and transportation outlays from 1977 is mainly due to current services cost increases for highway improvement and construction (up \$1.1 billion from 1977) and to reduced levels of projected asset sales and loan repayments from the high 1977 estimated level for mortgage credit and thrift insurance programs (up \$2.3 billion). The payment to the Postal Service would be reduced by \$0.8 billion, but President Ford makes no recommendation on how to finance the Service's projected operating deficit of \$1.7 billion in 1978. The \$0.3 billion (net) of policy changes is due to a variety of relatively small increases and decreases.

1/ The estimated costs of the earned income credit are deducted from receipts in the congressional budget resolution (see Chapter II).

TABLE 12. FORD SPENDING PROPOSALS FOR FISCAL YEAR 1978,
BY MAJOR FUNCTION, IN BILLIONS OF DOLLARS

FUNCTION	1977 Current Estimate	1978 Current Services Estimates	Proposed Increases	Proposed Decreases	1978 Ford Proposal
National defense (050)	100.1	110.7	2.3	- 0.7	112.3
International affairs (150)	7.1	6.8	0.6	- 0.2	7.3
General science, space, and technology (250)	4.4	4.6	0.1	*	4.7
Natural resources, environment, and energy (300)	17.1	18.6	1.3	- 0.1	19.7
Agriculture (350)	2.9	2.6	*	- 0.3	2.3
Commerce and transportation (400)	16.1	19.0	0.8	- 0.5	19.3
Community and regional development (450)	7.7	7.9	0.2	- 0.2	7.9
Education, training, employment, and social services (500)	21.1	21.3	0.6	- 2.6	19.4
Health (550)	39.3	45.2	0.6	- 2.7	43.2
Income Security (600)	138.1	147.9	0.1	- 4.2	143.9
Veterans benefits and services (700)	18.4	19.0	0.1	- 0.9	18.3
Law enforcement and justice (750)	3.7	3.8	*	- 0.1	3.8
General government (800)	3.7	3.9	*	*	3.9
Revenue sharing and general purpose fiscal assistance (850)	8.9	8.0	0.1	--	8.1
Interest (900)	38.0	39.7	--	--	39.7
Allowances	--	2.7	--	--	2.7
Undistributed offsetting receipts (950)	-15.4	-16.4	--	--	-16.4
Total	411.2	445.4	7.0	-12.4	440.0

SOURCE: The Budget of the United States Government, Fiscal
Year 1978.

* Less than \$50 million.

Of the \$2.6 billion outlay in natural resources, environment and energy, \$1.5 billion is due to current services cost increases in energy programs (about \$1.0 billion, primarily for the strategic petroleum reserve) and pollution control and abatement (nearly \$0.7 billion for sewage plant construction grants). The \$1.1 billion of policy changes is due largely to proposed increases in nuclear energy programs (about \$0.6 billion) and to \$0.2 billion of 1978 outlays from President Ford's proposed establishment of a bicentennial land heritage to provide \$1.5 billion over 10 years to upgrade and maintain the nation's parks and wildlife refuges.

The \$1.7 billion reduction in federal spending for education, training, employment and social services programs is due to Ford proposed policy changes. The major reduction proposals include

- o phasing out of the temporary employment assistance program (\$1.1 billion)
- o limiting impacted school aid to students whose parents both live and work on federal property (\$0.3 billion)
- o terminating or reducing various higher education student and institutional assistance programs and concentrating resources on direct student aid (a net reduction of \$0.3 billion)
- o not extending the \$200 million grant program added in 1977 to help states meet staffing standards for child day care
- o reducing discretionary employment and training assistance funds by \$125 million

Other major budget recommendations for 1978 include various proposals to reduce spending for veterans' benefits and services. The major proposal is to limit GI bill eligibility to eight years which would save an estimated \$456 million in 1978. The Ford budget also does not include any cost-of-living increase for veterans' pensions, compensation and readjustment benefits. The CBO estimates that the cost of such an inflationary adjustment would add \$600 million to 1978 outlays.

1979 BUDGET

In an effort to focus more attention on the "outyear" effects of current budget proposals, the 1978 budget document includes estimates for the fiscal year 1979 budget. These 1979 figures reflect, insofar as practicable, not only the 1979 effects of the 1978 proposals, but also anticipated 1979 budget initiatives as well.

President Ford recommends outlays of \$466.0 billion for 1979, an increase of \$26.0 billion from his proposal for 1978, but a reduction of \$6.7 billion from the budget's current services estimate for 1979. After adjusting this current services estimate to include discretionary inflation adjustments and the extension of certain temporary antirecession programs, the reduction of outlays from the revised current services base is \$7.5 billion greater, representing a total reduction of \$14.2 billion.

Table 13 shows the Ford spending proposals for 1979 in terms of increases and decreases from the unadjusted current services base contained in the budget. For the most part, these changes are simply the 1979 outlay impact of changes proposed for 1977 and 1978. New program proposals affecting only 1979 outlays include

- o eliminating agriculture disaster payments in favor of expanded crop insurance, and reducing peanut acreage allotments (estimated outlay savings of \$0.6 billion) 1/
- o eliminating older worker employment and training grants (\$0.1 billion)
- o consolidating 23 existing education grant programs into a single elementary and secondary block grant to states (adds \$0.1 billion)
- o increasing military construction to permit accelerated modernization of domestic installations (\$0.1 billion).

Off-Budget Federal Spending

The most significant 1979 initiative proposed by President Ford is to restore transactions of off-budget entities to the budget. Off-budget transactions have been excluded from the budget totals by pro-

1/ CBO staff estimate that the proposal to reduce peanut acreage allotments could have an impact on 1978 outlays.

TABLE 13. FORD SPENDING PROPOSALS FOR FISCAL YEAR 1979,
BY MAJOR FUNCTION, IN BILLIONS OF DOLLARS

Function	1979 Current Services Estimate	Proposed Increases	Proposed Decreases	1979 Ford Proposal
National defense (050)	118.8	6.1	-1.1	123.8
International affairs (150)	6.8	1.1	-0.2	7.6
General science, space, and technology (250)	4.6	0.6	-0.1	5.2
Natural resources, environment, and energy (300)	17.9	2.9	-0.2	20.6
Agriculture (350)	2.7	*	-0.9	1.8
Commerce and transportation (400)	19.5	0.5	-1.4	18.6
Community and regional development (450)	7.1	0.4	-0.4	7.1
Education, training, employment, and social services (500)	21.7	0.9	-4.4	18.1
Health (550)	51.5	2.5	-7.3	46.7
Income security (600)	157.9	0.2	-5.3	152.8
Veterans benefits and services (700)	18.7	0.2	-0.9	18.0
Law enforcement and justice (750)	3.8	*	-0.1	3.8
General government (800)	4.0	0.1	*	4.0
Revenue sharing and general purpose fiscal assistance (850)	8.1	0.1	--	8.3
Interest (900)	42.4	--	--	42.4
Allowances	4.3	--	--	4.3
Undistributed offsetting receipts (950)	-17.3	--	--	-17.3
Total	472.7	15.7	-22.4	466.0

SOURCE: The Budget of the United States Government, Fiscal Year 1978.

* Less than \$50 million.

visions of law. In recent years, net spending by off-budget entities has grown significantly, from \$1.4 billion in fiscal year 1974 to an estimated \$10.8 billion in 1977.

The basic argument for President Ford's proposal is that "off-budget" federal spending does not differ in nature or in concept from spending under similar programs included in the unified budget that has been used since 1968. Financing of this spending adds to federal borrowing requirements and to the federal debt.

The first federal entity excluded from the unified budget since 1968 was the Export-Import Bank. The bank was excluded from the budget by statute in 1971 but was not returned to the budget on October 1, 1976, the beginning of fiscal year 1977. 1/ Since 1972, further departures from a unified budget have occurred. The Postal Service fund, the Rural Telephone Bank, the lending activities that became the rural electrification and telephone revolving fund, and the housing for the elderly or handicapped fund were removed from the budget. The Federal Financing Bank, the United States Railway Association, and the Pension Benefit Guaranty Corporation were established off-budget. President Ford proposes to create another off-budget entity -- the Energy Independence Authority -- but if existing off-budget entities are included in the budget he would propose that this new entity also be included.

The Congress has also expressed concern about off-budget outlays. The Congressional Budget Act of 1974 requires the House and Senate budget committees to study on a continuing basis the provisions of law that exclude any outlays of federal entities from the budget and to report to their respective Houses their recommendations for terminating or modifying such provisions. The House Committee on the Budget adopted a report in September 1976 recommending that the budget include the outlays of all off-budget federal entities except the Federal Financing Bank. The Committee deferred judgment about the Bank until after the completion of certain special studies that it had commissioned. 2/

The outlays of off-budget federal entities are shown in table 14. Inclusion of off-budget spending would add over \$10 billion to 1979 outlays and the budget deficit.

1/ The budget outlays and deficits for previous years have been revised to include the Export-Import Bank.

2/ House of Representatives, Committee on the Budget, Off-Budget Activities of the Federal Government. Report No. 94-1740, September 1976.

TABLE 14. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES, BY FISCAL YEAR, IN BILLIONS OF DOLLARS

Off-budget federal entity	1976	1977	1978	1979
Federal financing bank	5.9	8.7	5.9	6.2
Postal service fund	1.1	1.0	1.8	2.5
Rural telephone bank	0.1	0.1	0.1	0.1
Rural electrification and telephone revolving fund	0.2	0.5	--	--
Housing for the elderly or handicapped fund	*	0.3	0.7	0.8
Pension benefit guaranty corporation	*	*	*	*
Exchange stabilization fund	-0.1	-0.1	-0.1	-0.1
U.S. railway association	0.1	0.3	--	-0.1
Energy independence authority (proposed)	--	--	0.6	1.4
Total off-budget outlays	7.2	10.8	9.2	10.9

*Less than \$50 million.

SOURCE: The Budget of the United States Government, Fiscal Year 1978, p.30.

This chapter describes President Ford's 1978 budget proposals in each major functional category. The functional classification is used as the basis for discussing national budget priorities in the deliberations by the Congress on the annual budget resolutions.

Each budget account is generally placed in the single function (e.g., national defense, health) that best represents its major purpose, regardless of the agency administering the program. Functions are subdivided into narrower categories called subfunctions.

Because many federal activities serve more than one purpose, it is often necessary to make judgments as to their single most important purpose. Consequently, the total in a function is not necessarily a complete measure of all federal activity serving that purpose. For example, outlays for medical care of military personnel are included in the national defense function, even though such outlays clearly contribute to health and could be assigned to a broadly defined health function.

Some important ways of classifying federal activities are not explicitly identified in the functional classification structure. For example, there is no separate function for housing programs. While all housing programs may be seen as having the common purpose of promoting good housing, the present functional classification assumes that this purpose is subordinated to such other purposes as supporting community and regional development, providing income security to low-income families, providing aid to business and to veterans, and maintaining a national military establishment.

The present functional classification is being reviewed by the budget and appropriations committees and the Office of Management and Budget to determine what changes may be needed to improve the presentation of budgetary data. In November, 1976, the House Committee on the Budget adopted a series of recommendations on improvements that would make the functional categories more useful. ^{1/}

^{1/} U.S. House of Representatives, Committee on the Budget, Recommendations for Improving the Budget Functional Categories, Working Paper, November 1976.

The Comptroller General also recently has made some recommendations for revising the present functional classifications. 1/

It should be noted that in the tables presented in this chapter the cost of the October 1, 1976, payraise has been distributed by function and program. However, the estimated cost of the October 1, 1977, payraise is shown in separate allowance categories. Therefore, the changes in spending for some programs (those having a high concentration of personnel costs) between 1977 and 1978 are understated by as much as 6 percent.

Tables 15 and 16 show budget outlays and the percentage distribution of budget outlays by major function for fiscal years 1957, 1967, 1977 current estimate and 1978 as recommended by President Ford.

1/ U.S. General Accounting Office, Report to the Congress by the Comptroller General of the United States, Standard Budget Classifications -- Proposed Functions and Subfunctions, August 20, 1976.

TABLE 15. BUDGET OUTLAYS BY FUNCTION, BY FISCAL YEARS,
IN BILLIONS OF DOLLARS

Function	1957	1967	1977 est.	1978 est.
National defense (050)	42.3	69.1	100.1	112.3
International affairs (150)	3.3	4.7	7.1	7.3
General science, space, and technology (250)	0.1	6.2	4.4	4.7
Natural resources, environment, and energy (300)	1.4	3.7	17.1	19.7
Agriculture (350)	2.3	3.0	2.9	2.3
Commerce and transportation (400)	3.1	9.2	16.1	19.3
Community and regional development (450)	0.1	1.4	7.7	7.9
Education, training, employment, and social services (500)	0.6	6.0	21.1	19.4
Health (550)	0.5	6.8	39.3	43.2
Income security (600)	11.6	30.8	138.1	143.9
Veterans benefits and services (700)	5.0	6.9	18.4	18.3
Law enforcement and justice (750)	0.3	0.6	3.7	3.8
General government (800)	1.2	1.6	3.7	3.9
Revenue sharing and general purpose fiscal assistance (850)	0.1	0.3	8.9	8.1
Interest (900)	6.7	12.5	38.0	39.7
Allowances	--	--	--	2.7
Undistributed offsetting receipts (950)	-1.9	-4.6	-15.4	-16.4
Total	76.7	158.3	411.2	440.0

SOURCE: The Budget of the United States Government, Fiscal Year 1978, and historical tables prepared by the Office of Management and Budget.

TABLE 16. PERCENTAGE DISTRIBUTION OF BUDGET OUTLAYS BY MAJOR FUNCTION, BY FISCAL YEARS

Function	1957	1967	1977 est.	1978 est.
National defense (050)	55.1	43.7	24.3	25.5
International affairs (150)	4.3	3.0	1.7	1.7
General science, space, and technology (250)	0.1	3.9	1.1	1.1
Natural resources, environment, and energy (300)	1.8	2.3	4.1	4.5
Agriculture (350)	3.0	1.9	0.7	0.5
Commerce and transportation (400)	4.0	5.8	3.9	4.4
Community and regional development (450)	0.1	0.9	1.9	1.8
Education, training, employment, and social services (500)	0.8	3.8	5.1	4.4
Health (550)	0.7	4.3	9.5	9.8
Income security (600)	15.1	19.5	33.6	32.7
Veterans benefits and services (700)	6.5	4.4	4.5	4.2
Law enforcement and justice (750)	0.4	0.4	0.9	0.9
General government (800)	1.6	1.0	0.9	0.9
Revenue sharing and general purpose fiscal assistance (850)	0.1	0.2	2.2	1.8
Interest (900)	8.7	7.9	9.2	9.0
Allowances	--	--	--	0.6
Undistributed offsetting receipts (950)	-2.5	-2.9	-3.7	-3.7
Total	100.0	100.0	100.0	100.0

SOURCE: The Budget of the United States Government, Fiscal Year 1978, and historical tables prepared by the Office of Management and Budget.

NATIONAL DEFENSE

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR
FUNCTION 050, NATIONAL DEFENSE, BY FISCAL YEAR, IN MILLIONS OF DOLLARS

Subfunction and Major Program		1976 Actual	1977 Estimate	1978 Budget
Department of Defense -- Military				
Military personnel	BA	25,430	26,210	26,193
	Outlays	25,064	26,212	26,005
Retired pay	BA	7,326	8,238	9,036
	Outlays	7,296	8,234	9,035
Operation and maintenance	BA	28,848	32,175	34,168
	Outlays	27,902	31,146	33,539
Procurement	BA	20,991	27,672	35,143
	Outlays	15,964	18,710	23,786
Research and development	BA	9,451	10,478	11,980
	Outlays	8,923	9,993	11,350
Military construction	BA	2,360	2,147	1,376
	Outlays	2,019	2,087	2,046
Family housing	BA	1,229	1,197	1,329
	Outlays	1,192	1,442	1,518
Stock funds/DCPA/other	BA	232	317	271
	Outlays	-167	402	105
Allowances				
Civilian and military payraises	BA	--	--	2,493
	Outlays	--	--	2,417
Proposed legislation	BA	--	--	-109
	Outlays	--	--	-102
Deductions for offsetting receipts	BA	-155	-176	-176
	Outlays	-155	-176	-176
Subtotal, DoD -- Military				
	BA	95,712	108,260	121,704
	Outlays	88,036	98,050	109,523

TABLE A (continued)

Military Assistance				
Foreign military sales trust fund (net)	BA	5,427	-2,291	-1,884
	Outlays	-600	-465	--
Foreign military credit sales	BA	1,065	698	710
	Outlays	280	575	560
Other	BA	248	287	266
	Outlays	1,039	451	327
Deductions for offsetting receipts	BA	-219	-311	-310
	Outlays	-219	-311	-310
Subtotal, Military Assistance	BA	6,521	-1,617	-1,218
	Outlays	501	250	577
Defense-related ERDA Programs	BA	1,682	1,935	2,380
	Outlays	1,565	1,829	2,162
Other Defense-related Programs				
Federal preparedness agency	BA	16	17	227
	Outlays	15	16	223
Stockpile sales under existing legislation	BA	-162	-124	-61
	Outlays	-162	-124	-61
Stockpile sales under proposed legislation	BA	--	--	-229
	Outlays	--	--	-229
Other	BA	45	52	70
	Outlays	44	56	70
Subtotal, Other Defense-related Programs	BA	-101	-55	7
	Outlays	-103	-52	3
Deductions for offsetting receipts <u>a/</u>	BA	-3	-3	-3
	Outlays	-3	-3	-3
Total, National Defense	BA	103,811	108,520	122,871
	Outlays	89,996	100,075	112,262

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 050, NATIONAL DEFENSE, IN MILLIONS OF DOLLARS

Major Programs	Budget Authority	Estimated Outlays
1977 Current Estimate	108,520	100,075
Department of Defense and Military Assistance:		
Increased compensation for military and civilian personnel	2,493	2,417
Decreased military personnel	-17	-207
Increased retired pay	798	801
Increased operation and maintenance	1,993	2,393
Increased procurement	7,471	5,076
Increased research and development	1,502	1,351
Decreased military construction	-771	-41
Increased family housing	132	76
Proposed legislation	-109	-102
Foreign military sales trust fund (net)	407	465
Stock funds and industrial funds	-49	-329
Other changes	-6	-107
Increased Defense-related ERDA programs	445	333
Other Defense-related programs		
Increased preparedness activities	210	207
Increased stockpile sales	-166	-166
Other changes	18	14
1978 Request	122,871	112,262

Allowance for Payraises

The Ford budget allowance for military and civilian payraises in fiscal year 1978 is \$2,493 million under existing legislation. This amount reflects a reallocation of 25 percent of the payraises for military personnel into the allowance for quarters as was done in fiscal year 1977. Since military personnel who live in military housing do not receive a quarter's allowance, the reallocation reduces the cost of the proposed military payraise by \$73 million. The detail of the cost of the payraise by pay system is shown below, as well as the annualized percentage cost of the raise assumed. The amount shown for military retired pay covers the increase in retired annuity due to the payraise for service members on active duty

October 1, 1977 who retire during fiscal year 1978.

	<u>\$ Millions</u>	<u>% Increase</u>
Military pay	1,390	6.2
Military retired pay	13	6.2
General schedule	654	6.5
Wage board	275	7.9
Foreign national direct hire	33	15.5
Foreign national indirect hire	<u>128</u>	13.1
Total	<u>2,493</u>	

Military Personnel

An increase in enlisted personnel is more than offset by a combination of reducing officer strength and military travel for a net decrease of \$17 million in budget authority from fiscal year 1977 to fiscal year 1978.

	<u>Change in End Strength</u>	<u>Change in Average Strength</u>
Officers	-1,900	-3,072
Enlisted	3,900	8,773
Cadets and Midshipmen	<u>0</u>	<u>4</u>
Total	<u>2,000</u>	<u>5,705</u>

Military travel will be reduced by limiting service members during their first three-year tour to a single assignment after initial training. By decreasing authorizations and allowing fewer promotions, more than 600 senior grade (Colonel and above) officers will be eliminated. The saving associated with officer reductions and limitations on travel are estimated at \$99 million in fiscal year 1978.

Military Retired Pay

The increase of \$798 million in budget authority for military retired pay is due to increases in the retired population and to Consumer Price Index adjustments, as shown below:

	(\$ millions)
Increase in retired population	280
Annualization of fiscal year 1977 CPI adjustments	363
CPI adjustments anticipated for fiscal year 1978	<u>155</u>
Total increase	<u>798</u>

As a result of smaller CPI adjustments than anticipated, a recission of \$144 million is proposed for fiscal year 1977.

Operation and Maintenance

The growth in operation and maintenance is related primarily to readiness improvements -- increased training activity with increased flying hours and tempo of operations. Depot level maintenance is continued at the higher levels established in 1977. For the first time the budget estimates for these accounts in 1978 include anticipated inflation for all purchases, but continue to exclude payraises. Civilian manpower levels are projected to decline 5,000 to 1,031,000 after 1977 levels were increased to the maximum permitted.

Procurement

The increase in procurement accounts for about one-half of the total increase for the function. Major increases in budget authority include \$1.1 billion for the F-16, \$0.5 billion for the B-1, \$0.3 billion for the F-15, \$0.5 billion for ammunition and ammunition production base, \$0.2 billion for the XM-1, \$0.2 billion for the Advanced Tanker/Cargo Aircraft, and \$0.7 billion for TRIDENT submarines. A recission of \$0.7 billion of shipbuilding funds, including funds for a nuclear carrier and the LONG BEACH conversion, is proposed for fiscal year 1977.

Research and Development

This program increases by \$1.5 billion in budget authority. Funding for engineering development increases \$0.7 billion, with the largest increases for the F-18 (\$280 million) and the M-X (\$245 million), while research, exploratory development, and advanced development increase \$0.6 billion, with the increase spread over all services and many programs.

Military Construction

The military construction request increases in both current and constant dollars from the 1977 level. The budget request reflects a limitation on construction activities until a new study of domestic base requirements is completed in September 1977.

Family Housing

The increase of \$132 million in budget authority is the net of an increase of \$120 million for maintenance activities, a decrease of \$53 million in construction, and \$65 million of other increases -- primarily financing adjustments.

Proposed Legislation

The President has included ten legislative proposals for a net budget authority impact of -\$109 million for the military functions of the Department of Defense.

Operation and maintenance. Legislation will be resubmitted to reform the wage board (blue collar) pay system, including reducing the number of steps in each pay grade and repealing the Monroney amendment which requires the use of out-of-area wage data in federal wage surveys under certain conditions. Passage of this legislation would result in an average 3.4 percent payraise instead of 7.9 percent projected under current law for a savings of \$167 million in fiscal year 1978. Legislation will also be resubmitted to end dual compensation of federal employees who serve in the National Guard or the Reserves. Civilian pay during active military service will be only the amount necessary to assure no loss of take-home pay, saving \$30 million in fiscal year 1978.

Retirement reform. Two proposals will be resubmitted that effect military retirement: uniformed services retirement modernization and officer personnel management. The retirement modernization proposal would change the military system in a number of ways including some reduction in retirement benefits for those who retire with less than 30 years of service, use of a one-year salary base for computing retirement income instead of the pay base on the final day of service, integration of military and social security benefits at age 65, and some deferred retirement benefits for those with less than 20 years of service. The estimated cost is \$25 million in 1978, based on an effective date of July 1, 1978. The officer personnel management proposal makes a number of changes in the way officers are promoted, separated, and retired and provides separation pay equal to 10 percent of the annual basic salary for each year of service up to a maximum of \$30,000. The budget impact is estimated at \$13 million in 1978.

Military personnel. There are five proposals affecting active military personnel and one affecting survivors under the Retired Servicemen's Family Protection Plan.

- o A family separation allowance proposal to extend this benefit to the bottom four grades of enlisted personnel. The estimated cost in 1978 is \$29 million.
- o A quarters allowance proposal to authorize basic allowance for quarters to Navy personnel when the quarters aboard ship are uninhabitable. The estimated cost in 1978 is \$10 million.
- o A military trailer allowance proposal to insure that military personnel are not penalized financially for owning mobile homes. The estimated cost in 1978 of this proposal is \$8 million.
- o Resubmission of a cadet and midshipmen pay proposal to revise the compensation of cadets, midshipmen, and ROTC cadets. This legislation would save an estimated \$4 million in 1978.
- o A sea pay proposal to increase the sea pay for personnel with more than three years at sea and eliminate it for those with less. The net cost of the proposal in 1978 is estimated to be zero.

- o A proposal to adjust the annuities of survivors under the Retired Servicemen's Family Protection Plan based on the cost of living increases given to the beneficiaries of the Survivor Benefit Plan. The estimated cost of this proposal in 1978 is \$7 million.

Foreign Military Sales Trust Fund

The budget presentation of the trust fund has been revised. In 1977 and 1978 the amount of new budget authority (contract authority) recorded corresponds to new obligations, rather than new sales. The effect of this change is to reduce net budget authority in fiscal year 1977 by \$3.0 billion and to increase net budget authority in fiscal year 1978 by \$0.4 billion. Net outlays are not affected by the change in budget presentation. The trust fund is relatively uncontrollable under current law.

Stock and Industrial Funds

The decline in budget authority results from a reduction in financing for war reserve assets from \$220 million in 1977 to \$171 million in 1978. Outlays decrease \$329 million, primarily as a result of price adjustments in the industrial funds.

Other Changes

A recission of \$42 million is proposed for fiscal year 1977 for foreign military credit sales. Other changes result in decreases totalling \$48 million in budget authority from the fiscal year 1977 congressional appropriation for a net 1977 to 1978 decrease of \$6 million in budget authority.

Defense-Related ERDA Programs

The increase of \$445 million in budget authority for this program includes \$0.2 billion for increased weapons production, and \$0.1 billion for increased special materials production.

Preparedness Activities

As a consequence of a review of stockpile requirements, stockpile acquisitions are being recommended. The fiscal year 1978 portion will total \$186 million, an increase of \$184 million over fiscal year 1977. In addition, conflict preparedness activities increase by \$25 million as a result of the transfer of certain activities from the Defense Communications Agency.

Stockpile Sales

Also as a consequence of the stockpile review, stockpile disposals are being proposed. Fiscal year 1978 disposals from proposed legislation are estimated to total \$229 million.

INTERNATIONAL AFFAIRS

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 150, INTERNATIONAL AFFAIRS, BY FISCAL YEAR, IN
MILLIONS OF DOLLARS

Subfunction and Major Program		1976 Actual	1977 Estimate	1978 Budget
Foreign Economic and Financial Assistance				
Security supporting assistance	BA	1,690	1,735	1,459
	Outlays	601	1,457	1,431
Multilateral development assistance	BA	1,097	1,529	2,211
	Outlays	1,046	1,086	1,294
Bilateral development assistance	BA	999	1,116	1,480
	Outlays	960	1,161	1,211
PL-480 (Food for Peace)	BA	1,090	1,169	923
	Outlays	691	1,089	1,092
Other	BA	234	223	188
	Outlays	281	278	204
Offsetting receipts	BA	-12	-12	-11
	Outlays	-12	-12	-11
Subtotal, Foreign Economic and Financial Assistance	BA	5,097	5,761	6,250
	Outlays	3,568	5,059	5,221

TABLE A (continued)

Conduct of Foreign Affairs				
Administration of foreign affairs	BA	522	708	807
	Outlays	450	698	778
International organizations and conferences				
	BA	272	400	400
	Outlays	291	386	375
Other				
	BA	43	50	53
	Outlays	41	51	52
Offsetting receipts				
	BA	-55	-105	-115
	Outlays	<u>-55</u>	<u>-105</u>	<u>-115</u>
Subtotal, Conduct of Foreign Affairs				
	BA	782	1,053	1,146
	Outlays	<u>726</u>	<u>1,030</u>	<u>1,091</u>
Foreign Information and Exchange Activities				
	BA	423	392	420
	Outlays	<u>382</u>	<u>394</u>	<u>422</u>
International Financial Programs				
Export-Import Bank	BA	728	1,274	1,622
	Outlays	856	899	964
Loan to Portugal				
	BA		300	130
	Outlays		300	130
Offsetting receipts				
	BA	-20	-20	-20
	Outlays	<u>-20</u>	<u>-20</u>	<u>-20</u>
Subtotal, International Financial Programs				
	BA	708	1,554	1,732
	Outlays	<u>836</u>	<u>1,179</u>	<u>1,074</u>
Undistributed Offsetting Receipts				
	BA	-446	-512	-527
	Outlays	<u>-446</u>	<u>-512</u>	<u>-527</u>
Total, International Affairs				
	BA	6,564	8,247	9,021
	Outlays	5,067	7,150	7,281

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 150, INTERNATIONAL AFFAIRS, IN MILLIONS OF DOLLARS

Major Programs	Budget Authority	Estimated Outlays
1977 Current Estimate	8,247	7,150
Security Supporting Assistance	-276	-27
Multilateral Development Assistance	682	208
Bilateral Development Assistance	363	51
PL-480 (Food for Peace)	-246	3
Export-Import Bank	349	66
Loan for Portugal	-170	-170
Other	<u>71</u>	<u>--</u> a/
1978 Request	9,021	7,281

a/ Less than \$500,000

Security Supporting Assistance

The fiscal year 1978 request for Security Supporting Assistance is \$276 million less than the level appropriated for fiscal year 1977. Significant decreases in the levels of assistance to the Middle East would be slightly offset by increases in aid to southern Africa. Outlays decrease by \$27 million, reflecting the lagged spendout of funds appropriated for fiscal year 1976, the Transition Quarter and fiscal year 1977.

Multilateral Development Activities

The fiscal year 1978 request for Multilateral Development Assistance exceeds the estimate for fiscal year 1977 by \$682 million. Contributions to international financial institutions increase by \$700 million, whereas voluntary contributions to international organizations and programs decline by \$18 million. The anticipated growth in contributions to international lending institutions is described in the following table.

	1977	1978	1979
The International Bank for Reconstruction and Development	-	52 <u>b/</u>	52 <u>b/</u>
The International Development Association			
Fourth capital replenishment	430	375	375
Fifth capital replenishment	-	800 <u>b/</u>	800 <u>b/</u>
The International Finance Corp.	-	45 <u>b/</u>	33 <u>b/</u>
Asian Development Bank	115	264 <u>b/</u>	264 <u>b/</u>
Inter-American Development Bank	730	440	200 <u>c/</u>
African Development Fund	<u>10</u>	<u>10</u>	<u>c/</u>
Total	<u>1,285 a/</u>	<u>1,985</u>	<u>1,724</u>

a/ Includes supplemental request of \$540 million.

b/ Authorizing legislation required.

c/ Contributions associated with further capital replenishments for these institutions are uncertain.

It should be noted that the President's fiscal year 1977 estimate for Multilateral Development Assistance exceeds the appropriated level by \$571 million; the President has requested supplemental appropriations of \$540 million for contributions to international financial institutions and \$31 million for voluntary contributions to international organizations and programs.

Bilateral Development Assistance

The requested increase of \$363 million in budget authority for bilateral development assistance includes an additional \$151 million for the functional development program administered by the Agency for International Development, a \$150 million increase in the borrowing authority of the Overseas Private Investment Corporation, and a \$50 million contribution to a proposed Sahel Development Program. U. S. participation in the Sahel Development Program is anticipated to involve an additional contribution of \$100 million in fiscal year 1979. Increased funding for the functional development program would finance nominal growth in each program area, with the exception of Education and Human Resources Development.

Public Law 480 (Food for Peace)

Net program costs, measured by outlays, are estimated to increase slightly (by \$3 million). Budget authority, however, declines by \$246 million as a result of a technical adjustment related to the financing of the Public Law 480 program. Because appropriations in fiscal year 1977 and prior years are estimated to exceed net program costs during those years by \$169 million, the 1978 appropriation request is \$169 million less than estimated fiscal year 1978 net program costs.

Export-Import Bank

Eximbank budget authority is estimated to increase by \$349 million from fiscal year 1977 to fiscal year 1978. The growth in budget authority anticipates a \$1,175 million increase in direct loan authorizations as well as a \$686 million increase in net guarantee and insurance authorizations and a \$200 million decrease in discount loan authorizations. Because budget authority includes only signed loan authorizations and twenty-five percent of net guarantee and insurance authorizations, the increase in budget authority is less than the sum of the changes in program levels. Outlays increase by \$66 million, reflecting both the increase in direct loan authorizations and the reduction in discount loan authorizations.

Legislation will be submitted to the Congress to raise the overall limitation on Eximbank lending, guarantee, and insurance authority from \$25 billion to \$30 billion.

Loan for Portugal

U.S. participation in an international consortium loan designed to provide medium-term balance of payments financing for Portugal is anticipated to require the appropriation of \$550 million over three years. An initial tranche of \$300 million will be requested for fiscal year 1977, with second and third installments of \$130 million and \$120 million to be requested for fiscal year 1978 and fiscal year 1979. The loans should disburse quickly once appropriated; outlays of \$300 million, \$130 million and \$120 million are anticipated for the three fiscal years.

GENERAL SCIENCE, SPACE, AND TECHNOLOGY

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 250, GENERAL SCIENCE, SPACE AND TECHNOLOGY
BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
General Science and Basic Research				
Natural Science Foundation	BA	717	779	889
	Outlays	733	737	825
Other science	BA	322	374	431
	Outlays	<u>302</u>	<u>340</u>	<u>391</u>
Subtotal, General Science and Basic Research	BA	1,039	1,153	1,320
	Outlays	<u>1,035</u>	<u>1,077</u>	<u>1,216</u>
Space Flight	BA	1,957	2,039	2,182
	Outlays	2,000	2,044	2,156
Space Science, Applications & Technology	BA	944	949	1,024
	Outlays	980	960	974
Supporting Space Activities	BA	327	357	391
	Outlays	358	354	381
Deductions for Offsetting Receipts <u>a/</u>	BA	-3	-2	-2
	Outlays	<u>-3</u>	<u>-2</u>	<u>-2</u>
Total, General Science and Basic Research	BA	4,262	4,496	4,915
	Outlays	4,370	4,434	4,725

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 250, GENERAL SCIENCE, SPACE, AND TECHNOLOGY
IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	4,496	4,434
National Science Foundation	110	88
Energy Research and Development Administration	57	49
Space flight -- NASA	143	112
Space science, applications & technology --- NASA	75	14
Supporting space activities -- NASA	34	27
Other general science and basic research	--	<u>1</u>
1978 request	4,915	4,725

National Science Foundation (NSF)

A 14 percent increase in budget authority is requested for expanded activity across all of NSF's program areas. This includes a major increase to more than double earthquake engineering research. The NSF is to join with the U.S. Geological Survey to begin a comprehensive research program to increase the reliability of earthquake predictions.

Energy Research and Development Administration

The Ford budget proposes a \$15 million increase in budget authority to support new space nuclear applications research.

Space Flight, NASA

The Ford budget outlay estimate for 1978 approximately maintains the same level of real resources for the NASA space flight activity, which was recently renamed and reorganized to include some space science, applications, and technology activity. It includes funds to initiate procurement of the three additional crafts that would result in a fleet of five space shuttle vehicles for civilian and military use.

Space Science, Applications and Technology, NASA

The proposed increase of \$75 million in budget authority and \$74 million in outlays maintains approximately the same real level of effort as in fiscal year 1977, with the start of some new projects, such as the space telescope, a cooperative search and rescue system demonstration, and a Jupiter orbiter/probe mission.

Supporting Space Activities, NASA

The proposed increases maintain a constant level of real resources and allow some activity growth, including a broader utilization, for commercial purposes, of the technology developed in the space program.

NATURAL RESOURCES, ENVIRONMENT AND ENERGY

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 300, NATURAL RESOURCES, ENVIRONMENT AND ENERGY
BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Water Resources and Power	BA	12,966	3,528	3,558
	Outlays	3 600	4,790	4,895
Conservation and Land Management	BA	1,202	1,396	1,388
	Outlays	1,245	1,464	1,370
Recreational Resources	BA	875	2,079	1,396
	Outlays	895	1,237	1,381
Pollution Control and Abatements				
EPA construction grants	BA	0	1,080	4,500
	Outlays	2,429	4,430	5,160
Other pollution control and abatement	BA	684	702	715
	Outlays	638	766	753
Subtotal, Pollution Control & Abatement	BA	684	1,782	5,215
	Outlays	3,067	5,196	5,913
Energy				
Energy Research and Development Admin.	BA	2,514	4,083	5,031
	Outlays	1,896	3,208	3,909
Petroleum reserves	BA	337	853	2,105
	Outlays	--	600	1,935
Other energy	BA	590	304	256
	Outlays	489	306	250
Subtotal, Energy	BA	3 441	5,240	7,392
	Outlays	2,385	4,115	6,094
Other Natural Resources	BA	921	1,055	1,146
	Outlays	897	1,048	1,092
Deductions for Offsetting Receipts <u>a/</u>	BA	-807	-800	-997
	Outlays	-807	-800	-997
Total, Natural Resources Environment and Energy	BA	19,283	14,279	19,098
	Outlays	11,282	17,050	19,747

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR FUNCTION 300,
NATURAL RESOURCES, ENVIRONMENT, AND ENERGY, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	14,279	17,050
Other Water Resources and Power		
Agriculture, watershed, and flood prevention	-21	-73
Corps of Engineers construction	52	71
Corps of Engineers operation and maintenance	83	93
Bureau of Reclamation construction	-149	-281
Tennessee Valley Authority	6	269
Bonneville Power Administration Fund	--	72
Other water resources and power	59	-46
Conservation and Land Management		
Forest roads and trails	164	-50
Forest protection and utilization	-195	-210
Agriculture Stabilization and Conservation Service	-125	83
Other conservation and land management	150	83
Recreational Resources		
Land and water conservation fund	42	65
U.S. Fish and Wildlife Service	-225	33
National Park Service	-505	42
Other recreational resources	5	4
Pollution Control and Abatement		
EPA construction grants	3,420	730
Other pollution control and abatement	12	-14
Energy		
Petroleum reserves	1,252	1,335
Uranium enrichment production, ERDA	203	201
Uranium enrichment revenues, ERDA	-267	-267
ERDA non-nuclear R,D,D,&C	457	146
ERDA nuclear R,D,D,&C	498	438
Other ERDA energy	57	183
Nuclear Regulatory Commission	43	35
Energy Independence Authority	42	42
Petroleum reserve revenues	-161	-161
Other energy	28	27
Other Natural Resources	91	44
Offsetting Receipts	-197	-197
1978 request	19,098	19,747

Agriculture Watershed, and Flood Prevention

The \$21 million proposed reduction in budget authority for this category consists of a proposed \$8.5 million decrease in watershed programs which reflects a no new-starts policy and a reduction in financial and technical assistance to conservation districts. The remaining \$12.5 million represents a reduction in emergency flood prevention operations as the size of the program cannot be anticipated in advance and is operated primarily through supplemental appropriations. The decrease in outlays of \$73 million represents a reduction in technical assistance, direct federal contracting, and grants to state and local governments, along with a reduction in outlays resulting from funds obligated in prior fiscal years.

Corps of Engineers Construction

The small proposed increases in budget authority are primarily a result of several new rehabilitation projects. Outlay increases on the other hand, are due essentially to the continuation of the construction of previously approved projects.

Corps of Engineers -- Operation and Maintenance

A \$83 million increase in budget authority and a \$93 million increase in outlays for this activity is proposed for fiscal year 1978. The additional funds are being requested for dredging, structural repairs, and the regulatory function of the Corps.

Bureau of Reclamation Construction

Construction and rehabilitation funds for the Bureau of Reclamation decrease by \$149 million in budget authority and \$281 million in outlays between fiscal year 1977 and 1978. This reduction reflects the completion of claim settlements resulting from the Teton Dam disaster in fiscal year 1977.

Tennessee Valley Authority

The increase of \$6 million in budget authority is for construction of Pickwick Lock and Dam, while the \$269 million increase in outlays results from utilization of borrowing authority created in fiscal year 1976 for increased construction activity involving seven new power projects.

Bonneville Power Administration Fund

Outlays are expected to increase by \$72 million for fiscal year 1978 because receipts from the sale of electric power will not be enough to offset the additional expenditures for acquisition of power from non-Federal hydroelectric and thermal generating plants.

Other Water Resources and Power

Most of the increase in budget authority is found in several accounts of the Bureau of Reclamation and the construction account of International Commissions. The decrease in outlays includes reductions in several accounts of the Corps of Engineers and Bureau of Reclamation.

Forest Roads And Trails

The \$164 million increase in budget authority reflects a change from contract authority to regular appropriations. Budget authority in fiscal year 1977 is really a rescission of contract authority. Outlays decrease by \$50 million because of a shift in emphasis from federal construction of roads to construction of roads by timber purchasers.

Forest Protection and Utilization

The \$195 million reduction in budget authority for fiscal year 1978, shown in Table B, results from a proposed supplemental appropriation of \$208 million for fighting forest fires and mineral areas management in fiscal year 1977. Since the number and severity of forest fires determine the amount of funds required, it is likely that a supplemental appropriation will also be proposed during fiscal year 1978. However, budget authority excluding the proposed supplemental appropriation increases by \$13 million. The \$210 million reduction in outlays from the 1977 level also results from the proposed supplemental appropriation.

Agricultural Stabilization and Conservation Service

No funds are requested in fiscal year 1978 for the agricultural conservation program, water bank and forestry incentives program, resulting in a \$125 million decrease in budget authority.

Legislation will be proposed so that only the agriculture conservation program (ACP) would conduct conservation activities, and allocate funds to high priority programs. Contract authority would be replaced by regular appropriations. The agricultural conservation program accounts for most of the \$83 million increase in outlays in 1978. Long-term cost sharing agreements entered into as a result of previous contract authority require greater outlays than in fiscal year 1977. The budget authority for the ACP in fiscal year 1978, under the proposed legislation, also results in increased outlays.

Other Conservation and Land Management

Most of the increase in budget authority and outlays results from increases in several Forest Service accounts.

Recreational Resources

The President's proposed Bicentennial land heritage program (BLHP) would provide \$1.5 billion over ten years to improve national parks and wildlife refuges. The BLHP appears in the 1978 budget primarily as a proposed \$1.32 billion supplemental for fiscal year 1977, of which \$1.12 billion is classified as recreational resources. The supplemental in this subfunction for BLHP would provide \$959 million for construction of park and refuge facilities, 20 million for staffing of 1,500 employees for the National Park Service and USFWS, and 141 million for land acquisition. It should be noted that the budget authority decrease in this subfunction between fiscal year 1977 and fiscal year 1978 is due primarily to inclusion of the BLHP in fiscal year 1977.

Land and Water Conservation Fund (LWCF)

Under the proposed fiscal year 1978 appropriation, the LWCF would be fully funded at its ceiling of \$600 million. A supplemental appropriation is proposed for \$161 million for fiscal year 1977: \$141 million as part of BLHP and \$20 million transferred from BLM. The proposed 1978 funding for the LWCF would be \$352 million for grants to states, \$239 million for land acquisition by NPS, Forest Services, USFWS, BLM, and a \$9 million for administration of the fund.

U.S. Fish and Wildlife Service

The 1977 supplemental request for the proposed Bicentennial

land heritage program includes \$273 million for the U.S. Fish and Wildlife Service. Legislation is proposed which would increase the stamp price for migratory bird hunting and conservation stamps from \$5 to \$10; the additional revenue due to this change is estimated to be \$10 million, which would be used for land acquisition from the Migratory Bird Hunting and Conservation Stamp account.

National Park Service

The National Park Service shows a decrease of \$505 million which is due primarily to the inclusion of the BLHP supplemental in fiscal year 1977. A \$694 million supplemental is proposed for planning and construction, and \$14 million for operations as part of BLHP. Grants to states for preservation of historic properties doubles from its fiscal year 1977 level to \$35 million in fiscal year 1978. The road construction account shows an increase of \$134 million which reflects a change from -134 million in fiscal year 1977 to zero in fiscal year 1978; the negative number in fiscal year 1977 reflects previous legislative action to rescind this contract authority.

EPA Construction Grants

A ten-year \$45 billion funding program is proposed for construction of wastewater treatment plants beginning in fiscal year 1978. The proposal would continue the funding of the \$18 billion dollar construction program whose authorization terminates in fiscal year 1977. The program's proposed budget authority of \$4.5 billion for 1978 reflects a \$3.4 billion increase over the 1977 level. The 1977 budget authority is currently \$680 million, but a \$400 million proposed supplemental request for fiscal year 1977 is proposed in the budget. This proposed supplemental is specifically earmarked for secondary treatment and interceptor sewer projects in states which are anticipated to exhaust their original funding allocation. Outlays in fiscal year 1978 are projected to increase \$730 million as more projects move into the construction phase.

The Ford budget also proposes reforms to the current program including (1) limiting of grants for priority projects, i.e., treatment plants, interceptor sewers and sewer infiltration and inflow; (2) reducing the federal share of projects from 75 percent to 60 percent; (3) extending the deadline to fiscal year 1978 for obligation of remaining contract authority.

Other Pollution Control and Abatement

The enforcement account of this category shows an increase of \$12 million, while the abatement and control account is proposed for a \$10 million budget authority increase. Within the Abatement and Control account, grants to states which were previously categorical grants for state activities on controlling air and water quality; water supply; solid waste; and toxic substances, are consolidated in the fiscal year 1978 budget. The other portion of this subfunction consists primarily of the EPA budget and does not differ greatly from the fiscal year 1977 level. The pollution fund account of DoT shows a decrease of \$10 million from fiscal year 1977 to fiscal year 1978.

Petroleum Reserves

The proposed increase of \$1,252 million in budget authority is to purchase additional petroleum storage sites, construct, and develop naval and national petroleum reserves, and also, purchase crude oil according to the schedule of the strategic and naval petroleum reserve programs. The major share of this increase is the purchase of more than 100 million barrels of crude oil for the strategic petroleum reserve program and the increase in exploration and development of the Alaskan naval reserve site.

Uranium Enrichment Production

The Ford budget proposes an increase of \$203 million in budget authority for the support of the production of commercial uranium enrichment services by ERDA. About \$40 million of the increase is due to additional electric power requirements for increased production, and \$64 million is due to increased power costs. The remaining increments are due to additional operating costs for the higher production levels and construction costs for the gaseous diffusion plant addition.

Uranium Enrichment Revenues

These revenues are offset in the uranium enrichment category within the Operating Expense account of ERDA. \$185 million of the increased revenues in fiscal year 1978 is due to increased production. A legislative proposal to modify the price structure to a fair market value on the services generates \$39 million of the fiscal year 1977 and \$120 million of the fiscal year 1978 revenue totals.

ERDA, Non-nuclear RDD&C

This category encompasses ERDA's research, development, demonstration, and commercialization activities in non-nuclear areas and its financial incentive activities.

The Ford budget proposes to increase budget authority by \$457 million, a 45 percent increase from the 1977 level. Within this total, however, several shifts in emphasis are evident. In the conservation program, a slight decrease in budget authority (\$1 million) indicates a potential future de-emphasis of short-term solutions. This action is based on the assumption that the private sector will respond to the market forces of energy price decontrol and implement such increases. Conservation increases are included, however, for transportation and energy conversion technology R&D.

In the fossil fuels program, additional program growth is indicated by a 24 percent increase in budget authority. About \$94 million of the increased budget authority is for coal R,D,&D, including accelerated scale-up activities, long-lead time procurement requirements, a direct combustion demonstration plant, and a magnetohydrodynamics test facility. In a related funding request, a new synthetic fuels commercialization plan is proposed based on an unspecified mix of government assistance through a contingent liabilities program. Almost \$300 million in budget authority is allocated for this program, for which Congressional approval would be requested on a project-by-project basis.

In the solar energy program, budget authority is proposed to increase by 5 percent. The request indicates the first step in emphasis from solar heating and cooling R,D,&D to more, longer-term applications of solar power. The solar heating and cooling demonstration program would continue with the same level of outlays, but budget authority would decrease by \$41 million. These decreases are more than offset by other solar energy R&D increases, especially the construction of a 10Mw central receiver pilot plant for the solar electric program.

In the geothermal program, Ford proposes a 60 percent increase in budget authority. This increase is significant, but is from a relatively small base funding level of approximately \$50 million. The increase funds new activity for utilization experiments and large increases in the areas of geothermal resource exploration and assessment; related environmental and

institutional studies; and the initiation of a 50Mw geothermal demonstration power plant. Geothermal Resources Development Fund activity continues at the same level.

ERDA, Nuclear RDD&C

This category encompasses ERDA's nuclear programs in fusion power, the breeder reactor, fuel cycle, and safeguards, and other fission work. Outlay and budget authority increases of 32 and 30 percent, respectively, are proposed.

Increases in both outlays and budget authority occur for all nuclear RDD&C program areas, with the major percentage increases in the nuclear fuel cycle and safeguards program. For the fuel cycle sub-program, outlays increase by \$114 million (50 percent) and budget authority by \$163 million (57 percent) for the assessment of uranium resources, for support of fuel reprocessing for light water reactors, and for the selection of two pilot plants for terminal storage of commercial nuclear wastes. The relatively minor increase for the safeguards sub-program are for systems design and evaluation and, the analysis of the safeguard implications of alternative fuel cycles.

Large (absolute) increases are requested for the Liquid Metal Fast Breeder Reactor (LMFBR) program, with an additional \$142 million in outlays and \$169 million in budget authority. These funds cover the initiation of major procurement activities for the construction of the Clinch River demonstration plant. There is also procurement funding in fiscal year 1978 for a follow-up demonstration, called the Prototype Large Breeder Reactor, that would be built if a "go" decision were reached for commercialization of the LMFBR in 1986. There is also a significant increase for breeder safety R&D.

In fusion R&D, outlays increase by \$109 million, and budget authority by \$97 million. The program pursues three possible plasma confinement approaches in magnetic fusion activities, the source of most of the increases. Laser fusion activity funding also increases (and includes some activity in support of national security objectives).

Other fission R&D funding remains approximately level for R&D and the assessment of other nuclear power concepts.

Other ERDA Energy

Outlays increase by 38 percent and budget authority by 9 percent. Program management and support almost doubles in outlays with an increase of \$142 million. Other funding increases are for supporting research and high energy physics activity.

Nuclear Regulatory Commission

The \$43 million increase in budget authority is for nuclear regulatory research activity. A significant increase in personnel (166 positions) is also included, primarily for inspection and enforcement of NRC's regulations in the growing number of nuclear facilities.

Energy Independence Authority (EIA)

Creation of an EIA is again proposed by President Ford. Only net gains and losses of the EIA would be included within the budget; net losses of \$42 million are anticipated for 1977. Gross transactions and borrowing authority for this \$100 billion self-liquidating proposal appear off-budget, where \$83 billion in budget authority, and \$650 million in outlays are requested for fiscal year 1977.

Petroleum Reserve Revenues

Receipts are estimated to increase by 40 percent, as the production and sale of crude oil from the naval petroleum reserves increases. These receipts are associated with a special fund to finance the exploration and development of the national and naval petroleum reserves, the production from the naval reserves, and the strategic petroleum storage program. The budget authority and outlays for these activities are presented in the Petroleum Reserves category discussed above.

Other Energy

This category includes the Federal Energy Administration's salaries and expenses account, the Rural Electrification Administration, the Federal Power Commission, the energy-related activity of the Environmental Protection Agency, and the Bureau of Mines. Most of these activities maintain a constant level, with some increases in the FEA (fiscal year 1977 and fiscal year 1978)

for conservation through state and low income assistance programs and utility rate structure demonstrations.

Other Natural Resources

This subfunction consists primarily of the National Oceanic and Atmospheric Administration (NOAA) and the Geological Survey. The surveys, investigations, and research account shows a \$37 million increase from fiscal year 1978 to fiscal year 1979; the increase occurs primarily in the program areas of topographic surveys and mapping (\$9 million), and geologic and mineral resource surveys and mapping (\$19 million). In this account, the budget proposes that outlays for earthquake research increase from \$16 to \$27 million. This analysis assumes passage of the helium fund rescission, and thereby compares a fiscal year 1977 helium fund amount of zero with a fiscal year 1978 amount of \$47.5 million.

Other Related Issues

An important part of the President's discussion of the energy budget focuses on reorganization of federal energy activities, with a cabinet level Department of Energy taking the initiative. The budget effects of such reorganization are not addressed in the budget and, therefore, no discussion is included here.

The budget also includes a new tax expenditure proposal for home insulation income tax credit. This measure is estimated to reduce revenues by \$195 million.

AGRICULTURE

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 350, AGRICULTURE, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Farm Income Stabilization				
Price support programs (CCC)	BA	2,750	189	1,234
	Outlays	1,014	1,820	864
Agriculture credit insurance fund	BA	169	141	165
	Outlays	296	-314	142
Other farm income stabilization	BA	239	261	189
	Outlays	264	267	182
Subtotal, Farm Income Stabilization	BA	3,158	591	1,588
	Outlays	1,574	1,773	1,188
Agriculture Research and Services				
Agricultural Research Service	BA	291	291	328
	Outlays	247	326	323
Extension Service	BA	229	241	242
	Outlays	218	241	243
Other agricultural research & services	BA	519	596	623
	Outlays	504	610	630
Offsetting receipts	BA	-48	-49	-49
	Outlays	-48	-49	-49
Subtotal, Ag. Research and Services	BA	991	1,079	1,144
	Outlays	921	1,128	1,147
Deductions for Offsetting Receipts <u>a/</u>	BA	7	-2	-3
	Outlays	7	-2	-3
Total, Agriculture	BA	4,157	1,668	2,729
	Outlays	2,502	2,899	2,333

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 350, AGRICULTURE, IN MILLIONS OF DOLLARS

Major Programs	Budget Authority	Estimated Outlays
1977 current estimate	1,668	2,899
Farm income stabilization		
Price support and related programs (CCC):		
Disaster payments	}	30
Short-term export credit sales		-250
Loans, purchases and other		-105
Receipts and adjustments		-631
Agricultural credit insurance fund	24	455
Federal crop insurance corporation fund	-40	-55
Other Farm income stabilization	-33	-29
Agricultural research and services	65	19
1978 request	2,729	2,333

Price Support and Related Programs

Farm prices are supported primarily by the programs of the Commodity Credit Corporation (CCC). Budget authority for any year restores losses incurred by the CCC in prior years. The proposed increase of more than \$1 billion in budget authority includes about \$709 million that was not restored in fiscal year 1977. Total outlays for price supports are assumed to decrease by about \$1 billion. The assumptions underlying the estimate are explained more fully below.

Disaster payments. The budget assumes that outlays for disaster payments will increase by \$30 million in fiscal year 1978, but this estimate could change if the weather is unusually good or bad. The increase is primarily a function of higher target prices for wheat, feed grains, rice and cotton in crop year 1976 which are used in calculating the payments.

Short-term export credit sales. Outlays for loans provided to foreign importers of American Commodities supposedly will be reduced by \$250 million in fiscal year 1978. Repayments of the large loans extended in recent years (included in receipts and adjustments) will cause total 1978 outlays for the program to fall an additional \$265 million from the 1977 level. Outlays for the program can be controlled by executive action, and last year, the outlay reduction predicted in the budget never materialized. If the supply of agricultural products increases and prices weaken during the coming year, the Administration may attempt to encourage exports with this program and fiscal year 1978 outlays could rise to \$1 billion or more.

Loans, purchases and other. The estimates of outlays for loans, purchases, and other price support programs are based on an analysis that assumes normal weather during the 1977 growing season, large domestic supplies, continued economic recovery, strong overseas demand, and reduced acreage of crops experiencing price weakness. The major commodity program change, a decrease of \$148 million in outlays for tobacco, assumes that an administrative decision to reduce acreage allotments will raise prices and reduce loan activity. The outlays for wheat and feed grain programs are expected to decline by \$178 million, primarily because the large loans provided last year will be repaid in fiscal year 1978. If wheat prices remain low, however, outlays for the

crop could increase by \$100 million or more. The budget also assumes that rice growers will reduce their acreage, which will strengthen prices and reduce the cost of deficiency payments and loans by \$53 million in fiscal year 1978.

Outlays for the dairy program are expected to decline by \$8 million in fiscal year 1978, but this estimate assumes that the support rate will be allowed to fall below 80 percent of parity. However, if support is maintained at 80 percent throughout the 1977 marketing year, outlays could increase by more than \$200 million over the budget estimate. The \$8 million decrease in outlays for the peanut program assumes that new legislation will be approved, which will reduce the acreage allotment. The lower production should strengthen prices, and reduce loan activity. The effects of the new bill would be felt in both fiscal year 1978, and fiscal year 1979.

Agricultural Credit Insurance Fund

Outlays for these farm development loans are expected to increase by \$455 million. In fiscal year 1977, an accumulated inventory of notes will be sold to produce a one-time increase in revenues (and negative outlays) which cannot be repeated in fiscal year 1978. The administration can adjust the timing of these sales through executive action to achieve its outlay target. Proposed changes in the rate of interest paid by recipients of these loans will not affect the fiscal year 1978 budget.

Federal Crop Insurance Corporation Fund

Because of the drought in the Great Plains, and other disasters, outlays for indemnity payments climbed sharply in fiscal year 1977. These costs are normally financed through premium payments, but in fiscal year 1977, the heavy losses led to an administration request for new budget authority of \$30 million, which was approved. Another \$10 million supplemental is submitted in the Ford budget. The Department of Agriculture assumes that fiscal year 1978 will be a "normal" year and consequently, the budget authority and outlay estimates, are based on historical trends.

Agricultural Research and Services

Total budget authority and outlays for research, economic intelligence, extension, consumer protection, marketing and regula-

tory programs have been held to about \$1.1 billion. However, several modifications within the category are planned. A major new research effort is proposed for fiscal year 1978, costing \$150 million over five years. About \$28 million is to be spent in fiscal year 1978 for this program which will provide competitive grants to universities, and other organizations for research on crop production. Several plant and animal disease and pest control activities will be expanded in fiscal year 1978, while a reduction is planned for the fire ant eradication program. Funds are included in a 1977 supplemental, and also in fiscal year 1978, to implement new meat packer bonding legislation, and the new Federal Grain Inspection Service. Outlays for the latter will decrease in fiscal year 1978 by \$3.4 million because user fees will reduce federal costs.

COMMERCE AND TRANSPORTATION

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 400, COMMERCE AND TRANSPORTATION, BY FISCAL YEARS
IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Mortgage Credit and Thrift Insurance				
Rural housing	BA	138	192	328
	Outlays	7	-429	415
Federal Housing Administration Fund	BA	1,231	1,019	1,117
	Outlays	1,191	1,028	945
Government National Mortgage Association	BA	5,044	8	8
	Outlays	608	-380	-310
Thrift insurance	BA	--	--	--
	Outlays	-577	-2,309	-833
Subtotal, Mortgage Credit & Thrift Insurance	BA	6,413	1,219	1,453
	Outlays	1,229	2,090	217
Payment to Postal Service	BA	1,708	2,272	1,472
	Outlays	1,720	2,272	1,472
Other Advancement and Regulation of Commerce	BA	879	1,262	1,270
	Outlays	867	1,036	1,094
Ground Transportation				
Federal-aid highways	BA	4,978	3,538	6,843
	Outlays	6,377	5,840	6,884
Other highway programs	BA	197	220	385
	Outlays	252	411	502
Rail transportation	BA	1,610	1,023	1,728
	Outlays	1,132	1,661	1,545
Mass transit	BA	1,046	571	492
	Outlays	1,492	2,146	2,304
Interstate Commerce Commission	BA	67	62	62
	Outlays	52	61	63
Subtotal, Ground Transportation	BA	7,898	5,414	9,511
	Outlays	9,305	10,119	11,298
Air Transportation	BA	2,337	3,043	3,226
	Outlays	2,557	2,843	3,190
Water Transportation	BA	1,631	1,724	1,740
	Outlays	1,558	1,885	1,964
Other Transportation Programs	BA	74	81	90
	Outlays	65	83	85
Deduction for Offsetting Receipts <u>a/</u>	BA	-52	-43	-67
	Outlays	-52	-43	-67
Total, Commerce and Transportation	BA	20,890	14,974	18,694
	Outlays	17,248	16,106	19,252

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR FUNCTION 400,
COMMERCE AND TRANSPORTATION, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	14,974	16,106
Rural Housing Insurance Fund	152	837
Other Rural Housing	-17	7
Federal Housing Administration Fund	98	-82
GNMA--Special Assistance Functions Fund	--	74
Federal Deposit Insurance Corporation	---	482
Federal Home Loan Bank Board	---	997
Payment to the Postal Service Fund	-800	-800
Bureau of the Census	22	16
Small Business Administration	-29	37
Federal-Aid Highways	3,305	1,044
National Highway Traffic Safety Administration	144	42
Northeast Corridor Improvement Program	250	95
Grants to Amtrak	-6	-135
Railroad Rehabilitation and Improvement Financing Fund	30	50
Purchase of Conrail Securities	425	-100
Urban Mass Transportation Administration	0	295
Federal Contribution to WMATA	-79	-135
Federal Aviation Administration	144	311
Maritime Administration	-34	-47
Coast Guard	50	127
Other Transportation and Commerce	65	31
1978 request	18,694	19,252

Rural Housing Insurance Fund

Outlays in this fund are estimated to increase dramatically (by \$837 million) between fiscal year 1977 and fiscal year 1978. This increase in outlays occurs almost exclusively as a result of a decrease in asset sales activity from the extraordinarily high fiscal year 1977 level. However, program activity (i.e. loan levels) is planned to continue in fiscal year 1978 at the \$3.7 billion level approved for this fiscal year.

Other Rural Housing

The budget, as in past years, proposes the termination of three smaller rural housing programs: rural housing for domestic farm labor, mutual and self-help housing, and self-help housing land development fund. These three programs have aggregate funding in fiscal year 1977 of approximately \$17 million. Though no funding has been proposed for these programs for fiscal year 1978, spending from prior authority causes outlays to increase by \$7 million over the estimated fiscal year 1977 level.

Government National Mortgage Association (GNMA) Special Assistance Functions Fund

The budget does not propose any additional funding for new commitments to purchase mortgages in fiscal year 1978. All of the activity in the fund is anticipated to occur as a result of previously provided authority. The Ford budget assumes that with an improving residential construction market and declining interest rates, there is no need to request new funding. However, if there is continued weakness in multi-family construction and a stabilization of interest rates at their current historically high level, reauthorization and refunding of the program (emergency mortgage purchase) may be necessary.

Outlays are expected to increase somewhat as asset sales decrease relative to asset purchases. It is also anticipated that over \$14 billion of unexercized purchase authority, mostly from the older programs in the fund, will lapse in fiscal year 1978. The lapsing of most of this authority would occur only if appropriations language suggested in the budget were approved. That language would close the so-called "backdoor" by requiring that new loan or mortgage purchase commitments could only be made as expressly provided for in an appropriations act.

Federal Housing Administration Fund (FHA)

Although the economic factors affecting claims levels, and thus outlays, are expected to improve between fiscal year 1977 and fiscal year 1978, the budget anticipates that the significantly lower set-aside levels of Section 8 assistance to troubled FHA insured properties should offset that improvement. Thus, outlays are estimated to fall only slightly (\$83 million) from their fiscal year 1977 levels. Should the effect of Section 8 assistance be over-valued or the improved economy be under-valued in relation to default levels, outlays could show a significantly larger decline.

In response to the huge losses the fund has experienced and is expected to experience for the next several years, the budget proposes to significantly alter the structure and activities of the fund. The proposal, which is intended to place the fund on a sound financial and actuarial basis, has three major elements:

- o Actuarial Soundness -- The proposal provides that all of the fund's insurance programs charge actuarially sound premiums, and that those premiums be based on the economic, as opposed to the physical, life of the insured property. Because actuarially sound premiums for the S.221(d)(2) and S.223(e) single-family programs would be prohibitively high, these programs are proposed for termination. By raising the actuarial standards, it is possible that certain moderate-income purchasers, or those who wish to purchase housing in high-risk neighborhoods, might be prevented from receiving FHA insurance.
- o Financial Reorganization -- The proposal also recommends a realignment of programs whereby the unsubsidized single family (S.203) and multi-family (S.207) programs would constitute a single insurance fund and the balance of programs currently in the General and Special Risk Funds would be combined to create a new fund. This reorganization would be accompanied by the elimination of premium rebates and acceleration of premium collections. A major feature of this portion of the proposal is a supplemental appropriation of \$1.8 billion in fiscal year 1977 to restore

losses in the existing General Insurance and Special Risk Insurance Funds. (Because of the accounting treatment of such a restoration of losses, the supplemental would be exactly offset by a decline in permanent authority.)

- o Increased Marketability of Insurance -- The final element of the proposal is an effort to increase the use of the FHA insurance programs through the lifting of restrictions on mortgage amounts, interest rates, and loan to value ratios in the unsubsidized insurance programs. In addition, the existing limits on the authority to insure graduated payment mortgages and other experimental mortgage instruments are proposed to be substantially eased. These changes, however, could bring the FHA into more direct competition with private mortgage insurers.

Most of these alterations are not expected to significantly affect fiscal year 1978 outlays. However, over the longer run, the Ford Administration anticipated that outlays should drop significantly due to the effects of the proposal.

In addition, the Ford Administration is requesting a \$15 million supplemental in fiscal year 1977 and \$15 million in fiscal year 1978 to continue the urban homesteading program.

Federal Deposit Insurance Corporation (FDIC)

The net receipts (negative outlays) of the FDIC drop by \$482 million between fiscal year 1977 and fiscal year 1978 due to a planned repayment of debt incurred with the Federal Reserve Bank of New York in connection with the failure of the Franklin National Bank of New York.

Federal Home Loan Bank Board (FHLBB)

The FHLBB revolving fund accounts for almost the entire \$997 million increase in outlays of the Bank Board. This fund makes advances to the regional home loan banks, and through them to the savings and loan industry, during periods of savings disintermediation. Since savings levels have increased rapidly during the past year to eighteen months, the Board anticipates record

repayments of advances in fiscal year 1977. Receipts from advances are expected to return to more normal levels by fiscal year 1978, dropping by over \$1 billion.

Payment to the Postal Service

The budget authority and outlays proposed for fiscal year 1978 are \$1.5 billion, a decrease of \$800 million from fiscal year 1977 (assuming passage of the requested supplemental). That supplemental, for \$505.9 million, has been requested by the Postal Service for the reduction of outstanding indebtedness and for coverage of revenue foregone in carrying certain categories of mail. No similar funds are included in the fiscal year 1978 budget. In addition, the President has proposed no payment to finance the extended phasing authorized by P.L. 93-328, for which \$307 million has been appropriated in fiscal year 1977. (The Postal Service has requested \$223 million for this purpose in fiscal year 1978.)

Bureau of the Census

The requested budget authority of \$71 million represents a 72 percent increase over the fiscal year 1977 level of \$49 million. The increase is primarily for preparations for the 1980 decennial census (+\$13 million) and for the 1977 economic censuses (+\$8 million). Outlays are estimated to rise correspondingly, from \$51 million in fiscal year 1977 to \$67 million in fiscal year 1978 .

Small Business Administration

This function includes all SBA activities, except for the Disaster Loan Fund. The President has requested appropriations of \$603 million for these programs in fiscal year 1978, compared to \$632 million in fiscal year 1977. This decline reflects changes in several SBA loan and guarantee funds. No appropriation has been proposed in fiscal year 1978 for the Pollution Control Equipment Contract Guarantees Revolving Fund, which received \$15 million in budget authority in fiscal year 1977 and has that balance still available. The \$19 million appropriation requested for the Surety Bonds Guarantees Revolving Fund is a decline from the \$36 million appropriated in fiscal year 1977. However, the fiscal year 1977 figure includes a reserve adjustment of \$21 million, and thus the fiscal year 1978 program level actually represents

a slight increase in guarantee activity. The appropriation proposed for the Business Loan and Investment Fund is \$537 million, which is \$4.6 million below the fiscal year 1977 level, assuming enactment of the proposed \$60 million rescission. (Without the rescission, the decline would be \$64.6 million, or 11 percent below the current fiscal year 1977 appropriation.) The proposed funding would permit a continuing increase in the volume of loans and loan guarantees outstanding, but at a slower rate than in fiscal year 1977.

Since changes in outlays lag behind changes in budget authority, outlays for most of these programs are estimated to increase in fiscal year 1978, despite decreases in budget authority. This results in outlay increases of \$28 million for the Business Loan and Investment Fund and \$5 million for the Surety Bond Guarantees Revolving Fund.

Federal-Aid Highways

The budget authority for fiscal year 1978 is already established by law at \$6.8 billion, an increase of \$3.3 billion over the fiscal year 1977 level. This increase is misleading, however, since \$3.3 billion of fiscal year 1977 budget authority was made available in the transition quarter. The Ford budget estimates outlays in fiscal year 1978 to be \$6.9 billion, compared to \$5.8 billion in fiscal year 1977. This is based on assumed total obligation levels of \$7.7 billion in fiscal year 1977 and \$6.7 billion in fiscal year 1978. (The President is proposing a statutory ceiling on net obligations of \$6.5 billion for fiscal year 1978.) However, the fiscal year 1977 obligation level assumed by the President is unlikely to be reached. On the basis of recent experience, CBO is projecting obligations of less than \$6.3 billion in fiscal year 1977, resulting in outlays of less than \$6.2 billion in fiscal year 1978, about \$700 million less than the estimate in the President's budget.

National Highway Traffic Safety Administration

The proposed budget authority of \$236 million represents an increase of \$144 million over the \$91 million appropriated in fiscal year 1977. Most of this stems from the trust fund share of highway safety programs, which shows a \$137 million increase from fiscal year 1977 to 1978. This increase is attributable to the advance apportionment of fiscal year 1977 funds in the

transition quarter. However, the proposed obligation level for NHTSA programs in fiscal year 1978 does not change significantly from the fiscal year 1977 level, and in fact, decreases slightly from \$219 million to \$213 million. Outlays for these programs would nevertheless increase from \$182 million in fiscal year 1977 to \$224 million in fiscal year 1978.

Northeast Corridor Improvement Programs

The budget authority for this account is proposed to increase by \$250 million, to \$400 million in fiscal year 1978, with outlays increasing by \$95 million, to \$180 million in fiscal year 1978. This represents a shift from the planning and design of the Corridor to the awarding of major construction contracts.

Grants to Amtrak

The President's budget includes a \$47 million supplemental request for fiscal year 1977 for grants to Amtrak, to be used for the purchase of the Northeast Corridor. If this is approved, the proposed fiscal year 1978 appropriation of \$617 million for Amtrak would be \$5.7 million below the fiscal year 1977 level, with a slight increase in operating grants, and decreases in capital grants and corridor purchase funds. The proposed budget includes \$25 million in fiscal year 1978 to begin retirement of Amtrak's Section 602 guaranteed loans.

Outlays in fiscal year 1978 are estimated to be \$617 million, which is \$135 million less than in fiscal year 1977. However, the fiscal year 1977 outlay level is distorted by the release of \$127 million in capital funds appropriated for fiscal year 1976 and the transition quarter. When adjusted for this, the outlay drop in fiscal year 1978 becomes only \$8 million.

Railroad Rehabilitation and Improvement Financing Fund

This fund, to be used for the purchase of redeemable preference shares from railroads, was initiated in fiscal year 1977 with an appropriation of \$70 million and estimated outlays of \$30 million. The President is requesting an appropriation of \$100 million in fiscal year 1978 (up \$30 million), with estimated outlays of \$80 million (up \$50 million)

Purchase of Conrail Securities

The budget authority of \$425 million in fiscal year 1978,

which is already established by law (P.L. 94-252), represents a substantial increase compared to zero budget authority in fiscal year 1977. In fact, however, it represents a planned decrease in payments to Conrail, since \$350 million was appropriated for the transition quarter and \$615 million was appropriated for use in fiscal year 1977 (though made available on September 30, 1976). The estimated outlays reflect this pattern, declining from \$600 million in fiscal year 1977 to \$500 million in fiscal year 1978.

Urban Mass Transportation Administration

UMTA's proposed commitment level of \$3.0 billion for fiscal year 1978 includes a decrease of \$221 million (to \$775 million) in formula grants, an increase of \$200 million (to \$775 million) in interstate transfer grants, and a decrease of \$25 million (to \$30 million) in commuter rail operating subsidies. These changes are roughly offsetting, resulting in a net decrease of \$24 million in total planned commitments. The apparent decrease in formula grants, from \$996 million in fiscal year 1977, stems from the inclusion in the 1977 estimate of \$346 million in formula funds previously apportioned but not committed. However, it is unlikely that commitments for formula grants will exceed \$700 million in fiscal year 1977; therefore, UMTA's total 1978 commitment level will probably be \$300 million above the 1977 level.

The proposed budget authority is also the same as in fiscal year 1977, though most of the funding is from existing contract authority. Outlays are estimated to increase by \$295 million to \$2.1 billion in fiscal year 1978, reflecting the increasing level of previous obligations. This outlay estimate includes a downward adjustment of \$100 million to account for the effects of proposed legislation, which would limit the use of formula grants for operating assistance and eliminate the use of capital grants for operations.

Federal Contribution to WMATA

The President is requesting \$37 million in budget authority for payment to WMATA in fiscal year 1978, a decrease of \$79 million from the fiscal year 1977 appropriation. This includes \$15 million already appropriated for Metrorail construction, \$19 million for the annual interest subsidy, and \$2.7 million for facilities for the handicapped. The \$15 million for Metrorail exhausts

the funds authorized for the project in 1969, and WMATA is expected to use interstate transfer funds as an additional source of funds. Estimated outlays for WMATA in fiscal year 1978 are \$179 million, a decline of \$135 million from fiscal year 1977, reflecting the drop in budget authority.

Federal Aviation Administration

The proposed fiscal year 1978 budget includes \$2.7 billion in budget authority for the FAA, an increase of \$144 million. Similarly, estimated outlays for fiscal year 1978 are \$2.7 billion, an increase of \$311 million over fiscal year 1977. The appropriation requested for FAA operations is \$81 million above the fiscal year 1977 level, and includes provisions for the hiring of an additional 1,093 air traffic and systems maintenance personnel. (The actual increase in budget authority is \$154 million, or 9 percent, when the \$73 million fiscal year 1977 pay supplemental is excluded from the comparison.) Under existing law, the budget authority for the airport development portion of grants-in-aid for airports increases by \$30 million to \$540 million in fiscal year 1978; however, the Administration is proposing a statutory ceiling of \$465 million on obligations for this program. In addition, the budget contains \$10 million for airport planning grants. Outlays for the entire grants-in-aid program are estimated to total \$548 million in fiscal year 1978, an increase of \$240 million, attributable to the high obligation rate during the transition quarter and fiscal year 1977.

Maritime Administration

Both budget authority and outlays of the Maritime Administration are proposed to decrease in fiscal year 1978 by \$34 million and \$47 million, respectively. The two major programs accounting for this shift are operating-differential subsidies and ship construction subsidies. Budget authority for the former is planned to decline from \$361 million to \$324 million, while outlays are estimated to drop by \$19 million. During 1977, the Administration proposes to conduct an extensive analysis of maritime subsidy programs, and thus plans no funding after June 30, 1978 for new operating-differential subsidy contracts or for renewal of expiring contracts. No funding is requested for the ship construction program in fiscal year 1978, since available authority is sufficient to carry out a \$201 million program, compared to an estimated program level of \$162 million in fiscal year 1977.

Coast Guard

The budget authority requested for the U.S. Coast Guard for fiscal year 1978 is \$1.3 billion, an increase of \$50 million over the fiscal year 1977 appropriation (including the \$20 million pay supplemental). Most of the increase is for the purpose of hiring 132 civilian personnel to enforce fishing rights within the expanded 200 mile territorial limit, and for increased operating expenses for search and rescue, aids to navigation, and marine environmental protection programs. The substantial increase in outlays (\$127 million) includes payments for the proposed increase in budget authority and for capital improvements and acquisitions authorized in previous years.

Other Transportation and Commerce

The Ford budget proposes an increase of \$41 million in the appropriation for NASA's aeronautical research and technology, with outlays estimated to increase by \$35 million over the fiscal year 1977 level. It also includes \$25 million in budget authority and \$5 million in outlays for off-system railway-highway crossings, a new program authorized by the Federal-Aid Highway Act of 1976. On the other hand, the President is proposing to terminate funding for highways crossing federal projects, which received a \$35 million appropriation for fiscal year 1977.

COMMUNITY AND REGIONAL DEVELOPMENT

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 450, COMMUNITY AND REGIONAL DEVELOPMENT, BY FISCAL
YEARS, IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Community Development				
Community development block grants	BA	1,838	3,448	3,500
	Outlays	983	2,262	3,112
Expired HUD programs	BA	2	3	13
	Outlays	1,451	1,168	691
Rural water and waste disposal grants	BA	250	200	50
	Outlays	75	163	199
Action-domestic programs	BA	103	109	95
	Outlays	108	110	97
Community Services Administration	BA	520	512	398
	Outlays	462	528	448
Loans to the District of Columbia	BA	210	101	160
	Outlays	115	175	175
Other community development	BA	919	460	338
	Outlays	333	486	390
Subtotal, Community Development	BA	3,842	4,833	4,554
	Outlays	3,527	4,892	5,112
Area and Regional Development				
Appalachian regional development	BA	313	120	300
	Outlays	321	329	328
Rural development	BA	314	364	352
	Outlays	238	247	301
Indian affairs	BA	466	502	544
	Outlays	393	453	478
Local public works programs	BA	--	2,000	3
	Outlays	--	800	803
Other area and regional development	BA	453	562	423
	Outlays	314	411	429
Subtotal, Area & Regional Development	BA	1,546	3,548	1,622
	Outlays	1,266	2,240	2,339
Disaster Relief and Insurance	BA	335	383	298
	Outlays	522	596	457
Deductions for Offsetting Receipts ^{a/}	BA	-15	-33	-39
	Outlays	-15	-33	-39
Total, Community & Regional Development	BA	5,708	8,731	6,434
	Outlays	5,300	7,695	7,868

^{a/} Excludes offsetting receipts which have been distributed by subfunction above

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 450, COMMUNITY AND REGIONAL DEVELOPMENT,
IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	8,731	7,695
Community development block grants	52	850
Expired HUD programs	10	-491
Comprehensive planning grants	-38	-37
Rehabilitation loan fund	-50	-20
Rural water and waste disposal grants	-150	36
Action-domestic programs	-14	-14
Community Services Administration	-114	-80
Pennsylvania Avenue Development Corporation	-8	2
Local public works	-1,997	3
Appalachian regional development programs	180	-1
Farmers Home Administration: Area and Regional Development Activities	-12	54
EDA: economic development assistance programs	-148	-9
Coastal zone energy program	33	29
SBA-Disaster Loan Fund	-70	-27
Disaster Relief	-50	-150
National Flood Insurance Fund	33	22
Bureau of Indian Affairs	42	25
Regional Development Programs	-22	2
Other changes, net	26	-21
1978 request	6,434	7,868

Community Development Block Grants

The budget proposes a fiscal year 1977 supplemental appropriation of \$200 million in connection with the proposed Bicentennial Land Heritage Act. (See function 300 for additional information on this proposal.) This \$200 million would be distributed to block grant recipients in proportion to their fiscal year 1977 grant allocation, with the encouragement that the funds be used for city park acquisition or rehabilitation.

An increase of \$52 million above the fiscal year 1977 recommended level has been requested for the program in fiscal year 1978. That new level would be \$252 million over the existing fiscal year 1977 appropriation level of \$3,248 million. In addition to increasing the fiscal year 1978 funding level, the budget proposes to significantly alter the grant allocation formula and procedures. The program currently distributes funds to the metro-entitlement communities according to a formula which incorporates measures of poverty, population, and overcrowded housing. The Ford administration proposal would retain that formula, but allow communities to choose between this current formula, and another which incorporates measures of poverty, population loss, and the age of the housing stock. This second formula is intended to provide a more equitable measure of need in older and declining communities. It would also be possible for a community to choose to receive its hold harmless grant amount, though hold harmless grants are still assumed to phase out over the next three years. As an additional element of the proposal, the non-metro discretionary balances would be transferred to the states for distribution.

These proposed changes in the program only marginally affect the fiscal year 1978 outlay estimate. The large increase of \$850 million in outlays between fiscal year 1977 and fiscal year 1978 results primarily from the buildup of spending from grants approved in previous years.

Expired HUD Programs

Outlays for these programs, the largest of which is the urban renewal program, continue to decline as previously approved projects are completed. Increasing loan repayments in some programs, and lower loan disbursements in others, also contribute to lower fiscal year 1978 outlays.

Comprehensive Planning Grants

The budget proposes to lower budget authority in this program from \$62.5 million in fiscal year 1977 to \$25 million in fiscal year 1978. This lower level of funding is expected to be primarily concentrated on grants to area-wide planning organizations. Most of the other previous recipients are assumed to be able to receive funds through the community development block grant program.

Rehabilitation Loan Fund

This program is suggested for termination upon the expiration of its authorization on October 1, 1977. Additionally, the budget anticipates that \$32 million of loan authority will be unable to be used during fiscal year 1977, and thus will lapse at the end of the year. Outlays, however, are expected to continue into fiscal year 1978 as previous loan commitments result in disbursements.

Rural Water and Waste Disposal Grants

Between fiscal year 1977 and fiscal year 1978, there is proposed to be a reduction of \$150 million in budget authority. The Ford administration's justification of this reduction is based, in part, on assumed increases in the availability of funds from community development block grants and Environmental Protection Agency (EPA) waste water construction grants. In this connection, legislation to allow funding of water facilities has been proposed in the EPA construction grant program. However, outlays continue to increase, due to the affect of spending from grants approved in previous years.

Action: Domestic Programs

Both budget authority and outlays are scheduled to decrease by \$14 million in fiscal year 1978. This 12 percent reduction results from a planned phaseout over several years of the VISTA and University Year for Action programs. The older American volunteer program, however, is estimated to continue at its fiscal year 1977 level at least through fiscal year 1979.

Community Services Administration (CSA)

The various CSA programs are again suggested for reduction. The community action program, which constitutes most of CSA's

activity, is slated to have commitment levels reduced by approximately \$140 million in fiscal year 1978. This lower level constitutes a rollback in the categorical assistance portions of the program, which include energy conservation, feeding and nutrition, and elderly services. It was assumed that other federal programs provide sufficient funds for these activities. Reductions are also planned in the community economic development program to \$30 million from its \$48 million level in fiscal year 1977. Outlays are expected to drop by \$80 million in response to the lower fiscal year 1978 funding level.

Pennsylvania Avenue Development Corporation

A supplemental appropriation of \$29 million is requested in fiscal year 1977, and \$21 million is requested for fiscal year 1978. These appropriations would allow the corporation to commence implementation of the Congressionally approved, 14-year development plan for Pennsylvania Avenue.

Local Public Works

The only additional funding proposed for the accelerated public works grants program in fiscal year 1978 is \$3.1 million for administration. This compares with \$2 billion appropriated and obligated in fiscal year 1977.

Appalachian Regional Development Programs

The \$180 million in additional budget authority for fiscal year 1978 is caused by a change in the method of accounting for funding authority, and does not reflect a dramatic increase in the program level. The projected funding requirement in fiscal year 1978 is \$308.2 million, compared to \$303.0 million in fiscal year 1977. This net increase of \$5 million includes \$20 million more for the highway construction program, and \$15 million less for non-highway activities. Outlays in fiscal year 1978 are expected to be \$324.0 million, virtually the same as in fiscal year 1977.

Farmers Home Administration

No funding is requested for grants in the rural development or rural community fire protection programs. These programs had budget authority in fiscal year 1977 of \$10.0 million and

\$3.5 million respectively. Otherwise, budget authority requested for fiscal year 1978 varies only slightly from fiscal year 1977 levels. The major outlay change occurs in the rural development insurance funds, for which outlays are projected to increase to \$109 million in fiscal year 1978, from less than \$51 million in fiscal year 1977. This increase results from the interest subsidies on the fund's growing loan portfolio. (The Ford administration is recommending an end to the interest subsidy and supports a change in interest rates from 5 percent to Treasury market rates.)

Economic Development Assistance Programs

The President is recommending a cut of 41 percent in budget authority for the Economic Development Administration's regular programs, from \$360 million in fiscal year 1977 to \$212 million in fiscal year 1978. Most of this cut occurs in EDA's ongoing program of public works grants. The Administration argues that the new accelerated public works program lessens the need for EDA's regular grant funds. Since outlay levels lag changes in budget authority, outlays projected by the President for fiscal year 1978 are only \$9 million below the estimated level for fiscal year 1977.

Coastal Zone Energy Program

The budget includes a supplemental request to create a coastal energy impact fund within the National Oceanic and Atmospheric Administration, and to appropriate \$110 million in fiscal year 1977. Under the President's proposal, direct loans and financial guarantees would be made available for construction of public facilities and development of services which are designed to help coastal states and their local governments affected by Outer Continental Shelf and other coastal energy activities. An additional appropriation of \$143 million is recommended for fiscal year 1978. Outlays are projected to be \$51 million in fiscal year 1977 and \$80 million in fiscal year 1978.

Disaster Relief Fund

The President is requesting an appropriation of \$150 million for the disaster relief fund, down from \$200 million in fiscal year 1977 (if a \$100 million supplemental is approved). Actually, the \$50 million decrease in budget authority understates the extent of the change, since the fund is expected to draw down \$66

million in unobligated balances in fiscal year 1977. However, based on historical experience, CBO estimates that \$325 million will be needed for disaster relief if fiscal year 1978 has an average incidence of disasters. The administration estimates \$150 million in outlays in fiscal year 1978, down from \$300 million in the previous year. CBO estimates that outlays in fiscal year 1978 from prior year obligations will approximate \$250 million, and that total outlays in that year will, therefore, exceed \$300 million.

SBA Disaster Loan Fund

The fiscal year 1978 budget includes a \$20 million appropriation request for SBA's disaster loan fund. While loan commitments are expected to be \$10 million higher than in fiscal year 1977, the budget authority is \$70 million less. This is the result of a projected use of \$70 million in unobligated balances in fiscal year 1978.

National Flood Insurance Fund

A request for a \$33 million increase in the flood insurance program offsets, to a small extent, the reduced levels of the other disaster funds. The increase in budget authority, from \$75 million in fiscal year 1977 to \$108 million in fiscal year 1978, is intended to permit faster completion of rate maps for flood-prone communities. The estimated \$22 million increase in outlays in fiscal year 1978 is primarily a reflection of a greater number of insurance policies in force. (The President's outlay projection in fiscal year 1978 is based on the assumption of an average annual incidence of flooding.)

Bureau of Indian Affairs

The President has requested \$544 million for Indian affairs in fiscal year 1978. This \$42 million increase in budget authority over fiscal year 1977 is primarily for additional administrative expenses (up \$14 million), and road construction (up \$31 million). However, no major change in program level is anticipated for the latter, since prior year contract authority, which was available in fiscal year 1977, has been exhausted.

Regional Development Programs

The President recommends 34 percent less budget authority

for the Regional Action Planning Commission for fiscal year 1978. The decrease from \$64 million to \$42 million would be accomplished primarily through elimination of the supplemental grant program. Outlays are estimated to increase by \$2 million because of the spending pattern of prior years budget authority.

EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES

EDUCATION, TRAINING, EMPLOUMENT AND SOCIAL SERVICES

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR
FUNCTION 500, EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES,
BY FISCAL YEAR, IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Elementary, Secondary and Vocational Education	BA	5,089	6,209	5,443
	Outlays	4,690	5,225	5,494
Higher Education	BA	3,680	2,985	2,816
	Outlays	2,663	3,434	2,934
Research and General Education Aids	BA	765	1,125	1,074
	Outlays	774	1,100	1,193
Training and Employment				
Temporary employment assistance	BA	2,825	2,384	--
	Outlays	1,887	2,358	1,000
Other training and employment	BA	4,439	4,480	4,275
	Outlays	4,401	4,484	4,349
Subtotal, Training and Employment	BA	7,264	6,864	4,275
	Outlays	6,288	6,842	5,349
Other Labor Services	BA	329	383	420
	Outlays	301	380	415
Social Services				
Social service grants	BA	2,833	2,730	2,542
	Outlays	2,258	2,730	2,542
Other social services	BA	1,262	1,470	1,403
	Outlays	1,198	1,408	1,435
Subtotal, Social Services	BA	4,095	4,200	3,945
	Outlays	3,456	4,138	3,977
Deductions for Offsetting Receipts <u>a/</u>	BA	-5	-5	-6
	Outlays	-5	-5	-6
Total, Education, Training, Employment and Social Services	BA	21,217	21,762	17,967
	Outlays	18,167	21,114	19,358

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 500, EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES
IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	21,762	21,114
Elementary and secondary education		
Elementary and secondary financial assistance - proposed legislation	3,776	336
Elementary, secondary and vocation education	-4,144	285
Impact aid	-398	-351
Higher education	-169	-500
Temporary employment assistance	-2,384	-1,358
Employment and training assistance	-205	-135
Social services	-255	-161
Other changes, net	<u>-16</u>	<u>128</u>
1978 request	17,967	19,358

Elementary and Secondary Financial Assistance - Proposed Legislation

The President proposes to combine 23 state categorical formula grants into a single block grant to provide states more flexibility in meeting the educational needs of their disadvantaged and handicapped children. The proposed grant would consolidate the following programs: Education for the Disadvantaged (Title I); Support and Innovation; Education for the Handicapped; Occupational, Vocational, and Adult Education; and Library Resources. Budget authority for the proposed block grant of \$3,776 million would continue to provide support at the fiscal year 1977 level for programs included in the block grant proposal. The increase in outlays of \$336 million is low relative to budget authority due to the advance funding aspect of these educational programs. Thus the major impact on outlays as a result of this proposal will occur in fiscal year 1979.

The President proposes to increase the authorization for this block grant by \$200 million each year to a total of \$4.2 billion in fiscal year 1982. Three quarters of the block grant funds are to be targeted on the disadvantaged and the handicapped; vocational education would receive the same proportion of the total in each state as in fiscal year 1977. The states would also be required to pass on three quarters of the total funds from this grant to local educational agencies.

Elementary, Secondary, and Vocational Education

A proposed block grant accounts for the \$4 billion reduction in these categorical educational grant programs. However, due to the inclusion of advance program funds in the fiscal year 1977 figures, the comparison between fiscal years may overstate the effect of the proposal. The outlay growth of \$285 million is a result of program increases associated with the fiscal year 1977 advance funds for the 1977-1978 school year. Because of this advance funding aspect within the education programs, the outlay impact as a result of the fiscal year 1978 reductions will not be felt until fiscal year 1979.

Impact Aid

The President's budget again proposes to eliminate impact aid payments to school districts for: (1) children whose parents work on federal property but reside on private property on which taxes are paid; (2) children whose parents reside in low cost public housing. In addition, legislation will be requested to allow the Administration to forego the "hold harmless" payments which would otherwise be required. These proposals are estimated to reduce budget authority and outlays by \$398 and \$351 million respectively in fiscal year 1978.

Higher Education

The President proposes to continue the trend of allocating higher education resources directly to needy students rather than to institutional assistance programs. While the President's budget request for direct student assistance programs such as basic educational opportunity grants (BOGs) and work study is relatively constant between fiscal years 1977-1978, the decrease in budget authority of \$169 million is reflected in the budget proposals for institutional assistance programs. In addition, although the Education Amendments of 1976 increased the maximum grant award in the BOGs programs from \$1,400 to \$1,800, the Administration's request would fund grant awards based only on a \$1,400 maximum and modify the formula for distribution to concentrate on low income students.

Budget authority of \$44 million in 1978 is requested for the state student incentive grant program to provide assistance to 176,000 needy students. For fiscal year 1978, no additional funds are requested for supplemental opportunity grants or capital contributions to direct loans. However, \$281 million is requested in 1978 budget authority for the guaranteed student loan program. Finally, because of the increased number of defaults in guaranteed student loans, the President has proposed a \$32 million supplemental for fiscal year 1977.

Temporary Employment Assistance

CETA, Title VI provides public service employment for unemployed and underemployed persons. The Emergency Jobs Programs Extension Act of 1976 reauthorized this program on October 1, 1976, and targeted one out of every two vacancies filled to persons

with family incomes no higher than 70 percent of the lower living standard budget (\$6,712 for an urban family of four) who are in the following categories: AFDC recipient; unemployed person receiving unemployment compensation for at least 15 weeks; unemployed person ineligible for unemployment compensation who has been unemployed at least 15 consecutive weeks; unemployed person who has exhausted unemployment benefits.

The President is requesting an appropriation of approximately \$2.4 billion for fiscal year 1977-1978, which in effect is a net increase of \$1 billion over the continuing resolution level. Funding for the program is currently provided through a continuing resolution which combined with the carryover of funds from 1976 and the Transition Quarter is sufficient to maintain the 260,000 job level through 1977. The President's proposal will provide for approximately 130,000 jobs in 1978 while the program is being phased out due to anticipated improvements in the economy. This phaseout will save over \$2 billion in budget authority and over \$1 billion in outlays in fiscal year 1978.

Employment and Training Assistance

The President proposes that CETA, which expires at the end of 1977, be extended. While appropriations for Indians and migrant workers are recommended to increase by \$24 million, the net reduction in other CETA discretionary programs proposed is \$171 in 1978. In addition, for fiscal year 1978, the President is requesting \$525 million for summer jobs for youths which is a reduction of \$70 million. The President is not requesting an appropriation for the Job Opportunities Program for fiscal year 1978. Legislation is proposed for the WIN program which is estimated to reduce the WIN appropriation by \$21 million in fiscal year 1978. The legislation would reduce the amount of time WIN supportive services from 90 to 30 days following job placement.

Social Services

The decrease in budget authority of \$255 million and outlays of \$161 million is largely the result of the President's decision to maintain the Title XX ceiling of \$2.5 billion for social services. This ceiling was instituted in fiscal year 1973. The ceiling was raised by \$200 million for one year by the day care amendments of 1976. The Allied Services Act has again been proposed to encourage coordination of all human service delivery programs at the state and local level.

HEALTH

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR FUNCTION 550, HEALTH, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and Major Programs		1976 Actual	1977 Estimate	1978 Budget
Health Services				
Medicare	BA	18,520	22,998	28,583
	Outlays	17,779	21,991	26,081
Proposed legislation			-281	-1,784
Medicaid	BA	8,510	10,229	11,714
	Outlays	8,568	10,229	11,714
Other health services	BA	2,186	2,485	2,608
	Outlays	2,308	2,452	2,313
Subtotal, Health Services	BA	29,220	35,712	42,905
	Outlays	28,655	34,454	38,324
Health Research and Education				
National Institutes of Health	BA	2,223	2,463	2,022
	Outlays	2,300	2,141	2,028
Other health research and education	BA	733	725	417
	Outlays	745	621	595
Subtotal, Health Research and Education	BA	2,956	3,188	2,439
	Outlays	3,045	2,762	2,623
Prevention and Control of Health Problems	BA	1,082	1,069	871
	Outlays	974	1,096	945
Health Planning and Construction	BA	401	393	1,208
	Outlays	792	947	1,321
Deduction for Offsetting Receipts	BA	-8	-8	-8
	Outlays	-8	-8	-8
Total, Health	BA	33,651	40,354	47,416
	Outlays	33,457	39,251	43,205

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 550, HEALTH, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 Current Estimate	40,354	39,251
Medicare	5,666	4,090
Proposed legislation	-81	-1,566
Medicaid	1,587	1,587
Proposed legislation <u>a/</u>	-11,816	-11,816
Other HEW	-79	-93
Proposed legislation <u>a/</u>	-1,458	-588
Financial Assistance Health Care Act <u>a/</u>	13,172	12,302
Federal Employees Health Benefits	55	41
Other Non-HEW	14	1
1978 Request	47,416	43,205

a/ \$11,714 million of medicaid funds and an additional \$1,458 million in budget authority and \$588 million in outlays for 19 categorical health programs were combined into the block grant. The remaining \$102 million in medicaid represents savings due to medicare proposals.

The 1978 budget for health programs represents a \$7.1 billion increase over current estimates for fiscal year 1977 budget authority and \$3.95 billion in outlays. The bulk of this change from the previous year is reflected in the increase in the projected needs of the two major entitlement programs in this function -- medicare and medicaid.

Medicare (Table A)

Medicare projected costs for 1978 assume the enactment of a number of legislative proposals. Among these proposals offered by President Ford are the addition of a limited liability provision for beneficiaries which would set a ceiling on out-of-pocket hospital related costs of \$500 and \$250 on medical expenses. This would add an estimated \$594 million to medicare expenditures in 1978. On the other hand, the proposal adds a number of changes in the program that would represent cost savings to the federal government. These include a 10% coinsurance on hospital charges (subject to the \$500 limit) and an increase in the deductible under the Supplementary Medical Insurance program of \$20 up to a total for 1978 of \$80 (in subsequent years this deductible would be indexed to increases in Social Security cash benefits). The estimated federal savings from these changes would be \$603 million. Lastly, a number of cost control mechanisms are proposed. These include placing a ceiling of 7% on allowable increases in reimbursement over 1977 charges for both hospital and medical costs, and the withholding of reimbursement presently made to hospitals and nursing homes for depreciation. The withheld funds would be placed in an escrow fund to be released to the hospitals for capital projects approved by their state health planning agencies. The savings projected for these proposals are \$1.3 billion for the 7% cap and \$440 million for the depreciation escrow account. Thus, the net effect of all these proposals would be a savings of \$1.8 billion over their current services projection of \$26.1 billion. The budget also projects a savings of \$218 million in outlays in 1977 as a result of making the effective dates for the 7% caps on reimbursement and the depreciation escrow account April 1, 1977. Lastly, a \$76 million decrease is estimated in fiscal year 1978 budget authority due to the proposed savings.

Medicaid (Table B)

The medicaid program is projected to increase by \$1,485 million in both budget authority and outlays or 14.5% above 1977 estimated levels. This 1978 projection includes an estimated savings of \$102 million resulting from the impact of the proposed ceilings placed on out-of-pocket expenditures under medicare (presently medicaid is picking up some of the cost-sharing under medicare).

Financial Assistant Health Care Act

The medicaid program is, however, proposed to be incorporated into a block grant to the states. This grant would also incorporate an additional 19 categorical health programs which now provide funds to state governments. (One program, developmental disabilities, which is presently in Function 500, would be included among these 19 programs). The total requested level for the block grant in 1978 is \$13.2 billion in budget authority and \$12.3 billion in outlays providing a net increase of \$1.5 billion and \$0.6 billion in budget authority and outlays respectively for the 19 categorical programs. This level would maintain funding for these efforts at the 1977 amounts (an additional \$1.0 million is provided for program management).

Other Services

The budget request for 1978 for "other" health services totals \$7.1 billion in budget authority and \$7.2 billion in outlays. Included in this total is \$59 million in budget authority and \$34 million in developmental disabilities, originally in Function 500 but now included in the Health Block Grant proposal.

Although not indicated in Table B, the budget divides agency funding into two parts: categorical accounts for support of program activity remaining within the administering agency, and a salary and expense account under program management in the Office of the Assistant Secretary for Health. Agency totals shown in the table combine these two accounts. Excluding the programs in the Block Grant, there is still a decrease in budget authority of \$79 million for other services under Health, Education, and Welfare and a corresponding decrease in outlays of \$93 million.

Included in this figure in HEW is an increase of \$26 million

in the Food and Drug Administration to meet greater personnel needs primarily in the Medical Device Program. Also, the Health Services Administration (HSA) increased staff positions in the National Health Service Corps and in the PSRO program. As well, although Indian health service money increased by \$8 million construction funds for Indian facilities were reduced by \$10 million. The net increase in HSA budget authority is \$26 million.

Two agencies within HEW show significant decreases in requested budget authority for 1978: ADAMHA and the Health Resources Administration (HRA). A reduction of funds requested for primary programs for alcohol, drug abuse and mental health were the principle cause of a \$47 million decrease in ADAMHA's request. For HRA, a decline of \$193 million is primarily due to the reduction of funds available for health professions education.

Lastly, there is a reduction in outlays of \$154 million in 1978 in the Grants Management Fund. Monies for this fund are advanced from other agencies to the fund to be paid to grantees. Due to a balance in this account of \$154 million at the end of the transition quarter which will be spent out in fiscal year 1977, these outlays are reflected in that year. No balances are reflected in fiscal year 1978 and, thus, net outlays will be zero.

Outside of HEW, the only significant change in the health function is projected to be in the Federal Employees Health Benefits Fund which is estimated to increase by \$55 million. This rise is due to increases in both the number of beneficiaries and in the premium rates paid by this fund.

INCOME SECURITY

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR
FUNCTION 600, INCOME SECURITY, BY FISCAL YEAR, IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
General Retirement and Disability Insurance				
OASDI	BA	69,444	79,686	88,595
	Outlays	72,664	83,350	90,797
Railroad retirement	BA	3,235	3,664	3,919
	Outlays	3,475	3,727	3,896
Special benefits to disabled coal miners	BA	1,022	992	995
	Outlays	1,012	982	993
Other	BA	4	4	4
	Outlays	22	3	4
Subtotal, General retirement and disability insurance	BA	73,705	84,345	93,513
	Outlays	77,173	80,062	95,689
Federal employee retirement and disability	BA	13,470	16,916	16,888
	Outlays	8,174	9,662	11,094
Unemployment insurance	BA	13,233	17,162	15,961
	Outlays	19,452	16,380	13,861
Public assistance and other income supplements				
Supplemental security income	BA	5,519	5,895	5,750
	Outlays	5,058	5,369	5,714
AFDC and other	BA	5,898	6,306	6,543
	Outlays	5,849	6,306	6,543
Housing assistance	BA	19,405	15,517	24,598
	Outlays	2,493	2,952	3,711
Food stamps	BA	5,196	4,786	4,745
	Outlays	5,632	4,754	4,712
School lunch and nutrition	BA	2,540	3,369	1,955
	Outlays	2,327	3,385	2,317
Earned income credit	BA	808	856	--
	Outlays	808	856	--
Refugee assistance	BA	85	132	58
	Outlays	343	225	78
Other	BA	162	156	176
	Outlays	99	167	174
Subtotal, Public assistance and other income supplements	BA	39,613	37,017	43,825
	Outlays	22,609	24,014	23,249
Deductions for offsetting receipts	BA	-1	--	--
	Outlays	-1	--	--
Total, Income Security	BA	140,019	155,440	170,186
	Outlays	127,406	138,118	143,892

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 600, INCOME SECURITY, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	155,440	138,118
Social security (OASDI):		
Present programs	7,535	8,403
Proposed legislation	1,374	-956
Railroad retirement:		
Present programs	243	169
Proposed legislation	12	--
Special benefits for disabled coal miners:		
Present programs	3	11
Federal employee retirement and disability	-28	1,432
Unemployment insurance	-1,201	-2,519
Supplemental security income	-145	344
AFDC:		
Present programs	300	300
Proposed legislation	-63	-63
Housing assistance	9,081	759
Food stamps:		
Present programs	841	840
Proposed legislation	-882	-882
Child nutrition:		
Present programs	-3,329	-3,128
Proposed block grant legislation	1,915	2,060
Other public assistance	-910	-994
1978 request	170,186	143,892

Social Security (OASDI)

The social security trust funds have been paying out more in benefits than is collected in social security taxes. In order to maintain what they believe to be necessary trust fund reserves, the Ford Administration proposes a phased in tax rate increase in addition to the automatic tax base increases and the payroll tax rate increase of 0.4 percentage point scheduled for 1978 under current law. The proposed tax rate increase would add to the combined employer-employee scheduled tax rates an increase of 0.2 percentage points on January 1, 1978, 0.6 percentage points on January 1, 1979, and 0.3 percentage points on January 1, 1980.

The Administration is also proposing to eliminate lump-sum payments to selected new retirees, to replace the monthly retirement test with an annual retirement test, and to phase out student benefits. These revisions are estimated to reduce OASDI outlays by \$998 million in fiscal year 1978. Including these reforms, net budget authority is expected to rise by \$8.9 billion from fiscal year 1977 to fiscal year 1978 and outlays by \$7.4 billion. These increases reflect the expected increase in beneficiaries, in higher benefit awards to new retirees and the effect of the automatic adjustment for cost of living increases.

Railroad Retirement

Budget authority is based primarily on income received through the railroad retirement tax on employers and employees, a payment from the OASI trust fund, and an appropriated federal payment of dual benefits and interest on investments. In addition, in 1978, budget authority reflects a transfer from the railroad retirement account to the federal hospital insurance trust fund for the purpose of providing hospital insurance benefits.

A projected increase in total budget authority of \$255 million is based on an increase in taxes collected of \$184 million, an increase in OASI payments to this trust fund of \$235 million, and a transfer to the federal hospital insurance trust fund of \$199 million (including interest transferred to federal hospital insurance funds) where no such payment was made last year.

Outlays will increase by \$169 million due to an increase in the monthly average benefit from \$351 million to \$368 million. The budget proposes legislation to limit the railroad retirement system general fund subsidy to \$250 million (annually) through the year 2000. However, a recently completed actuarial valuation, however, indicates the level appropriation starting with 1977 should have been \$350 million. Since only \$250 million has been appropriated for 1977, the \$350 million must be increased under current law to \$356 million starting with 1978 to make up for the 1977 shortage and loss of interest.

Special Benefits to Disabled Coal Miners

Responsibility for the payment of special benefits to disabled coal miners is divided between the Social Security Administration (SSA) and the Department of Labor. Approved claims filed prior to July 1, 1973 are paid through SSA and subsequent claims come under the jurisdiction of the Labor Department.

The fiscal year 1978 request for SSA represents a 1.7% increase in benefit payments over 1977. Although the number of beneficiaries will decrease by 4.4%, there is an assumed 6.6% increase in the average benefit payment. The latter increase is based upon the projected adjustment in federal pay scales.

Increases in the Labor Department benefit payments is attributable to a projected use in the total number of claims approved under this program during 1977 and 1978. The budget does not indicate whether the same federal pay raise was included in projected 1978 payments under this program.

Federal Employee Retirement and Disability

Outlays for civilian employee retirement and disability are projected to increase by \$1.4 billion over 1977. This increase reflects continued growth in the number of beneficiaries and semiannual benefit increases which are tied to the Consumer Price Index. Budget authority, representing income into the Civil Service and other retirement funds, is estimated to remain at approximately the 1977 level. Last year, however, there was a one-time appropriation into the fund for income lost due to the change in the fiscal year. If this non-recurring payment were excluded, the increase in 1978 would be \$1.4 billion. In addition, the 1978 budget authority estimate of \$16.9 billion does

not anticipate any pay raise in 1978. Future pay raises increase employer-employee withholdings and the amortization payments to cover the associated increase in fund liability. The budget proposes that the financing of federal employee retirement programs be changed beginning in 1979.

Unemployment Insurance

Unemployment insurance outlays are estimated to decrease by \$2.5 billion between fiscal year 1977 and fiscal year 1978. This decrease is due primarily to the Administration's forecast of the unemployment rate which is estimated to decline from 7.3 percent in calendar year 1977 to 6.6 in calendar year 1978 as well as the phasing out of the Federal Supplemental Benefits program which is scheduled to expire in March of 1977. The impact of the Administration's forecast combined with the increased revenue generated by the Unemployment Compensation Amendments of 1977 -- means that funds will not have to be appropriated to the Advances account in fiscal year 1978 if the Administration's unemployment forecast proves correct.

Public Assistance (AFDC)

The expected increase in AFDC payments results from an anticipated moderate increase in the average benefit payment to compensate for inflation. This is offset by an estimate of a slight decline in the caseload and two proposed pieces of new legislation. The first legislative proposal would revise the provisions for workrelated expense deductions and the second would progressively reduce the federal share of administrative costs for child support enforcement from the present 75% to 50% by 1980. The increase in AFDC outlays is estimated to be \$300 million without the new legislation. The combined effect of the two legislative proposals would be to reduce the increase to an estimated \$237 million as the revised provisions for work related expense deductions would save an estimated \$50 million and the reduced federal share of administrative costs for child support enforcement would save an estimated \$13 million.

Housing Assistance

The Ford budget proposes a \$9.1 billion increase in budget authority for the assisted housing programs. The major increase in budget authority comes in the 'Annual Contributions for Assisted Housing' account where the fiscal year 1977 level of \$14.9

billion is raised to \$23.9 billion for fiscal year 1978. The other major housing assistance program, 'Payments for the operation of Low Income Housing Projects', (which will be discussed further below), is recommended for a budget authority increase of \$36 million in fiscal year 1978.

The Ford Administration's recommended budget authority level for the 'Annual Contributions' account is intended to be adequate to fund contracts for 400,000 housing units, divided into 6,000 units for Indian housing, 222,000 units for Section 8, "New and Rehabilitated Housing", (New/Rehab), and 127,000 units for Section 8 "Existing Housing". However, in order to fund these 400,000 units within the budget request, two underlying assumptions had to be made. First, that all of the Section 8 new/rehab units would be privately developed, since state development would double the budget authority requirement; and second, that the average contract amount would not increase between fiscal year 1977 and fiscal year 1978.

As a part of a block grant approach to Section 8 housing assistance, the Ford Administration is recommending that the concept of "annual contract authority" be dispensed with. In past years, budget authority for assisted housing was an estimate of the multiyear costs associated with an appropriation of "annual contract authority". In essence, annual contract authority places a limit on the contractual commitments that can be issued for a given year, while budget authority is the sum of those commitments over all years. The recommendation that appropriations and authorization levels be provided only in terms of budget authority would allow a simple allocation of budget authority to communities who could then choose to fund specific types of housing (through the Section 8 program) without the constraint of an annual limitation on the gross contract amount. For example, a community could choose to maximize the number of units assisted by funding only existing housing, since it generally requires the lowest level of budget authority per unit. On the other hand, if a community chose to fund the more costly newly constructed units, financed through a state housing finance agency, it could do this by reducing the number of units assisted.

Outlays in the 'Housing Payments' account are expected to increase by \$708 million as approximately 400,000 additional units, (mostly funded in previous years), are estimated to begin receiving payments in fiscal year 1978. It is anticipated by

the Ford Administration that approximately 75,000 of these units will be funded through the revised Section 235 program, 310,000 through the Section 8 program, and the remainder through a number of older assistance programs. However, since the revised Section 235 program has been operating at a very slow pace, it is possible that without programmatic changes, all of the 75,000 units will not begin receiving subsidies in fiscal year 1978.

The higher than expected levels of administrative reservations in the Section 8 program during fiscal year 1978 and the transition quarter have led the Ford Administration to request a \$240 million fiscal year 1977 supplemental appropriation for the liquidation of contract authority, in 'housing payments.'

An increase in budget authority of \$36 million is recommended for the payments for the operation of low income housing projects account in fiscal year 1978. This amount is based on estimated subsidies computed under the performance funding system with an administrative change phased in over three years which requires that tenants contribute not less than 25 percent of adjusted income toward rent. This administrative change is similar to legislation proposed by the Ford Administration during the 94th Congress. Outlays are expected to grow, by \$53 million in fiscal year 1978, primarily as a result of increased spending from grants approved in previous years.

Supplemental Security Income

Budget authority for this program was higher than necessary in fiscal year 1977 as a result of an earlier than anticipated leveling off in caseload. The unobligated balance of \$493 million will be allowed to lapse rather than being carried over into fiscal year 1978. This situation results in a decrease of \$145 million in budget authority in fiscal year 1978 despite an increase in outlays of \$344 million.

Child Nutrition and Related Programs

The Administration has again proposed a major revision of the Child Nutrition and Related Programs which would eliminate certain programs and consolidate most of the remaining programs into a single block grant to states. The following

current categorical programs would be eliminated: summer, nonfood assistance, and the nutritional training program. The following remaining child feeding programs would be incorporated into the block grant: school lunch, school breakfast, child care supplemental feeding (WIC), and state administrative expenses. The purpose of the block grant is to simplify current program administration, provide states more flexibility in meeting the nutritional needs of poor children, and to reduce federal costs. However, there would be certain restrictions: federal subsidies would be eliminated for all meals served to children from families with incomes above the poverty guidelines and for institutions who already serve subsidized milk as a required part of a meal. The states, within guidelines, may choose to receive federal funds in the form of cash or commodities and use the federal funding for such programs as summer and nonfood assistance, which had been categorically eliminated.

In addition to the above revisions, it is also proposed to consolidate federal administrative expenses for all nutrition programs, including Food Stamps, into a single fund.

In combination, these proposed changes for child nutrition are estimated to reduce fiscal year 1978 budget authority and outlays by \$1.4 billion and \$1.1 billion respectively.

Food Stamps

The President proposes to reduce the cost of the food stamp program by over \$880 million in fiscal year 1978. This reduction would be accomplished by: (1) establishing standard deductions for all program participants; (2) setting maximum income limitations; (3) determining program eligibility based on previous income; and (4) establishing a 30% purchase requirement. Combining this proposal with the shifting of food stamp operating expenses into the consolidated nutrition administration program would result in a net reduction of over \$40 million from the fiscal year 1977 program level.

VETERANS' BENEFITS AND SERVICES

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR FUNCTION 700, VETERANS BENEFITS AND SERVICES, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and Major Programs		1976 Actual	1977 Estimate	1978 Budget
Income Security for Veterans				
Compensation and pensions	BA	8,083	8,806	8,928
	Outlays	8,014	8,805	8,922
Other income security for veterans				
	BA	602	647	620
	Outlays	<u>336</u>	<u>302</u>	<u>273</u>
Subtotal, Income Security for Veterans				
	BA	8,685	9,453	9,548
	Outlays	<u>8,350</u>	<u>9,107</u>	<u>9,195</u>
Education Benefits for Veterans				
	BA	6,015	3,984	2,720
	Outlays	5,531	4,138	3,328
Hospitals and Medical Care for Veterans				
Construction	BA	413	509	541
	Outlays	197	303	364
Medical care, administration and research				
	BA	3,990	4,531	4,728
	Outlays	3,825	4,509	4,716
Other medical expenses				
	BA	32	37	50
	Outlays	<u>25</u>	<u>39</u>	<u>54</u>
Subtotal, Hospitals and Medical Care for Veterans				
	BA	4,436	5,077	5,319
	Outlays	<u>4,046</u>	<u>4,851</u>	<u>5,135</u>
Veterans Housing				
	BA	0	0	0
	Outlays	-72	-271	21
Other Veterans Benefits and Services				
	BA	544	561	614
	Outlays	579	566	602
Offsetting Receipts				
	BA	-2	-2	-2
	Outlays	<u>-2</u>	<u>-2</u>	<u>-2</u>
Total, Veterans Benefits and Services				
	BA	19,678	19,073	18,199
	Outlays	18,432	18,388	18,279

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 700, VETERANS BENEFITS AND SERVICES, IN MILLIONS
OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 Current Estimate	19,073	18,388
Compensation and pensions		
Present program	134	127
Proposed legislation	-80	-80
Readjustment benefits		
Present program	-739	-339
Proposed legislation	-525	-482
Construction		
Present program	32	61
Proposed legislation	5	3
Medical care		
Present program	368	381
Proposed legislation	-158	-158
Housing	--	292
Other, net	101	96
1978 Request	18,199	18,279

Compensation and Pensions

The budget authority requested for the Compensation and Pensions appropriation increases from \$8.8 billion in fiscal year 1977 to \$8.9 billion in fiscal year 1978, despite decreased caseloads in nearly all categories of recipients. The higher costs are a result of anticipated increases in average benefit levels. Veterans compensation cases are projected to increase by 6,598 cases during fiscal year 1978, but survivor cases are expected to decline slightly. Both veteran and survivor caseloads are expected to decline in the pension program, by 19,111 and 9,818 cases respectively. This decline in pension beneficiaries reflects the impact of a projected 5.9 percent social security increase on July 1, 1977 which would cause 17,200 pension cases to exceed the current income limitations.

Veterans benefit programs are not automatically adjusted for increases in the cost-of-living. Even though in recent years Congress has legislated cost-of-living increases for most veterans benefit programs annually, President Ford does not propose any rate increases in his fiscal year 1978 budget. Should a rate increase be enacted for the compensation and pension programs, the decline in pension beneficiaries would be greatly reduced, and the average benefit level of both programs would increase.

The President's budget request includes a proposed transfer of \$588 million to the 1977 Compensation and Pensions account from the Readjustment Benefits account. This transfer, in conjunction with an earlier administrative transfer of \$241 million, will remove the excess Readjustment Benefits appropriation, which resulted from an overestimation of the 1977 trainee level, and will use these monies to fund the compensation and pension rate increases authorized by Public Law 94432 and Public Law 94433.

Legislation is being proposed once again to eliminate the payment of burial benefits in those cases where such benefits are also provided by other federally financed programs. If enacted, this proposal would result in a savings of \$79.5 million in fiscal year 1978.

Readjustment Benefits

Because the number of veterans ending their 10 year G.I. Bill entitlement period during fiscal years 1977 and 1978 exceeds

the number of newly separated veterans becoming eligible during this period, the G.I. Bill trainee level is expected to decline by approximately 190,000. As a result, a net decrease in all veterans training programs of about 185,000 is expected. The decline in the overall training level will bring about reductions of \$339 million in outlays and \$739 million in budget authority. However, should a cost-of-living increase be enacted for this program, the decline in trainees and subsequent decline in outlays and budget authority would be somewhat abated.

The Ford budget assumes repeal of Public Law 93-337, which would limit the use of education benefits to the original eight years after separation rather than the current 10 years. It is estimated that this would reduce outlays and budget authority by \$455.7 million. Legislation is also being proposed to eliminate flight and correspondence training, which would result in an additional savings of \$15.1 million. It is further proposed that the education loan program be terminated, effective October 1, 1977. This proposal would further reduce budget authority by \$54.2 million for a total savings due to proposed legislation of \$525.3 million.

Hospitals and Medical Care

The VA medical care account for both inpatient and outpatient care increased over the 1977 current estimate by \$601 million. The 1977 comparison figure includes \$601 million anticipated additions over the original 1977 request due to the following bills, Public Law 94-417, an increase in per diem rates to state homes; Public Law 94-394, a requirement of payment to the Civil Service Commission retirement fund on behalf of reemployed annuitants; and Public Law 94-581, the Veterans Omnibus Health Care Act of 1976.

The 1978 estimate consists of \$53 million for payroll increases, \$70 million for increased workload of new hospitals, nursing homes, etc.; \$13 million for improved staffing; \$11 million for education and training; \$148 million for increased utilization and \$35 million as capital outlay. Total estimate for 1978 is \$4,770 million.

Support for medical research and medical administration has increased slightly, by \$2.9 million and \$2.3 million respectively. The additional monies reflect the increase in the number of personnel positions available for 1978.

In addition, assistance for health manpower training institutions via grants to new and affected medical schools and other manpower training institutions have increased by \$13 million.

The request of budget authority for major construction projects is an additional \$25 million over the 1977 level of \$405 million. Of total budget authority of \$430 million for 1978, \$221 will be for replacement and modernization projects and \$139 million for a total replacement hospital.

Veterans Housing

Outlays of both the Direct Loan and Loan Guarantee revolving funds increased greatly between fiscal year 1977 and fiscal year 1978. Most of the increase of \$292 million is attributable to a drop from the extraordinarily high level of asset sales estimated for fiscal year 1977 to more normal levels during fiscal year 1978.

The budget proposes to terminate eligibility for housing loan guarantees and direct loans for those entering the armed services after October 1, 1977. This proposal should not affect program levels or outlays during fiscal year 1978.

LAW ENFORCEMENT AND JUSTICE

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 750, LAW ENFORCEMENT AND JUSTICE, BY FISCAL YEARS,
IN MILLIONS OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Federal Law Enforcement and Prosecution	BA	1,920	2,125	2,209
	Outlays	1,852	2,134	2,219
Federal Judicial Activities	BA	331	377	423
	Outlays	313	387	423
Federal Correctional and Rehabilitation Activities	BA	240	329	336
	Outlays	238	290	327
Law Enforcement Assistance	BA	810	759	714
	Outlays	921	907	827
Deductions for Offsetting Receipts <u>a/</u>	BA	-4	-6	-6
	Outlays	-4	-6	-6
Total, Law Enforcement & Justice	BA	3,297	3,584	3,677
	Outlays	3,320	3,712	3,789

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 750, LAW ENFORCEMENT AND JUSTICE, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	3,584	3,712
Federal Bureau of Investigation	16	15
Immigration and Naturalization Service	10	11
Drug Enforcement Administration	13	8
Federal Prison System	12	42
Law Enforcement Assistance Administration	-50	-85
U.S. Customs Service	24	25
Legal Services Corporation	-35	-35
Judiciary	50	42
Other	53	54
1978 request	3,677	3,789

Federal Bureau of Investigation

FBI salaries and expenses are proposed to increase by \$16 million in budget authority, and \$15 million in outlays in fiscal year 1978. If, for comparison purposes, the \$19 million pay supplemental is excluded from the fiscal year 1977 figures, the increases would be \$35 million and \$32 million respectively, or 6 to 7 percent. Major changes include \$14 million for field investigations and \$3 million for fingerprint identification.

Immigration and Naturalization Service

The President is requesting an appropriation of \$254 million for salaries and expenses of the INS for fiscal year 1978, an increase of \$10 million over the fiscal year 1977 level. (If the \$8.5 million pay supplemental is excluded from the fiscal year 1977 base, the proposed increase would be \$18 million, or 8 percent.) The largest proposed program changes include an increase of \$7 million for additional manpower for passenger inspection activities at airports and investigation of illegal aliens, and a decrease of \$3 million in funds for the detention and deportation of aliens.

Drug Enforcement Administration

The President is proposing \$181 million in budget authority in fiscal year 1978, and has submitted a supplemental request for \$7 million for fiscal year 1977, bringing the total requested for fiscal year 1977 to \$168 million. The \$13 million increase is primarily for law enforcement activities, such as criminal enforcement, compliance and regulation, state and local assistance, and intelligence activity.

Federal Prison System

The requested budget authority of \$346 million for fiscal year 1978 is \$44 million, or 15 percent above the amount presently appropriated for fiscal year 1977. Pay supplementals totaling \$7 million, and additional supplementals of \$25 million, would, if approved, reduce the difference to \$12 million. (The fiscal year 1977 supplemental requests include \$22 million for construction of a youth correctional facility at Lake Placid, N.Y.) Major funding increases include \$15 million for added manpower to support the expansion of two facilities, a \$5 million increase

for the National Institute of Corrections, and \$3 million for support of prisoners. The \$68 million requested in the fiscal year 1978 budget authority for the building and facility planning and construction program would represent a decrease of \$11 million from the fiscal year 1977 level, assuming passage of the fiscal year 1977 supplemental request. On the other hand, outlays for this program are expected to increase by \$19 million in fiscal year 1978, as a result of ongoing construction from prior years.

Law Enforcement Assistance Administration

The President is proposing to reduce the agency's budget authority by \$50 million, and outlays by \$85 million in fiscal year 1978. The juvenile justice programs (with a proposed reduction of \$45 million in budget authority), and the high crime area programs (proposed to be cut by \$40 million) are the major programs affected. As a result of Public Law 94-430, the Public Safety Officers Benefit program was initiated at a \$25 million budget authority level. In addition, budget authority for criminal justice grants is proposed to increase by \$13 million.

Customs Service

The President is requesting an appropriation of \$383 million for salaries and expenses of the Customs Service in fiscal year 1978. This represents an increase of \$43 million over the amount presently appropriated for fiscal year 1977, and an increase of \$24 million when fiscal year 1977 supplemental requests are included. (Pay supplementals totalling \$13 million have been submitted, along with a request for \$6 million for weekend customs inspections services at airports.)

Legal Services Corporation

The proposed budget contains \$90 million in budget authority and outlays for the Legal Services Corporation in fiscal year 1978. This represents a reduction of 28 percent from the fiscal year 1977 level of \$125 million.

The Judiciary

The Ford budget proposes \$440 million in budget authority for the Judiciary in fiscal year 1978, up from \$391 million in fiscal year 1977 (including the \$10 million pay supplemental).

Program increases include \$25 million for the Court of Appeals and District Courts, and \$21 million for space and facilities.

Other

Other requested increases include \$18 million in budget authority for the Bureau of Alcohol, Tobacco, and Firearms; \$15 million for legal activities of the Justice Department; and \$7 million for salaries, expenses, and benefits of the Secret Service.

GENERAL GOVERNMENT

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS
FOR FUNCTION 800, GENERAL GOVERNMENT, BY FISCAL YEARS, IN MILLIONS
OF DOLLARS

Subfunction and major program		1976 actual	1977 estimate	1978 budget
Legislative Function	BA	779	805	837
	Outlays	677	868	914
Executive Direction and Management	BA	71	79	74
	Outlays	68	80	74
Central Fiscal Operations	BA	1,813	1,990	2,130
	Outlays	1,798	1,983	2,124
General Property and Records Management	BA	352	355	339
	Outlays	95	328	358
Central Personnel Management	BA	99	109	113
	Outlays	107	110	111
Other General Government	BA	532	549	563
	Outlays	454	545	500
Deductions for Offsetting Receipts <u>a/</u>	BA	-272	-184	-152
	Outlays	-272	-184	-152
Total, General Government	BA	3,372	3,705	3,904
	Outlays	2,927	3,731	3,930

a/ Excludes offsetting receipts which have been distributed by subfunction above.

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR
FUNCTION 800, GENERAL GOVERNMENT, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 current estimate	3,705	3,731
Legislative Branch	50	66
Department of the Treasury, Bureau of Government Financial Operations, salaries and expenses	22	22
Department of the Treasury, administration of the public debt	59	54
Internal Revenue Service	68	83
Other Department of the Treasury	22	9
GSA federal telecommunications fund	-25	-7
Other GSA	15	44
Department of the Interior, Office of Territorial Affairs	-18	-35
Navajo and Hopi Relocation Commission	25	3
Other changes, net	-19	-40
1978 request	3,904	3,930

Legislative Branch

Several activities' contribute to the fiscal year 1978 increase of \$50 million in budget authority and \$66 million in outlays. The greatest increase is for the construction of an extension to the New Senate Office Building -- \$21 million in outlays. The President's budget also recommends significant increases for GPO -- \$29 million in budget authority, \$28 million in outlays -- primarily for the acquisition of site and general plans and design of buildings, the Printing and Binding Fund, and the GPO Revolving Fund. No new budget authority for the modification and enlargement of the Capitol Power Plant has been requested for fiscal year 1978, causing a \$12 million decrease.

Department of the Treasury, Bureau of Government Financial Operations, Salaries and Expenses

One of the functions of this account is to manage non interest-bearing federal tax deposits collected by commercial banks. Currently, the banks process, invest and receive interest on these funds. However, the President's budget is proposing that the government withdraw these funds from the banks immediately upon deposit, invest them, and compensate the banks for their processing costs. This would require enactment of new legislation. A supplemental of \$7 million in fiscal year 1977 and a further increase of \$22 million in fiscal year 1978 has been requested for this compensation. Not included in the budget is the estimate of interest the federal government would receive on its investment -- \$39 million in fiscal year 1977, and \$150 million in fiscal year 1978.

Department of the Treasury, Administration of the Public Debt

Budget authority for this account has been proposed to increase by approximately \$59 million, and outlays by \$54 million in fiscal year 1978. This request includes additional funds to compensate savings bonds issuing and paying agents for their services as a partial offset to the collection by the Treasury of interest on tax and loan account balances. A \$5 million supplemental for fiscal year 1977 has also been included for this purpose.

Internal Revenue Service

A large portion of the proposed increase of \$68 million in budget authority and \$83 million in outlays is to expand

investigations into taxes paid by high-level drug traffickers, improve the information returns program, and implementation of the Tax Reform Act of 1976. These increases are reflected mainly in the IRS Compliance and Collection accounts which are proposed for fiscal year 1977 supplementals (\$70 million in budget authority and \$63 million in outlays), as well as significant fiscal year 1978 increases.

Other Department of the Treasury

The other Department of the Treasury accounts for fiscal year 1978 contain an increase of \$22 million in budget authority and \$9 million in outlays. The major increases for this grouping are for the Bureau of Engraving and Printing and the Claims, Judgments and Relief Acts.

GSA Federal Telecommunications Fund

A supplemental appropriation proposal of \$25 million in budget authority and \$13 million in outlays for fiscal year 1977 has been included to provide additional capital and telecommunications equipment and operation facilities. The budget authority has then been estimated to be zero again in fiscal year 1978, causing a \$25 million decrease in budget authority and a \$7 million decrease in outlays from fiscal year 1977.

Other GSA

Several programs in GSA affect the increase in fiscal year 1978 of \$15 million in budget authority and \$44 million in outlays. Three revolving funds which have no budget authority for fiscal year 1977 or 1978, do have increases in outlays -- the General Supply Fund (\$20 million), the Federal Buildings Fund (\$6 million), and the Consolidated Working Fund (\$9 million). The Federal Buildings Fund increase reflects a proposed \$300 million rise in program activities such as alterations, repairs, and real property operations, etc., partially offset by a \$291 million increase in standard level user charge and special services and improvements collections.

Office of Territorial Affairs

The total change between fiscal year 1977 and fiscal year 1978 requested for the Office of Territorial Affairs reflects a decrease in budget authority of \$18 million and outlays of \$35

million. There would not have been a proposed reduction in these programs, however, if a fiscal year 1977 supplementals of \$34 million in budget authority and \$26 million in outlays had not been included in the budget for grants to the territories and funds to Guam to repair and upgrade facilities damaged by Typhoon Pamela.

Navajo and Hopi Relocation Commission

The President's budget request for fiscal year 1978 shows an increase in budget authority of \$25 million to fully fund the relocation of the Navajo and Hopi Indians. It is assumed that the land dispute will be settled in court sometime during fiscal year 1978, and actual relocation can then begin.

Other

All other, primarily other independent agencies, show a decrease in budget authority and outlays of \$19 million and \$40 million, respectively. Decreases contributing to this change are found in the Civil Service Commission's Intergovernmental Personnel Assistance account, the American Revolution Bicentennial Administration, and the Commission on Federal Paperwork.

REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR FUNCTION 850, REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and Major Programs		1976 Actual	1977 Estimate	1978 Budget
General Revenue Sharing	BA	6,353	6,661	6,860
	Outlays	6,240	6,782	6,819
Taxable Municipal Bond Option	BA	--	--	990
	Outlays	--	--	44
Antirecession Financial Assistance Fund	BA	--	938	--
	Outlays	--	1,250	--
Other General Purpose Fiscal Assistance	BA	3,189	898	1,224
	Outlays	879	894	1,226
Total, Revenue Sharing and General Purpose Fiscal Assistance	BA	9,542	8,496	9,074
	Outlays	7,119	8,926	8,089

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR FUNCTION 850, REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 Current Estimate	8,496	8,926
General revenue sharing	199	37
Taxable municipal bond option, proposed legislation	990	44
Antirecession financial assistance fund	-938	-1,250
Other general purpose fiscal assistance	326	332
1978 Request	9,074	8,089

General Revenue Sharing

President Ford recommends full funding of the general revenue sharing program which was extended in 1976 through fiscal year 1980. The authorization level is \$6.855 billion in fiscal years 1978 through 1980.

Taxable Municipal Bond Option

President Ford proposes legislation to provide an incentive for state and local governments to issue taxable, rather than tax-free municipal bonds. The Treasury would provide a subsidy payment of 30 percent of the interest when municipal securities are issued on a taxable basis. Under the proposed legislation, localities would still have the option of issuing tax-free bonds. It appears that the legislation is designed to assist the localities in two ways. It should be easier for state and local governments to obtain financing by making it possible for them to issue taxable bonds at a cost to them that is comparable to the costs incurred when issuing tax-free bonds. Also, states and localities which continue to finance through the tax-exempt market should benefit from the reduced interest rate resulting from the reduced supply of tax-exempts facing the same demand. Additionally, a 20 percent subsidy payment is proposed for industrial development bonds (IDBs) which are issued on a taxable basis. There is no option for industrial development bonds; they would be required to switch to the taxable bond market. Presumably, the effect would be an increase in interest payments for IDBs. However, whether they should benefit from a tax exempt status is an issue. It is thought that the taxable bond market should be able to absorb the IDBs and the taxable bonds when the subsidy rate is 30 percent, with no appreciable interest rate effects.

Although the legislation is proposed to provide an incentive for states and localities to offer taxable bonds, it is expected that such legislation will result in a net loss in revenues to the Treasury. That is, the taxes paid by the holders of the taxable bonds will not offset the subsidy payments to the governments for those bonds.

The proposed legislation is a resubmission of a previous proposal first presented by Undersecretary of Treasury Yeo before the House Ways and Means Committee on January 21, 1976. The Ford administration used the analysis in the 1976 proposal in estimating

outlays for this program. As such, the outlays reflect the 1976 rather than the 1977 economic outlook, although it is not clear that this significantly biases the figures. For outlays, a base of \$30 billion in gross new issues (1975) was assumed, growing at a rate of 5 percent per year. Industrial development bonds comprised 10 percent of this total. Approximately \$1.26 billion in bonds were assumed to switch to the taxable markets. The average interest rate used was 9.2 percent. An outlay estimate of \$44 million dollars was obtained, as shown in Table A.

Budget authority figures were derived from outlay figures assuming that the budget authority for each year should equal the outlays for interest in all forthcoming years on bonds financed in that year. The program was assumed to be passed for January 1978 and to become effective later in the year. An average bond term of 15 years and an average interest rate of 8 percent were used. (The interest rate assumptions for budget authority and outlay estimates are inconsistent, since these analyses were done by different persons within the Ford administration.) The resulting budget authority estimate is \$990 million.

Antirecession Financial Assistance Fund

This program makes funds available to state and local governments experiencing high levels of unemployment. In the Second Concurrent Resolution on the Budget for Fiscal Year 1977, this account was listed in function 450, community and regional development. The President's budget transfers this account to function 850. An appropriation of \$1.25 billion will be distributed in the five quarters from July 1, 1976, to September 30, 1977. Budget authority was divided between the transition quarter and fiscal year 1977, with all outlays occurring during fiscal year 1977. The Ford budget does not provide for a continuation of this program in fiscal year 1978.

Other General Purpose Fiscal Assistance

Approximately \$35 million of the proposed increase in funding for other general purpose fiscal assistance is for the District of Columbia. The \$35 million is comprised of a \$20 million "catch-up" payment in the account for water and sewer services and a \$10 million increase in the federal payment to the District of Columbia. (The proposed level for the fiscal year 1978 federal

payment is \$290 million, \$10 million below the ceiling in the authorizing legislation.) The Ford budget's fiscal year 1977 level includes a \$20 million supplemental for the federal payment to the District. Currently, the Treasury makes short-term interest-free loans to the District of Columbia. Repeal of federal borrowing authority is proposed for fiscal year 1978, since the Home Rule Act (Public Law 93-198) authorized the District to issue short-term notes in the private market.

The remainder of the increase in other general purpose fiscal assistance is for accounts which return receipts and taxes to states and localities for activities occurring within the jurisdiction of those state and local governments. Certain of these payments will be low in 1977 since they are based upon the receipts in the transition quarter. The increase in budget authority and outlays from fiscal years 1977 to 1978 reflects (1) the increase in receipts with inflation, (2) the transition in some accounts to the return of a year's receipts rather than a quarter's receipts, and (3) funding of recently passed legislation. For example, the forest service permanent appropriations account is increased approximately \$60 million in fiscal year 1978 due to Public Law 94-588, and the Bureau of Land Management miscellaneous permanent appropriations account is increased to reflect the Federal Coal Leasing Amendments Act (Public Law 94-377).

INTEREST

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR FUNCTION 900, INTEREST, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and Major Programs	1976 Actual	1977 Estimate	1978 Budget
Interest on the Public Debt	37,063	42,000	44,600
Interest on IRS Refunds	295	280	300
Receipts from Off-budget Agencies	-909	-2,054	-2,772
Other Offsetting Receipts	-1,860	-2,239	-2,393
Total, Interest	34,589	37,987	39,735

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR FUNCTION 900, INTEREST, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 Current Estimate	37,987	37,987
Interest on the public debt	2,600	2,600
Interest on IRS refunds	20	20
Receipts from off-budget agencies	-718	-718
Other offsetting receipts	-154	-154
1978 Request	39,735	39,735

Interest on the Public Debt

The largest increase in the interest function occurs in interest on the public debt, which is estimated to increase by \$2.6 billion. This growth is largely the result of financing estimated unified budget deficits of \$57 billion in fiscal year

1977 and \$47 billion in fiscal year 1978. In addition, it assumes the financing of off-budget deficits of \$11 billion in fiscal year 1977 and \$9 billion in fiscal year 1978. These factors are estimated to bring the total outstanding federal debt at the end of fiscal year 1978 to \$785 billion. These estimates assume that interest rates will remain stable at the level prevailing when the estimates were prepared (approximately November, 1976). The rate for three-month Treasury bills was assumed to be 4.4 percent.

Interest on IRS Refunds

The \$20 million increase in interest on IRS refunds reflects normal growth in total budget receipts.

Receipts from Off-budget Agencies

The growth in the magnitude of offsetting receipts from off-budget agencies is the result of increased activity by the Federal Financing Bank, and corresponds to the off-budget deficits noted above for fiscal years 1977 and 1978.

Net Interest

Because of certain financial transactions in the budget, the interest function total presents an unrealistically large picture of the total budget impact of federal borrowing. Much of the interest on the public debt is paid to trust funds on their investments and is deducted from total outlays as an intragovernmental offsetting receipt in function 950. In addition, earnings of the Federal Reserve on certain debt securities are returned to the Treasury as miscellaneous receipts. Table C shows the net budget impact of interest.

TABLE C. NET INTEREST IMPACT, BY FISCAL YEARS, IN MILLIONS
OF DOLLARS

	1976 Actual	1977 Estimate	1978 Outlays
Interest Function	34,589	37,987	42,419
Interest Received by Trust Funds	-7,800	-8,201	-9,700
Deposit of Earnings, Federal Reserve	-5,451	-6,000	-6,800
Net Impact	21,338	23,787	25,919

ALLOWANCES

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAMS FOR ALLOWANCES, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and Major Programs		1976 Actual	1977 Estimate	1978 Budget
Civilian Agency Payraises				
General schedule	BA	--	--	1,114
	Outlays	--	--	1,066
Wage board	BA	--	--	85
	Outlays	--	--	85
Contingencies	BA	--	--	1,750
	Outlays	--	--	1,500
Total, Allowances				
	BA	--	--	2,949
	Outlays	--	--	2,651

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR ALLOWANCES, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 Current Estimate	--	--
Civilian agency payraises		
General schedule	1,114	1,066
Wage board	85	85
Contingencies	1,750	1,500
1978 Request	2,949	2,651

Civilian Agency Payraises

President Ford's budget assumes a 6.5 percent average increase in the general schedule pay system in October 1977, and a 7.9 percent average increase for wage board employees for fiscal year 1978. ^{1/} Legislation is proposed, however, to change statutory features of the Federal Wage System (FWS) which cause departures from the basic prevailing rate principle. The proposed legislation is estimated to save approximately \$40 million from the wage board payroll and reduce the average increase for wage board employees to 3.4 percent in fiscal year 1978. The Ford budget assumes that the recommended changes will be implemented.

The wage board estimates under existing law and under the proposed legislation have been inadvertently overstated in the budget. The estimate under existing law should be \$73 million rather than \$130 million. The estimate, assuming the proposed legislation, should be \$31.5 million instead of \$85 million. The overstatement in the budget stems from some double-counting of fiscal year 1977 payraises.

Other legislation will be proposed which, according to the Ford budget, will have no dollar impact in fiscal year 1978. Recommendations will be made for the use of state and local government pay rates in the federal pay surveys for the general schedule in order to obtain adequate samples and appropriate job matches. Also, a proposal will be submitted to split the general schedule into two parts. One part will be a clerical/technical service with pay determined on a local basis, and the other will be a professional/administrative service with nationally determined pay. A special occupation service with a separate compensation schedule for specific occupations will also be recommended. Finally, although President Ford proposes salary increases for Cabinet officers, judges, Congressmen, and other top level government officials, the costs of these increases were assumed to be absorbed.

^{1/} The allowances for payraises for fiscal years 1976 and 1977 are distributed throughout the functions and are not shown in the tables for this function.

Contingencies

The Ford budget includes \$1.75 billion in budget authority and \$1.5 billion in outlays for contingencies for fiscal year 1978.

UNDISTRIBUTED OFFSETTING RECEIPTS

TABLE A. BUDGET AUTHORITY AND OUTLAYS BY SUBFUNCTION AND MAJOR PROGRAM FOR FUNCTION 950, UNDISTRIBUTED OFFSETTING RECEIPTS, BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Subfunction and Major Programs	1976 Actual	1977 Estimate	1978 Budget
Employer Share, Employee Retirement	-4,242	-4,592	-4,670
Interest Received by Trust Funds	-7,800	-8,201	-8,659
Rents and Royalties on the Outer Continental Shelf	-2,662	-2,600	-3,100
Total, Undistributed Offsetting Receipts	-14,704	-15,393	-16,429

TABLE B. MAJOR CHANGES PROPOSED FOR 1978 FROM 1977 ESTIMATE FOR FUNCTION 950, UNDISTRIBUTED OFFSETTING RECEIPTS, IN MILLIONS OF DOLLARS

Major Program	Budget Authority	Estimated Outlays
1977 Current Estimate	-15,393	-15,393
Employer share, employee retirement		
Present programs	-62	-62
Proposed legislation	-16	-16
Interest received by trust funds		
Present programs	-373	-373
Proposed legislation	-85	-85
Rents and royalties on the Outer Continental Shelf	-500	-500
1978 Request	-16,429	-16,429

This function is composed of intragovernmental and proprietary receipts which cannot be reasonably assigned to any other single function. Intragovernmental receipts are payments from one part of the government to another; proprietary receipts come from the public.

Employer Share, Employee Retirement

Employer share, employee retirement consists of federal government contributions to federal employee retirement plans. Present program growth is the result of increased federal employment and federal payraises. The additional increase in magnitude of \$16 million stems from proposed increases in social security payroll taxes (see function 600, income security), and affects federal contributions for those government employees who contribute to social security.

Interest Received by Trust Funds

Interest received by trust funds is the income the trust funds earn on their investments in public debt securities. Present program growth is caused by the increased investment of estimated combined trust fund surpluses of \$8.5 billion in fiscal year 1977 and \$13.5 billion in fiscal year 1978 in these securities. The \$85 million increase in magnitude due to proposed legislation is an effect of the proposed social security tax increase. Enactment of this proposal would raise the income to affected trust funds, enabling them to invest a larger surplus and earn more interest.

Rents and Royalties on the Outer Continental Shelf

Rents and royalties on the Outer Continental Shelf (OCS) come from the sale of leases of OCS lands and the royalties from mineral production on the OCS. The Ford budget estimates assume that six lease sales will be held each year during fiscal years 1977 and 1978. Because of uncertainty surrounding the schedule of lease sales and their value, these estimates are highly speculative. As Table C shows, OCS receipts projections tend to be optimistic, especially in the budget year. In fiscal year 1976, for example, the original budget estimate was -\$8.0 billion, but the actual outlays were -\$2.7 billion. There is no reason to expect that the estimate presented in Ford's budget for fiscal year 1978 is not subject to the same upward estimating bias. On the other hand, the 1977 estimate falls into the "realistic" range.

TABLE C. OCS RECEIPTS ESTIMATES, IN BILLIONS OF DOLLARS

	Estimated and Actual Outlays for Fiscal Year <u>a/</u>			
	1975	1976	1977	1978
Budget Year Estimate	-5.0	-8.0	-6.0	-3.1
Current Year Estimate	-5.0	-3.0	-2.6	
Actual Outlays	-2.4	-2.7		

a/ The budget year estimate is from the budget for that year. Therefore, the 1978 estimate is from the 1978 Budget. The current year estimate is for the fiscal year during which the Budget is published. The 1977 current estimate is from the 1978 Budget.

This chapter presents 25 major budget issues that are raised by President Ford's budgetary proposals. Each discussion describes why the issue is important, what President Ford proposes in his 1978 budget, and what are some possible alternatives that the Congress may want to consider.

The selection of major issues obviously involves an element of judgment. The general criteria used to select the 25 issues included the potential budgetary impact of each issue, both in terms of the amounts of funds involved and the future direction of federal spending policies. The selection was also based to some extent on the availability of CBO staff analyses of the issues and possible budget options. Thus, the 25 issues do not cover all of the budget issues posed by the 1978 budget nor all issues that might be considered of major importance to particular interest groups.

The 25 issues are presented in order of their impact on the major functional categories of the budget. The specific issues discussed are as follows:

National Defense and International Affairs

1. Navy shipbuilding program
2. Army procurement
3. Tactical air forces
4. Strategic forces
5. Defense manpower
6. Security supporting assistance
7. International financial institutions

Natural and Physical Resources

8. The space program and the space shuttle
9. National parklands
10. Sewage treatment construction grants
11. Energy policy
12. Energy research, development, demonstration
and commercialization
13. Agriculture
14. Urban mass transit

Human Resources and Community Development

15. Antirecession aid to state and local governments
16. Temporary employment assistance

Human Resources and Community Development cont'd

- 17. Youth employment
- 18. Elementary and secondary education
- 19. Postsecondary student assistance
- 20. Medicare cost controls
- 21. Proposed health block grant
- 22. Social security financing
- 23. Food stamp program reform
- 24. Child nutrition and related feeding programs

General Government

- 25. Civil service retirement financing

NAVY SHIPBUILDING PROGRAM

Issue

Whether to expand the Navy from the size to which it shrank after the Vietnam War, and, if so, how much, how fast, and with what kind of ships. Part of the cause of the Navy's decline in size has been the large share of the shipbuilding budget absorbed by aircraft carriers and their escort ships. The issue is whether to reverse this trend, and, if so, whether to do so by expanding the budget to buy both "high-mix" and "low-mix" ships or to hold the growth of the budget down by buying larger numbers of "low-mix" ships out of savings achieved by not buying "high-mix" ships.

President Ford's Proposal

The fiscal year 1978 Navy shipbuilding and conversion (SCN) budget of \$6.5 billion represents a real increase of \$0.7 billion or 12 percent over the SCN budget that Congress approved for fiscal year 1977. If prior year cost growth and claims are excluded from both budgets, the real increase totals \$1.6 billion or 37 percent.

The fiscal year 1978 budget is presented as the first year of a long-term program that seeks to achieve a 600 ship level by 1990. It proposes 25 new ships in fiscal year 1978, as part of a five-year, 157-ship program. It also calls for the service life extension (SLEP) of the Forrestal class carriers.

The budget reflects a departure from recent DoD policy in that it provides for no new large-deck nuclear powered aircraft carriers. It calls for recission of the fiscal year 1977 funds that Congress voted toward the construction of a new Nimitz class nuclear powered aircraft carrier, and proposes that future funds be allocated to a conventionally powered carrier of unspecified design termed the CVV. It is not clear how many CVVs will ultimately be required as substitutes for, and additions to, the carrier force. The Administration continues to attach considerable importance to the carrier's multimission capability but would now disperse carrier firepower among a larger number of ships.

The budget renews the fiscal year 1977 request for two AEGIS equipped escort ships. To this end, the Administration requests advanced funding for a strike cruiser, in addition

to funding for a conventional AEGIS destroyer. It also seeks a rescission of the funds Congress voted in fiscal year 1977 to convert the Long Beach to an AEGIS escort ship. The argument is again made that the strike cruiser is required for independent missions.

In general the budget continues a policy of procuring the larger, expensive "high-mix" ships associated with carrier task forces and power projection operations.

The budget calls for \$600 million for cost growth and claims. The total available funding for claims would therefore not exceed \$800 million. The shipyards are demanding a total in excess of \$2 billion. Unless the claims issue is settled, the Administration's accelerated program for fiscal year 1978, and its five year program will both be jeopardized.

Possible Alternatives

A detailed treatment of possible alternative shipbuilding programs, based on an analysis of various Navy missions, is provided in the CBO Budget Issue Paper, Planning the General Purpose Forces: The Navy.

An alternative which would emphasize the role of the Navy in making air strikes on enemy territory and against enemy forces in time of war ("power projection") would build more large deck aircraft carriers of the Nimitz class. It would fully fund the aircraft carrier for which advance funding was provided in the fiscal year 1977 budget, continue the Long Beach AEGIS conversion, add four Spruance (DDG-963) class carrier escort ships, and provide advance funding for three CSGN strike cruisers. This alternative would increase the President's budget by \$1.3 billion to a total, for SCN, of \$7.8 billion.

Another alternative would attach primary importance to the Navy's mission of protecting friendly ships at sea, and preventing opponents from using the sea to attack friendly forces ("sea control"). Doing so would involve allowing the Navy's structure to change slowly over time toward one geared primarily for the sea control mission, while retaining very large power projection forces inherent in twelve large deck carriers. The changes involved in the fiscal year 1978 budget would be dropping the DDG-47 AEGIS escort ship and long-lead items for the CSGN, a decrease of \$1.1 billion, to a total SCN budget of \$5.4 billion.

ARMY PROCUREMENT

Issue

Planned improvements in U.S. ground forces do not appear strongly related to concern about improving NATO's ability to withstand a very intense Warsaw Pact attack, possibly with very little warning. Some of the fiscal year 1978 budget request does support such improvement, some appears aimed at forces which will be better suited to a longer war of less rapid pace. The issue is whether to shift resources from improvements of the latter kind to those of the former.

President Ford's Proposal

The request for funding for ground forces in fiscal year 1978 represents, for the most part, a continuation of past programs. These programs are intended to improve the ability of U.S. forces to face either a surprise attack or a sustained conflict. The principal feature of the request is the proposed spending to eliminate shortages of equipment and materiel. Production of M-60 series tanks continues at levels somewhat higher than last year in order both to meet current inventory objectives and to resupply depleted stocks of prepositioned equipment in Europe. Spending for artillery ammunition will increase by 39 percent over fiscal year 1977, primarily to increase inventories. Spending for new artillery pieces shows a dramatic increase (more than 4 times the fiscal year 1977 amount) in an apparent attempt to increase U.S. firepower in the face of a growing Warsaw Pact threat.

U.S. Army division structures are being changed also. This request includes funds to begin the conversion of two infantry divisions to mechanized divisions. These converted divisions will be based in the U.S. and probably would not be available for the early stages of European conflict if it began with little warning. To enhance the capability for timely response in Europe, two divisions especially designed for rapid deployment are being bolstered by the provision of more anti-tank guided missiles and attack helicopters.

Funding is requested for continued development of and advanced procurement for the XM-1 tank, and procurement of a limited number of new Mechanized Infantry Combat Vehicles is programmed for fiscal year 1978.

Funds are also requested for procurement of the new UTTAS helicopter for tactical transport and for the continued development of the Advanced Attack Helicopter (AAH) and the Hellfire missile it will carry. The AAH/Hellfire system will offer significant improvements over the current attack helicopter if supporting forces are available to designate targets for its missiles. If it must operate on its own (as it might in case of a surprise attack) its incremental effectiveness over the present Cobra/TOW system would be small, raising the issue of its high cost (almost three times that of the current attack helicopter).

Possible Alternatives

As previously pointed out in the CBO Budget Issue Paper, Planning the General Purpose Forces: Army Procurement Issues, the relative priority of programs for defending against abrupt, intense attack in Europe, or against an attack coming after some warning and mobilization by NATO, is not clearly stated in supporting budget documents.

An alternative which would place relatively more emphasis on rapid reaction and early fighting capability in Europe would continue the XM-1 and MICV programs as proposed. It would, however, delete funds for the AAH, and the conversion of two Army infantry divisions to mechanized divisions. It would add funding for procurement of more COBRA/TOW systems, and more anti-tank guided missiles. The net change to the President's budget would be a decrease of \$287 million.

An alternative which would emphasize longer-term staying power in a war in Europe would continue the light-to-heavy division conversions and the AAH program. It would, however, postpone procurement of XM-1 and MICV, and reduce procurement of COBRA/TOW systems. The net effect on President Ford's budget would be a decrease of \$292 million.

TACTICAL AIR FORCES

Issue

The President's budget continues expansion and modernization of the tactical air forces. These forces, if they perform up to expectation, can make an important addition to NATO's ability to defend Europe, whether there is a sudden attack or one following a period of mobilization. However, some factors, such as night and bad weather, Soviet air defenses, and vulnerability to surprise attack, may reduce the capability of the tactical air forces. It may be that resources planned for expansion and modernization should be diverted to improve the ability of the tactical air forces as a whole to operate in adverse conditions of weather, enemy air defense, or surprise attack.

President Ford's Proposal

The fiscal year 1978 tactical air forces budget generally reflects the modernization and force expansion themes of the fiscal year 1977 budget, but at greater cost. The procurement budget for tactical aircraft is \$6.3 billion, over 40 percent larger in constant dollars this year than last. The Administration plans to fully equip 26 Air Force tactical air wings by the early 1980s. Procurement of A-10s and F-15s continues; the F-16 will enter production this year. The new aircraft will increase the deterrent value and sustainability of U.S. forces for a NATO/Warsaw Pact war.

The Air Force is also requesting funds to procure the first six of a fleet of new tanker/cargo aircraft called ATCA (Advanced Tanker/Cargo Aircraft) at a cost of \$275 million, or \$46 million each in fiscal year 1978. Because current Air Force tanker assets of over 500 KC-135s are committed to the Strategic Air Command and under some conditions would not be available to refuel tactical air and mobility forces, the Department of Defense argues that a new tanker is necessary and that the cargo-carrying capability will enhance the airlift forces. There is some question, however, whether the increased airlift capacity would be helpful if the aircraft is used as planned in its tanker role in the early stages of conflict when airlift requirements would be at a peak.

The budget for procurement of Air Force tactical aircraft, including the ATCA, is \$4.8 billion. The fiscal year 1977 budget was \$3.0 billion in constant dollars.

Possible Alternatives

Supporting budget documentation does not address possible trade-offs between force expansion and improvements in survivability or night and bad weather capability, as discussed in the CBO Budget Issue Paper, Planning the General Purpose Forces: The Tactical Air Forces.

An alternative to the President's budget would reduce the planned Air Force expansion from 26 tactical air wings to 24, provide capability for two Navy air wings to operate from land bases in Europe, accelerate the construction of aircraft shelters in Europe, and procure a night and bad weather capable version of the A-10 attack aircraft. This alternative would reduce the President's budget by \$514 million in fiscal year 1978. If it were decided to accept the shelter and A-10 improvements, but continue the Air Force expansion as planned, \$106 million would be added to the President's budget.

STRATEGIC FORCES

Issue

The President's budget contains funding for continuing modernization of the strategic forces. Uncertainty persists, however, as to whether new systems such as B-1, MX, and the air and sea launched strategic cruise missiles are required to support deterrence through assured destruction capability, or as flexible instruments for conducting a deliberate, possibly limited, nuclear war.

President Ford's Proposal

The major feature of the spending request for strategic forces is the increased emphasis placed on modernizing the land-based ICBM force. Although the amounts involved are not large, they represent the beginnings of very large programs. The request for the MX missile program has increased to \$294 million. No funds are requested to keep the Minuteman III production line open. Apparently a choice has been made to push forward as rapidly as possible the development of a new, larger, ICBM designed for a mobile launcher (MX). Costs for this program are expected to be nearly a billion dollars in fiscal year 1979 and ultimately could reach a total of \$30 billion.

Funding requests are included to continue procurement of the B-1 bomber with the procurement of 8 aircraft in fiscal year 1978 and advance procurement for 19 more. Continued funding is requested for the Trident I missile program and the Trident submarine program with two submarines to be procured in fiscal year 1978. Both of these programs are proceeding as expected. A small amount (\$5 million) is requested for development of the Trident II SLBM.

No funds are requested to procure a follow-on interceptor, but a small amount is included for continued study of the requirements for such an aircraft.

Spending requests for space defense systems and for the Defense Support Program early warning satellite system are doubled over last year's request to approximately \$250 million. Funding is also requested to continue ongoing programs for the improvement of command and control communications, warning systems, and civil defense and to continue research in the Ballistic Missile Defense program.

Possible Alternatives

Alternative strategic forces programs might focus on fundamental requirements for assured destruction, the desirability of acquiring capability to conduct limited nuclear operations, the need for hard target counterforce capability, and the effect of the deployment of certain weapons on arms control negotiations. Such alternatives would involve reduction or deletion of funding for B-1, MX, and/or the cruise missile programs. The following is the fiscal year 1978 funding proposed for these systems:

	(\$ millions)	
	<u>Procurement</u>	<u>R & D</u>
B-1	\$ 1,711	\$ 443
MX	--	294
ALCM	41	124
SLCM	--	234

DEFENSE MANPOWER

Issue

Defense manpower costs have been undergoing a rapid long-term growth which has been halted only recently and perhaps only temporarily. In fiscal year 1978 total active duty and reserve military compensation will remain constant and civilian compensation will decline \$35 million (both in constant dollars), if Administration proposals are accepted. In determining how much Defense should spend on its military and civilian employees in order to maintain forces at their planned levels of readiness, the Congress may wish to consider changes that affect costs in fiscal year 1978 as well as long-term reforms that would lead to more efficient management of defense personnel in the future.

President Ford's Proposal

The reductions in defense compensation are due to a series of Administration proposals, some of which have been previously introduced. The Ford budget reintroduces blue-collar wage reform (saving \$167 million in fiscal year 1978); the Retirement Modernization Act (estimated to cost \$25 million in the first year, reflecting an assumption of late enactment); the Defense Officer Personnel Management Act (DOPMA) (estimated first year cost, \$13 million); and proposed legislation to eliminate dual compensation of federal personnel on active duty for reserve training and reduce the pay of Academy and ROTC students (together, a savings of \$35 million in fiscal year 1978). Other legislation affecting military personnel would raise fiscal year 1978 costs by a total of about \$50 million. This includes proposals for a military trailer allowance, family separation allowance, revised quarters allowance, and a retired family protection plan.

The military pay raise budgeted for October 1, 1977, is \$1.39 billion. This increase is net of an estimated \$65 million saving which results from allocating a part of the pay raise to higher housing allowances and recapturing a portion of that increase from personnel occupying government quarters. Recruiting costs for the active and reserve forces will increase by around \$150 million from current fiscal year 1977 levels.

Possible Alternatives

In general, while the Administration's budget restrains the growth in defense manpower costs, it proposes few corrections of fundamental long-term problems in the defense manpower system. Some exceptions are reform of military retirement benefits, reform of blue-collar pay, and changes in the method of setting white-collar pay raises. There is serious question whether the Administration's proposals on military retirement come to grips with the long-term cost and management problems posed by military retirement. These issues are treated in detail in the CBO Budget Issue Paper, Defense Manpower Costs: Issues for 1977.

Proposed increases in recruiting budgets give the Congress a chance to shape the direction of future personnel procurement policies. With declining population of youths after 1979 and possible declines in unemployment in the next few years, serious and growing shortages of military recruits may occur, necessitating further increases in recruiting costs and pay incentives.

Alternatives such as reduced personnel turnover, including lower first-term attrition rates, introduction of training efficiencies, and reduced demand for scarce high school graduates would make demand equal to projected supply and avoid the need for increased recruiting budgets for fiscal year 1978.

SECURITY SUPPORTING ASSISTANCE

Issue

A reduction in Security Supporting Assistance is proposed. (This reduction partially offsets the impact of the increases in multilateral and bilateral development assistance on the function totals.) Is this reduction realistic in the light of anticipated requests from Egypt and Israel and of political uncertainties in the Middle East and Africa?

President Ford's Proposal

A decline in budget authority requested for Security Supporting Assistance (SSA) partially offsets the increases asked for in multilateral and bilateral development assistance. The decline in requests for SSA is the first since 1969. Not only has the amount of SSA requested decreased by \$276 million (16 percent), but the mix of recipient states foreseen is altered: funds destined to the Middle Eastern confrontation states appear to decline from \$1.6 billion in fiscal 1977, while funds to Southern African states appear to increase significantly from the \$50 million appropriated in fiscal year 1977. The amounts included for the Middle Eastern confrontation states appear to be smaller than the amounts which Egypt and Israel are thought to have requested. Under the treaty presently being negotiated with Portugal covering U.S. base rights in the Azores, an additional small amount of SSA may be requested later for fiscal year 1978. Treaties being negotiated with Greece and Turkey are not expected to involve any security supporting assistance in fiscal year 1978. The status of the treaty with the Philippines covering base rights there, and the amounts of SSA involved under that treaty, remain uncertain.

The President's budget requests a separate \$550 million U.S. contribution to a multilateral balance-of-payments loan for Portugal (\$300 million of which is being requested for fiscal year 1977 under special legislation, and \$120 million of which will be requested for fiscal year 1979).

Possible Alternatives

- o Increase Security Supporting Assistance to the Middle Eastern confrontation states.
- o Refuse to fund all or part of the Portuguese, Middle Eastern, and African requests.

INTERNATIONAL FINANCIAL INSTITUTIONS

Issue

A major increase in budget authority over fiscal year 1977 is proposed for U.S. contributions to international financial institutions. Should Congress agree to this proposed increase, and to the proposed timing of the contributions involved?

President Ford's Proposal

A redistribution within the international affairs function is proposed which places increased emphasis on U.S. support of international financial institutions. This emphasis is reflected by a request for supplemental appropriations for \$540 million in fiscal year 1977 to pay previously authorized contributions to international financial institutions. In addition, \$1,985 million is requested for these institutions in fiscal year 1978. This represents a 54 percent increase over the \$1,285 million in budget authority (including the \$540 million supplemental request) for fiscal year 1977.

This higher level of spending for IFIs is temporary and due to the fact that payments to some IFIs (notably the International Development Association) are bunched up in fiscal year 1978. Budget authority in fiscal year 1979 will probably drop back to \$1,724 million assuming no major new commitments are undertaken.

Most of the U.S. contributions to IFIs represent installments in general replenishments which are expected to receive formal acceptance this year. The institutions involved are:

1. The International Development Association
(Fifth Replenishment) (\$800 million)
2. The International Bank for Reconstruction
and Development (\$ 52 million)
3. The Asian Development Bank (\$204 million)
4. The Asian Development Fund (\$ 60 million)
5. The International Finance Corporation (\$ 45 million)

The remainder of the contributions are for installments on previously authorized contributions:

6. The International Development Association
(Fourth Replenishment) (\$375 million)
7. The Inter-American Development Bank (\$440 million)
8. The African Development Fund (\$ 10 million)

Possible Alternatives 1/

Congress could decrease or delay these payments--although in most cases this would be inconsistent with positions taken by the Administration in international negotiations. The most easily adjusted of these replenishments--if Congress wishes to reduce the fiscal year 1978 contributions--is the contribution to the fifth IDA replenishment. International negotiations have not yet been completed for this replenishment agreement. Congress could, for example, extend the payments over four years, rather than over an anticipated three-year period, and reduce the yearly contributions from \$800 million to \$600 million.

Not included in the President's request is some \$1.4 billion for additional U.S. subscriptions to the callable capital of the International Bank for Reconstruction and Development and \$930 million for a similar contribution to the Inter-American Development Bank. The Executive has sought authorization for these subscriptions but does not intend to seek appropriation. Callable capital is a loan guarantee which would require disbursement only if a bank was unable to meet its obligations. It should be noted that the budget request does include funds for some callable capital. The precedents for treating callable capital--whether to appropriate it or not--are ambiguous.

1/ For further discussion see, International Development Lending Institutions: Budget Options for Fiscal Year 1978 (forthcoming).

THE SPACE PROGRAM AND THE SPACE SHUTTLE

Issue

With the development, test and evaluation phase of the space shuttle program well underway, the issue before Congress is whether to support the creation of an operational five orbiter fleet, by providing, in fiscal year 1978, initial funding for the procurement of three additional orbiters.

President Ford's Proposal

The President's proposal contains funds to initiate procurement of three orbiters in addition to the two prototypes currently being fabricated: \$98 million is provided for the third orbiter and \$48 million for the fourth and fifth orbiters, accounting for most of the \$153 million or 4.6 percent, increase in outlays for the space program as a whole in 1979. This action would provide a five-orbiter fleet which NASA considers the minimum number necessary to fly its model space program during the 1980-1991 period. That program envisions launching 1091 payloads using 560 shuttle flights and 83 expendable launch vehicles. The use profile assumed by NASA, or one of equivalent intensity, would imply a threefold increase in the current level of space flight activity.

Possible Alternatives

Ideally the size of the orbiter fleet should rest upon the scope and magnitude of the space program the nation intends to pursue. The Congress has yet to decide explicitly the goals, priorities, and program for space for the rest of this century. The choice among alternatives depends upon the level of activity ultimately desired for the 1980s, on the number of orbiters required to support that level of activity, and on the costs and benefits associated with the timing of procurement of those orbiters. The five orbiter fleet would support a variety of missions: NASA scientific investigations and applications, and various uses by the Defense Department, other Federal agencies, and commercial and foreign entities. The non-NASA users would be expected to reimburse NASA for some portion of operational and procurement costs.

Modification to the first two orbiters, plus procurement of the third orbiter, would cost some \$1.2 billion through 1984; procurement of the fourth and fifth orbiters would cost a like sum. Procurement of individual orbiters can be deferred (as procurement of the third orbiter was deferred from fiscal year 1977 at a saving of \$100 million in that year), but the longer such procurement is delayed, the greater the additional costs due to interruptions in the production process (estimated at \$100 million in the case of the fiscal year 1977 delay).

Alternatives to accepting the recommended procurements in fiscal year 1978 include:

- o Go ahead with a third orbiter, leaving the fourth and fifth to be decided later. This would reduce the budget by \$48 million in fiscal year 1978, and possibly \$1.2 billion over the life of the program, if the fourth and fifth were ultimately cancelled. Such a decision would mean acceptance of a level of space activity significantly below that envisioned by NASA.
- o Defer the third, fourth, and fifth orbiter, pending resolution of space goals for the 1980s and beyond. This would mean an immediate reduction of \$146 million in the fiscal year 1978 budget. However, if it were ultimately decided to procure the additional orbiters, this immediate savings would probably be more than offset by increased costs associated with closing down, then restarting fabrication. Defense requirements might require continued procurement of expendable launch vehicles, at higher costs per flight, and certain other uses of space would be foreclosed entirely.
- o If there exists a consensus that a commitment to major use of space is appropriate now, it might be possible to accelerate the program, leading to full fleet operational capability somewhat before 1984. However, the first prototype shuttle has not yet been flown, and first manned orbital flight is not scheduled until the spring of 1979.

In response to a request from the Senate Budget Committee, CBO is preparing an analysis of the budgetary consequences of alternative future uses of the space shuttle. A draft is expected to be available in February.

NATIONAL PARKLANDS

Issue

The fundamental budgetary issue, with respect to the nation's parks, preserves and recreational areas, is the level of support. In most respects, this level has declined in recent years. In a reversal of the trend, President Ford has proposed a supplemental for fiscal year 1977. At issue is whether the level and the mix which have been selected by the President are appropriate.

Corresponding to the budget issue is the policy issue about the appropriate role for the Park Service. Should emphasis be placed on preservation of unique resources or on recreational use?

President Ford's Proposal

The budget for the Park Service has three major components: land acquisition, development, and public service employment. The President's proposed Bicentennial Lands Heritage Act (BLHA) emphasizes construction and development. This approach encourages recreational use, whereas preservation would be implied by emphasis on land acquisition. The BLHA would provide funds to double the current level of Park Service construction, and increase slightly land acquisition and permanent employment. Concurrently, Congress doubled the amount (in the Land and Water Conservation Fund) authorized in fiscal year 1978 for land acquisition. The President's budget for fiscal year 1978 would provide appropriations at the newly authorized level.

The President has not proposed a public service employment program which would affect the Park Service.

Possible Alternatives

The budget increase proposed by the President may be near the maximum that could be justified in one year. In subsequent years, the level could be increased further. The BLHA which contains this increase has been criticized, however, because of its emphasis on development. Most environmental organizations would prefer emphasis on land acquisition and employment for rehabilitation and maintenance, because they fear development will encourage the parks to be "loved to death".

Thus, alternatives would include:

- Appropriations at levels approximating those of the current fiscal year, denying the increases for development proposed by the President and those for land acquisition authorized by the Congress and proposed for appropriation for the President.
- Accepting the level of funding proposed by the President but emphasizing acquisition or public service employment rather than development.
- Adding a separate public service employment program meeting the twin goals of reducing employment and improving the condition of the parks.

CBO is preparing an analysis of alternative approaches to budgeting for recreation and preservation. A draft should be available in February.

SEWAGE TREATMENT CONSTRUCTION GRANTS

Issue

The Environmental Protection Agency pays 75 percent of the total eligible costs of constructing publicly owned municipal sewage treatment facilities. Under existing legislative and regulatory provisions, the federal share of such costs could total as much as \$330 billion by 1983. The issues include: How much federal funding should be provided in total? Should the clean water goals required by current legislation be modified? Should the deadline for achieving the goals be extended; if so, for how many years?

Current legislation requires that all municipal facilities achieve a level of secondary treatment by July 1, 1977, and a level of "best practicable waste treatment technology over the life of the works" by July 1, 1983. Facilities eligible for funding include sewage treatment plants (primary, secondary, and advanced treatment systems), projects for sewer rehabilitation and correction of infiltration/inflow problems, interceptor and collector sewer systems, correction of overflow problems from combined sanitary and stormwater sewer systems, and projects for treatment and control of urban stormwater runoff. (Funding needs for the last category amount to nearly 70 percent of total needs.)

President Ford's Proposal

President Ford has proposed: (1) providing new budget authority of \$45 billion over ten years, at an annual rate of \$4.5 billion; (2) eliminating funding eligibility for collector sewer systems, sewer rehabilitation projects, and treatment of urban storm runoff; (3) reducing from 75 percent to 60 percent the federal share for correction of combined sewer problems; (4) limiting eligibility to facilities that provide treatment at the level necessary to meet minimum federal standards (secondary treatment), unless the benefits of meeting more stringent standards can be shown to exceed the costs; and (5) limiting federal assistance to that portion of facilities necessary to serve existing population levels.

Possible Alternatives

It is possible that the funding and eligibility changes recommended by the President will not lead to a situation in which the goals set forth in the Federal Water Pollution Control Amendments of 1972 will be realized. There are a number of potential alternatives for funding, eligibility, and achievement of the goals.

The 1983 goal could be deferred. The new deadline chosen (e.g., 1985, 1988) would affect the pacing and size of annual budget authority needed to complete the municipal construction program.

A different level of funding could be provided. Budget authority could be set at an annual level lower than \$4.5 billion, if a shift in emphasis (e.g., to non-structural control measures) or in the federal role (e.g., less federal involvement) is desired. Or budget authority could be provided at a higher annual level (e.g., the \$5 billion agreed to, but not enacted, in the 94th Congress). If higher levels are judged desirable, the annual amount could be increased in increments, e.g., \$5 billion in fiscal year 1978, \$6 billion in fiscal year 1978, \$6 billion in fiscal year 1979, \$7 billion in fiscal year 1980, etc.

The federal share of total eligible costs could be changed. If the federal contribution were reduced to pre-1972 levels (a maximum of 55 percent), total federal costs would drop proportionately, while state and municipal costs would increase.

The 1983 goal could be retained, but certain definitions and standards established pursuant to it could be redefined. For example, in defining effluent limits for secondary treatment, emphasis could be shifted from controlling such problems as biological oxygen demand and total suspended solids to removing excessive nutrients or toxic substances such as cadmium, mercury, and lead.

ENERGY POLICY

ISSUE

Formulating an energy policy requires choosing among frequently competing goals such as low consumer costs, security of supply, environmental protection and economic efficiency. These choices have been made more difficult by the realization that energy policy could compromise the achievement of full employment and price stability. Further, the choices have been constrained by differing views with respect to the appropriate nature and extent of federal participation in the energy sector. Thus, the central issue in formulating energy policy is the relative emphasis to be accorded each of the potential goals.

President Ford's Proposal

Reliance on market forces to encourage production and constrain demand is central to the Ford energy strategy, which has generally emphasized the goals of increased domestic production, economic efficiency, and reduction of imports. The Administration proposes several initiatives consistent with this approach:

- (1) Deregulation of natural gas prices and (proposed separately) decontrol of gasoline prices;
- (2) Rapid completion of the Strategic Petroleum Reserves mandated by the Energy Policy and Conservation Act;
- (3) Incentives for energy conservation, including an insulation tax credit and conservation grants to states and low-income families;
- (4) A strategy to reduce nuclear proliferation by expanding domestic production of uranium enrichment services, and studying extensively options for reprocessing and the balance of the nuclear fuel cycle.
- (5) Major increases in funding for energy research, development and demonstration (uranium enrichment, synthetic fuels and the Energy Independence Authority), and major programs to support financing of new and emerging energy technologies.

In addition, the President recommends the establishment of a new Department of Energy to improve coordination of energy programs by consolidation of several agencies. (While such action is likely to improve the efficiency of energy program planning and execution, it is unlikely to have major budget impact.)

Possible Alternatives

Past Congressional actions indicate emphasis on goals of energy policy in addition to those stressed in President Ford's proposal: low consumer cost, environmental protection and the minimization of the adverse macroeconomic consequences associated with energy policy initiatives. Such goals suggest alternatives:

Increased emphasis on energy conservation, with measures such as additional funding for ERDA's technological-based conservation program, FEA's grant to states and low-income families, FEA's general conservation programs, alternative mechanisms for financing energy conservation (for example, allowing utilities to include such expenditures in their rate base), and tax credits for insulation (which could be expanded and better targeted).

Increased emphasis on the environmental and cost-effective characteristics of alternative research and development policies.

If the unstable investment climate associated with uncertain policies of either the U.S. Government or the producing countries is a key stumbling block to further domestic production, it is not clear that direct federal expenditures are the most efficient alternative. Thus, some of the goals of EIA and the Synfuels Commercialization Program might be met by government decisions designed to reduce the uncertainty in areas of regulation and environmental standards. In the case of natural gas, for example, it is possible that a major factor retarding new investment in natural gas production is uncertainty whether the July 1976 decision of the Federal Power Commission (raising the price of new natural gas) will withstand court challenge.

Deregulation of new natural gas, as proposed by the Ford Administration, makes no allowance for adverse macroeconomic impacts.

Further discussion of these is contained in Energy Policy and the Federal Budget, CBO Budget Issue Paper, January 1977.

ISSUE

The central issue in the nation's energy R,D,D, and C program is the level and mix of support. This issue has four principal components: (1) the support of fission vs. non-fission technologies, (2) the emphasis on demonstration, (3) the dependence on the private sector, and (4) the readiness of a technology for commercialization.

President Ford's Proposal

Nuclear R,D, and D. Major increases are provided for the breeder reactor program (much of which is designed to accelerate work on the large prototype breeder that is now nearing the commercial design stage), and for nuclear fuel cycle and safeguards research (principally for development of processes for management of commercial nuclear wastes and for development of techniques for reprocessing uranium and plutonium).

Conservation and Solar. In contrast to the nuclear demonstrations, certain applications of conservation and solar power are judged to be near-term, the private sector is expected to develop them, and therefore federal support is to be decreased (solar heating and cooling by \$41 million, or 45 percent of BA). Emphasis is placed on long-term technologies, such as large central-station solar power.

Commercialization. The budget again proposes commercialization initiatives similar to those advanced in the last session of Congress: (1) Synthetic Fuels Program, to be administered by ERDA, would provide financial incentives (to be announced) for selected commercial demonstration projects, to be separately proposed to and approved by Congress. (2) an off-budget Energy Independence Authority (EIA) would provide loans, loan guarantees, price guarantees, or other financial assistance to private sector energy projects. Loan or price guarantee authority would be treated -- off-budget -- as a contingent liability. Only the net gains or losses would appear on the budget. (3) Further additions to the U.S. enrichment capacity, beyond that implicit in the existing program at Portsmouth, Ohio, will be made by the private sector. (An additional \$500 million in BA is provided for the Congressionally approved expansion of the existing Portsmouth plant.)

Congressional Initiatives. No funds are requested for research and development on an electric vehicle or for an energy extension

service, both mandated by the 94th Congress; \$7.5 million in 1977 BA for the energy extension service is proposed for deferral.

Possible Alternatives

An alternative to the increasing emphasis on nuclear fission (now about 50 percent of requested budget authority) and particularly the acceleration of the breeder program, would be to either slow down the fission program or to increase efforts on non-fission areas such as coal and solar heating.

Demonstrations can increase as a fraction of an R&D program as it matures, and could easily require half of R,D, and D expenditures in less than 10 years, posing the possibility that such demonstrations could squeeze each other or earlier stages out of the budget.

Involvement of the private sector can be critically important to the success of an R,D,D, and C program, particularly at the demonstration and commercialization stages where private implementation is the test of success. The proposed program depends strongly on private demonstrations only in the area of near-term conservation and solar heating, where the small scale and diffuse nature of the industries involved could imperil success.

Three issues must be addressed in deciding on federal incentives to commercialize new technologies: (i) are the uncertainties regarding the engineering feasibility, environmental consequences and cost of the proposed process reasonably well settled? (ii) is it anticipated that there will be a market for the product at a price high enough to yield a profit? (iii) are the financial mechanisms for government support of the proposed process properly tailored to the needs of the project?

For further discussion of these issues see Energy Research, Development, Demonstration, and Commercialization, CBO Budget Issue Paper, January 1977.

AGRICULTURE

ISSUE

The Agriculture and Consumer Protection Act of 1973 (which covers wheat, feedgrains, cotton, and dairy products) and the Rice Production Act of 1975 will expire in 1977. Both these laws provide for disaster payments to eligible producers. Though not expiring in 1977, peanut legislation will likely be debated and modified. Four issues seem to be at the center of debate about new farm legislation: (1) at what level (and through which mechanism) should farm prices be supported; (2) should this support include protection against natural hazards; (3) should consumers be protected from the effects of very high farm prices as producers are now protected from very low prices; and (4) how open should U.S. agricultural markets be to other nations?

President Ford's Proposal

The President's general proposal for price support for wheat, feedgrains and upland cotton is to continue current policy -- letting market forces work by keeping government price supports low so they do not interfere with the market and using target prices to provide payments to producers.

The President recommends that: (1) disaster payments be eliminated and replaced by federal crop insurance; (2) the peanut program be reformed by reducing the 1978 legal minimum allotment by about 40 percent; (3) rice target prices and loan rates be reduced; (4) the price support program for extra long staple cotton be changed to a target price program; (5) the Secretary of Agriculture be provided flexibility to set tobacco loan rates; and (6) the dairy products price support program be re-examined.

Possible alternatives

While certain structural elements and mechanisms are common to several or all commodities, the experience of any particular commodity in any given year is likely to be unique, depending on weather and market conditions. Thus the debate tends to focus on the application of mechanisms and support levels to specific crops.

Mechanisms. One alternative to current policy for major farm commodities is to return to past policies in which the government established market prices and purchased and stocked any surplus. Though government stocks as acquired in the past can provide a degree of price stability for the consumer, this approach can interfere with efficient production decisions and farm exports, and increase the overall cost of achieving income and price support goals. Another

alternative would be to combine a market-oriented policy with a reserve program under government ownership or control.

Though the debate over which mechanisms to use to stabilize prices and incomes will be important, future federal budget costs will depend more on the level at which prices (and incomes) are supported. The major issue is whether to continue current policy which allows substantial administrative discretion in setting support levels or to legislatively tie them to measures of the cost of production.

Dairy. The government supports farm milk prices through the purchase of dairy products. The milk price support level is tied to the parity price. The legal minimum is 75 percent of parity and the maximum is 90 percent; current policy is 80 percent. In general, the higher the price support the greater are government costs and the adverse price effects on consumers.

Rice. Lower rice target prices and loan rates (the President's proposal) would substantially reduce budget outlays. Another alternative, reversion to the old rice program (which occurs automatically if the 1975 Act expires) would likely entail production controls and loan rates above world price, requiring export subsidies. Program costs would be nearly the same as for current policy.

Peanuts. The current program, with its rigid allotment and high loan rates, is costly. A "two price" program would reduce budget costs as well as provide some savings to consumers. A target price program could also reduce government costs and provide savings to consumers.

Domestic grain reserve. A domestic grain reserve could provide domestic livestock producers and consumers with protection against the effects of domestic (or foreign) production shortfalls.

Disaster protection. The disaster payments provisions of the 1973 Act and the 1975 Rice Act provide "free insurance" to eligible wheat, feedgrain, cotton, and rice producers. The Federal Crop Insurance Corporation provides all risk insurance, with premiums paid by producers, in those areas where experience dictates a sound insurance program is feasible. Alternatives to current policy include: (1) maintain federal crop insurance and restructure disaster payments (to correct deficiencies); and (2) eliminate disaster payments and expand crop insurance (with or without a premium subsidy).

For further details see CBO Budget Issue Paper, "U.S. Food and Agricultural Policy Options", January 1977. See also for background CBO Report, "U.S. Food and Agricultural Policy in the World Economy", April 26, 1976.

URBAN MASS TRANSIT

ISSUE

The Urban Mass Transportation Administration (UMTA) provides aid to mass transit through a discretionary program of capital grants (80 percent federal share); formula grants, which at local option can be used for either operating (50 percent federal share) or capital aid; grants for research and demonstration, training, and planning; and capital grants for transit as substitutes for non-essential Interstate segments (the so-called "Interstate transfer"). Major issues concern what federal transit aid should be used for (new rail transit systems, modernization of existing systems, buses, other transit facilities, operating aid, etc.) and what the level and mix of assistance should be.

President Ford's Proposal

Capital grants are currently \$1.25 billion a year and are used about 30 percent for buses, and 70 percent for rail and other fixed guideway systems, split about evenly between modernization and new systems. Formula grants are expected to total \$775 million in 1978.

President Ford's budget calls for no additional new rail systems beyond those already committed. This proposal is based on three premises: (1) the "predicted costs and effectiveness of new rapid rail projects will not be achieved", (2) commitments made by UMTA should be "fully funded", and (3) the UMTA capital grant program should remain at a level of \$1.25 billion through 1980. The full funding requirement means that when UMTA makes a commitment in principle to fund a major new transit system, the full amount of the commitment must be financed within the BA available at the time of the commitment, even though obligations and outlays will not occur for several years. Total new budget authority of \$1.1 billion would be required in fiscal year 1979 and fiscal year 1980 for the Administration's proposed capital program.

President Ford has also proposed that no more than 80 percent of each urban areas' formula grants be used for operating aid. Currently there is no limit and, in practice, an average of 94 percent has been used for operations with many large cities using 100 percent.

Possible alternatives

Continuing to make new rail commitments would require substantial new budget authority at some point and would result in significantly increased outlays, though probably not for several years. Although

there is some controversy over the effectiveness of new rail systems in solving transportation problems no new rail starts until after 1980 would represent an important policy change from recent UMTA practice. On the other hand, the program could be expanded over a number of years to permit as many new rail systems as Congress desires.

An alternative to massive new transit systems would be to emphasize low capital solutions such as exclusive bus lanes and pricing and regulatory approaches. The proposed restriction that no more than 80 percent of formula grants be spent on operations assumes that operating subsidies encourage inefficiency and waste. Because of the growth built into the formula grant program, the 80 percent figure would provide the average urban area with the same level of operating aid available in fiscal year 1977, although \$155 million less than that called for in existing legislation. The 80 percent limit would result in lower outlays for fiscal year 1979 (the Budget estimates \$40 million) but require some combination of increased state and local aid, increased fares, greater operating efficiency or decreased service. Last year the President's proposal of a 50 percent limitation was defeated in Committee.

The "full funding" requirement for capital program is an attempt to place more controls on how UMTA obligates its BA. There is no restriction on when the BA for the existing UMTA capital program can be used, although UMTA is limited by obligation ceilings set in Appropriations Acts. As an alternative Congress could continue to indicate annual obligation ceilings, provide ceilings on UMTA's project commitments (which are not formal obligations), or indicate anticipated future funding levels.

The President's Budget calls for spending the remaining UMTA capital funds through 1980 (this ignores additional funds required for "full funding"). If the program were expanded by spending the funds through 1979 the size of the capital grant program in 1978 and 1979 would increase by about 50 percent from \$1.25 to \$1.8 billion. This would permit larger bus and rail modernization programs, as well as more rapid construction of new rail starts and perhaps commitments to rail systems in other cities. Substantial new BA would also be required for fiscal year 1980.

For further discussion, see CBO Budget Issue Paper, "Mass Transit", and CBO Staff Draft Analysis, "UMTA Funding - Is it Adequate?", both to be published in February 1977.

ANTIRECESSION AID TO STATE AND LOCAL GOVERNMENTS

ISSUE

At issue is whether the economy is in need of additional stimulus and, if so, whether it can best be provided through programs affecting the state and local government sector of the economy. Three programs are major candidates for additional funding: public service employment (discussed as Temporary Employment Assistance), local public works and anti-recession financial assistance.

PRESIDENT FORD'S PROPOSAL

The Public Works Employment Act of 1976 established two antirecession grant programs. The first, authorized in Title I, is designed to provide employment by funding needed local public works which are ready for construction and which can be completed within two years. This program received a one time authorization and appropriation of \$2 billion which has already been committed.

The Title II grant program provides general assistance to replace revenues lost by state and local general purpose governments experiencing unemployment higher than 4 1/2 percent. The amount authorized for distribution in each quarter depends upon the rate of national unemployment in a prior period. An authorization and appropriation of \$1.25 billion was made for five quarters ending fiscal year 1977. As a result of the unexpected high rates of unemployment in 1976, the appropriation for fiscal year 1977 falls short of the amount specified in the formula. An additional authorization and supplemental appropriation of \$250 million would be required to fully fund the program in the last quarter of fiscal year 1977. No funds are currently authorized for fiscal year 1978.

Consistent with the Administration's economic outlook and with its position that any necessary stimulus is best achieved through the private sector, the President's budget includes no proposal for additional funding for either anti-recession grant program. An issue is likely to arise with respect to a supplemental for 1977 and an appropriation for 1978.

ALTERNATIVES

There are several options with respect to the Title II grant program. First, an authorization and supplemental appropriation of \$250 million might be enacted to insure that the full formula amount is available for distribution in 1977. Second, the program might be reauthorized through fiscal year 1978. CBO's current economic projections suggest that \$1.19 billion would be required to fully fund the existing program in that year. This figure could be lower if other efforts to stimulate the economy succeed in lowering the unemployment rate. Finally, proposals have been made to change the program by increasing the amounts specified in the formula for distribution at given rates of unemployment. Such an expansion could be done retroactive to the beginning of fiscal year 1977, thereby requiring a supplemental appropriation for that year, or could be combined with action reauthorizing the program for 1978.

A major consideration in evaluating proposals to expand antirecession financial assistance is the ability of state and local governments to respond to the additional federal stimulus. Changes in the distribution mechanism might be considered to increase the probability that funds will be spent quickly.

Expansion of the Title I local public works program has also been proposed. Applications for projects costing \$24 billion were received by the Economic Development Administration; \$2 billion was available for commitment under the current program. Most proposals for an additional authorization range between \$2 and \$5 billion. The timing of outlays is often at issue in discussing the desirability of including public works in a stimulus package. Assuming an April 1 program start, CBO estimates that intensive construction activity could not begin before Autumn, thus there would be few outlays in fiscal year 1977. However, over half of the total appropriation might be expected to be spent in fiscal year 1978.

In reauthorizing the program, Congress may wish to consider changing the provision setting aside 30 percent of the funds for communities with unemployment rates below the national average. In the first round, this set-aside resulted in uneven competition for the various pots of money and the denial of funds for some highly rated projects in areas of high unemployment.

TEMPORARY EMPLOYMENT ASSISTANCE (Public
Service Employment under CETA Title VI)

ISSUE

The current level of 260 thousand jobs can be sustained through the end of fiscal year 1977 with the \$1.0 billion in unobligated balances from fiscal year 1976 and the \$1.384 billion in a continuing resolution. Because the unemployment rate remains well above 7 percent, the Congress may consider expanding public service employment beyond its current policy level. If a supplemental appropriation providing additional funding is not enacted in fiscal year 1977, this program could be phased out by the end of the fiscal year.

PRESIDENT FORD'S PROPOSAL

The President proposed a supplemental appropriation of \$2.384 billion, which includes the continuing resolution funding of \$1.384 billion and an additional \$1.0 billion. This funding would continue the current level of 260 thousand jobs through the end of fiscal year 1977 and would phase-out the program in fiscal year 1978 at an average annual level of 130 thousand jobs.

POSSIBLE ALTERNATIVES

- A. Continue the current level of jobs at an additional cost of about \$2.5 billion in fiscal year 1978.
- B. Expand alternative A to 500 thousand jobs by appropriating an additional \$2.5 billion in the second quarter of calendar year 1977 primarily for use in fiscal year 1978. If jobs can be filled at a rate of 30 thousand per month, the 500 thousand level can be reached by the fourth quarter of calendar year 1977. No additional budget authority for fiscal year 1978 above the \$2.5 billion in alternative A would be needed.

- C. Expand alternative B to one million jobs by appropriating an additional \$2.3 billion for fiscal year 1978. If the jobs can be filled at a rate of 30 thousand per month, a level of 840 thousand jobs could be reached by the end of fiscal year 1978. The one million job level could be reached in fiscal year 1979. 1/

1/ For a more detailed analysis see Congressional Budget Office, Budget Options for Public Employment and Training Assistance, February 1977.

YOUTH EMPLOYMENT

ISSUE

Because of the continuing high rates of youth unemployment, the Congress will consider a number of legislative proposals which would create employment and training programs designed exclusively to meet the particular employment problems of young people.

PRESIDENT FORD'S PROPOSAL

President Ford proposes no new programs in this area. He does propose to reduce by half the Youth Conservation Corps, a small program currently employing about 25,000 youth during the summer on conservation projects. The stated reason is that, it is not targeted on "youth with particular needs for employment." In addition he proposes to phase out Temporary Employment Assistance (TEA), the major federal Public Service Employment (PSE) program. Reducing the number of TEA jobs from 260,000 to 130,000 as he proposes, would imply about 29,000 fewer PSE jobs for youth

POSSIBLE ALTERNATIVES

The Congress may wish to establish a more concerted program to enhance the employment of youth. Four possibilities are:

1. A Public Service Employment (PSE) program specifically for youth,
2. A training program, similar to Title I of CETA, but specifically for youth,
3. A natural resource employment program,
4. A combined PSE, training program.

The cost and effects of these programs are displayed in the table below. 1/

Alternatives	Assumed Cost Per Service Year (\$)	Annualized Jobs Per \$1 Billion (x 1,000)	Annualized Training Slots Per \$1 Billion (x 1,000)
o PSE for Youth	6,000	165	0
o Training for Youth	4,000	0	250
o Natural Resources Employment for Youth	10,000	100	0
o Combined PSE and Training	5,000	83	125

1/ For more detailed discussions of youth employment problems and options see, "Policy Options for the Teenage Unemployment Problem," CBO, September 21, 1976. "The Teenage Unemployment Problem: What are the Options?" CBO, October 14, 1976. "Budget Options for the Youth Employment Problem," CBO (forthcoming).

ELEMENTARY AND SECONDARY EDUCATION

ISSUES

Three major issues in elementary-secondary education are raised by the President's budget: the possible consolidation of federal categorical aid programs; the funding of Public Law 94-142, the Education of All Handicapped Children Act of 1975; and possible reforms in the Impact Aid program.

PRESIDENT FORD'S PROPOSAL

Categorical aid vs. block grants

President Ford again proposes to consolidate 23 categorical education programs into a single block grant to states. The fiscal year 1978 budget request for this grant is \$3.8 billion, the same as the fiscal year 1977 appropriation for the programs proposed for consolidation. The President also proposes to increase the authorization for this grant by \$200 million each year to a total of \$4.2 billion in fiscal year 1982. The major programs included in the consolidation are compensatory education (Title I of ESEA), bilingual education, support and innovation grants, education for the handicapped, occupational, vocational and adult education, and library resources. Three quarters of the funds are to be targeted on the disadvantaged and the handicapped, and vocational education would receive the same proportion of the total in each state as in fiscal year 1977. The states would also be required to pass on three quarters of total funds from this grant to local educational agencies (LEAs). Federal administrative and direct auditing responsibilities would be transferred to the states.

Education for the handicapped

In 1975, Congress passed the Education of All Handicapped Children Act requiring the states (which accept federal funds under the Act) to provide a "free, appropriate education" for all handicapped children and authorizing substantial and increasing federal financial assistance for that effort. Last year, the Congress provided \$315 million in advance funds for fiscal year 1978 out of a total authorization of \$387 million for state grants. Authorizations rise to \$775 million in 1979 (to be funded in fiscal year 1978) to accommodate the increased size of the grant per pupil served for which the states are eligible. President Ford proposes to hold the funding for this effort to the last year's level of \$315 million.

Impact aid

President Ford requests \$370 million to fully cover entitlements for those children whose parents live and work on federal property ("a" children) and special provisions, and 25 million for construction. No funds are requested for children whose parents live or work on federal property ("b" children) or live or work in low-rent public housing, or for hold harmless provisions.

POSSIBLE ALTERNATIVES 1/

Program consolidation

The block grant proposed by President Ford is only one of many forms of consolidation available to the Congress should such change be desired. In P.L. 94-482, the Congress consolidated authorities for various vocational curricula into a single grant to states for vocational education. Similar simplification of other categorical programs could be made and would have no necessary appropriations impact. Another type of consolidation is proposed by Senators Domenici and Bellmon (S. 3849). Their proposal would combine various programs aimed at the same population group or project area into a single grant. Five grant packages are proposed, one each for disadvantaged students, for handicapped students, for bilingual students, for special emphasis projects, and (optional to participating states) for vocational and training programs. This funding simplification package would be optional to the states, with an incentive payment of up to an additional 10 percent to participating states subject to appropriations.

Education for the handicapped

If the states serve no more handicapped children in 1978-1979 than they do in the current school year, approximately \$675 million for state grants would be necessary to fully fund P.L. 94-142 state grants. If the states were to fully serve all handicapped children 5-17 years old by 1978-1979, more than the authorization limit for that year of \$775 million would be necessary. Appropriations which do not meet full entitlement levels are ratably reduced.

Impact Aid

If the Congress continues its current practice of providing sufficient funding for the first two "tiers" of payments, approximately \$890 million would be necessary in fiscal year 1978 (including \$25 million for construction as proposed by President Ford).

1/ See "Elementary, Secondary and Vocational Education: An Examination of Alternative Federal Roles," CBO, January 1977.

POSTSECONDARY STUDENT ASSISTANCE

ISSUE

The issue is the allocation of resources among student assistance programs and the affect these decisions will have on students' abilities to finance their education. These funding decisions will also affect students' families, educational institutions, and local and state governments.

Since these student assistance programs were all reauthorized by the 1976 Education Amendments the allocation issue is mainly an appropriations and budget issue. Questions which might be considered include:

- o At what level should Basic Grants be funded between the present maximum of \$1400 and the newly allowed \$1800 maximum?
- o Should campus-based student assistance (Supplemental Grants, Direct Loans, and College Work-Study) be increased? What types of students would benefit?
- o How much private capital will be available to satisfy the demand for student loans? Is this enough? Can and should the secondary markets (Student Loan Marketing Association) alleviate the problem if demand is too great?
- o Should State Student Incentive Grant funds be increased? To what extent do states substitute federal dollars for their own? Should federal dollars (which comprise about 7 percent of state scholarship funds) be contingent upon state's eligibility criteria?

PRESIDENT FORD'S PROPOSAL

Consistent with Executive requests over the last five years, the fiscal year 1978 budget calls for:

- o The continued emphasis on the Basic Grants program (with a \$1,400 maximum award), Guaranteed Student Loans and State Student Incentive Grants (for these three programs fiscal year 1976 appropriations totalled \$1.8 billion; while the fiscal year 1978 request totalled \$2.2 billion)

- o A reduced funding level for College Work-Study (fiscal year 1976 appropriations: \$390 million; fiscal year 1978 request: \$250 million)
- o No additional funds for Supplemental Grants or capital contributions to Direct Loans, both deemed to be duplicative with the other grant and loan programs (For these two programs the fiscal year 1976 appropriations totalled \$574 million; while the fiscal year 1978 request was \$0)

The effect of the President's proposed changes is to reduce budget authority \$300 million from the President's fiscal year 1977 current service levels and, consequently cut the number of available aid awards to about 4.3 million from 5.1 million

POSSIBLE ALTERNATIVES 1/

If the Congress desires to focus more assistance than does the President on lower-income students with the available range of student assistance programs, then the following configuration of programs and funding levels could be adopted, thereby distributing about two out of every three student assistance dollars to low income students (under \$10,000 incomes).

- o Basic Grants at a \$1,400 effective maximum and Guaranteed Loans continuing (requiring about \$2.1 billion)
- o Supplemental Grants and Direct Loans funded at maximum authorization levels (totaling about \$850 million)
- o College Work-Study funding substantially increased (to \$480 million)
- o State Student Incentive Grants held constant (at \$44 million)

If the Congress wishes to augment aid to middle-income students then, in addition to funding the above program levels, Basic Grants could be funded at the \$1,800 maximum with an estimated cost of \$2.1 billion (assuming 85 percent participation). With this change approximately 27 percent of student assistance funds would go to students with incomes between \$10,000 and \$20,000 and about 60 percent would go to students with less than \$10,000 incomes.

1/ See Chapter 5 in The Effects of Alternative Postsecondary Education Budgets (to be published by CBO).

MEDICARE COST CONTROLS

ISSUE

The difficulty of reducing medicare costs is that it should be accomplished without reducing the quality of medical care and without disadvantaging medicare beneficiaries in obtaining care. Very little is known of the effects that various cost containment proposals will have on these two concerns. Any proposal should, to the extent possible, also attempt to remedy existing problems in the distribution of medical services among communities and avoid imposing inequitable losses on providers of such services.

PRESIDENT FORD'S PROPOSAL

- o Place an upper limit of 7 percent on annual increases in hospital per diem payments for service to medicare beneficiaries.
- o Withhold that portion of medicare reimbursement to hospitals that is justified by depreciation of hospital assets but not required for debt payments in an escrow account. That portion required for replacement or expansion of the hospital's facilities is only to be released if state approval is secured.
- o Charges reimbursed by supplementary medical insurance to physicians and other providers of covered services are frozen at the levels allowed as reasonable charges in 1977. No increase in a fee is permitted unless that fee is below the 1977 level; even then, the increase is to be limited to 7 percent.

POSSIBLE ALTERNATIVES

Limiting Annual Increases in Per Diem Payments

- o Use an upper limit of 11 percent to allow hospitals to fully recover costs due to wage and price increases and to allow some improvement in the quality or quantity of their services.
- o Or increase hospital reimbursement rates by just enough to recover inflation-caused increases in costs but limit

service expansions severely (to one or two percent of their total costs) and then only allow further increases to individual hospitals on an individual basis to relieve financial distress or to achieve specific improvements in service.

- o Either in addition to limits on annual increases or in place of them, disallow costs in excess of some proportion (for example 120 percent) of the average for hospitals of particular types.

Withholding Reimbursement for Depreciation in Excess of Debt Payments

- o If individual hospitals do not have legal claims on the escrowed funds, then these funds could be reallocated among states to alleviate differences among the states in the ability of their hospitals to provide care.
- o Elimination of the reimbursement for depreciation now proposed to be held in escrow would permit subsidization of desired hospital expansion through direct grants.

Freezing Charges by Supplementary Medical Insurance Providers

- o The SMI provider may charge what he wishes to the patient thus the bulk of the cost savings from the freeze come at the expense of the patient. Requiring acceptance of the allowed charges as full payment for provider services might protect the beneficiary, but it is very likely to also reduce his access to medical care.
- o Another modification of President Ford's proposal would be to freeze the fees in geographic areas where the supply of physicians is considered excessive. This might ameliorate the current uneven distribution of physicians somewhat, though fees are only one consideration in a physician's decision about where to practice medicine.

PROPOSED HEALTH BLOCK GRANT

ISSUE

President Ford's proposed health block grant, known as Financial Assistance for Health Care, is one attempt to deal with rapidly increasing medicaid expenditures, uneven distribution of funds, desires of states for increased flexibility, and possible lack of coordination among categorical programs. The issue is whether these problems can be addressed by a single measure and what the effect of the proposal would be on states, existing programs and their beneficiaries.

PRESIDENT FORD'S PROPOSAL

The proposed health block grant would include medicaid, a program of grants to states for the reimbursement of providers of personal health services to low-income persons. Medicaid is expected to serve approximately 25 million recipients in fiscal year 1978. The block grant would also include 19 other federal programs whose project or formula grants are currently allocated to state or local governments or nonprofit agencies. Eighteen are part of the Public Health Service. These are: most programs providing personal health services, preventive health services, mental health and alcoholism, but not drug abuse services, and health planning and resource development. The 19th is developmental disabilities, a program primarily for retarded persons currently administered by the Assistant Secretary Human Development.

The new legislation is nearly identical in form to that proposed by the President for fiscal year 1977. It would consolidate the 20 programs described above into a single block grant to states. However, unlike last year's proposal, which called for a reduction of nearly \$1 billion, the 1978 proposal would maintain funding at 1977 levels for the categorical programs. In addition, the proposal would:

- o Subject federal medicaid expenditures to an authorization process, thus attempting to limit to roughly 5 percent the annual growth of a program that would have increased by over 15 percent. It would be entirely up to states to control the cost of the program.
- o Redistribute funds to states according to a formula based primarily on percentage of low-income persons. This

would result in substantial shifts of funds from wealthier industrial states to poorer southern or western states in the out years.

- o Eliminate state matching requirements and give states almost total freedom in defining service benefits and eligibility levels.
- o Allow states to eliminate current program definitions as long as they spend 90 percent of the block grant on services for low-income persons.

POSSIBLE ALTERNATIVES

Alternatives for medicaid alone might include a legislative limit and a distribution formula similar to the President's proposal but with required state contributions; federally imposed eligibility and benefit standards, with or without maintenance of state contributions and administrative responsibility; or a process of annual negotiations to establish state expenditures prospectively. 1/

Alternatives for the categorical programs without medicaid might include limited authority for states to transfer portions of each grant they receive directly to another grant, or new grants which would consolidate programs with similar purposes. 2/

1/ See CBO working paper entitled "Short-Term Options for the Medicaid Program" in Working Papers on Major Budget and Program Issues in Selected Health Programs, Committee on the Budget, U.S. House of Representatives, December 10, 1976.

2/ See CBO working paper entitled "Short-Term Options for Categorical Health Programs" in Working Papers on Major Budget and Program Issues in Selected Health Programs, Committee on the Budget, U.S. House of Representatives, December 10, 1976.

SOCIAL SECURITY FINANCING

ISSUE

Payments to social security beneficiaries have exceeded payroll tax receipts for the Old Age, Survivors and Disability Insurance Program (OASDI) in 1975 and 1976. Tax receipts have been depressed as a result of the slow rates of growth in real wages and employment over the past few years. The Ford Administration estimates that the deficit will continue and that the reserves in the trust funds which are used to finance the deficits will therefore continue to decline. If no corrective action is taken, it is projected that the OASDI funds will be depleted by 1982.

PRESIDENT FORD'S PROPOSAL

The current tax rate for the OASDI program is 9.9 percent of the first \$16,500 of covered wages, shared equally by employer and employee. The \$16,500 wage base will rise automatically as the average wage rises; it is expected to reach \$17,700 for 1978. The OASDI tax rate is not scheduled to rise until 2011.

The Ford proposal would increase the payroll tax rate and reduce certain benefits. The combined employer-employee payroll tax rate would be permanently increased in three steps, adding 0.2 percentage point in January 1978, 0.6 percentage point in January 1979, and another 0.3 percentage point in January 1980. Under the Ford Administration's projections, this would increase revenue by \$1.3 billion in 1978, rising to \$14.2 billion in 1982, rebuilding the combined OASDI Trust Fund reserves to 40 percent of current outlays by 1982.

It is also proposed to reduce or eliminate certain types of benefit provisions and this is estimated to save \$998 million in costs in 1978 and more in subsequent years. Most of these proposals have been introduced before.

POSSIBLE ALTERNATIVES

One factor to consider before choosing alternatives is the reliability of the projections. Different models of the OASDI system and different assumptions about the future course of the economy result in different pictures of the shortrun financial status of social security. The estimates of the Ford Administration tend to be on the

pessimistic side of the spectrum. Other estimates indicate that the OASDI trust funds combined are not likely to be depleted until about 1984. ^{1/} The DI fund alone is, however, expected to be depleted in 1979 under most forecasts.

One major objection to a payroll tax increase at the beginning of 1978 is that unemployment is expected to still be high (above a 6 percent rate) and a tax increase at that time could restrict economic growth.

The following alternatives have been suggested:

Postpone a payroll tax rate increase until economic conditions improve markedly.

Measures can be taken to insure the payment of benefits over the next few years including:

- 1) Increase the percentage of the total payroll tax going to the DI trust fund, while reducing the percentage going to the OASI fund. This would avoid an increase in the combined OASDI tax during the present period of high unemployment. Reserves are adequate to cover the combined programs for at least five years unless an unexpected and sharp deterioration in the economy should occur.
- 2) Borrow from general revenues if the reserves should unexpectedly fall too low in the next year or so. The effect on the economy would depend on how the general revenues are funded. This would require a future payroll tax increase to repay the loan.
- 3) Use general revenues (not on a loan basis) as a one time radical departure from payroll tax funding.

Increase the wage base above the amount that would occur automatically.

This could provide a permanent increase in revenues. However, because fewer workers are at high earnings levels, there is a limit to how much can be raised this way. The burden would fall on higher

^{1/} For a discussion of alternative projections of the financial status of the social security system and options for dealing with the financing problem, see the forthcoming CBO Budget Issues Paper, Issues in the Financing of Social Security.

earnings individuals. However, since future benefits are based on taxable earnings this would increase the benefits of these individuals in the future and add to the long run costs of the system.

Move to substantial general revenue funding on a permanent basis.

This would include more fundamental choices about the overall function of social security. Those who view social security primarily as an insurance system regard the payroll tax as a mandatory contribution towards earned retirement benefits. Although the link between benefits and earnings is loose, it is still there. However, if social security is viewed simply as a transfer program then the payroll tax may be considered a more regressive way to fund the transfer than the income tax. It could, however, be difficult to fund an earnings related benefit with the income tax. Clearly many profound questions are raised by general revenue funding.

- Gradually shift the hospital insurance tax to the cash benefit program.

The hospital tax is now 0.9 percent and will increase under present law to 1.1 percent in 1978, amply financing the medicare program in the short run. There have been arguments favoring support of medicare from the general fund. If Congress favors this approach, the entire HI payroll tax could be shifted to OASDI; if not, a limited shift from HI to OASDI could defer the need to increase taxes for OASDI to a more favorable economic period. Of course such a measure is likely to involve future increases in the income tax since medicare is now a \$22 billion program and is increasing rapidly. In addition, any such major change would presumably be coordinated with a wider health insurance plan.

FOOD STAMP PROGRAM REFORM

ISSUE

The food stamp program has grown dramatically in recent years. The recent rapid growth of the program, charges of widespread irregularities and abuse, fraud and mismanagement, and allegations of high income recipients have generated increased public awareness and concern about the program, its efficacy, and its relationship to other public welfare programs. The program's legislative authorization expires with fiscal year 1977.

PRESIDENT FORD'S PROPOSAL

The food stamp program is designed to subsidize low-income households in their purchases of food. Any household meeting the basic eligibility requirements--an income test, an asset test, and a work requirement--may purchase food stamps at a price below their market value. Stamps are redeemable for food purchases at certified retail and wholesale outlets. The federal government bears the entire cost of the bonus food stamps. State administrative costs are shared with the federal government on a 50-50 basis. In fiscal year 1977 an estimated 17.5 million persons will receive food stamps.

President's budget proposal assumes passage of legislation to become effective prior to the beginning of fiscal year 1978. Elements of proposal include:

- o Establishment of a standard deduction for all program participants, \$100 for each household and an additional deduction of \$25 for any household with at least one member over 60 years of age.
- o Maximum net income limitations would be set equivalent to the income poverty guidelines prescribed by the Office of Management and Budget.
- o Eligibility would be based on average monthly income actually received during the ninety day period prior to application.
- o A flat 30 percent purchase requirement.
- o Federal program administration costs would be transferred into a separate administration account for all food programs.

No savings estimated from this transfer.

- o Provide for a monthly client income reporting system.

President's estimated reduction in program costs would be approximately \$882 million, from an implicit current policy of \$5.674 billion in fiscal year 1978.

POSSIBLE ALTERNATIVES

Other proposals to reform the program have been discussed elsewhere. 1/ Such proposals include limiting eligibility to households with net income below the poverty line, increasing benefits to the lowest income households, standardizing deductions, eliminating food coupon purchase requirement, also complete elimination of stamps replaced with cash. Summary table below presents various alternatives, their recipient impact and estimated costs in fiscal year 1978.

1/ The Food Stamp Program: Income or Food Supplementation?
Congressional Budget Office, January 1977.

SUMMARY PROGRAM ALTERNATIVES AND IMPACTS a/

Program Alternatives	Recipient Impact	Program Costs FY 1978
S. 3136 of 94th Congress	Reduce participation by 1 million. Increase benefits to needy. Redirect benefits to large size households	.6 billion
H.R. 13613 Bill of 94th Congress	Increases participation among blind, elderly, disabled. Concentrate benefits on public assistance households, shifts costs to states.	.0 billion
S. 1993, Buckley Bill of 94th Congress	Decreases eligible population, reduces participation approximately 4.2 million persons. Increases benefits to elderly participants.	-.8 billion
Elimination Purchase Requirement S. 2451, Dole-McGovern Bill of 94th Congress	Increases participation, increases benefits to all households, significantly increases benefits to elderly.	1.1 billion
Cash-Out Option	Increases participation. No change in average benefits current recipients.	2.2 billion

a/ For a more detailed description of these alternatives consult source cited in footnote 1.

CHILD NUTRITION AND RELATED FEEDING PROGRAMS

ISSUE

The basic issues in the federal feeding programs relate to: (1) who should receive federal subsidized nutrition benefits, (2) what types of policy instruments, programs or combination of programs are effective in concentrating nutrition benefits on high-risk groups, and (3) what type of financing mechanism is administratively simple, provides an assurance of targeting nutrition benefits, and allows for state and local flexibility in designing nutrition programs. The Summer Food Program and Commodity Distribution Program authorization expires at the end of fiscal year 1977.

PRESIDENT FORD'S PROPOSAL

Approximately 15 nutrition programs currently provide benefits in the form of cash and food to: (1) subsidize lunches and breakfasts served in schools to all school children regardless of income; (2) subsidize meals in summer camps and other summer programs; (3) subsidize meals in residential child care institutions, day care projects and juvenile detention institutions; (4) supplement the diets of pregnant women, infants and young children, and (5) subsidize food purchases for families meeting an income, asset and work test.

President Ford's proposal recommends the elimination of a number of the current programs and replacing them with a consolidated block grant to help states feed needy children. Specifically:

- o Federal support currently given to non-needy children in the National School Lunch, School Breakfast, Special Milk, Child Care and Summer Feeding Programs would be eliminated. Support for such individuals would be available through local non-federal tax revenues or from federal general revenue sharing grants.
- o States would receive a block grant each year sufficient to provide for the delivery of one-third of the dietary requirements for each poor child within the state.
- o States would be required to develop plans to provide free food to poor children.
- o Up to 40 percent of the block grant could be in the form of commodities.

The cost of the proposal would be approximately \$2.1 billion in fiscal year 1978, replacing programs with an implicit cost of approximately \$3.4 billion.

POSSIBLE ALTERNATIVES

The purpose of the block grant is to simplify current program administration, provide states with more flexibility, eliminate subsidies for non-needy children and reduce costs in the federal feeding programs. Other alternatives which might be considered could either limit or expand federal costs while shifting the distribution of benefits among current recipients. These alternatives include:

- o An expanded version of the President's proposal which would also include in the proposed consolidation the food stamp program, food and nutrition education programs and the commodity supplement food program. This approach would be similar to the current Bellmon-Domenici optional consolidation proposal.
- o Continue existing programs but limit meal subsidies to families with incomes above 195 percent of poverty. Such a proposal would reduce outlays by approximately \$660 million, and reduce participation by non-needy children.
- o Consolidation of feeding programs might be reconstructed to include only those current programs which provide assistance to children in institutionalized settings, (i.e., schools, day care centers, institutions, detention centers). Recipients in family or "non-institutionalized" settings, (i.e., supplemental feeding, WIC, Elderly Feeding), could be transferred to the food stamp program. Benefits in the food stamp program could be increased for these special high risk groups.
- o Federal reimbursement rates for meals could be varied by state or regional differences based on either cost of producing meal or variation in average hourly wages.
- o Expansion of federal involvement would result from either (a) a universal reduced-price lunch for children up to some multiple of the poverty line or (b) a universal free lunch for all children below poverty.
- o A coordinated education and institutional feeding block grant targeted on needy children and administered by one federal agency could be considered.

CIVIL SERVICE RETIREMENT FINANCING

ISSUE

Should the agency contributions (and possibly employee salary withholdings) be increased to reflect full cost financing on a so-called "dynamic" basis? At present, most agencies contribute 7 percent of pay as their share of retirement costs. This contribution is matched, in equal amount, by withholdings from the salaries of active employees who number about 2.7 million. (The retirement fund is also financed by appropriations from the Treasury to cover: (a) increased fund liability created by pay raises or new legislation, and (b) increasing amounts to cover interest on the unfunded liability and benefits based on military service credit.) 1/

The combined agency-employee contributions are based on so-called "static" assumptions which do not anticipate the cost for benefit increases due to inflation and pay raises. The most recent report (1975) of the Board of Actuaries of the Civil Service Retirement System suggests that the contributions be determined on a "dynamic" basis which reflects such future costs. Such a change in financing would essentially amount to accounting changes--unless the employee contributions were also increased.

PRESIDENT FORD'S PROPOSAL

The budget recommends that legislation be enacted to change the financing of all federal retirement systems, effective in fiscal year 1979. The proposal would provide for combined employer and employee contributions to cover full costs on a "dynamic" basis which anticipates the costs of future cost-of-living benefit increases and pay increases.

Conservative estimates (based on analysis of the retirement system as of June 30, 1972) indicate that combined employee-employer contributions under a dynamic cost basis would increase from the present 14 percent of pay to at least 22 percent. The Civil Service Commission is completing a study of the financing of the retirement system which should help to further evaluate this proposal. Proponents of changing the basis for financing argue that the present system understates the ultimate costs of the retirement system and the current costs of the federal work force. They believe that full-cost funding on a dynamic basis would:

1/ Military retirement is currently funded by direct annual appropriations.

- o Provide a more accurate measure of agency manpower costs for current programs--thus permitting better assessment of equipment vs. labor costs; recruitment, retention, and promotion policies; and inhouse staff vs. contracting out.
- o Arrest further growth in unfunded liability which results from future automatic cost-of-living increases in retirement benefits.

POSSIBLE ALTERNATIVES

The present "static" basis for determining the level of contributions to the retirement fund could be retained, and other nonbudgetary tools (e.g., OMB circular A-76) could be used to assure that evaluations of agency programs are based on consideration of appropriate costs. Maintaining the present "static" basis for retirement financing would recognize that:

- o The adoption of "dynamic" financing would have no net effect on overall budget outlays or receipts unless the employee contributions were increased. (Changes in agency withholding are simply interbudgetary transactions from one account to another.)
- o The cash position of the civil service retirement system fund is not in jeopardy. Under present financing, the cash reserves are estimated to increase from \$43 billion on September 30, 1976, to about \$75 billion by September 30, 1982.
- o The budget, as an economic document, primarily measures the impact of government operations on the economy through changes in federal outlays and revenues. As such, retirement programs (whatever the mode of financing) effectively operate on a pay-as-you-go basis.
- o Any change in employee contributions should probably await consideration of other proposals concerning total compensations (pay and benefits) of federal employees and of proposals regarding funding of military retirement.

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