

# EXPIRING \$830 BILLION PUBLIC DEBT LIMIT

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON TAXATION AND  
DEBT MANAGEMENT GENERALLY  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-SIXTH CONGRESS  
FIRST SESSION

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# EXPIRING \$830 BILLION PUBLIC DEBT LIMIT

TUESDAY, SEPTEMBER 11, 1979

U.S. SENATE,  
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT  
OF THE COMMITTEE ON FINANCE,  
Washington, D.C.

The subcommittee met, pursuant to call, at 2 p.m., in room 2221, Dirksen Senate Office Building, Senator Harry F. Byrd, Jr. presiding.

Present: Senators Byrd, Long, Packwood, Dole, and Chafee.  
[The press release announcing this hearing follows:]

[Press Release—Sept. 6, 1979]

## FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARING ON PUBLIC DEBT

Senator Harry F. Byrd, Jr. (L., Va.), Chairman of the Subcommittee on Taxation and Debt Management, announced today that a hearing on extension of the temporary limit on the public debt has been scheduled. The Honorable G. William Miller, Secretary of the Treasury, Mr. James T. McIntyre, Director of the Office of Management and Budget, and Alice M. Rivlin, Director of the Congressional Budget Office, will testify on the public debt at 2:00 p.m., Tuesday, September 11, 1979, in Room 2221, Dirksen Senate Office Building.

Senator Byrd noted that the temporary debt limit of \$830 billion which the Congress enacted in February of 1979 is due to expire on September 30.

Senator Byrd said, "The Federal debt is the result of the cumulative decisions which Congress and the Administration make about Federal spending and the Federal deficit. Each year the Federal debt has grown as deficit has been piled on top of deficit. No doubt, Congress will be asked to increase the statutory ceiling.

"The greatest problem our Nation faces is inflation. Unless we get Federal spending under control and reduce the creation of money to finance our debts, record high levels of inflation will continue."

Senator Byrd noted that the money supply has continued to grow and that Federal borrowing, to the extent that the Federal Reserve purchases Federal securities, has a direct impact on the money supply.

By law, the budget is required to be in balance by fiscal year 1981. In addition, during Congressional action on the debt ceiling in February, the Congress required the Administration to submit in fiscal years 1981 and 1982 a balanced budget whether or not the Administration recommends a balanced budget.

Senator Byrd noted that the hearings would give Congress an opportunity to review the work of the Office of Management and Budget in preparing a balanced budget and implementing the requirements established by prior debt ceiling legislation.

Written testimony.—The Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by September 21, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

Senator BYRD. The hour of 2 o'clock having arrived, the subcommittee will come to order.

The current debt ceiling of \$830 billion will expire at the end of this month. No doubt the Congress will approve a new increase in the debt ceiling, an action which it takes almost automatically. Nevertheless, these recurring increases in the limit are concrete evidence of the failure of the Federal Government to get spending under control. The current economic condition of our Nation shows the disastrous consequences of continued deficit spending by the Government. Inflation has risen sharply. At the beginning of the year the administration projected a 7.4-percent rate of inflation for 1979. It now estimates a rate of 10.6 percent for the year, an increase above the original estimate of 3.2 percentage points. Even this projection may be low. The current rate of inflation, according to the most recent Labor Department figures, is above 13 percent for 1979 to date.

Inflation is in my judgment, and in my judgment will continue to be, this Nation's major domestic problem. The decisions which the Congress makes about spending and the size of the Federal debt are extremely significant with regard to our ability to reduce inflation.

Our monetary system must react to Treasury borrowing to finance the operations of our Government. To the extent the Federal Reserve purchases Treasury securities we are expanding the money supply and depreciating the value of the dollar. In addition, the size of the Federal debt creates a heavy interest burden. The gross interest on the Federal debt in fiscal year 1980 is estimated to be \$67.6 billion. This is over a 600-percent increase in interest payments since 1963. Furthermore, the budget estimate may be low because of high interest rates caused by inflation.

If we hope to achieve a prosperous economy in which the well being of American citizens improves in real dollars, we must break the vicious cycle of more Government spending, more Federal borrowing, bigger debts and more inflation.

The hearing today will have as witnesses Mr. G. William Miller, Secretary of the Treasury; Mr. James McIntyre, Director of the Office of Management and Budget; and Mrs. Alice Rivlin, Director of the Congressional Budget Office.

The committee is delighted to have each of you with us today. We appreciate your being here.

Secretary Miller, you may proceed as you wish.

#### STATEMENT OF HON. G. WILLIAM MILLER, SECRETARY OF THE TREASURY

Secretary MILLER. Thank you very much, Mr. Chairman. I certainly would like to—

Senator BYRD. If you will delay just a moment, Senator Dole has a statement which I will insert in his behalf at this point in the record.

[The statement referred to follows:]

#### STATEMENT OF SENATOR BOB DOLE

Mr. Chairman, we are faced once again with a request from the administration to extend the temporary limit on the public debt. We are now dealing with cumulative deficit figures that approach a trillion dollars.

These are not figures to be proud of. Our government does not need to set a new record deficit every year, but without a forthright and unflinching determination to

balance the budget, such records will continue to be set. The administration and the Congress have set the goal of balancing the budget for fiscal year 1981. In view of our current economic situation, it remains to be seen whether the administration can come up with figures that will do this. While inflation boosts tax receipts, the recessionary trend means less real growth. To achieve a balanced budget will require a close, hard look at every spending decision Congress makes. It is no longer adequate to count on the increased tax revenues to moderate the deficit—we should look to reducing the role of the federal government in the national economy.

The perpetual need to increase the debt ceiling dramatizes the failure of government to respond to the public's demand for fiscal responsibility. As things presently stand, we are unwilling or unable to take the long view, with the result that day-to-day spending decisions add-up to an increase in the deficit that no one professes to want. I trust that we will take this occasion to consider what actions we can take to put an end to the never-ending rounds of deficit spending ratified by increases in the debt limit.

Secretary MILLER. Thank you, Mr. Chairman.

Mr. Chairman, I certainly want to echo your sentiments about the importance of inflation—it is the top priority, it is the top problem we face, and there is no question that it has built up over some 15 years and that it is now deeply imbedded in our economic system. It will require an integrated strategy consistently applied over a number of years to wring out inflation, and a good deal of this of course begins with discipline in fiscal policy.

I don't want to pass up the opportunity to say that my experience in government now is less than 2 years. I first came here in March 1978. In that period of time I have been impressed with the attitude of Congress and of the Senate and this committee in supporting that kind of fiscal discipline moving from much higher deficits toward lower deficits and changing the direction of fiscal policy. We have seen that happen and I think it is the right climate. Now is the time to pursue it.

The subject today is a more specific aspect of that as you point out. With your permission, I would appreciate having a copy of my prepared statement inserted in the record and I might just make a few comments then that would lead to a more open discussion.

Senator BYRD. That will be fine.

Secretary MILLER. First I would just like to outline what we are suggesting. As you point out, the debt ceiling is now at \$830 billion and will expire at the end of this month. What is being proposed is an increase in that ceiling for the period over the next year. Our projections of what kind of financing requirements the Nation will have, based on the decisions on spending and taxing made by the Congress, contemplate that over this period of time the additional financing would bring the public debt to \$883 billion at the end of fiscal year 1980.

As has been the practice of the Treasury for some 10 years or more, we also propose that in addition to that projected ceiling that there be an increase of \$3 billion as a contingency so that we will not be trying to make too fine a guess at what conditions may be a year from now. That means we are requesting a debt ceiling expiring September 30, 1980, of \$886 billion.

Now this is an increase of \$56 billion, so the next point I would like to make briefly is just to reconcile in general that figure with the deficit that is being contemplated by Congress in its budget action for fiscal year 1980 and how that fits in with this particular number.

To round off a bit, using the mid-session budget review which Mr. McIntyre has prepared with slight updating for interim developments but not a basic restructuring, we are looking at around a \$30 billion deficit in fiscal 1980. The difference between that number and the \$56 billion is made up of two other components. One is the Federal financing of off-budget agencies—most of that is the Federal Financing Bank to take care of agencies that are not in the budget—and the second is the issuance of Federal securities into the trust funds that have surplus funds that are counted as part of the budgetary process. The debt ceiling does apply under the present law to debt held by those trust funds as well as debt held by the public, and so it is for that reason that we have a difference and sometimes a confusion, and I hope we can be clear on why that works that way.

The third point I would like to make is that there is a need in debt management not only to operate within a ceiling but to look at the maturity of our debt and to have some reasonable system where we are not constantly on a treadmill of refunding maturing debt. We need some orderly structure. In January 1976 the average maturity of the privately held public debt was 2 years and 5 months, really quite short. There has been an effort to lengthen that maturity by a combination of refinancing longer term and progressively offering some longer term securities for new cash so that now we have built up to where the average maturity is 3 years and 8 months, still relatively short but relatively improved.

Now we have already almost exhausted the Treasury's authority to issue bonds of more than 10-year maturity. The present authority under law is \$40 billion and we have issued \$37 billion. So we hope that as a part of the process of this debt consideration that you would be willing to authorize extending that long-term debt authority to \$55 billion. We would not necessarily issue \$15 billion more but then we would have the authority so that if market conditions were favorable, we could use that and tend to lengthen out our debt.

The fourth point I would like to make is something to do with the procedure in which the debt ceiling is revised from time to time. The House Ways and Means Committee and the House itself has considered the possibility of linking the debt ceiling determination to the budgetary process recognizing that the financial needs of the Nation are really determined as Congress establishes its decisions on spending and taxing in the budgetary process. I think in the House that would be a very favorable development because it would couple together events that could be handled by the House, I think, more expeditiously.

I believe in the Senate there is some reservation about that system but I hope that the Senate would be sympathetic to moving in that direction in the House. If the Senate felt that it would be better to keep the item separated, then I think that should still be possible even though the House may couple them. I hope that can be looked at as a way to facilitate this discussion in future years.

Finally, Mr. Chairman, I would like to call attention to the importance to this Nation of maintaining its integrity, of maintaining its commitment to the full faith and credit backing of its obligations and its willingness to demonstrate forcefully that the

Nation stands behind its obligations. As these debt ceiling provisions expire, we have had some periods in the past when there has been a temporary hiatus where there has been no authority to issue additional securities and there has been the impression of disorder and lack of fiscal integrity. I hope that in this process we will be able to act expeditiously in order to avoid that kind of deadline. I want to thank you very much for setting these hearings as early, I believe, as they have been held so we could come up with a timely decision and not have a crisis at the last moment.

Thank you very much.

Senator BYRD. Thank you, Mr. Secretary.

I will ask the staff to notify me at the end of 10 minutes so I may yield to Senator Packwood.

On that last point, while I have not checked the record I believe that this is the earliest that any debt ceiling hearings have been held in either house. As a matter of fact, you and I, Mr. Secretary, set this date the day before you were confirmed into your new position.

Secretary MILLER. That is right and I appreciate your confidence in feeling that I would be confirmed.

Senator BYRD. I felt our Government was getting in you a man of extraordinary ability and I felt there was no doubt about your ability. I am pleased you are involved in Government and in the position you are in now. Senator Packwood and I have consistently worked together to try to hold these hearings at the earliest possible time.

Now in the past, past administrations would like to delay these proceedings as long as possible so as to make it as difficult as possible for the Senate to amend what the House did. I remember one case, about 1966 or 1967, Senator Smathers was handling the debt bill, and I had an amendment to reduce it. They brought it up on the floor of the Senate the last day before the Fourth of July recess and beat me by one vote. The main argument against my amendment was that, if my amendment carried, the July recess would not take place. Since then, I have been very desirous to get the matter up at an early date.

Now let me ask you this. What is our national debt now, today, or yesterday or the first of the month, whichever figure you might have?

Secretary MILLER. Well, the schedule that we have attached to my testimony shows that the public debt that we project at the end of this month will be \$823 billion.

Senator BYRD. Do you happen to have it for September 1 by any chance?

Secretary MILLER. Yes, sir. I will get that.

Senator BYRD. Anyway it is \$820 billion you say—

Secretary MILLER. \$823 billion at the end of this month.

Senator BYRD. At the end of the month, \$823 billion.

Secretary MILLER. Mr. Chairman, at the beginning of the month it was \$811 billion. \$811 billion at the beginning of the month and projected to be \$823 billion at the end.

Senator BYRD. Now if my arithmetic is correct, it would appear then that you are expecting a deficit which I think your statement



says of \$37 billion, is that right? It would be more than that, would it not?

Secretary MILLER. For the fiscal year 1980?

Senator BYRD. Let's see. Federal funds deficit of \$63 billion?

Secretary MILLER. We are projecting a need of \$60 billion of the additional public debt over the period from the end of this month to September 30, 1980. If you look at the page attached to my testimony, you will see that the public debt subject to limitation increases from \$823 billion to \$883 billion over that 12-month period. The reason that our increase of the debt limit is less than that of course is that we are not using our full debt limit now.

Senator BYRD. But the point I am trying to establish is, do I not understand these figures accurately that there will be a Federal funds deficit of \$60 billion?

Secretary MILLER. The Federal funds deficit is projected to be \$47 billion and there is to be \$13 billion net of additional funds required for either issuing securities to trust funds or financing off-budget items.

Senator BYRD. Well, as a practical matter, that is a part of the Federal funds operation, is it not?

Secretary MILLER. The technical definition of the Federal funds deficit is the difference between the receipts and outgoes of the regular budgetary items but you are correct that we are talking in round terms of \$60 billion of additional financing requirements for the Federal Government over this period of time.

Senator BYRD. The only reason that the overall deficit, unified deficit, does not show up at that \$60 billion figure is because you anticipate a surplus in the trust funds, isn't that correct? Then you reduce the \$60 billion by what you project the trust fund to be in the trust fund is that correct?

Secretary MILLER. That is correct. We reduce it by two figures. The trust fund surplus is roughly \$18 billion and that would bring your \$60 billion down to \$42 billion; and the difference between that and the projected deficit on a unified basis of \$29 billion, that \$13 billion, is represented fundamentally through the Federal Financing Bank.

Senator BYRD. Now on the \$18 billion of trust fund surplus, could you break down for the committee the major items?

Secretary MILLER. I am going to let Mr. McIntyre do this because he is more of an expert on these trust funds than I am.

Senator BYRD. All right.

Secretary MILLER. Perhaps we should go on with the questioning and we can do a little arithmetic and give you those numbers, Mr. Chairman.

Senator BYRD. Very good.

Now you say that the average—

Secretary MILLER. Well, now I think we have them right here thanks to Miss Rivlin. The 1980 does not tie though, Alice.

Ms. RIVLIN. You may have somewhat different numbers.

Secretary MILLER. I think we better use the OMB numbers.

As you say, in some of these programs we have so many different figures we can't keep track.

Senator BYRD. In the Finance Committee this morning there were estimates as to what the windfall profits tax would bring in and those estimates varied from \$180 billion to \$480 billion.

Secretary MILLER. That is a fair difference.

Senator BYRD. I don't know how one is going to legislate under those conditions.

Secretary MILLER. Impossible.

Senator BYRD. While he is looking that up, let me ask you, on the maturity of your paper at the present time you say the average maturity is roughly 4 years.

Secretary MILLER. Yes; 3 years and 8 months at the present time.

Senator BYRD. What is the total now of your long term securities?

Secretary MILLER. The maturities are as follows.

Mr. Chairman, of the present debt outstanding, and I am going to go back to June 30 because, while we talked about September 1 figures, in order to break it down by all these categories we were using the last quarterly figures. At that time the debt was \$805 billion. Of that amount, \$288 billion was held in Government accounts, either the Federal Reserve or in Government trust, so that the amount outstanding that was privately held was \$517 billion.

Now a good deal of this is nonmarketable and the part that is privately-held marketable at June 30 was \$378 billion. Of that, \$120 billion was short term bills and another \$126 billion was in coupon securities 2 years and under, so that you have \$246 billion of 2 years or less and the balance is in longer maturities. Only \$36 billion was outstanding with maturities of over 10 years.

Senator BYRD. \$36 billion?

Secretary MILLER. Yes, sir

Senator BYRD. Now what is the total amount of Treasury borrowing that is anticipated in the next 9 months?

Secretary MILLER. In the next 9 months the total borrowing would be \$37 billion. \$37 billion in the next 9 months.

Senator BYRD. Could you tell the committee how this compares to total Treasury borrowing in the preceding 9 months?

Secretary MILLER. In the preceding 9 months that would be from the beginning of the year until the end of September. For 1979 for the 9 months I don't have the monthly figures here but it would be in the order of magnitude of \$25 billion. It would have been less, not because of the deficits showing any greater, but because there was a switch in pulling down some cash balances and tightening up on the use of resources in order to borrow less during that period. So we are assuming now, Mr. Chairman, that from this point on we will use a flat \$15 billion of operating cash and on that basis we will not be building or drawing down cash. On that basis we would expect to see a need for the 9 months of \$37 billion.

Senator BYRD. Of that \$37 billion, how much is for new debt and how much is for a rollover of the old debt?

Secretary MILLER. \$37 billion would be all new debt. In addition to the \$37 billion we would have to, of course, offer securities to refund the maturities of all of these coming due in that period of time, in 9 months. We would have some \$200 billion coming for the whole year. It would be about \$200 billion to be rolled over. In refunding the \$200 billion, we will also have to increase the offer-

ing by another \$37 billion during that 9 months to fund the additional financial requirements.

Senator BYRD. Now let me see if I understand this correctly.

Secretary MILLER. If I can put it in generalized terms, as long as we have our generalized structure with short term debt, then that debt constantly comes due and has to be financed and then we have to cover both our deficit needs and our refinancing needs.

Senator BYRD. The rollover for the upcoming fiscal year is in round figures, \$200 billion?

Secretary MILLER. Yes, sir.

Senator BYRD. Now on top of that you will have the \$37 billion—

Secretary Miller. For the year we will have \$60 billion.

Senator BYRD. So for the year you are going to the money markets for—

Secretary Miller. \$260 billion.

Senator BYRD. For \$260 billion. Now could you indicate how that \$260 billion compares to the total that you needed to go into the money markets for the current fiscal year?

Secretary MILLER. The current fiscal year we are going to have approximately the same amount. We will have financed an over \$50 billion increase. It is about the same.

Senator BYRD. The Treasury is paying now for short term money. How much are you paying?

Secretary MILLER. Well, yesterday we had a new record in interest rate charges for short term. The bills were over 10.5 percent. That is the highest rate ever paid.

Senator BYRD. That is the highest rate in the history of the Nation that the Government has ever paid for money, more than 10.5 percent.

Secretary MILLER. That is correct.

Senator BYRD. Do you anticipate higher interest rates, a higher figure than that during the upcoming fiscal year?

Secretary MILLER. For the purposes of planning these figures we have used average interest rates over the year and the interest rates that OMB has incorporated in fiscal year 1979 is a mixture of short-term rates payable last fall, the first quarter, second quarter and so forth.

The assumption in the budget determination is that in the next 12 months the average short-term rate paid will be 8.2 percent. Now you must remember that all of the Federal debt includes not just that rollover we are talking about and the additional moneys, but a good deal that is on different terms. Savings bonds, for example, represent about \$80 billion and they are outstanding at lower interest rates, and longer term Governments are at lower interest rates. OMB has projected an 8.2 percent composite rate on short-term Federal debt for the fiscal year 1980 compared to 9 percent in fiscal year 1979.

Senator BYRD. In your professional judgment does that seem appropriate or does it seem low?

Secretary MILLER. Mr. Chairman, I think it is a difficult figure to estimate and I think we should be pleased if we can achieve what OMB has projected. The reasons are that in the second quarter of this year we had a severe shock in the increased price of oil and

that increase of 60 percent in the price of oil, when it works its way into our economy, will add about 2 percent to inflation this year. Any time there is a major introduction of new inflation there will be a sympathetic increase of interest rates as lenders seek to maintain the real income from their loans. Of course, it is only on new borrowings that higher interest rates can apply so there is a slow upward drift.

The assumption that we will be able to move in the other direction next year is the assumption that we will see some winding down of inflation as we get past this oil shock and begin to move. There is a good basis for that because if you take out energy and food which has been volatile and the housing which has been tied to this interest rate, take out those factors, and the underlying inflation rate has been about 7.5 percent. If we can move back down from these very unusual, extraordinary increases in energy and food and housing and not see them repeated, we can hope to make some progress.

Senator BYRD. What are the coming current Federal Reserve holdings of—

Secretary MILLER. The current Federal Reserve Government holdings would be \$110 billion.

Senator BYRD. Do you happen to have figures which could compare that with 5 years ago?

Secretary MILLER. Yes, I think we probably have a table that can do that.

Frank, could you just dig that out.

[The following was subsequently supplied for the record:]

#### UNIFIED BUDGET OUTLAYS AND PERCENT INCREASE PER YEAR

[Dollar amounts in billions]

Fiscal year	Outlay	Increase	Percent increase
1973.....	\$247.1		
1974.....	269.6	\$22.5	9.1
1975.....	326.2	56.6	21.0
1976.....	366.4	40.2	12.3
1977.....	402.7	36.3	9.9
1978.....	450.8	48.1	11.9
1979 <sup>1</sup> .....	496.8	46.0	10.2
1980 <sup>1</sup> .....	543.3	46.5	9.4

<sup>1</sup> Estimate.

#### ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES, JUNE 30, 1979

[Dollar amounts in billions]

Held by	Amount	Percent
Federal Reserve System.....	\$109.7	13.6
Government accounts.....	178.6	22.2
Total.....	288.3	35.8

## ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES, JUNE 30, 1979—Continued

(Dollar amounts in billions)

Held by	Amount	Percent
Held by private investors:		
Individuals:		
Savings bonds .....	80.6	10.0
Other securities .....	31.8	4.0
Total individuals .....	112.3	14.0
Commercial banks .....	95.0	11.8
Insurance Companies .....	14.5	1.8
Mutual savings banks .....	5.0	.1
Corporations .....	24.0	3.0
State and local governments .....	68.0	8.4
Foreign and international .....	119.5	14.8
Other investors .....	78.3	9.7
Total, privately held .....	516.6	64.2
Total public debt securities outstanding .....	804.9	100.0

Note.—Figures may not add to totals due to rounding.

Source: Office of the Secretary of the Treasury. Office of Government Financing.

## MATURITY DISTRIBUTION OF FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES, JUNE 30, 1979

(Dollars in millions)

Years to maturity	Marketable	Nonmarketable	Total
Under 1 year .....	\$65,838	\$8,486	74,324
1 to 5 years .....	24,032	14,335	38,367
5 to 10 years .....	1,006	5,654	6,660
Over 10 years .....	4	153	157
Total .....	90,880	26,628	119,508

Source: Office of the Secretary of the Treasury. Office of Government Financing.

## Major foreign holders of Treasury Public Debt Securities, June 30, 1979

(In millions)

Oil exporting countries <sup>1</sup> .....	\$11,160	Netherlands .....	2,798
Belgium .....	678	Switzerland .....	11,978
Canada .....	1,941	United Kingdom .....	7,202
France .....	7,208	International and regional .....	4,240
Germany .....	34,144	All other .....	11,387
Italy .....	4,974		
Japan .....	21,798	Total .....	119,508

<sup>1</sup> Includes Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates (Trucial States), Algeria, Gabon, Libya, and Nigeria.

## CHANGES IN FOREIGN HOLDINGS OF PUBLIC DEBT SECURITIES

[Dollars in billions]

	Dec 31, 1978	June 30, 1979 <sup>1</sup>	Change <sup>2</sup>			
			Total	Nonmarketable	Add-ons	Other transactions (net)
Belgium.....	.7	.7	-.1			-.1
Canada.....	2.5	1.9	-.5			-.5
France.....	6.5	7.2	.7			.7
Germany.....	41.0	34.1	-6.9	-2.6	.4	-4.7
Italy.....	4.0	5.0	1.0	(*)		1.0
Japan.....	29.9	21.8	-8.1	-.1	.4	-8.4
Netherlands.....	2.3	2.8	.5	-.1	.1	.5
Switzerland.....	15.5	12.0	-3.5	-.1		-3.4
United Kingdom.....	6.3	7.2	.9		(*)	.9
International and regional.....	5.3	4.2	-1.1			-1.1
Oil producing countries.....	11.4	11.2	-.2	(*)	.1	-.3
All other.....	12.3	11.4	-1.0		.1	1.1
Total.....	137.8	119.5	-18.3	-2.8	1.1	-16.6

<sup>1</sup> Preliminary<sup>2</sup> Less than \$50,000,000

Note.—Totals may not add due to rounding

Source: Office of the Secretary of the Treasury, Office of Government Financing.

FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES<sup>1</sup>

[Dollars in billions]

December 31—	Foreign and international holdings	Total public debt	Foreign and international as a percent of total public debt
1968.....	\$12.4	\$356.2	3.5
1969.....	10.4	367.4	2.8
1970.....	19.7	388.3	5.1
1971.....	46.0	423.3	10.9
1972.....	54.4	448.5	12.1
1973.....	54.7	469.1	11.7
1974.....	58.8	492.7	11.9
1975.....	66.5	576.6	11.5
1976.....	78.1	653.5	12.0
1977.....	109.6	718.9	15.2
December 1978.....	137.8	789.2	17.5
June 1979.....	119.5	804.9	14.8

<sup>1</sup> To conform with the unified budget presentation, figures have been adjusted to exclude \$1,825,000,000 in 1968 and \$825,000,000 in years 1969-73 of non-interest-bearing notes to the IMF.

## FEDERAL FINANCING REQUIREMENTS

[Dollars in billions]

	Fiscal year—		
	1978	1979 <sup>1</sup>	1980 <sup>2</sup>
Budget deficit.....	\$48.8	\$30.3	\$29.4
Off-budget deficit.....	10.3	13.2	11.6
Total deficit.....	59.2	43.5	41.0

## FEDERAL FINANCING REQUIREMENTS—Continued

(Dollars in billions)

	Fiscal year—		
	1978	1979 <sup>a</sup>	1980 <sup>a</sup>
Means of financing other than borrowing from the public <sup>a</sup> .....	-.1	-12.3	-2.0
Total borrowing from the public.....	59.1	31.2	39.0
Increase in debt held by Government agencies.....	12.2	17.5	20.1
Increase in gross Federal debt.....	71.3	48.7	59.1

<sup>a</sup> Fiscal year 1980 budget estimates.<sup>a</sup> Consists largely of change in Treasury cash balance.

## DEBT SUBJECT TO LIMIT, FISCAL YEARS 1978-80

(In billions of dollars)

	Actual 1978	Estimate	
		1979	1980
Unified budget deficit.....	\$48.8	\$30.3	\$29.4
Portion of budget deficit attributable to trust surplus or deficit (-).....	12.7	16.5	17.9
Federal funds deficit.....	61.5	46.8	47.3
Deficit of off-budget Federal entities.....	10.3	13.2	11.6
Total to be financed.....	71.9	60.0	58.9
Means of financing other than borrowing, and other adjustments.....	0.9	-9.8	0.8
Change in debt subject to limit.....	72.7	50.2	59.7
Debt subject to limit, beginning of year.....	700.0	772.7	822.9
Anticipated debt subject to limit, end-of year.....	772.7	822.9	882.6

# FEDERAL DEFICITS AND DEBT, FISCAL YEARS 1970-80

[In billions of dollars]

	1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979 <sup>a</sup>	1980 <sup>a</sup>
Federal funds deficit.....	13.1	29.9	29.3	25.6	18.7	52.5	68.9	11.0	54.5	61.5	46.8	47.3
Less trust fund surplus (-) or deficit.....	-10.3	-6.8	-5.9	-10.7	-14.0	-7.4	-2.4	2.0	-9.5	-12.7	-16.5	-17.9
Equals total unified budget deficit.....	2.8	23.0	23.4	14.8	4.7	45.2	66.4	13.0	45.0	48.8	30.3	29.4
Plus deficit of off-budget Federal entities <sup>a</sup> .....				.1	1.4	0.1	7.3	1.8	8.7	10.3	13.2	11.6
Equals total deficit.....	2.8	23.0	23.4	14.9	6 <sup>b</sup>	53.1	73.7	14.7	53.7	59.2	43.5	41.0
Less nonborrowing means of financing <sup>a</sup> .....	2.6	-3.6	-3.9	4.4	-3.4	-2.4	9.2	3.3	-1	-1	-12.3	-2.0
Equals total borrowing from the public.....	5.4	19.4	19.4	19.3	3.0	50.9	82.9	18.0	53.5	59.1	31.2	39.0
Plus change in debt held by Government agencies <sup>a</sup> .....	10.1	7.4	8.4	11.8	14.8	7.0	4.3	-3.5	9.2	12.2	17.5	20.1
Equals change in gross Federal debt.....	15.5	26.9	27.9	31.1	17.8	57.9	87.3	14.5	62.7	71.3	48.7	59.1
Less change in Federal agency debt.....	1.7	.3	1.3	-2	-9	1.1		-2	1.4	1.4	1.5	.5
Equals change in gross public debt.....	17.2	27.2	29.1	30.9	16.9	59.0	87.2	14.3	64.1	72.7	50.2	59.7
Plus change in other debt subject to limit <sup>a</sup> .....	-7	-1.2		-4		.1	.1					
Equals change in debt subject to limit.....	16.5	26.0	29.1	30.5	16.9	59.0	87.3	14.3	64.1	72.7	50.2	59.7
Debt outstanding end of fiscal year:												
Gross Federal debt <sup>a</sup> .....	382.6	409.5	437.3	468.4	486.2	544.1	631.9	646.4	709.1	780.4	829.1	888.4
Less Federal agency debt <sup>a</sup> .....	12.5	12.2	10.9	11.1	12.0	10.9	11.4	11.7	10.3	8.9	7.3	6.9
Equals gross public debt.....	370.1	397.3	426.4	457.3	474.2	533.2	620.4	634.7	698.8	771.5	821.8	881.5
Plus other debt subject to limit <sup>a</sup> .....	2.5	1.3	1.3	.9	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Equals debt subject to limit.....	372.6	398.6	427.8	458.3	475.2	534.2	621.6	635.8	700.0	772.7	822.9	882.6

<sup>a</sup> Estimate.

<sup>b</sup> Consists largely of Federal Financing Bank borrowings to finance off-budget programs.

<sup>c</sup> See attached table.

<sup>d</sup> Consists largely of trust fund surplus or deficit.

<sup>e</sup> Net of certain public debt not subject to limit.

<sup>f</sup> Fiscal year 1976 figure includes reclassification of \$471,000,000 of Export-Import Bank certificates of beneficial interest from asset sales to debt.

Source: Special Analysis E, U.S. Budget and Mid-Session Review.



## MEANS OF FINANCING OTHER THAN BORROWING FROM THE PUBLIC

[In millions of dollars]

	1978 actual	1979 estimate	1980 estimate
Change in Treasury cash balance.....	-\$3,022	\$7,444	
Increment on gold.....	1		
Gain-U.S. currency valuation adjustment.....	369		
Gain-IMF loan valuation adjustment.....	2		
Profits on gold sales.....	180	2,500	
Increase in USRA cash.....	( <sup>1</sup> )		
Decrease or increase (-) in cash and monetary assets.....	-2,471	9,944	
Increase or decrease (-) in liabilities for:			
Checks outstanding, etc.....	1,917	1,618	\$1,175
Deposit fund balances.....	247	-88	-298
Seigniorage on coins.....	367	820	1,084
Total.....	60	12,294	1,961

<sup>1</sup> Less than \$500,000.

## FUNDS RAISED IN U.S. CREDIT MARKETS

[In billions of dollars and percent]

	Total	Federal	Federal as percent of total
Fiscal year:			
1976.....	\$274.4	\$82.9	30.2
1977.....	379.9	53.5	14.1
1978.....	472.6	59.1	12.5
1979 <sup>1</sup> .....	461.1	31.2	6.8
1980 <sup>1</sup> .....	427.7	39.0	9.1

<sup>1</sup> Estimate.

## INTEREST RATES USED BY OMB IN THE MID-SESSION REVIEW TO ESTIMATE INTEREST ON THE PUBLIC DEBT FOR FISCAL YEAR 1979 AND FISCAL YEAR 1980

[In percent]

Maturity	Interest rate	
	Fiscal year 1979 <sup>1</sup>	Fiscal year 1980 <sup>1</sup>
13 weeks <sup>2</sup> .....	9.2	8.2
26 weeks <sup>2</sup> .....	9.4	8.6
52 weeks <sup>2</sup> .....	9.6	8.8
1 to 3 years.....	9.4	8.8
3 to 6 years.....	9.2	8.8
Over 6 years.....	9.0	8.8

<sup>1</sup> Fiscal year averages.<sup>2</sup> Bank discount basis.

## FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES, JUNE 30, 1979

	Amount (billions)	Percent
Foreign and international official accounts.....	\$112.0	93.7
Other.....	7.5	6.3
Total.....	119.5	100.0

Source: Office of the Secretary of the Treasury, Office of Government Financing.

## OWNERSHIP OF FEDERAL AGENCY DEBT, JUNE 30, 1979

(Dollar amounts in millions)

	Outstanding	Federal reserve and Government accounts	Privately held
Export/Import Bank.....	\$960	\$16	\$944
Federal Housing Administration.....	562	144	418
Government National Mortgage Association.....	3,039	1,328	1,711
Postal Service <sup>1</sup> .....	250	37	213
Tennessee Valley Authority.....	1,725	.....	1,725
Other <sup>2</sup> .....	798	92	706
Total.....	7,334	1,617	5,717

<sup>1</sup> Postal Service is an off-budget agency.

<sup>2</sup> Includes Defense and Coast Guard family housing mortgages.

Note.—Figures may not add to totals due to rounding.

Source: Office of the Secretary of the Treasury, Office of Government Financing.

**Secretary MILLER.** The Federal Reserve holdings have been increasing over this period of time. The total Federal Reserve holdings at the end of June were \$110 billion. Other government accounts held \$178 billion so that the total debt held within the Government would be \$288 billion.

The Federal Reserve holdings at the end of fiscal year 1970 were \$58 billion, in 1975 they were \$80 billion, in 1976 they were \$94 billion, and at mid-calendar year 1979 were at \$110 billion. So from 1970, 58 to 110 is an increase of \$52 billion.

**Senator BYRD.** Well, in 1975 there were \$80 billion.

**Secretary MILLER.** In 1975 it was \$80 billion, yes, sir. I can give them to you year by year but it has gone from \$58 billion to \$80 billion at the end of 1975 and then scaled on up to the present \$110 billion.

**Senator BYRD.** Thank you. I have other questions but I will yield now to Senator Packwood.

**Senator PACKWOOD.** I have some questions of Mr. McIntyre.

**Senator BYRD.** Senator Chafee.

**Senator CHAFEE.** Mr. Chairman, this is really a question of the committee as much as Mr. Miller. How long have we had this request up here for the increase in the debt?

**Secretary MILLER.** Senator, I might say that this is a proposal being made initially now, and the procedure is of course that the bill will first be marked up in the House and then moved here. Chairman Byrd has been, I think, extremely helpful in suggesting

to me, when I was considered for nomination, that we move early on this and so it has come up much earlier than usual, I would say.

Senator CHAFEE. One of the problems I find, Mr. Chairman, is that we are always put in an emergency situation when we take up proposals to increase the debt ceiling. The day of reckoning is only 20 days off and so we better move quickly, and if we don't, the roof is going to fall in, and I find that unfortunate. Maybe nothing can be done about it. I suppose in the final analysis even though we can all rant and rave about the debt, it stems from the fact that we as Congress spend more than we take in, thus the debt has to be increased. I noticed that the Secretary touched on that in his statement.

Secretary MILLER. Senator, if you let your wife have a credit card, when they come due you usually have to pay them. Or if your wife lets you have a credit card, which is my case.

Ms. RIVLIN. Thank you, Mr. Secretary.

Senator CHAFEE. I apologize for not being here earlier, Mr. Chairman, but it seems to me that the Secretary has touched on this in his own statement where he says on the bottom of page 4 that the increase in the debt each year is simply the result of earlier decisions of the Congress that puts the ball in our court and I just hope that we can somehow get these debts under control.

Thank you.

Senator BYRD. Senator Chafee, in regard to your very justified comment about being put under the gun, so to speak, with only 21 days, I mentioned this earlier, but I will mention it again since you were not here, the only thing I can say about that, it is a slight improvement over what we faced in 1966 or 1967 and throughout that area when President Johnson was then President and the procedure was to wait until the last day—the last day—to bring it to the floor of the Senate. I remember it so well because I had an amendment to reduce the increase in the ceiling and I lost that amendment by one vote. Senator Smathers of Florida handled the legislation and the argument that beat me was that if we did not pass the debt ceiling bill precisely as it came from the House and from this committee, then there would be no Fourth of July recess, I found that to be a very persuasive argument against my position. So I think we have improved a little bit. We have 21 days leeway at this point.

Senator Long.

Senator LONG. Mr. Secretary, we usually ask the Treasury to take into account inflation and productivity and a number of items along that line. I believe your staff is familiar with that material. Has your staff brought that information today?

Secretary MILLER. Well, Senator, my associate just points out to me that these numbers published by the Commerce Department were discontinued, and I think they were referred to as the Long tables, which may have some relevance. They were published through 1976 and they have not been since. They could be updated if it would be desirable.

Senator LONG. I would like to have that information. I think it is very helpful. It shows what is the net Federal debt.

Secretary MILLER. Yes.

Senator LONG. I have some difficulty with the debt that the Federal Government owes to the Federal Government. You recently came to the Treasury from the Federal Reserve and you must know the Federal Reserve holds quite a bit of that debt. I was under the impression that this Government owns the Federal Reserve. Is the right or not Mr. Secretary?

Secretary MILLER. Well, the Federal Reserve holds \$110 billion of securities and as a creditor of the Federal Government we might say the Federal Reserve has a big stake in us, but the figures certainly can be updated.

Senator LONG. I want to know, for example, how much do we have in our trust funds. I also think it is good that those charts that I have been asking for down through the years also show how much we owe in terms of constant dollars. When you adjust for inflation it does make a difference. They also relate the gross national product to the debt, which is something President Kennedy used to stress. If you relate the amount of money we owe to what we have, it shows pretty good things.

In other words, how much you owe is relevant to what your income is, what you have to pay your debt with. The state of the economy and how much we owe is relevant to what we have, to how much the American people have in income and so forth. I would like to ask if that information could be obtained and I would like to have it made a part of this record, Mr. Secretary. I would hope that it might even be made a part of the committee report. I think it is useful for Senators to see how these things relate to one another so that you can have a better perspective of what the whole problem is.

Senator BYRD. Without objection, that will be made a part of the committee record.

[The document to be furnished follows]:

## COMPARISON OF TRENDS IN FEDERAL DEBT AND GROSS NATIONAL PRODUCT

(Dollar amounts in billions)

Fiscal year	Debt outstanding, end of year					GNP	Debt held by public as percent of GNP
	Gross Federal debt	Federal Government accounts	Held by—				
			The public				
			Total	Federal Reserve System	Other		
1954.....	\$270.8	\$46.3	\$224.5	\$25.0	\$199.5	\$363.6	\$61.7
1955.....	274.4	47.8	226.6	23.6	203.0	380.0	59.6
1956.....	272.8	50.5	222.2	23.8	198.5	411.0	54.1
1957.....	272.4	52.9	219.4	23.0	196.4	432.7	50.7
1958.....	279.7	53.3	226.4	25.4	200.9	442.1	51.2
1959.....	287.8	52.8	235.0	26.0	209.0	473.3	49.7
1960.....	290.9	53.7	237.2	26.5	210.7	497.3	47.7
1961.....	292.9	54.3	238.6	27.3	211.4	508.3	46.9
1962.....	303.3	54.9	248.4	29.7	218.7	546.9	45.4
1963.....	310.8	56.3	254.5	32.0	222.4	576.3	44.2
1964.....	316.8	59.2	257.6	34.8	222.8	616.2	41.8
1965.....	323.2	61.5	261.6	39.1	222.5	657.1	39.8
1966.....	329.5	64.8	264.7	42.2	222.5	721.1	36.7
1967.....	341.3	73.8	267.5	46.7	220.8	774.4	34.5
1968.....	369.8	79.1	290.6	52.2	238.4	829.9	35.0
1969 <sup>1</sup> .....	367.1	87.7	279.5	54.1	225.4	903.7	30.9
1970 <sup>2</sup> .....	382.6	97.7	284.9	57.7	227.2	959.0	29.7
1971.....	409.5	105.1	304.3	65.5	238.8	1,019.3	29.9
1972.....	437.3	113.6	323.8	71.4	252.3	1,110.5	29.2
1973 <sup>3</sup> .....	468.4	125.4	343.0	75.2	267.9	1,237.5	27.7
1974.....	486.2	140.2	346.1	80.6	265.4	1,359.2	25.5
1975.....	544.1	147.2	396.9	85.0	311.9	1,457.3	27.2
1976 <sup>4</sup> .....	631.9	151.6	480.3	94.7	385.6	1,624.7	29.6
TQ.....	646.4	148.1	498.3	96.7	401.6	1,718.5	30.0
1977.....	709.1	157.3	551.8	105.0	446.8	1,845.7	29.9
1978.....	780.4	169.5	610.9	115.5	495.5	2,061.6	29.6
1979 estimate.....	829.1	186.9	642.2	(a)	(a)	2,297.8	28.1
1980 estimate.....	892.2	207.1	685.1	(a)	(a)	2,510.1	27.3
1981 estimate.....	941.7	240.2	701.5	(a)	(a)	2,781.3	25.2
1982 estimate.....	966.3	290.2	676.1	(a)	(a)	3,092.9	21.9

<sup>1</sup> During 1969, 3 Government-sponsored enterprises became completely privately owned, and their debt was removed from the totals for the Federal Government. At the dates of their conversion, gross Federal debt was reduced \$10,700,000,000, debt held by Government accounts was reduced \$600,000,000, and debt held by the public was reduced \$10,100,000,000.

<sup>2</sup> Gross Federal debt and debt held by the public increased \$1,600,000,000 due to a reclassification of the Commodity Credit Corporation certificates of interest from loan assets to debt.

<sup>3</sup> A procedural change in the recording of trust fund holdings of Treasury debt at the end of the month increased gross Federal debt and debt held in Government accounts by about \$4,500,000,000.

<sup>4</sup> Gross Federal debt and debt held by the public increased \$500,000,000 due to a retroactive reclassification of the Export-Import Bank certificates of beneficial interest from loan assets to debt.

<sup>a</sup> Not available.

Source: Office of Management and Budget.

## PERCENT DISTRIBUTION OF NET INDEBTEDNESS

Fiscal year	Federal	State and local	Private	Federal plus State and local
1954	44.1	7.6	48.3	51.7
1955	41.7	8.1	50.2	49.8
1956	38.6	8.4	53.0	47.0
1957	36.1	8.7	55.2	44.8
1958	35.2	9.1	55.7	44.3
1959	34.0	9.3	56.7	43.3
1960	32.1	9.6	58.3	41.7
1961	30.9	9.8	59.3	40.7
1962	29.9	9.9	60.2	39.8
1963	28.7	9.9	61.4	38.6
1964	27.1	9.9	63.0	37.0
1965	25.6	9.9	64.5	35.5
1966	24.0	9.9	66.1	33.9
1967	22.9	10.0	67.1	32.9
1968	22.8	9.8	67.4	32.6
1969	21.1	10.1	68.8	31.2
1970	20.1	10.1	69.8	30.2
1971	19.8	10.4	69.8	30.2
1972	19.2	10.3	70.5	29.5
1973	18.2	9.9	71.9	28.1
1974	16.7	9.8	73.5	26.5
1975	17.7	9.5	72.8	27.2
1976	19.4	9.3	71.3	28.7
1977	19.3	9.1	71.6	28.4
1978	18.9	8.9	72.2	27.8

Source: Office of Management and Budget.

## GROSS FEDERAL DEBT AND PER CAPITA DEBT

Fiscal year	Gross Federal debt (billions)	Gross Federal debt per capita
1954	\$270.8	\$1,661
1955	274.4	1,654
1956	272.8	1,615
1957	272.4	1,584
1958	279.7	1,599
1959	287.8	1,618
1960	290.9	1,610
1961	292.9	1,595
1962	303.3	1,626
1963	310.8	1,642
1964	316.8	1,651
1965	323.2	1,663
1966	329.5	1,676
1967	341.3	1,718
1968	369.8	1,842
1969	367.1	1,811
1970	382.6	1,867
1971	409.5	1,978
1972	437.3	2,094
1973	468.4	2,226
1974	486.2	2,294
1975	544.1	2,548
1976	631.9	2,937
1977	709.1	3,270
1978	780.4	3,571

## GROSS FEDERAL DEBT AND PER CAPITA DEBT—Continued

Fiscal year	Gross Federal Debt (billions)	Gross Federal debt per capita
1979 <sup>1</sup> .....	829.1	3,765
1980 <sup>1</sup> .....	892.2	4,016
1981 <sup>1</sup> .....	941.7	4,200
1982 <sup>1</sup> .....	966.3	4,269

<sup>1</sup> Estimate

Secretary MILLER. I submit that at the end of the 1950s, following World War II, the debt in relation to our gross national product was quite a bit higher because we had built up a heavy debt to pay for the war. Steadily since then it has been declining. It was 62 percent in 1954. That is our Federal debt held by the public, including what is held by the Federal Reserve. The debt held outside the Government accounts was 62 percent of our GNP and this year it will be down to about, oh, 27 or 28 percent. So that is a normal phenomenon, that the economy grows faster than the debt grows. Those are very relevant numbers and I will be pleased to submit that.

Senator LONG. Can you give me your views on this? Let's assume that half that debt is owed to the Federal Reserve. As a former Chairman of the Federal Reserve, what difference does it make if the debt is owed to the Federal Reserve as opposed to that same amount of money being owed to private individuals?

Secretary MILLER. Just to put the numbers in perspective, of the \$805 billion of debt subject to limit that was outstanding on June 30, \$110 billion was held by the Federal Reserve and \$178 billion was held by other government accounts so that the Federal Reserve and Government accounts held \$288 billion.

Now that money that is held in Federal Reserve and Government accounts needs to be netted; and obviously if that debt, which is 36 percent of our debt, were held by outside interests it would have had a very substantial effect on the funding requirements, there is just no question. So that we own 36 percent of the debt within the Federal system from moneys that have been built up either through the monetary system or through the surpluses that have been accumulated through taxes in order to pay future required costs.

Senator LONG. My view is: Even if it is social security funds, to the extent we have it invested in Federal funds somewhere we are just that much ahead of the hounds.

Secretary MILLER. That is right.

Senator LONG. The people have paid over those funds and it indicates a certain amount of restraint and sacrifice on the part of the American people to make it available.

I am going to have to go and vote. I will come back with the chairman as soon as I can. I think that will be about 7 minutes from now.

Thank you.

[Whereupon, a short recess was taken.]

Senator BYRD. The Chair is sorry about the interruption, ladies and gentlemen.

As you know, the Senate is voting on mine legislation.

Mr. Secretary, what are the administration's plans with regard to the Chrysler Corp.?

Secretary MILLER. Mr. Chairman, the Chrysler Corp. has indicated it has proposed a possibility of Federal assistance in its financial needs to make the transition over the next year or two, and in considering that the administration has determined that it is not appropriate for Federal assistance to be given to private industrial corporations as a general proposition. There are, however, exceptions that may exist where there is an overriding national interest. In this case I believe there are national interest considerations both in terms of employment outlook in some of our inner-city areas, and in the need to maintain vital competition within a major industry where there are only limited numbers of producers, and in the importance of keeping the industrial capacity intact and in contributing to the longer-term needs of our Nation.

For that reason, the administration has indicated a willingness to Chrysler to consider some form of aid along the lines of a loan guarantee, provided that the company could present a financial plan which would show that it had received support, sacrifices, inputs, contributions from all of the constituencies involved with the company—from its financial lenders, from its creditors, from its suppliers, from its employees, its management, its shareholders and that the outlook would be for limited Federal aid in the form of loan guarantees for a limited time looking to assure that the company would maintain a viable posture. If all of those conditions are met in the plan, I think we would be prepared to consider bringing it to the Congress to see if such a program would be compatible.

The company has not yet submitted to us a plan, so we are not at this point in a position to know whether we have something that we would be able to recommend to the Congress or not. We think that we should not do this lightly; that any program should be one that has shown primary responsibility and primary contributions from those who have the direct interest. The Federal participation should be limited in amount, in time, and should be well protected to assure repayment and should merely fill in the gap that is necessary to complete a program of transition.

Senator BYRD. What do you have in mind as to limit in amount and limit in time?

Secretary MILLER. The corporation had suggested that it needed \$1 billion in tax credits. I believe that such tax credits are inappropriate and I would not recommend them. I would be opposed to them. I think the \$1 billion is far too large. I think we have got to talk about considerably less than \$1 billion, and I think we should not talk in terms of tax credits which means putting taxpayers' money in a very exposed condition. We should be talking instead about guarantees of loans that are in a priority position, that are well secured and well positioned. As far as time limit, experience in the past has indicated such guarantees can run from 2 to 5 years, and I think that is the kind of periods we would look at.



Now there have been other kinds of enterprises where longer terms have been involved, and there will be a longer period with perhaps something like New York City or with the railroads, but in the case of an industrial enterprise—I believe Lockheed required 4 years.

Senator BYRD. The criteria you listed in considering the bailing out of Chrysler—that criteria could apply to hundreds of corporations, could it not?

Secretary MILLER. Well, I don't think that is quite likely. I think that is the combination of an oligopoly industry structure in a very important industry where competitive factors are important and where we have had the kinds of transitions because of the energy crisis that have upset the historical patterns of products. Those are unique, I believe, and I don't believe that would occur in many other cases.

Senator BYRD. Why not relax the Government requirements?

Secretary MILLER. Well, some of the Government requirements perhaps can be relaxed and those should be considered on the merits by agencies. There has been some relaxing on the agency requirements and there may be other things that can be done that would contribute to making the transition smoother. Those considerations are in the hands of independent agencies that make the determination on the merits. The Treasury would have to make the determination on the merits whether a sound program would help maintain, as I say, a competitive structure in a large industry which has very few producers, and if we keep reducing the number of producers, I think, long term we will lack the competitive vitality that would be desirable.

However, I must hasten to say that I don't think the Government should be involved in any bailout. I think a bailout means to take the risk from those who normally bear it and place it on the Government. In this case I think the Government's role of putting in assistance would be one of being in a prime and priority position and one in which there would be a fee paid for providing the transition-bridging finance and that there would be high probability of a timely repayment.

Senator BYRD. I don't quite understand your definition of a bailout. If the Government signs a note, it seems to me that is a pretty good bailout.

Secretary MILLER. Well, the Government in most of these cases receives a nice fee and never has to put up any money.

Senator BYRD. That is assuming everything turns out well.

Secretary MILLER. That is the one kind of plan we must present. We must not present one which is likely to fail.

Senator BYRD. I hate to see the Federal Government getting into the business of bailing out private businesses.

Secretary MILLER. I certainly agree

Senator BYRD. As I understand our economic system, it is a free enterprise system in the sense that there is freedom to operate and, if possible, to make a profit but I think there is also freedom to go broke if you can't adequately handle and manage your own business. Isn't that fundamental?

Secretary MILLER. It is very fundamental and, as a matter of fact, it is very important to our system because the process of failure is the purifying influence in our economy.

If we continue to prop up uneconomic units, we eventually dilute the efficiency and the vitality of our economy. I could not agree with you more.

In this case there may be a unique situation and, as I say, an exception for a period of transition that is brought about by intervening circumstances that may mean there is a public interest in creating a period of shelter as we do in many cases of the unexpected. We did not expect the 10-fold price increase in energy in the last 6 years that we have seen and that happens to coincide with other objectives and environmental—

Senator BYRD. Chrysler is not the only company in the United States that has been affected by that 10-fold energy cost.

Secretary MILLER. But in the auto industry the requirements are so enormously expensive in relation to their capital that we may well find that, regardless of the underlying principle we both agree on there just may be a circumstance here where we will want to try to maintain a competitive enterprise. I cannot tell you yet, Mr. Chairman, whether we will bring you a plan. That depends, I think, on our approach to this, which is that there should be a very professionally prepared financial and operating strategy. If that is done properly and well and if it appears that a limited amount of Federal assistance would make that work, so that the Nation would gain in long term the advantages I mention, then we certainly will consider making a recommendation. If there is not such a plan, then I don't believe it is likely that we will bring anything to you.

Senator BYRD. Would you require the elimination of dividends during that 5-year period?

Secretary MILLER. I don't see how the Federal Government could put itself in the position of signing someone's note, as you say, and having the shareholders drain off money during the period when we are providing support. It would be logical that dividends should be discontinued.

Senator BYRD. I agree.

Secretary MILLER. I think other sacrifices will have to be made.

Senator BYRD. I think it is rather dangerous and I hope you will give very long and careful consideration before bringing in a proposal.

Secretary MILLER. Let me just restate the philosophy. There is no one, I suppose, more dedicated than I am to the proposition that our private enterprise system is essential to our national strength and that that system means the opportunity to make investments and to reap rewards in a private market economy, and it means taking the risk, and that if there is a mistake or misjudgment that there can be losses. When there are losses it usually means that the mistake or the misjudgment means that you have an inefficient unit that cannot compete and, therefore, I stand by that proposition.

I do recognize that any general proposition is subject to avoiding an arbitrary attitude. That means that there can be no circumstances—earthquake, fire, storm—when we don't want to see some

crux. We saw this in the Great Depression, where we did not injure our enterprise system by helping a number of companies in what was then a unique situation of a 15, 20 percent unemployment rate and a need to get the economy going again. If in an industry there is a depression or a big shock—I don't say we will, but we might be willing to look at temporary help, not for the purpose of Government taking over, but getting over the shock. We did it in the depression and we have done it in the rubber industry, when we wanted to build a synthetic rubber industry where we had to take some of the risk on the Government but the enterprise system had to carry it out ultimately.

Senator BYRD. Just one or two other questions. To go to the expansion of the money supply, I am very much impressed by economists and by business people in New York and elsewhere as to the Euro-dollar market. As I understand it, and you can correct me, variously there is no control over the lending of Euro-dollars and the expansion of Euro-dollars. What is the total Euro-dollar market at the present time; do you happen to know?

Secretary MILLER. Mr. Chairman, the estimates vary because the data is not reliable. It varies—\$600 billion to perhaps higher. Euro-currencies, which not only include Euro-dollars now but include Euro-deposits and loans and other currencies, those markets are not currently subject to any direct control. They are subject, of course, to the indirect control of the central banks and monetary authorities who deal with the primary issuance of the underlying currencies.

If you net down and take out interbank obligations, the size of the Eurodollar market is considerably smaller, perhaps only \$150 billion. It is that degree of net available credit that represents the expansion of credit and is probably much smaller than most people have estimated. The gross figures are quite large. The phenomenon of Euroeconomy markets arose as a result of the great change in oil prices and the growth of what we call petrodollars, large dollar payments to oil producers which then need to be recycled for investment or for portfolio holdings. The Eurocurrency markets that grew to accommodate that have performed a great service.

In my role at the Federal Reserve I have favored a better understanding of those markets and a better surveillance of those markets. For example, central banks certainly had a greater obligation to supervise their banks in the creation of lending and borrowing. I think there is now in the international community a trend in that direction. The United States does that but some countries only look at their domestic situations. If they ignore the Eurocurrency markets there can be a far more dangerous possibility of overextension of credit, of imprudent lending and of capital ratios that are far too risky. So I think that surveillance comes into play.

In addition, I think we need to look at all the prudential aspects that would assure that the banks do not in any way act improvidently in this market. Then I think we can look at other techniques and money control that might be exercised jointly in the world that would help make sure that this market operates efficiently but does not become a source of excess liquidity that will merely fuel inflation in the world. It is a very serious problem and it deserves attention, but its attention should be one that is, I

think, knowledgeable and one of professional investigation rather than being too much taken by the gross numbers which seem so large and perhaps even disturbing.

Senator BYRD. You do feel that there is a potential of a danger though with the ever expanding—

Secretary MILLER. I think it is important we develop an international cooperation system soon and make sure that we do not have an unbridled capacity to generate liquidity in this market.

Senator BYRD. As we go into the new year, what do you see the inflation rate being?

Secretary MILLER. The inflation rate that I like to talk about is the implicit deflator.

Senator BYRD. Is the what?

Secretary MILLER. The implicit deflator. The number that you see a great deal is the Consumer Price Index which describes what would be the current cost of buying a market basket of goods. The trouble with that approach is that it does not reflect the whole economy. It treats an area like housing as if everybody were buying a house today and it ignores the fact that only a very small percent of houses are actually in the market basket in any year. So, therefore, it tends to ride up the cost of all housing as if it were being purchased today.

The implicit deflator figure is really what is happening in the whole economy. If we are buying more automobiles, it reflects that, and it helps us estimate what the inflationary impact of the real activity in the economy is.

On that kind of a basis we are running something about 9, 9.5 percent currently. I see that coming down next year because we will have passed the period of extraordinary increases in energy and fuel and housing which, I think, will abate. The CPI on the other hand is running, and has been running, 13 percent. I think we have to expect that kind of inflation rate to continue double digit this year on the average. I think it will be back down, probably into the single digit next year. The rate of progress is not going to be enormous because of inflation that has built up over 15 years and that is deeply imbedded and built into indexes and the system. It will take us a number of years to unwind it.

So I see us beginning to work off this plateau and move downward. Provided we stick with our strategy, stick with our discipline, stick with our austerity, then I see the inflation rate coming down progressively over the next 5 or 6 years.

Senator BYRD. Senator Packwood has a question.

Senator PACKWOOD. The last time I heard a word like implicit deflator was when Senator Moynihan and I were discussing tuition tax credit and HEW—I think it was Joe Califano—who indicated that the problem of having too many children was that you were a victim of sibling overlap. I am going to have a hard time when I go home saying there is a 13 percent inflation rate because they don't understand the implicit deflator.

Secretary MILLER. I think you have to put it in terms they understand.

Senator PACKWOOD. When somebody says to you, what are your revenue projections for next year and what rate of inflation are

you basing those on, is that normally on the rate of inflation or on your implicit deflator index?

Secretary MILLER. I think all of those factors are taken into account but basically looking at the revenue, you are looking at the total economy so you are looking at all parts of it.

Senator PACKWOOD. If somebody says, is that based on a 7, 9, or 11 percent rate of inflation and they use the word "inflation," what do you presume they mean by this?

Secretary MILLER. Individuals in the street will mean the CPI.

Senator PACKWOOD. What do you mean?

Secretary MILLER. I mean normally the overall economy because I have to take account of exports, imports, things that don't show up there. You are asking me from the point of view of looking at the whole economy in revenues and outflow and a family does not look at the total economy. They look at the things they buy. Many things that operate in our economy are things that are in sectors. I don't mean to complicate your life because we can all talk in CPI terms but there is a divergence.

Senator PACKWOOD. I just want to know what Mr. McIntyre and Miss Rivlin have to say because I know we have different projections in the Budget Committee on what we say is the rate of inflation, but I want to know what you mean by the rate of inflation.

Do you mean that the rate of inflation is measured by the Consumer Price Index or by some other measure?

Secretary MILLER. I mean that when I talk, I try to say very clearly, if I am talking about consumer price inflation, I use that figure. If I am talking about the total economy, I use the deflators that measure that and I try to make the distinction so that I don't confuse people.

In this case maybe I am confusing you more by saying that, but I don't know how else you would do it. If you look at two-thirds of the economy and say its inflation for the year is 11 percent, and for the other one-third of the economy it is only 8 percent, you have to average those together to find out what the total is. That is all I am saying.

Senator PACKWOOD. I have no further questions of the Secretary.

Senator BYRD. Just one additional question along that line. An individual working in the Westinghouse plant or General Electric or someone on the assembly line of Chrysler or General Motors or a farmer or what have you, which indicator should he take or she take?

Secretary MILLER. For the individuals who are doing what you are talking about, Mr. Chairman, the tie-in is to the Consumer Price Index.

Senator BYRD. That is what they feel.

Secretary MILLER. Yes.

Senator BYRD. That is the inflation rate that the average citizen feels is not the implicit deflator, if that is the correct term. If I am right on that statement, it is not the implicit deflator but it is the cost-of-living index.

Secretary MILLER. That is correct.

Senator BYRD. Just one final question. Do you foresee a tax reduction during the Presidential year of 1980?

Secretary MILLER. Mr. Chairman, I always like to answer your questions as forthrightly as I can. I would have to say I just don't know the answer to that question. I would say that if you ask me under present conditions I would answer quite categorically. I don't think that today's conditions are appropriate to consider a tax cut, and certainly they are not appropriate, nor do I see the likelihood that they will be for a general tax cut.

I do believe that, because we are in a recession; we must monitor that recession, and if it deepens and worsens we must be prepared to be realistic and look at whether we should take countercyclical actions that could include spending or taxing decisions. If we do that during this period, it will be because the conditions are worse than they are currently indicated to be, and because we have not been able to predict them well.

Senator BYRD. Now if we do that, and I assume that is what probably will be done, we are doing precisely what has been done for the past 20 years. The second thing is that it seems to me to go directly counter to what you and others in the administration are saying which is that we must lay out a course to combat inflation and we must stick to that course and we must be willing to take some austerity. Am I misinterpreting?

Secretary MILLER. No, I don't think you are misinterpreting at all. I don't think the conditions are appropriate for a tax cut and we must continue to demonstrate our commitment to fiscal discipline. We must correct what has been going on for 20 years and that is in 20 years, I think, we have had one Federal surplus and we have had 19 deficits. We have got to return to the situation where times of optimum use of our economy were in balance. If we have overuse of our economy we are in surplus, but if we fall substantially below our capacity, there will be a deficit because it will come about from the fact that revenue drops and countercyclical spending that is on the books will increase.

So in terms of business cycle, if there is a recession there will always be a widening of the particular deficit or fiscal position.

If there is a serious recession, I think we have to all ask ourselves what are the actions that are appropriate under those circumstances? They are not appropriate under the scenario I see at the moment.

Senator BYRD. Thank you very much, Mr. Secretary. We appreciate your being here.

Secretary MILLER. Thank you.

[The prepared statement of Secretary Miller follows:]

STATEMENT OF HON. G. WILLIAM MILLER, SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Committee, my purpose here today is to advise you of the need for an increase in the public debt limit, and to request an increase in the authority to issue long-term Treasury securities in the market. After discussing these specific debt management requirements, I would like to comment on the need to strengthen the process by which Congress establishes the debt limit.

*Debt Limit*

With regard to the debt limit, the present temporary limit of \$830 billion will expire at the end of September, and the debt limit will then revert to the permanent ceiling of \$400 billion. Prompt enactment of legislation is necessary to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations.

Our current estimates of the amounts of debt subject to limit at the end of each month through the fiscal year 1980 are shown in the attached table. According to the table, the debt subject to limit will increase to \$883 billion at the end of September 1980, assuming a \$15 billion cash balance on that date. This estimate is consistent with the budget estimates in the July 12 Mid-Session Review of the 1980 Budget and later revisions. The usual \$3 billion margin for contingencies would raise this amount to \$886 billion. Thus, the present debt limit of \$830 billion should be increased by \$56 billion to meet our financing requirements in fiscal 1980.

The amount of the debt subject to limit approved by Congress in the May 1979 Budget Resolution is \$887 billion for the fiscal year ending September 30, 1980. Yet, since the Budget Resolution does not have the force of law, it will be necessary for Congress to enact a new debt limit bill before the Treasury can borrow the funds needed to finance the programs approved by Congress last May.

Early next week, the Treasury will announce offerings of 2-year and 4-year notes to refund \$5.9 billion of obligations which mature on September 30 and perhaps to raise new cash. These new offerings will be scheduled to occur on or about September 25 and 26. Since September 30 is a Sunday the obligations maturing on September 30 cannot be paid off or refunded until Monday, October 1, at which time the present debt limit authority will have expired. Thus, without Congressional action on legislation to raise the temporary debt limit by September 24, we will be forced to postpone the 2-year and 4-year note offerings as delivery of the securities on October 1 could not be assured. Failure to offer these securities as scheduled could be disruptive of the Government securities market and costly to the Treasury.

Investors as well as dealers in Government securities base their day-to-day investment and market strategies on the expectation that the Treasury will offer and issue the new securities on schedule. Delayed action by Congress on the debt limit, therefore, adds to market uncertainties, and any such additional risk to investors is generally reflected in lower bids in the Treasury's auctions and consequently in higher costs to the taxpayer. To avoid this needless increase in the interest costs of financing the public debt, I strongly urge that Congressional action on the debt limit be completed as soon as possible.

I know that this Committee has made every effort in the past to assure timely action by Congress on the debt limit. Yet, the record of the past two years has not been good. During this period debt limit legislation was considered by Congress four times. On three occasions action was not taken before the expiration date, and the Treasury was unable to borrow until the Congress acted two or three days later. Significant costs were incurred by the Treasury, and extraordinary measures were required to prevent the Government from going into default. The Treasury was required to suspend the sale of United States savings bonds, and people who depend upon social security checks and other Government payments suddenly realized that the Treasury simply cannot pay the Government's bills unless it is authorized to borrow the funds needed to finance the spending programs previously enacted by Congress.

You would agree, I trust, that it is essential that we do everything possible to restore the confidence of the American people in their government. Unfortunately, this objective has not been served by our recent experiences with debt limit legislation. Confidence in the management of the Government's finances was seriously undermined each time the debt limit was allowed to lapse and we must all work to avoid that outcome in this instance.

#### *Bond Authority*

I would like to turn now to our need for an increase in the Treasury's authority to issue long-term securities in the market without regard to the 4¼ percent statutory interest rate ceiling.

Under this Administration, the Treasury has emphasized debt extension as a primary objective of debt management, a policy which we believe to be fundamentally sound. This policy has caused a significant increase in the average maturity of the debt, reversing a prolonged slide which extended over more than 10 years. In mid-1965, the average maturity of the privately-held marketable debt was 5 years, 9 months. By January 1976, it had declined to 2 years, 5 months, because huge amounts of new cash were raised in the bill market and in short-term coupon securities. Since that time, despite the continuing large cash needs of the Federal Government, Treasury has succeeded in lengthening the debt to 3 years, 8 months currently.

Debt extension has been accomplished primarily through continued and enlarged offerings of long-term bonds in our mid-quarterly refundings as well as routine offerings of 15-year bonds in the first month of each quarter. These longer-term security offerings have contributed to a more balanced maturity structure of the debt, which will facilitate efficient debt management in the future. Also, these

offerings have complemented the Administration's program to restrain inflation. By meeting some of the Government's new cash requirements in the bond market rather than the bill market, we have avoided adding to the liquidity of the economy at a time when excessive liquidity is being transmitted into increasing prices.

Congress has increased the Treasury's authority to issue long-term securities without regard to the 4½ percent ceiling a number of times in recent years, and in the debt limit act of April 2, 1979, it was increased from \$32 billion to the current level of \$40 billion. To meet our requirements over the next 12 months, the limit should be increased to \$55 billion. While the timing and amounts of future bond issues will depend on prevailing market conditions, a \$15 billion increase in the bond authority would permit the Treasury to continue its recent pattern of bond issues throughout fiscal year 1980.

#### *Debt Limit Process*

Mr. Chairman, I would now like to comment on the process by which the public debt limit is established.

It is well recognized that the present statutory debt limit is not an effective way for Congress to control the debt. In fact, the present debt limit process may actually divert public attention from the real issue—control over the Federal budget. The increase in the debt each year is simply the result of earlier decisions by Congress on the amounts of Federal spending and taxation. Consequently, the only way to control the debt is through firm control over the Federal budget. In this regard, the Congressional Budget Act of 1974 greatly improved Congressional budget procedures and provided a more effective means of controlling the debt. That Act requires concurrent resolutions of Congress on the appropriate levels of budget outlays, receipts, and public debt. This new budget process thus assures that Congress will face up each year to the public debt consequences of its decisions on taxes and expenditures.

Moreover, as I indicated earlier in my statement, the statutory limitation on the public debt occasionally has interfered with the efficient financings of the Federal Government and has actually resulted in increased costs to the taxpayer.

Accordingly, the public debt would be more effectively controlled and more efficiently managed by tying the debt limit to the new Congressional budget process. I hope that we can work together to devise an acceptable way to do this. I understand that considerable progress has been made in recent months by members of Congress who have dedicated considerable time and effort to this purpose.

I applaud these efforts and I pledge my full support to secure enactment of this important reform in the management of our nation's finances.

Attachment.

### ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION FISCAL YEAR 1980 <sup>1</sup>

(Dollars in billions)

	Operating cash balance	Public debt subject to limit	With \$3,000,000,000 margin for contingencies
1979:			
September 28.....	15	823	826
October 31.....	15	833	836
November 30.....	15	843	846
December 31.....	15	844	847
1980:			
January 31.....	15	840	843
February 29.....	15	855	858
March 31.....	15	862	865
April 30.....	15	861	864
May 30.....	15	876	879
June 30.....	15	860	863
July 31.....	15	869	872
August 29.....	15	877	880
September 30.....	15	883	886

<sup>1</sup> Based on: Budget receipts of \$514,000,000,000, budget outlays of \$543,000,000,000, unified budget deficit of \$29,000,000,000, off-budget outlays of \$12,000,000,000.



Senator BYRD. The next witness is the Director of the Office of Management and Budget, Mr. James McIntyre.

**STATEMENT OF JAMES T. McINTYRE, DIRECTOR OF THE  
OFFICE OF MANAGEMENT AND BUDGET**

Mr. McINTYRE. Thank you very much, Mr. Chairman.

Mr. Chairman and Senator Packwood, it is a pleasure to appear before this subcommittee today to support the Treasury's request for an increase in the statutory debt limit and its proposals for improving the management of the Federal debt. I would also like to reiterate our support for the suggestion that the process of setting the debt ceiling be modified to tie it more closely to the congressional budget process.

I have a prepared statement, Mr. Chairman, that I would like to submit for the record and just briefly summarize it and then answer the committee's questions.

Senator BYRD. That will be fine. Your complete statement will be put in the record.

Mr. McINTYRE. Thank you Mr. Chairman.

The January budget estimates were discussed in my appearance before the committee in February. My statement therefore deals basically with the revised estimates. In July we issued the mid-session review of the budget revising the budget estimates for 1979, 1980 and subsequent years. As a part of my testimony we have a copy of this detailed review and the later revisions that have been sent to the Congress, including some changes resulting from events that occurred too late to be concluded in our mid-session review.

The request that the Treasury is making today is consistent with the adjusted mid-session review estimates. The total amount to be financed is \$60 billion in 1979 and \$58.9 billion in 1980. To arrive at the final figures for change in the debt, such adjustments must be made for means of financing other than borrowing.

Mr. Chairman, the details of the budget estimates, including the mid-session review totals, are included in my statement and I would submit them for the record.

Senator BYRD. Thank you, Mr. McIntyre.

[The prepared statement of Mr. McIntyre follows:]

**STATEMENT OF JAMES T. McINTYRE, JR., DIRECTOR OF THE OFFICE OF MANAGEMENT  
AND BUDGET**

Mr. Chairman and Members of the Committee, I am pleased to support the Treasury's request for an increase in the statutory debt limit and its proposals for improving the management of the Federal debt. I would also like to reiterate our support for the suggestion that the process of setting the debt ceiling be modified to tie it more closely to the congressional budget process.

The January budget estimates were discussed in OMB's appearance before the Committee in February. My statement will discuss briefly our revised budget estimates since January and their effect on the debt subject to the statutory limitation. In July we issued the Mid-Session Review of the Budget, revising budget estimates for 1979, 1980, and subsequent years. I would like to submit for the record a copy of this detailed Review and later revisions that were sent to the Congress, including changes resulting from events that occurred too late for us to incorporate them in the Mid-Session Review. The request that the Treasury is making today is consistent with the adjusted Mid-Session Review estimates.

## BUDGET TOTALS

As shown in the following table, the fiscal year 1979 budget deficit is now estimated at \$30.3 billion. This is \$7.1 billion less than the estimate for the January budget. Outlays of \$496.8 billion are now estimated for 1979, and receipts of \$466.5 billion. The current estimates call for total 1980 outlays of \$543.3 billion, and receipts estimated at \$513.9 billion.<sup>1</sup> The resulting deficit of \$29.4 billion is \$0.4 billion higher than the January budget estimate.

TABLE 1.—BUDGET TOTALS

(In fiscal years and billions of dollars)

	Actual 1978	Estimate	
		1979	1980
Budget receipts.....	402.0	466.5	513.9
Budget outlays.....	450.8	496.8	543.3
Deficit (—).....	—48.8	—30.3	—29.4

## OUTLAYS AND RECEIPTS

Let me review the specific changes in the totals since the January budget. Estimates of outlays for 1979 have been increased by \$3.4 billion since the January budget, to \$496.8 billion. Outlays for the food stamp, social security, defense procurement, medicaid, agricultural credit insurance, and disaster relief programs are above the January estimates. These increases are partly offset by lower than anticipated spending in other areas, including the energy and employment and training programs. Receipts for 1979 are now estimated at \$466.5 billion, \$10.5 billion higher than the January budget estimate. The reduction in the 1979 deficit since January is the net effect of a \$10.5 billion increase in receipts, and a \$3.4 billion increase in estimated outlays. The \$10.5 billion increase in receipts is due almost entirely to higher than anticipated incomes and higher than expected tax collections on those incomes.

Estimates of receipts for 1980 have also increased since January, from \$502.6 billion to \$513.9 billion. This \$11.3 billion increase reflects both policy changes and technical reestimates. The policy changes include congressional inaction on the proposed real wage insurance, which increases 1980 receipts by \$2.3 billion, and the Administration's proposed energy program, which increases receipts by \$3.3 billion in 1980. In addition, revised incomes resulting from the current economic assumptions and technical reestimates reflecting collection experience to date, add \$5.6 billion to receipts in 1980. The effect on the deficit of this increase is offset by an \$11.7 billion increase in estimated outlays since January. The major increases since January are in the estimates of outlays for income security benefits, health programs, veterans and net interest. The increases are largely attributable to the higher inflation now expected. Other increases reflect the energy initiative and reestimates for defense. The major decrease in outlay estimates is in the farm price support program.

## THE BUDGET BY FUND GROUP

Table 2 shows our current estimates of the budget surplus or deficit for 1979 by fund group, and Table 3 shows the budget totals by fund group. The total decline in the estimated unified budget deficit for 1979 since January is a combination of the decline in the Federal fund deficit and a decline in the estimated trust fund surplus.

<sup>1</sup> The \$0.3 billion increase to the estimates released on July 31 reflects the outlays associated with the transportation component of the energy initiative.

Table 2.—SURPLUS OR DEFICIT BY FUND GROUP 1979

[In billions of dollars]

	Estimate		
	January	Current	Change
Federal funds .....	-55.2	-46.8	8.4
Trust funds .....	17.8	16.5	-1.3
Off-budget Federal entities .....	-12.0	-13.2	-1.2

TABLE 3.—BUDGET TOTALS BY FUND GROUP

[In fiscal years and billions of dollars]

	Actual 1978	Estimate	
		1979	1980
<b>Receipts:</b>			
Federal funds .....	270.5	317.1	340.3
Trust funds .....	168.0	189.4	217.2
Interfund transactions .....	-36.5	-40.1	-43.6
<b>Total, receipts.....</b>	<b>402.0</b>	<b>466.5</b>	<b>513.9</b>
<b>Outlays:</b>			
Federal funds .....	332.0	363.9	387.6
Trust funds .....	155.3	172.9	199.3
Interfund transactions .....	-36.5	-40.1	-43.6
<b>Total, outlays.....</b>	<b>450.8</b>	<b>496.8</b>	<b>543.3</b>
<b>Surplus or deficit (-)</b>			
Federal funds .....	-61.5	-46.8	-47.3
Trust funds .....	12.7	16.5	17.9
<b>Total, surplus or deficit (-).....</b>	<b>-48.8</b>	<b>-30.3</b>	<b>-29.4</b>

Table 4 shows revised estimates of debt subject to statutory limitation, and displays numerically the derivation of the change in debt subject to limit in 1978, 1979 and 1980.

Let me take a moment to discuss this derivation. The unified budget deficit—\$30.3 billion in 1979 and \$29.4 billion in 1980—has to be financed, essentially, by borrowing from the public. In addition, Treasury will issue debt securities subject to limit to those trust funds with surpluses in 1979 and 1980. The trust funds as a whole are expected to run net surpluses of \$16.5 billion in 1979 and \$17.9 billion in 1980.

Added to that is the borrowing requirement arising from the activities of off-budget Federal entities, the largest of which is the Federal Financing Bank. Off-budget deficits, like the budget deficit, must be financed by Government borrowing. The deficits of off-budget Federal entities are estimated at \$13.2 billion in 1979 and \$11.6 billion in 1980.

That brings us to a total amount to be financed of \$60 billion in 1979 and \$58.8 billion in 1980. To arrive at the final figures for change in the debt subject to limit, adjustments must be made for means of financing other than borrowing, and for minor changes in debt not subject to limit.

Means of financing, other than borrowing, include changes in cash balances, in checks outstanding, seigniorage, and miscellaneous adjustments. The estimated increases in debt subject to limit are \$50.2 billion in 1979 and \$59.7 billion in 1980.

Table 4.—BUDGET TOTALS BY FUND GROUP

[In fiscal years and billions of dollars]

	Actual 1978	Estimate	
		1979	1980
Budget deficit .....	48.8	30.3	29.4
Portion of budget deficit attributable to trust funds surplus.....	12.7	16.5	17.9
Federal funds deficit.....	61.5	46.8	47.3
Deficit of off-budget Federal entities.....	10.3	13.2	11.6
Total to be financed.....	71.9	60.0	58.9
Means of financing other than borrowing, and other adjustments.....	0.9	-9.8	0.6
Increase in debt subject to limit .....	72.7	50.2	59.7
Debt subject to limit, beginning of year .....	700.0	772.7	822.9
Debt subject to limit, end of year.....	772.7	822.9	882.6

That concludes my prepared statement, Mr. Chairman. I would be happy to answer any questions.



**EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503**

**FOR RELEASE AT 6:30 P.M. (E.D.T.)  
Thursday, July 12, 1979**

**MID-SESSION REVIEW OF THE 1980 BUDGET**

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## GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. Detail may not add to totals due to rounding.

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## INTRODUCTION

This document provides:

- revised budget estimates for 1979 and 1980 as required by Section 201 of the Budget and Accounting Act, as amended;
- revised economic assumptions on which the new budget estimates are based;
- estimates and projections for 1981-1984; and
- other information required by law.

By law, transmittal to the Congress of the budget revisions in this document is required by July 15.

## Part 1

## THE CURRENT BUDGET OUTLOOK, 1979-1980

Budget Totals

The revised 1979 and 1980 estimates in this review reflect:

- policy changes enacted by the Congress or proposed by the President since the January budget and March revisions were issued;
- reestimates of receipts and outlays in light of economic conditions and actual data in recent months; and
- technical changes in many estimates.

The current estimates supersede the revised budget estimates published in March. Table 1 compares the current estimates with the Administration's January and March figures.

The 1979 deficit is now estimated to be \$29.7 billion, \$3.5 billion below the March estimate. The current estimate of the 1980 deficit is \$28.7 billion, \$0.3 billion above the March figure. The reduction in the 1979 deficit since March is the net effect of a \$4.7 billion increase in receipts, to \$466.5 billion, and a \$1.2 billion increase in estimated outlays, to \$496.2 billion. The lower 1980 deficit is the net result of a \$9.8 billion increase in receipts, to \$513.8 billion, and a \$10.1 billion increase in estimated outlays, to \$542.4 billion.

Table 1.--BUDGET TOTALS  
(in billions of dollars)

	1978 <u>Actual</u>	1979 Estimate			1980 Estimate		
		<u>Jan.</u>	<u>March</u>	<u>July</u>	<u>Jan.</u>	<u>March</u>	<u>July</u>
Receipts.....	402.0	456.0	461.8	466.5	502.6	503.9	513.8
Outlays.....	<u>450.8</u>	<u>493.4</u>	<u>495.0</u>	<u>496.2</u>	<u>531.6</u>	<u>532.3</u>	<u>542.4</u>
Deficit.....	-48.8	-37.4	-33.2	-29.7	-29.0	-28.4	-28.7
Budget authority.....	501.5	559.7	557.6	558.5	615.5	615.0	622.8

### Short-Range Economic Forecast

The economic outlook for calendar years 1979 and 1980 shows higher inflation, lower real growth, and somewhat higher unemployment than was forecast in January.

The rate of inflation, as measured by the Consumer Price Index (CPI), is now forecast to be 10.6% during 1979 and 8.3% during 1980. <sup>1/</sup> These figures are above the January budget assumptions by 3-1/4 percentage points for 1979, and by 2 percentage points for 1980. The worsening in the price outlook for 1979 results primarily from the larger than expected oil price increases resulting from recent pricing decisions by the Organization of Petroleum Exporting Countries (OPEC), and secondarily from higher food prices and the effect of higher mortgage interest rates on the costs of home financing.

The rate of real growth is substantially less than was forecast in January -- by about 2-3/4 percentage points in 1979 and 1-1/4 percentage points in 1980. For 1979 real growth is negative, with slow recovery in 1980. This lower growth is, in large part, a result of the effects of higher inflation on consumer purchasing power and spending. Sharply higher oil prices act like a major tax increase to retard economic growth. As a result of the lower real growth, the unemployment rate is expected to be slightly higher during 1979 and 0.7 percentage point higher by the end of 1980 than in the January forecast.

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<sup>1/</sup> The detailed program estimates in this review were prepared prior to the June 28, 1979, OPEC oil price increases, on the assumption of somewhat lower inflation rates than forecast here. An estimate of the additional budget authority and outlays for higher cost-of-living adjustments for indexed benefit programs is included in allowances. (See the allowances section of Part 2.)

Table 2.-- SHORT-RANGE ECONOMIC FORECAST  
(calendar years; dollar amounts in billions)

	Actual		Forecast	
	1977	1978	1979	1980
<u>Major Economic Indicators</u>				
Gross national product, (percent change, 4th quarter over 4th quarter):				
Current dollars.....	11.9	13.1	9.2	10.3
Constant (1972) dollars.....	5.5	4.4	-0.5	2.0
GNP deflator (percent change, 4th quarter over 4th quarter).....	6.1	8.3	9.8	8.1
Consumer Price Index (percent change, December over December).....	6.8	9.0	10.6	8.3
Unemployment rate (percent, 4th quarter).....	6.6	5.8	6.6	6.9
<u>Annual Economic Assumptions</u>				
Gross national product:				
Current dollars:				
Amount.....	1,887	2,108	2,339	2,572
Percent change, year over year.	11.0	11.7	11.0	10.0
Constant (1972) dollars:				
Amount.....	1,333	1,386	1,410	1,423
Percent change, year over year.	4.9	4.0	1.7	1.0
Incomes:				
Personal income.....	1,529	1,708	1,902	2,109
Wages and salaries.....	984	1,101	1,224	1,351
Corporate profits.....	174	202	235	239
Price level:				
GNP deflator:				
Level (1972=100), annual average.....	141.6	152.1	166.0	180.7
Percent change, year over year.	5.9	7.4	9.1	8.9
Consumer Price Index $\frac{1}{2}$ :				
Level (1967=100), annual average.....	181.5	195.3	216.1	234.7
Percent change, year over year.	6.5	7.6	10.6	8.6
Unemployment rates:				
Total, annual average.....	7.0	6.0	6.1	6.8
Insured, annual average $\frac{2}{3}$ .....	3.9	3.3	3.2	3.5
Federal pay raise, October (percent) $\frac{3}{4}$ .....	7.0	5.5	5.5	5.5
Interest rate, 91-day Treasury bills (percent) $\frac{4}{8}$ .....	5.3	7.2	9.0	8.2

See footnotes on following page.

Table 2 (continued)

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1/ The index shown is the CPI for urban wage earners and clerical workers. There are now two versions of the CPI published. One estimates the cost-of-living for wage earners and clerical workers in urban areas; the other, more recently developed, is more comprehensive, covering all urban dwellers. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.

2/ This indicator measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

3/ Pay raises become effective in October of each year -- the first month of the new fiscal year. Thus, the October 1979 pay raise will set new pay scales that will be in effect during fiscal year 1980. Under the comparability pay system, the President makes recommendations for Federal pay rates each year, after consultation with specified representatives. The projected rates are simply assumptions for purposes of developing budget estimates, and do not represent a prior determination of future pay raise recommendations to be made by the President. Total compensation of Federal employees includes elements that are not included in pay.

4/ Average rate on new issues within period. Before the 1980 budget, interest rates for the forecast period were assumed to remain at the levels prevailing at the time the estimates were made. Because it would be unrealistic to assume continuation of the same level of interest rates with changing inflation, however, it is now assumed, by convention, that future interest rates will change with the rate of inflation.

### Budget Receipts

The current estimate of 1979 receipts is \$466.5 billion, \$4.7 billion above the March estimate and \$10.5 billion above the estimate in the January budget. Receipts in 1980 are now estimated at \$513.8 billion, \$9.8 billion above the March estimate and \$11.2 billion above the budget.

As shown in Table 3, policy changes since March have reduced receipts by \$0.3 billion in 1979 but added \$5.6 billion to 1980 receipts. These policy changes include deletion of the proposed real wage insurance, which increases 1980 receipts by \$2.3 billion, and the Administration's proposed energy program, which decreases receipts by \$0.2 billion in 1979 and increases them by \$3.2 billion in 1980. The major components of the energy program include:

- phased deregulation of crude petroleum prices;
- a proposed windfall profits tax;
- proposed energy conservation credits;
- proposed changes in foreign tax credits for oil and gas extraction; and
- the waiver of existing import fees and duties on imported oil.

In comparison to the March estimates, revised incomes resulting from the current economic assumptions increase receipts by \$0.7 billion in 1979 and add \$3.2 billion to receipts in 1980. Technical reestimates, reflecting collection experience to date, add an additional \$4.2 billion in 1979 and \$1.0 billion in 1980.

Table 3.--CHANGE IN BUDGET RECEIPTS, 1979 and 1980  
(in billions of dollars)

	<u>1979</u>	<u>1980</u>
January budget estimate.....	456.0	502.6
Revised incomes and technical reestimates.....	5.8	1.3
Other.....	*	<u>0.1</u>
March estimate.....	461.8	503.9
Policy changes:		
Deletion of proposed real wage insurance....	---	2.3
Energy program:		
Windfall profits tax.....	---	2.5
Energy conservation credits.....	-*	-0.1
Other income tax effects <u>1/</u> .....	*	0.6
Waiver of import duties and fees.....	-0.3	-0.6
Foreign tax credit.....	<u>0.1</u>	<u>0.8</u>
Subtotal, Energy program.....	-0.2	3.2
Negotiated tariff reductions.....	---	-0.2
Other.....	<u>-0.1</u>	<u>0.2</u>
Subtotal, Policy changes.....	-0.3	5.6
Revised incomes <u>1/</u> .....	0.7	3.2
Technical reestimates.....	<u>4.2</u>	<u>1.0</u>
Current estimate.....	466.5	513.8

1/ The effect of deregulation of crude petroleum prices on income tax receipts is included under energy policy.

\* \$50 million or less.

### Budget Outlays

The current outlay estimate for 1979 is \$496.2 billion, which is \$1.2 billion above the March estimate and \$2.8 billion above the estimate in the January budget. As Table 4 shows, the current estimates for a variety of programs -- including food stamps, social security, agricultural credit insurance, and disaster relief -- are above the March estimates. These increases are partly offset by lower than anticipated spending in other areas, including energy programs and farm price supports. In addition, the current estimates reflect the impact of a provision in the 1979 Labor-HEW Appropriations Act, which is expected to reduce 1979 outlays by \$0.8 billion and budget authority by \$1.0 billion. 1/

Outlays for 1980 are now estimated to be \$542.4 billion, \$10.1 billion above the March estimate and \$10.9 billion above the January budget. The outlays associated with the two major Administration initiatives announced since March -- the proposed energy security trust fund and the Middle East peace treaty -- were largely covered by the contingency allowance. The major increases since March are in the estimates of outlays for income security benefits, health programs, and veterans (which are \$7.3 billion above the March estimate), and estimated net interest costs (which have risen by \$0.9 billion above the March estimates). About \$6 billion of the increase in these programs is due to the revised economic forecast. The only major decrease since March is in the estimate of outlays for farm price supports.

The 1979 and 1980 outlay changes are discussed further in Part 2.

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1/ An amendment to the 1979 appropriations for the Department of Health, Education, and Welfare (HEW) requires a \$1.0 billion reduction in total HEW appropriations through the elimination of waste, fraud, and abuse. To conform with this amendment, HEW has reduced budget authority in the following areas: medicaid (\$0.4 billion), aid to families with dependent children (AFDC) (\$0.4 billion), and basic educational opportunity grants (\$0.2 billion).



Table 4.--CHANGE IN BUDGET OUTLAYS, 1979 AND 1980  
(in billions of dollars)

	1979	1980
January budget estimate.....	493.4	531.6
Changes:		
Department of Defense.....	0.5	0.2
SBA disaster loans.....	0.5	0.1
Public service jobs.....	-0.6	---
Offshore oil receipts.....	0.6	-*
Contingency allowance.....	0.1	0.6
All other, net.....	0.5	-0.1
March estimate.....	495.0	532.3
Changes:		
Major Administration initiatives:		
Middle East peace treaty:		
Foreign aid.....	0.2	0.4
Military sales trust fund.....	-0.2	---
Energy security trust fund.....	---	1.4
General contingency allowance.....	-0.1	-1.1
Subtotal.....	-*	0.7
Income security, health, and veterans:		
Food stamps.....	0.7	1.7
Social security.....	0.6	1.5
Unemployment compensation.....	0.5	1.4
Medicare and medicaid.....	0.1	0.9
Coal miner benefits.....	0.4	0.6
AFDC.....	-0.4	-*
Veterans and other.....	0.1	0.7
Allowance for indexed programs.....	---	0.5
Subtotal.....	2.1	7.3
Other:		
Farm price supports.....	-0.6	-1.9
Agricultural credit insurance.....	1.1	0.1
Net interest.....	0.5	0.9
Energy function:		
Strategic petroleum reserve.....	-0.9	0.7
Other (excluding initiative).....	-0.6	-0.3
Disaster loans and relief.....	0.5	0.1
Transportation.....	-0.2	0.7
Natural resources.....	0.4	0.4
Department of Defense.....	0.4	0.6
Military sales trust fund (reestimate)...	-0.3	---
Offshore oil receipts.....	-0.3	0.4
Targeted fiscal assistance.....	-0.2	0.2
All other.....	-0.6	0.2
Subtotal.....	-0.9	2.0
Current estimate.....	496.2	542.4

\* \$50 million or less.

### Budget Authority

Budget authority in 1979 is now estimated to be \$558.5 billion, \$0.9 billion above the March estimate and \$1.2 billion below the January budget. The Middle East initiative, reestimates in the military sales trust fund, the agricultural credit insurance fund, and higher than anticipated disaster relief and food stamp benefits account for much of the increase since March. These and other increases are partly offset by an amendment to the 1979 Labor-HEW Appropriations Act, which is discussed in the previous section, and by anticipated congressional action on 1979 supplementals, which decreases defense and rural housing and shifts some funding for railroads from 1979 to 1980. Since the Congress had not completed action on the 1979 supplementals at the time the current estimates were prepared, the numbers shown reflect the amounts in the supplementals passed by both the House and the Senate. In those cases where the House and Senate differ, the amounts closest to the Administration's request are included.

The current estimate of 1980 budget authority is \$622.8 billion, \$7.8 billion above the March estimate and \$7.3 billion above the budget estimate. The major increases reflect the proposed energy security trust fund and revised estimates for food stamps, medicaid, social insurance trust fund receipts, and net interest. These increases are partly offset by a \$2.6 billion decrease in budget authority for the economic development initiative.

Table 5.--CHANGES IN BUDGET AUTHORITY, 1979 AND 1980  
(in billions of dollars)

	<u>1979</u>	<u>1980</u>
January budget estimate.....	559.7	615.5
Changes:		
Military sales trust fund.....	-3.8	-0.1
SBA disaster loans.....	0.6	---
Offshore oil receipts.....	0.6	-*
Contingency allowance.....	0.5	---
All other, net.....	*	-0.4
March estimate.....	557.6	615.0
Changes:		
Major Administration initiatives:		
Middle East peace treaty:		
Foreign aid.....	1.5	---
Military sales trust fund.....	1.0	0.2
Energy security trust fund.....	---	3.1
General contingency allowance.....	-0.6	-1.5
Subtotal.....	1.8	1.8
Income security, health, and veterans:		
Social insurance trust funds (receipts)..	-0.9	1.5
Food stamps.....	0.7	1.7
Coal miner benefits.....	0.2	0.5
Medicaid.....	-0.4	1.0
AFDC.....	-0.4	-*
Veterans.....	*	0.4
Other.....	0.3	0.3
Subtotal.....	-0.4	5.4
Other:		
Revised economic development initiative..	-*	-2.6
Department of Defense.....	-1.1	0.1
Rural housing.....	-1.0	---
ConRail.....	-0.7	0.6
Education and training.....	-0.6	0.5
Military sales trust fund (reestimate)...	1.5	0.1
Agricultural credit insurance.....	0.8	---
Disaster loans and relief.....	0.6	*
Net interest.....	0.5	0.9
Offshore oil receipts.....	-0.3	0.4
Targeted fiscal assistance.....	-0.2	0.2
All other, net.....	*	0.5
Subtotal.....	-0.6	0.6
Current estimate.....	558.5	622.8

\* \$50 million or less.

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Comparison of Administration and Budget Resolution Totals

As the following table shows, the current Administration estimates differ somewhat from the totals in the Third Budget Resolution for 1979 and the First Budget Resolution for 1980.

Table 6.--ADMINISTRATION AND BUDGET RESOLUTION TOTALS  
(in billions of dollars)

	1979		1980	
	<u>Third Resolution</u>	<u>Mid-Session Review</u>	<u>First Resolution</u>	<u>Mid-Session Review</u>
Receipts.....	461.0	466.5	509.0	513.8
Outlays.....	<u>494.45</u>	<u>496.2</u>	<u>532.0</u>	<u>542.4</u>
Deficit.....	-33.45	-29.7	-23.0	-28.7
Budget authority.	559.2	558.5	604.4	622.8

For 1979, the current Administration estimate of receipts is \$5.8 billion above the Resolution, and the Administration estimate of outlays is \$1.75 billion above the Resolution. The current Administration budget authority total is \$0.7 billion below the Resolution. In all cases, differences between the Administration totals and the Resolution are due largely to estimating rather than policy differences. While the 1979 supplementals enacted by both Houses of the Congress differ somewhat from both the original Administration request and the amounts assumed in the Resolution, the current Administration estimates of budget authority and outlays appear to be consistent with the discretionary changes assumed in the Resolution.

For 1980, the current Administration estimate of receipts is \$4.8 billion above the Resolution. The Administration estimates of receipts include revenues of \$2-1/2 billion for the windfall profits tax and other energy initiatives that are not included in the Resolution. In addition, the Administration estimates of receipts under existing law are above the Resolution estimates.

The Administration's estimate of 1980 outlays is \$10.4 billion above the Resolution, and budget authority is \$18.4 billion above the Resolution. These differences are due to a number of factors. Differing assumptions about the costs of existing entitlement programs and spend-out rates for programs such as defense account for much of the difference. These estimating differences are due in part to differing economic assumptions, notably interest rates. The Resolution also assumes different amounts for various discretionary programs and proposals.

The major differences between the Administration and Resolution for 1980 are in the following areas:

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Defense and international.--The Resolution budget authority totals assume a \$1.8 billion cut in defense, a \$0.6 billion downward reestimate in international financial programs, and a \$0.8 billion cut in other international programs. The Resolution outlay totals for these two functions are \$3.4 billion below the current Administration estimates. Over two-thirds of the outlay difference appears to reflect technical estimating differences.

Energy and related.--The Administration estimates include \$3.1 billion in budget authority and \$1.4 billion in outlays for the proposed energy security trust fund, which is not included in the Resolution. The Resolution also assumes a \$1.0 billion rescission of budget authority for the strategic petroleum reserve, and the outlays assumed in the Resolution for this program are \$1.7 billion below the current estimates.

Agriculture.--The Resolution estimate of outlays is \$3.0 billion above the current Administration estimates, largely because of different assumptions about outlays for price support programs under existing law.

Income security and health.--The Resolution budget authority and outlay totals for these programs are \$3.9 billion and \$2.7 billion, respectively, below the comparable Administration totals. Differing estimates of food stamp benefits appear to account for almost half of the outlay difference.

Net interest and offsetting receipts.--The Resolution estimates of net interest costs are \$2.1 billion below Administration projections, largely because the Resolution assumes lower interest rates. Differing estimates of offshore oil receipts reduce the Resolution budget authority and outlay estimates by \$0.6 billion in relation to Administration estimates.

Commerce and housing credit.--The Resolution budget authority total is \$1.4 billion below the Administration because the Resolution assumes reductions in rural housing and other credit programs. These changes have virtually no impact on outlays.

Other.--The Resolution assumes an across-the-board cut of \$1.0 billion in budget authority and outlays for travel and other administrative costs. The Resolution amounts for general purpose fiscal assistance are \$0.9 billion below the Administration totals. The Resolution totals for community and regional development and education are above the Administration estimates, while budget authority for training is below the Administration estimate.

Table 7.--BUDGET RECEIPTS BY MAJOR SOURCE, 1978-1980  
(in billions of dollars)

	1978	1979 Estimate			1980 Estimate		
	<u>Actual</u>	<u>January</u>	<u>March</u>	<u>Current</u>	<u>January</u>	<u>March</u>	<u>Current</u>
Individual income taxes.....	181.0	203.6	208.8	216.6	227.3	228.6	234.2
Corporation income taxes.....	60.0	70.3	70.4	67.8	71.0	71.1	71.5
Social insurance taxes and contributions.....	123.4	141.8	142.2	141.3	161.5	161.3	162.6
Excise taxes.....	18.4	18.4	18.4	18.6	18.5	18.6	21.2
Estate and gift taxes.....	5.3	5.7	5.6	5.4	6.0	5.9	5.7
Customs duties.....	6.6	7.5	7.5	7.4	8.4	8.5	8.1
Miscellaneous receipts.....	<u>7.4</u>	<u>8.7</u>	<u>8.9</u>	<u>9.4</u>	<u>9.9</u>	<u>10.0</u>	<u>10.4</u>
Total budget receipts...	402.0	456.0	461.8	466.5	502.6	503.9	513.8

Table 8.--BUDGET OUTLAYS BY FUNCTION, 1978-1980.  
(in billions of dollars)

	1978 Actual	1979 Estimate			1980 Estimate		
		January	March	Current	January	March	Current
National defense 1/.....	105.2	114.5	115.0	115.5	125.8	126.0	126.7
International affairs.....	5.9	7.3	7.5	7.3	8.2	8.2	8.8
General science, space, and technology....	4.7	5.2	5.2	5.1	5.5	5.5	5.7
Energy.....	5.9	8.6	8.6	7.1	7.9	7.9	8.5
Natural resources and environment.....	10.9	11.2	11.2	11.6	11.5	11.5	11.8
Agriculture.....	7.7	6.2	6.2	6.7	4.3	4.3	2.5
Commerce and housing credit.....	3.3	3.0	3.0	2.8	3.4	3.4	3.2
Transportation.....	15.4	17.4	17.4	17.2	17.6	17.6	18.3
Community and regional development.....	11.0	9.1	9.6	10.1	7.3	7.4	7.5
Education, training, employment, and social services.....	26.5	30.7	30.1	30.0	30.2	30.2	30.1
Health.....	43.7	49.1	49.3	49.4	53.4	53.4	54.4
Income security.....	146.2	158.9	159.3	161.3	179.1	179.3	185.2
(Social security).....	(92.2)	(102.3)	(102.3)	(102.9)	(115.2)	(115.3)	(116.8)
(Other).....	(54.0)	(56.5)	(57.0)	(58.3)	(63.9)	(64.0)	(68.4)
Veterans benefits and services.....	19.0	20.3	20.3	20.3	20.5	20.4	20.8
Administration of justice.....	3.8	4.4	4.4	4.3	4.4	4.4	4.4
General government.....	3.8	4.4	4.4	4.3	4.4	4.4	4.4
General purpose fiscal assistance.....	9.6	8.9	8.9	8.7	8.8	8.8	9.0
Interest.....	44.0	52.8	52.5	53.0	57.0	56.9	57.8
Allowances 2/.....	---	---	0.1	---	1.4	2.0	2.1
Undistributed offsetting receipts.....	-15.8	-18.7	-18.1	-18.4	-19.0	-19.1	-18.7
(Employer share, employee retirement)..	(-5.0)	(-5.4)	(-5.4)	(-5.4)	(-5.5)	(-5.5)	(-5.5)
(Interest received by trust funds).....	(-8.5)	(-9.8)	(-9.8)	(-9.8)	(-10.9)	(-10.9)	(-10.9)
(Rents and royalties on the Outer Continental Shelf).....	(-2.3)	(-3.5)	(-2.9)	(-3.2)	(-2.6)	(-2.6)	(-2.3)
Total budget outlays.....	450.8	493.4	495.0	496.2	531.6	532.3	542.4

1/ The 1980 estimates include allowances for civilian and military pay raises for the Department of Defense.

2/ The 1980 estimates include allowances for civilian agency pay raises, the energy security trust fund, and contingencies for relatively uncontrollable programs.

Table 9.--BUDGET OUTLAYS BY AGENCY, 1978-1980  
(in billions of dollars)

	1978	1979 Estimate			1980 Estimate		
	Actual	January	March	Current	January	March	Current
Legislative branch.....	1.0	1.2	1.2	1.2	1.3	1.3	1.3
The Judiciary.....	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	4.4	5.1	5.3	5.1	5.1	5.1	6.3
Agriculture.....	20.4	20.2	20.2	21.5	18.4	18.4	18.4
Commerce.....	5.2	4.3	4.3	4.3	3.3	3.2	3.3
Defense--Military 1/.....	103.0	111.9	112.4	112.8	122.7	122.9	123.5
Defense--Civil.....	2.6	2.6	2.6	2.9	2.7	2.7	3.0
Energy.....	6.3	8.9	8.9	7.6	8.9	8.9	9.4
Health, Education, and Welfare.....	162.9	180.7	180.9	181.1	199.4	199.4	202.1
Housing and Urban Development.....	7.6	9.0	9.0	8.9	10.6	10.6	10.8
Interior.....	3.8	4.0	4.0	4.0	3.8	3.8	3.8
Justice.....	2.4	2.6	2.6	2.5	2.5	2.5	2.5
Labor.....	22.9	22.9	22.6	23.4	24.5	24.6	26.4
State.....	1.3	1.4	1.4	1.5	1.7	1.7	1.7
Transportation.....	13.5	15.4	15.4	15.3	15.8	15.8	16.4
Treasury.....	56.4	65.5	65.2	65.3	69.9	69.8	70.6
Environmental Protection Agency.....	4.1	4.2	4.2	4.4	4.8	4.8	4.8
General Services Administration.....	0.1	0.2	0.2	0.1	0.1	0.1	0.1
National Aeronautics and Space Administration.....	4.0	4.4	4.4	4.2	4.6	4.6	4.8
Veterans Administration.....	19.0	20.3	20.2	20.3	20.5	20.4	20.8
Office of Personnel Management.....	11.0	12.5	12.5	12.6	14.4	14.4	14.7
National Development Bank 2/.....	---	*	---	---	0.2	---	---
Other independent agencies.....	14.4	14.1	14.7	15.0	13.4	13.5	13.7
Allowances 2/ 3/.....	---	---	0.1	---	1.4	2.2	2.1
Undistributed offsetting receipts.....	-15.8	-18.7	-18.1	-18.4	-19.0	-19.1	-18.7
Total budget outlays.....	450.8	493.4	495.0	496.2	531.6	532.3	542.4

1/ The 1980 estimates include allowances for civilian and military pay raises for the Department of Defense.

2/ After the January budget was submitted the President decided not to propose the National Development Bank as a separate entity. In March, the budget amounts for the Bank were included as an allowance for community and regional development. In the current estimates, additional amounts of economic development are included in the Departments of Commerce and Housing and Urban Development.

3/ The 1980 estimates include allowances for civilian agency pay raises, the energy security trust fund, and contingencies for relatively uncontrollable programs.

\* \$50 million or less.



Table 10.--BUDGET AUTHORITY BY FUNCTION, 1978-1980  
(in billions of dollars)

	1978 Actual	1979 Estimate			1980 Estimate		
		January	March	Current	January	March	Current
National defense 1/.....	117.9	127.9	127.9	126.9	138.2	138.2	138.4
International affairs.....	9.8	13.6	9.8	13.8	13.7	13.6	14.1
General science, space, and technology....	4.9	5.4	5.4	5.4	5.7	5.7	5.9
Energy.....	8.2	7.6	7.6	7.4	19.5	19.5	20.2
Natural resources and environment.....	13.6	13.0	13.0	13.1	12.9	12.9	12.9
Agriculture.....	2.6	8.3	8.3	9.1	4.9	4.9	4.9
Commerce and housing credit.....	5.3	7.0	7.0	6.1	8.3	8.3	8.3
Transportation.....	15.0	20.0	20.0	19.2	19.1	19.1	19.9
Community and regional development.....	10.3	8.1	8.7	9.3	11.3	11.3	8.7
Education, training, employment, and social services.....	22.4	33.0	33.0	32.5	30.9	30.9	31.4
Health.....	46.5	52.5	52.6	52.2	57.6	57.6	58.9
Income security.....	180.1	191.0	191.2	191.2	214.5	214.2	218.3
(Social security).....	(88.0)	(100.4)	(100.7)	(100.3)	(115.8)	(115.6)	(116.3)
(Other).....	(92.1)	(90.5)	(90.5)	(90.9)	(98.7)	(98.6)	(102.0)
Veterans benefits and services.....	19.0	20.5	20.4	20.5	21.0	21.0	21.4
Administration of justice.....	3.9	4.3	4.3	4.2	4.3	4.3	4.3
General government.....	4.1	4.5	4.5	4.4	4.5	4.5	4.5
General purpose fiscal assistance.....	9.7	8.8	8.8	8.5	8.8	8.8	9.0
Interest.....	44.0	52.8	52.5	53.0	57.0	56.9	57.8
Allowances 2/.....	---	0.1	0.6	---	2.4	2.4	2.7
Undistributed offsetting receipts.....	-15.8	-18.7	-18.1	-18.4	-19.0	-19.1	-18.7
(Employer share, employee retirement)..	(-5.0)	(-5.4)	(-5.4)	(-5.4)	(-5.5)	(-5.5)	(-5.5)
(Interest received by trust funds).....	(-8.5)	(-9.8)	(-9.8)	(-9.8)	(-10.9)	(-10.9)	(-10.9)
(Rents and royalties on the Outer Continental Shelf).....	(-2.3)	(-3.5)	(-2.9)	(-3.2)	(-2.6)	(-2.6)	(-2.3)
Total budget authority.....	501.5	559.7	557.6	558.5	615.5	615.0	622.8

1/ The 1980 estimates include allowances for civilian and military pay raises for the Department of Defense.

2/ The 1980 estimates include allowances for civilian agency pay raises, the energy security trust fund, and contingencies for relatively uncontrollable programs.

Table 11.--BUDGET AUTHORITY BY AGENCY, 1978-1980  
(in billions of dollars)

	1978	1979 Estimate			1980 Estimate		
	Actual	January	March	Current	January	March	Current
Legislative branch.....	1.1	1.2	1.2	1.2	1.3	1.3	1.3
The Judiciary.....	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	7.5	11.4	7.6	11.7	10.3	10.2	12.1
Agriculture.....	16.5	23.7	23.7	24.4	20.5	20.5	22.4
Commerce.....	2.3	2.5	2.5	2.6	3.2	3.2	3.9
Defense--Military 1/.....	115.3	125.2	125.2	124.1	135.0	135.0	135.1
Defense--Civil.....	2.8	2.7	2.7	2.8	3.1	3.1	3.1
Energy.....	10.7	9.7	9.7	9.6	7.4	7.4	7.5
Health, Education, and Welfare.....	162.2	184.0	184.4	183.0	205.2	205.0	207.6
Housing and Urban Development.....	38.0	31.1	31.1	31.2	33.3	33.3	33.6
Interior.....	4.6	4.7	4.7	4.7	4.4	4.4	4.5
Justice.....	2.4	2.5	2.5	2.5	2.4	2.4	2.4
Labor.....	20.0	28.9	28.9	28.3	27.5	27.4	28.2
State.....	1.5	1.7	1.7	1.7	1.7	1.7	1.8
Transportation.....	13.5	17.3	17.3	17.3	17.8	17.9	17.8
Treasury.....	56.8	65.6	65.3	65.5	70.1	69.9	70.8
Environmental Protection Agency.....	5.5	5.4	5.4	5.4	5.1	5.1	5.1
General Services Administration.....	0.2	0.3	0.3	0.3	0.3	0.3	0.3
National Aeronautics and Space Administration.....	4.1	4.6	4.6	4.5	4.7	4.7	4.9
Veterans Administration.....	19.0	20.5	20.4	20.4	21.0	20.9	21.3
Office of Personnel Management.....	18.2	21.1	21.1	21.1	23.2	23.2	23.4
National Development Bank 2/.....	---	*	---	---	3.5	---	---
Other independent agencies.....	14.6	13.6	14.2	13.9	30.2	30.2	30.7
Allowances 2/ 3/.....	---	0.1	0.6	---	2.4	6.0	2.7
Undistributed offsetting receipts.....	-15.8	-18.7	-18.1	-18.4	-19.0	-19.1	-18.7
Total budget authority.....	501.5	559.7	557.6	558.5	615.5	615.0	622.8

1/ The 1980 estimates include allowances for civilian and military pay raises for the Department of Defense.

2/ After the January budget was submitted the President decided not to propose the National Development Bank as a separate entity. In March, the budget amounts for the Bank were included as an allowance for community and regional development. In the current estimates, additional amounts of economic development are included in the Departments of Commerce and Housing and Urban Development.

3/ The 1980 estimates include allowances for civilian agency pay raises, the energy security trust fund, and contingencies for relatively uncontrollable programs.

\* \$50 million or less.

Table 12.--BUDGET SURPLUS OR DEFICIT (-) BY FUND GROUP AND TYPE OF TRANSACTION, 1978-1980  
(in billions of dollars)

	1978	1979 Estimate			1980 Estimate		
	Actual	January	March	Current	January	March	Current
<u>Federal Funds</u>							
Transactions with the public.....	-32.4	-24.3	-20.1	-14.9	-15.6	-14.6	-12.8
Transactions with trust funds.....	<u>-29.1</u>	<u>-30.9</u>	<u>-30.9</u>	<u>-31.3</u>	<u>-33.5</u>	<u>-33.3</u>	<u>-34.7</u>
Total.....	-61.5	-55.2	-51.0	-46.2	-49.0	-47.9	-47.5
	*****	*****	*****	*****	*****	*****	*****
<u>Trust Funds</u>							
Transactions with the public.....	-16.4	-13.1	-13.1	-14.8	-13.4	-13.8	-15.8
Transactions with Federal funds.....	<u>29.1</u>	<u>30.9</u>	<u>30.9</u>	<u>31.3</u>	<u>33.5</u>	<u>33.3</u>	<u>34.7</u>
Total.....	12.7	17.8	17.8	16.5	20.0	19.5	18.9
	*****	*****	*****	*****	*****	*****	*****
<u>Budget Totals</u>							
Federal funds.....	-61.5	-55.2	-51.0	-46.2	-49.0	-47.9	-47.5
Trust funds.....	<u>12.7</u>	<u>17.8</u>	<u>17.8</u>	<u>16.5</u>	<u>20.0</u>	<u>19.5</u>	<u>18.9</u>
Total.....	-48.8	-37.4	-33.2	-29.7	-29.0	-28.4	-28.7
	*****	*****	*****	*****	*****	*****	*****

Table 13.--BUDGET RECEIPTS AND OUTLAYS BY FUND GROUP, 1978-1980  
(in billions of dollars)

	1978	1979 Estimate			1980 Estimate		
	Actual	January	March	Current	January	March	Current
<u>Receipts</u>							
Federal funds.....	270.5	306.1	311.6	317.1	332.8	334.3	340.4
Trust funds.....	168.0	189.5	189.9	189.4	212.2	211.9	217.1
Interfund transactions.....	<u>-36.5</u>	<u>-39.6</u>	<u>-39.6</u>	<u>-40.1</u>	<u>-42.5</u>	<u>-42.3</u>	<u>-43.7</u>
Total.....	402.0	456.0	461.8	466.5	502.6	503.9	513.8
	*****	*****	*****	*****	*****	*****	*****
<u>Outlays</u>							
Federal funds.....	332.0	361.3	362.5	363.3	381.8	382.3	387.9
Trust funds.....	155.3	171.7	172.1	172.9	192.2	192.4	198.2
Interfund transactions.....	<u>-36.5</u>	<u>-39.6</u>	<u>-39.6</u>	<u>-40.1</u>	<u>-42.5</u>	<u>-42.3</u>	<u>-43.7</u>
Total.....	450.8	493.4	495.0	496.2	531.6	532.3	542.4
	*****	*****	*****	*****	*****	*****	*****
<u>Surplus or Deficit (-)</u>							
Federal funds.....	-61.5	-55.2	-51.0	-46.2	-49.0	-47.9	-47.5
Trust funds.....	<u>12.7</u>	<u>17.8</u>	<u>17.8</u>	<u>16.5</u>	<u>20.0</u>	<u>19.5</u>	<u>18.9</u>
Total.....	-48.8	-37.4	-33.2	-29.7	-29.0	-28.4	-28.7
	*****	*****	*****	*****	*****	*****	*****

Table 14.--DEBT SUBJECT TO LIMIT, 1978-1980  
(in billions of dollars)

	1978	1979 Estimate			1980 Estimate		
	Actual	January	March	Current	January	March	Current
Unified budget deficit.....	48.8	37.4	33.2	29.7	29.0	28.4	28.7
Portion of budget deficit attributable to trust funds surplus or deficit (-)....	<u>12.7</u>	<u>17.8</u>	<u>17.8</u>	<u>16.5</u>	<u>20.0</u>	<u>19.5</u>	<u>18.9</u>
Federal funds deficit.....	61.5	55.2	51.0	46.2	49.0	47.9	47.5
Deficit of off-budget Federal entities....	<u>10.3</u>	<u>12.0</u>	<u>12.0</u>	<u>12.4</u>	<u>12.0</u>	<u>12.0</u>	<u>16.1</u>
Total to be financed.....	71.9	67.2	63.0	58.6	61.0	59.9	63.6
Means of financing other than borrowing, and other adjustments.....	<u>0.9</u>	<u>-6.9</u>	<u>-9.5</u>	<u>-9.8</u>	<u>-0.8</u>	<u>-0.7</u>	<u>0.5</u>
Change in debt subject to limit...	<u>72.7</u>	<u>60.3</u>	<u>53.5</u>	<u>48.8</u>	<u>60.2</u>	<u>59.2</u>	<u>64.1</u>
Debt subject to limit, beginning of year 1/.....	700.0	772.7	772.7	772.7	833.0	826.2	821.5
Anticipated debt subject to limit, end of year 1/.....	772.7	833.0	826.2	821.5	893.2	885.4	885.6

1/ The statutory debt limit is permanently established at \$400 billion. Public Law 96-5 temporarily increased the statutory debt limit to \$830 billion through September 30, 1979.

## Part 2

## CHANGES IN BUDGET AUTHORITY AND OUTLAYS BY FUNCTION, 1979-1980

## 050: NATIONAL DEFENSE

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January and March estimates.....	117.9	127.9	138.2
Changes:			
DOD-Military.....	---	-1.1	0.1
Other.....	---	0.1	*
Current estimate.....	117.9	126.9	138.4
<u>Outlays</u>			
January estimate.....	105.2	114.5	125.8
March changes (DOD -- revised supplemental).....	---	0.5	0.2
March estimates.....	105.2	115.0	126.0
Further changes:			
DOD-Military:			
Reestimates.....	---	1.0	1.0
Other.....	---	-0.6	-0.4
Subtotal, DOD-Military.....	---	0.4	0.6
Other.....	---	0.1	*
Current estimate.....	105.2	115.5	126.7
* \$50 million or less.			

The current estimates for Department of Defense (DOD) have been revised to reflect recent spending experience and anticipated congressional action on the supplemental requested by the President. Congressional action on this request reduces the 1979 budget authority estimate by \$1.1 billion. The corresponding outlay reductions total \$0.6 billion in 1979 and \$0.4 billion in 1980. These outlay reductions are more than offset by upward

reestimates of \$1.0 billion in both 1979 and 1980. The latter reestimates reflect actual spending trends in recent months.

Other minor changes in the defense function are due to various 1980 budget amendments and to a distribution of 1979 Department of Energy departmental administration account funds to the atomic energy defense activities account.

## 150: INTERNATIONAL AFFAIRS

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January estimate.....	9.8	13.6	13.7
March changes (military sales trust fund).....	---	-3.8	-0.1
March estimate.....	9.8	9.8	13.6
Further changes:			
Policy changes:			
Middle East peace treaty:			
Foreign aid.....	---	1.5	*
Military sales trust fund.....	---	1.0	0.2
Aid to Turkey.....	---	0.1	*
Other.....	---	-*	0.2
Reestimates:			
Military sales trust fund.....	---	1.5	0.1
Other.....	---	-*	-0.1
Current estimate.....	9.8	13.8	14.1
<u>Outlays</u>			
January estimate.....	5.9	7.3	8.2
March changes (military sales trust fund).....	---	0.2	---
March estimate.....	5.9	7.5	8.2
Further changes:			
Policy changes:			
Middle East peace treaty:			
Foreign aid.....	---	0.2	0.4
Military sales trust fund.....	---	-0.2	---
Aid to Turkey.....	---	0.1	*
Other.....	---	-*	0.1
Reestimates:			
Military sales trust fund.....	---	-0.3	---
Export-Import Bank.....	---	0.1	0.2
Other.....	---	-0.2	-0.1
Current estimate.....	5.9	7.3	8.8

\* \$50 million or less.



The current estimate of 1979 budget authority for this function is \$4.0 billion above the March estimate. This increase is partly due to the additional budget authority for foreign aid (\$1.5 billion) and for the purchase of military equipment from the military sales trust fund (\$1.0 billion) associated with the Middle East peace treaty. The current 1979 estimates also include an upward reestimate from March of \$1.5 billion in net budget authority for the military sales trust fund resulting from Iran's cancellation of purchases of military equipment. In March, the impact of the cancellation of Iranian orders was overestimated. The current 1980 budget authority estimates include a \$350 million increase for the military sales trust fund, which reflects both increases for the Middle East peace treaty and reestimates.

For outlays, offsetting changes leave the current 1979 estimate only slightly lower than the March estimate. Decreases of \$0.3 billion in 1979 for reestimates in the military sales trust fund are almost offset by increases for the Middle East peace treaty and other programs. The 1980 outlay estimate has increased \$0.6 billion. Outlay increases of \$0.4 billion for the treaty arrangements for 1980 and \$0.2 billion for the Export-Import Bank account for almost all of the change.

## 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

	(\$ billions)		
	Actual 1978	Estimate 1979 1980	
<u>Budget Authority</u>			
January and March estimates.....	4.9	5.4	5.7
Changes:			
Space.....	---	-*	0.2
Science.....	---	---	---
Current estimate.....	4.9	5.4	5.9
<u>Outlays</u>			
January and March estimates.....	4.7	5.2	5.5
Changes:			
Space.....	---	-0.2	0.2
Science.....	---	*	---
Current estimate.....	4.7	5.1	5.7

\* \$50 million or less.

There have been only two significant changes in this function since March. The Administration has proposed a budget amendment for 1980 that would provide an additional \$220 million in budget authority and \$200 million in outlays for the space shuttle. In addition, the current estimate of 1979 outlays for this function is \$0.2 billion below the earlier estimates largely because of an increase in payments to NASA for work performed on contract to other agencies and firms.

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## 270: ENERGY

	(\$ billions)		
	Actual 1978	Estimate 1979	1980
<u>Budget Authority</u>			
January and March estimates.....	8.2	7.6	19.5
Changes:			
Energy security trust fund.....	---	---	0.7
Strategic petroleum reserve.....	---	*	---
Naval petroleum reserve receipts.....	---	-*	-0.2
Other energy.....	---	-0.1	0.2
Current estimate.....	8.2	7.4	20.3
<u>Outlays</u>			
January and March estimates.....	5.9	8.6	7.9
Changes:			
Energy security trust fund.....	---	---	0.1
Strategic petroleum reserve.....	---	-0.9	0.7
Naval petroleum reserve receipts.....	---	-*	-0.2
Other.....	---	-0.6	-*
Current estimate.....	5.9	7.1	8.5

\* \$50 million or less.

The current estimates of outlays and budget authority for the energy function are substantially changed from the January and March estimates. These changes are due to the President's proposal for an energy security trust fund and to reestimates.

The proposed energy security trust fund consists of revenues from the President's proposed windfall profits tax. In addition, an appropriation to the fund will be requested based on the Secretary of the Treasury's estimate of the additional corporate income taxes paid by oil producers as a result of decontrol. The proceeds from the fund will be used to aid low-income households, provide additional assistance to mass transit, and increase funding for energy supply and conservation investments. In the energy function, the energy security trust fund increases 1980 budget authority by \$0.7 billion and outlays by \$0.1 billion. The 1980 revenue loss associated with new tax expenditures is

\$0.1 billion, largely for long-term energy research, development, and conservation. Additional amounts related to the energy security trust fund are shown in the income security and transportation functions, and in an allowance. The latter is due to the fact that specific proposals have not yet been made for use of all the amounts in the fund.

The remaining differences in the energy function reflect the following changes:

- Revised outlay estimates for the strategic petroleum reserve reflect delayed filling of the reserve in 1979 because of unstable world oil markets. Deferral of oil purchases until 1980 and future years, coupled with oil prices substantially higher than those forecast in the January budget, will likely result in future budget increases above those planned in the January budget. 1/
- Delays in spending for other energy programs have reduced estimated 1979 outlays by \$0.6 billion below the earlier estimates.
- Naval petroleum reserve receipts estimates have been increased by \$0.2 billion in 1980 because of higher oil price assumptions. This increase in offsetting receipts reduces both budget authority and outlays.
- The \$0.1 billion decrease in 1979 budget authority reflects congressional cuts in supplemental requests. A \$0.2 billion increase in 1980 budget authority for energy conservation corrects a technical error in the budget estimates.

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1/ The estimates in this review include the Administration's most recent comprehensive assessment of oil prices and fill rates. The oil price assumptions do not reflect fully the oil price increases announced since May, nor have the fill rate assumptions been revised to reflect the results of an in-depth review, now underway, of the Administration's oil purchase policy. Upon completion of this review and an analysis of oil prices and other program uncertainties, the Administration will provide the Congress with updated budget estimates and program recommendations.

## 300: NATURAL RESOURCES AND ENVIRONMENT

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January and March estimates.....	13.6	13.0	12.9
Changes:			
Corps of Engineers.....	---	0.1	---
Other.....	---	-*	*
Current estimate.....	13.6	13.1	12.9
<u>Outlays</u>			
January and March estimates.....	10.9	11.2	11.5
Changes:			
Corps of Engineers.....	---	0.3	0.3
EPA sewage plant construction grants.	---	0.2	---
Other.....	---	-*	*
Current estimate.....	10.9	11.6	11.8

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\* \$50 million or less.

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The current outlay estimates for this function are slightly above the earlier estimates due largely to reestimates based on actual experience to date. The budget authority estimates reflect anticipated congressional action on supplementals.

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## 350: AGRICULTURE

	(\$ billions)		
	Actual 1978	Estimate 1979 1980	
<u>Budget Authority</u>			
January and March estimates.....	2.6	8.3	4.9
Changes:			
Agricultural credit insurance fund...	---	0.8	---
Other.....	---	-*	-*
Current estimate.....	2.6	9.1	4.9
<u>Outlays</u>			
January and March estimates.....	7.7	6.2	4.3
Changes:			
Farm price supports:			
Proposed legislation.....	---	-0.3	0.3
Existing law.....	---	-0.4	-2.2
Agricultural credit insurance fund...	---	1.1	0.1
Other.....	---	-*	-*
Current estimate.....	7.7	6.7	2.4

\* \$50 million or less.

The current estimates of budget authority and outlays for the agriculture function are above the January estimates for 1979. While the estimate of budget authority for 1980 is virtually unchanged, the current estimate of 1980 outlays is significantly below the earlier estimate.

The estimates for 1979 budget authority and outlays of the agricultural credit insurance fund are substantially above the budget estimates because demand for emergency loans has been much greater than anticipated. The current estimate of new commitments for emergency disaster loans in 1979 is \$3.4 billion, compared to \$0.6 billion in the January budget. The estimate of new commitments for emergency economic loans in 1979 has risen from \$2.5 billion to \$3.0 billion. As a result, the current estimate of 1979 outlays for agricultural credit insurance is \$1.1 billion above the January budget estimates.

The reductions in estimated farm price support outlays under existing law -- \$0.4 billion in 1979 and \$2.2 billion in 1980 -- stem largely from changes in the market outlook for agricultural commodities. Grain prices have increased significantly, in part due to anticipated larger exports and increased domestic use. This increase in prices leads to lower income support (deficiency) payments, since market prices are expected to be nearer to or to exceed the target price. In addition, more producers are expected to repay outstanding price support loans. These reductions in farm price support outlays are the expected result of the changes noted, and do not reflect any change in the policies of the Administration.

Congressional delays in enacting the proposed food reserves shift \$0.3 billion of outlays under proposed legislation from 1979 to 1980. The current estimates for proposed legislation in 1980 also reflect payments under a new sugar program and an expanded crop insurance program.

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## 370: COMMERCE AND HOUSING CREDIT

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January and March estimates.....	5.3	7.0	8.3
Changes:			
Rural housing programs.....	---	-1.0	---
Other.....	---	0.1	*
Current estimate.....	5.3	6.1	8.3
<u>Outlays</u>			
January and March estimates.....	3.3	3.0	3.4
Changes:			
Rural housing programs.....	---	-*	-*
Federal Deposit Insurance Corporation.....	---	-0.2	-0.2
Other.....	---	-*	-*
Current estimate.....	3.3	2.8	3.2

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\* \$50 million or less.

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The current estimate of 1979 budget authority for commerce and housing credit is \$1.0 billion below the budget because of congressional inaction on a proposed supplemental for the rural homeownership assistance program.

Estimated outlays for the function are \$0.2 billion below the earlier estimates for 1979 and 1980. Most of this change is due to a decrease in net outlays by the Federal Deposit Insurance Corporation, which have been revised downward as a result of improved cash management techniques.



## 400: TRANSPORTATION

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January and March estimates.....	15.0	20.0	19.1
Changes:			
Energy security trust fund (proposed)	---	---	0.2
Purchase of ConRail securities.....	---	-0.7	0.6
Other.....	---	-*	*
Current estimate.....	15.0	19.2	19.9
<u>Outlays</u>			
January and March estimates.....	15.4	17.4	17.6
Changes:			
Energy security trust fund (proposed)	---	---	*
Highways.....	---	-*	0.4
Purchase of ConRail securities.....	---	-0.1	0.1
Other aid to railroads.....	---	-0.2	0.1
Other.....	---	*	0.1
Current estimate.....	15.4	17.2	18.3

\* \$50 million or less.

The current estimates for transportation outlays are \$0.2 billion below the earlier estimates for 1979 and \$0.7 billion above the earlier estimates for 1980.

Outlay estimates for highway programs in 1980 are \$0.4 billion above the earlier estimates for 1980 because obligations in 1979 are now anticipated to be about \$0.9 billion higher than previously estimated. Much of the increase is attributable to accelerated construction of the Interstate highway system as provided for in the 1978 Surface Transportation Assistance Act. The current outlay estimates reflect Federal-aid highway obligations of \$8.5 billion in 1979 and \$8.4 billion in 1980.

Outlay estimates for purchase of ConRail securities in 1979 are \$0.1 billion below the earlier estimates because of increased revenues from ConRail operations. The 1980 outlay estimate is

\$0.1 billion higher than the March estimate, reflecting increased purchases to cover a portion of higher estimated costs. Outlay estimates for the Northeast corridor improvement project are \$0.2 billion below the earlier estimates for 1979. The shortfall in 1979 is expected to be offset by higher outlays in 1980 and 1981.

The 1980 budget authority estimates include \$0.2 billion for the mass transit portion of the proposed energy security trust fund. The budget authority estimates for ConRail reflect congressional action shifting funds from 1979 into 1980 and 1981. Total funding has not been changed.

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## 450: COMMUNITY AND REGIONAL DEVELOPMENT

	(\$ billions)		
	Actual 1978	Estimate 1979 1980	
<u>Budget Authority</u>			
January estimate.....	10.3	8.1	11.3
March changes (disaster relief).....	---	0.6	---
March estimate.....	10.3	8.7	11.3
Further changes:			
Revised economic development proposal.....	---	-*	-2.6
Disaster loans and relief.....	---	0.6	*
Other.....	---	-*	---
Current estimate.....	10.3	9.3	8.7
<u>Outlays</u>			
January estimate.....	11.0	9.1	7.3
March changes (largely disaster relief).	---	0.5	0.1
March estimate.....	11.0	9.6	7.4
Further changes:			
Revised economic development proposal.....	---	-*	-0.1
Disaster loans and relief.....	---	0.5	0.1
Other.....	---	*	0.1
Current estimate.....	11.0	10.1	7.5

\* \$50 million or less.

Budget authority for community and regional development is above earlier estimates for 1979 and below earlier estimates for 1980. Outlays are higher in 1979 and virtually unchanged in 1980.

Disaster relief accounts for almost all of the increase in 1979 budget authority and outlays. The current estimates include \$1.8 billion in budget authority for disaster relief, compared to \$1.2 billion in the March estimates and \$0.6 billion in the January budget. Budget authority requested for Small Business Administration (SBA) disaster loans has increased by \$1.0 billion since January because of floods and storms in the southern and north-central parts of the country, which have greatly increased

the demand for SBA disaster loans. Budget authority for the Federal Emergency Management Agency is \$0.2 billion above the March figure for similar reasons.

For 1980, the January budget included \$3.5 billion in budget authority for the proposed National Development Bank. Subsequently, the President decided not to propose the Bank as a separate entity, and the \$3.5 billion was shown as an allowance for economic development in this function in the March update. The current estimates no longer include this \$3.5 billion, but do include additional budget authority of \$275 million for urban development action grants in the Department of Housing and Urban development, and \$700 million for economic development programs in the Department of Commerce under the proposed National Public Works and Economic Development Act. The proposal consolidates existing business development programs with financing incentives previously considered for the National Development Bank. The need for additional budget authority is substantially reduced because the proposal places major emphasis on using loan guarantees as a development finance tool. Authority for \$1.8 billion in loan guarantees is being requested.

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

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January and March estimates.....	22.4	33.0	30.9
Changes:			
Education:			
Higher education.....	---	-0.2	0.4
Other education.....	---	-0.1	-*
Training and employment.....	---	-0.4	-0.1
Social services.....	---	*	0.1
Current estimate.....	22.4	32.5	31.4
<u>Outlays</u>			
January estimate.....	26.5	30.7	30.2
March changes:			
Training and employment.....	---	-0.6	---
Social services.....	---	0.1	-0.1
March estimate.....	26.5	30.1	30.2
Further changes:			
Education:			
Higher education.....	---	-0.1	0.3
Other education.....	---	-0.1	-*
Training and employment.....	---	-0.1	-0.3
Social services.....	---	0.1	*
Current estimate.....	26.5	30.0	30.1

\* \$50 million or less.

There are a number of small changes in this function that are the result of changed program participation estimates, revised Administration proposals, and a ruling of the Comptroller General:

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- The 1979 estimates of budget authority for higher education have been reduced by \$169 million to reflect the effects of an amendment to the 1979 Labor-HEW Appropriations Act. 1/
- The 1979 estimate of outlays for higher education has been reduced by \$0.1 billion due to a reestimate of net outlays for college housing loans.
- The 1980 estimates for higher education reflect an increase of \$0.4 billion in budget authority and \$0.3 billion in outlays. Most of this increase is due to higher than anticipated participation in guaranteed student loan programs, including revised estimates of the effect that Administration proposals to phase out OASDI student benefits are expected to have on the basic educational opportunity grant program.
- The 1979 budget authority request for training and employment has been reduced by \$0.4 billion, primarily because a supplemental request to fund the private sector initiative has been replaced by a reprogramming of both the 1979 appropriation and the 1980 budget request.
- The 1980 budget authority estimate for training and employment has been reduced by \$122 million to conform with the Comptroller General's ruling that the 1979 continuing resolution provided a 2-year appropriation for the Comprehensive Employment and Training Act. Thus, unobligated balances at the end of 1979 are automatically available in 1980. Earlier Administration estimates were based on the belief that the Act had reappropriated these unobligated balances for 1980.
- The 1980 outlay estimate for training and employment has been reduced by \$0.3 billion below the March estimate, due primarily to lower than anticipated enrollment in public service employment programs.

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1/ An amendment to the 1979 appropriations for the Department of Health, Education, and Welfare (HEW) requires a \$1.0 billion reduction in total HEW appropriations through the elimination of waste, fraud, and abuse. To conform with this amendment, HEW has reduced budget authority in the following areas: medicaid (\$0.4 billion), aid to families with dependent children (\$0.4 billion), and basic educational opportunity grants (\$0.2 billion).

- Estimated 1979 outlays and 1980 budget authority for grants to States for social services have been increased by \$0.1 billion due largely to higher than anticipated State claims and continued growth in State and local social services training.

The Administration's welfare reform proposal includes major efforts to help welfare recipients find jobs and provide training programs and public service jobs. While this proposal has no budget effect in either 1979 or 1980, the current estimates include an allowance for start-up costs in 1981 and increased amounts for training and employment in 1982 and subsequent years. These estimates are discussed in Part 3.

The following information is provided in fulfillment of the requirement of Section 602 of the Comprehensive Employment and Training Act, and revises information supplied in the Budget Appendix for 1980 in the temporary employment assistance account and in the March update.

- The unemployment rate for 1980 is now estimated to be 6.8%.
- The number of unemployed in excess of 4% of the labor force is estimated to be 2.94 million.
- The average cost per year of a public service employment opportunity is estimated to be \$9,500.
- The amount that would be needed to be appropriated to provide public service jobs for 20% of the number of unemployed in excess of 4%, taking into account anticipated budget resources at the beginning of the year, is \$5,316 million.

## 550: HEALTH

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January estimate.....	46.5	52.5	57.6
March changes (medicare).....	---	0.1	-*
March estimate.....	46.5	52.6	57.6
Further changes:			
Medicare:			
Proposed legislation.....	---	-*	-*
Existing law.....	---	-*	0.3
Medicaid:			
Proposed legislation.....	---	*	*
Existing law.....	---	-0.4	1.0
Other.....	---	*	---
Current estimate.....	46.5	52.2	58.9
<u>Outlays</u>			
January estimate.....	43.7	49.1	53.4
March changes (medicaid).....	---	0.1	---
March estimate.....	43.7	49.3	53.4
Further changes:			
Medicare:			
Proposed legislation.....	---	0.2	0.5
Existing law.....	---	-0.1	-0.2
Medicaid:			
Proposed legislation.....	---	*	*
Existing law.....	---	-*	0.6
Other.....	---	-*	0.1
Current estimate.....	43.7	49.4	54.4

\* \$50 million or less.

The current estimates for health outlays are \$0.1 billion above the March estimates for 1979, and \$1.0 billion above the March estimates for 1980. Most of the changes are in the estimates for medicare and medicaid.

The current estimates for total medicare outlays are \$0.1 billion above the March estimates for 1979 and \$0.3 billion above March estimates for 1980. The current estimates include the following, partly offsetting, revisions:



- The outlay estimates under existing law have decreased by \$73 million in 1979 and \$220 million in 1980 primarily as a result of a lower than originally projected rate of hospital cost increases. This appears to be largely due to the hospital industry's anticipation of enactment of hospital cost containment legislation.
- The savings anticipated from hospital cost containment are now estimated to be \$140 million in 1979 and \$1,080 million in 1980. These savings are somewhat below the January and March estimates because of refinements in the Administration's proposal and because the revised economic forecast raises the rate of hospital cost increases allowed under the proposal.
- Medicare savings of \$68 million in 1980 that were previously shown as proposed legislation will be achieved under existing law. While this does not affect total outlays, it does decrease outlays under existing law and increase the estimates for proposed legislation. In addition, estimated savings from some other legislative proposals have been reduced.

The current estimates of medicaid outlays are virtually the same as the March estimates for 1979 and \$0.6 billion above the March estimates for 1980. These changes are largely due to the following, partly offsetting, revisions in the estimates for benefits under existing law:

- The current estimates for 1979 outlays (and budget authority) have been reduced by \$0.4 billion to reflect an amendment to the 1979 Labor-HEW Appropriations Act. <sup>1/</sup>
- The current outlay estimates have increased by \$0.3 billion in 1979 and \$0.6 billion in 1980 as a result of more recent data on medicaid payments for nursing home care and on projected State expenditures. These increases will be financed by the \$1 billion increase in budget authority requested for 1980.

The Administration's national health plan, which is proposed to become effective in 1983, is discussed in Part 3. Amounts for this program are included in the allowances function for 1983 and 1984.

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<sup>1/</sup> An amendment to the 1979 appropriations for the Department of Health, Education, and Welfare (HEW) requires a \$1.0 billion reduction in total HEW appropriations through the elimination of waste, fraud, and abuse. To conform with this amendment, HEW has reduced budget authority in the following areas: medicaid (\$0.4 billion), aid to families with dependent children (\$0.4 billion), and basic educational opportunity grants (\$0.2 billion).

## 600: INCOME SECURITY

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January estimate.....	180.1	191.0	214.5
March changes (largely social security).....	---	0.3	-0.3
March estimate.....	180.1	191.2	214.2
Further changes:			
Social security and railroad retirement.....	---	-0.3	0.7
Disabled coal miners benefits.....	---	0.2	0.5
Federal employee retirement and disability.....	---	-*	0.2
Unemployment compensation.....	---	-0.4	0.4
Food stamps.....	---	0.7	1.7
Other nutrition programs.....	---	0.1	0.2
AFDC.....	---	-0.4	-*
Energy security trust fund (proposed)	---	---	0.5
Real wage insurance (proposal dropped).....	---	---	-0.2
Other.....	---	*	0.1
Current estimate.....	180.1	191.2	218.3
<u>Outlays</u>			
January estimate.....	146.2	158.9	179.1
March changes:			
Unemployment compensation.....	---	0.3	0.3
Other.....	---	0.1	-0.1
March estimate.....	146.2	159.3	179.3
Further changes:			
Social security and railroad retirement:			
Proposed legislation.....	---	*	0.2
Existing law.....	---	0.6	1.4
Disabled coal miners benefits.....	---	0.4	0.6
Federal employee retirement and disability.....	---	-*	0.3
Unemployment compensation.....	---	0.5	1.4
Food stamps.....	---	0.7	1.7
Other nutrition programs.....	---	0.1	0.1
AFDC.....	---	-0.4	-*
Energy security trust fund (proposed)	---	---	0.5
Real wage insurance (proposal dropped).....	---	---	-0.2
Other.....	---	*	0.1
Current estimate.....	146.2	161.3	185.2

\* \$50 million or less.

The current outlay estimates for income security are \$2.0 billion above the March estimate for 1979 and \$6.0 billion above the March estimate for 1980. Most of the increases in 1980 are due to revised economic assumptions.

In comparison to the March estimates, major changes in the outlay estimates for benefits under existing law have been made in the following areas:

- Social security, railroad retirement, and Federal retirement outlays are up by \$0.6 billion in 1979 and \$1.6 billion in 1980 because of higher than anticipated cost-of-living adjustments and reestimates reflecting actual spending in recent months.
- Estimates for coal miners benefits have been increased by \$0.4 billion in 1979 and \$0.6 billion in 1980 to reflect higher rates of claims approvals, higher retroactive benefit payments, and a more rapid processing of claims.
- Estimates for unemployment compensation have increased by \$0.5 billion in 1979 and \$1.4 billion in 1980 because of revised economic assumptions and changes in estimating methods.
- Estimated food stamp outlays have increased by \$0.7 billion in 1979 and \$1.7 billion in 1980 primarily because of an unanticipated increase in the participation rates due to changes in the Food Stamps Reform Act of 1977. Higher food prices also account for a portion of the increase.
- The 1979 budget authority and outlay estimates for aid to families with dependent children (AFDC) have decreased by \$0.4 billion to reflect an amendment to the 1979 Labor-HEW Appropriations Act. 1/

The current estimates also include the following changes in outlays under proposed legislation:

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1/ An amendment to the 1979 appropriations for the Department of Health, Education, and Welfare (HEW) requires a \$1.0 billion reduction in total HEW appropriations through the elimination of waste, fraud, and abuse. To conform with this amendment, HEW has reduced budget authority in the following areas: medicaid (\$0.4 billion), aid to families with dependent children (\$0.4 billion), and basic educational opportunity grants (\$0.2 billion).

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- The energy security trust fund, which will help low-income households meet the rising cost of fuel caused by oil decontrol, increases 1980 outlays by \$0.5 billion.
- Deletion of the real wage insurance proposal decreases 1980 outlays by \$0.2 billion.
- A delay in the assumed effective date of several proposed social security reforms -- from October 1, 1979 to January 1, 1980 -- increases 1980 outlays by \$0.2 billion.

The Administration's proposed reform of the welfare system, which includes revised income security benefit payments, has no budget effect in either 1979 or 1980. The current estimates do include an allowance for start-up costs in 1981 and increased amounts for income security in 1982 and subsequent years. These estimates are discussed in Part 3.

## 700: VETERANS BENEFITS AND SERVICES

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January estimate.....	19.0	20.5	21.0
March changes.....	---	-0.1	-0.1
March estimate.....	19.0	20.4	21.0
Changes:			
Compensation and pensions.....	---	*	0.2
Medical care.....	---	-*	0.2
Other.....	---	*	*
Current estimate.....	19.0	20.5	21.4
<u>Outlays</u>			
January estimate.....	19.0	20.3	20.5
March changes.....	---	-0.1	-0.1
March estimate.....	19.0	20.3	20.4
Changes:			
Compensation and pensions.....	---	-*	0.3
Medical care.....	---	-0.1	0.2
Other.....	---	0.1	-*
Current estimate.....	19.0	20.3	20.8

\* \$50 million or less.

Outlays for veterans benefits and services are about the same as estimated in March for 1979 and slightly above the March estimates for 1980.

An increase in outlays for compensation and pension benefits of \$0.3 billion in 1980 is in large part due to higher cost-of-living adjustments than anticipated in March.

Outlays for medical care have been revised upward by \$0.2 billion in 1980, reflecting a reestimate of the cost savings associated with proposed legislation requiring health insurers to reimburse the VA for treatment of insured veterans non-service-connected disabilities, and additional costs associated with implementation of the Veterans Health Care Amendments Act of 1977.

## 750: ADMINISTRATION OF JUSTICE

	(\$ billions)		
	Actual 1978	Estimate 1979 1980	
<u>Budget Authority</u>			
January and March estimates.....	3.9	4.3	4.3
Changes.....	---	-*	-*
Current estimate.....	3.9	4.3	4.3
<u>Outlays</u>			
January and March estimates.....	3.8	4.4	4.4
Changes.....	---	-0.1	-*
Current estimate.....	3.8	4.3	4.4
<hr/>			
* \$50 million or less.			

The current estimates of outlays for 1979 are \$91 million below the earlier estimates due to a number of small reductions, largely reestimates, throughout the function.

## 800: GENERAL GOVERNMENT

	(\$ billions)		
	Actual 1978	Estimate 1979	Estimate 1980
<u>Budget Authority</u>			
January and March estimates.....	4.1	4.5	4.5
Changes.....	---	-0.1	*
Current estimate.....	4.1	4.4	4.5
<u>Outlays</u>			
January and March estimates.....	3.8	4.4	4.4
Changes.....	---	-0.1	-*
Current estimate.....	3.8	4.3	4.4
<hr/>			
* \$50 million or less.			

Budget authority and outlays for programs in the general government function are slightly below the January and March estimates. The current estimates reflect congressional cuts in the 1979 amounts for construction of the new Senate office building, and for purchase of new automobiles by the General Services Administration.

## 850: GENERAL PURPOSE FISCAL ASSISTANCE

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority</u>			
January and March estimates.....	9.7	8.8	8.8
Targeted fiscal assistance.....	---	-0.2	0.2
Other.....	---	*	*
Current estimate.....	9.7	8.5	9.0
<u>Outlays</u>			
January and March estimates.....	9.6	8.9	8.8
Targeted fiscal assistance.....	---	-0.2	0.2
Other.....	---	*	*
Current estimate.....	9.6	8.7	9.0

\* \$50 million or less.

The January budget included \$250 million in budget authority and outlays for targeted fiscal assistance in 1979 and \$200 million in 1980. The current estimates include no funding for this program in 1979 and \$350 million in budget authority and outlays for 1980. The decrease in 1979 is due to congressional inaction. The increase in 1980 reflects the increase in the projected rate of unemployment.



## 900: INTEREST

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
<u>Budget Authority and Outlays</u>			
January estimate.....	44.0	52.8	57.0
March changes.....	---	-0.3	-0.1
March estimate.....	44.0	52.5	56.9
Further changes:			
Interest on the public debt.....	---	0.3	1.9
Interest on loans to the Federal			
Financing Bank.....	---	0.2	-0.7
Other.....	---	-*	-0.3
Current estimate.....	44.0	53.0	57.8

\* \$50 million or less.

Estimated interest outlays exceed the March estimates by \$0.5 billion in 1979 and \$0.9 billion in 1980. The effect of lower borrowing requirements is more than offset by higher assumed interest rates for the forecast period. Interest rates on short-term Treasury securities are assumed to be 0.2 percentage points higher in 1979 and 0.6 percentage points higher in 1980 than in the earlier estimates. The recent increase in the interest rate on United States savings bonds, from 6.0% to 6-1/2%, adds an estimated \$0.3 billion to the 1980 estimates for interest on the public debt.

Current estimates of interest on the public debt are \$60.1 billion in 1979 and \$67.6 billion in 1980. These estimates compare to \$48.7 billion in 1978.

The estimates of interest on loans to the Federal Financing Bank (FFB) for 1979 have been reduced by \$0.2 billion (thus increasing outlays) because collections have been less than projected. The \$0.7 billion increase in 1980 receipts (which decreases outlays) reflects higher interest rates and reestimates of loan activity.

Net interest, which includes the interest function and interest received by trust funds, is currently estimated to be \$43.2 billion in 1979 and \$46.9 billion in 1980. These estimates are \$0.5 billion above the March estimate for 1979 and \$0.9 billion above the March estimate for 1980.

## 920: ALLOWANCES

	Estimate (\$ billions)	
	1979	1980
<u>Budget Authority</u>		
January estimate.....	0.1	2.4
March changes (contingencies).....	<u>0.5</u>	<u>---</u>
March estimate.....	0.6	2.4
Further changes:		
Energy security trust fund (proposed).....	---	1.6
Contingency allowance for relatively uncontrollable programs.....	---	0.1
Other contingencies.....	<u>-0.6</u>	<u>-1.5</u>
Current estimate.....	---	2.7
<u>Outlays</u>		
January estimate.....	---	1.4
March changes (contingencies).....	<u>0.1</u>	<u>0.6</u>
March estimate.....	0.1	2.0
Further changes:		
Energy security trust fund (proposed).....	---	0.8
Contingency allowance for relatively uncontrollable programs.....	---	0.5
Other contingencies.....	<u>-0.1</u>	<u>-1.1</u>
Current estimate.....	---	2.1

The current estimates include no allowances for 1979. Like the earlier estimates, current amounts for 1980 include \$0.9 billion in budget authority and outlays for civilian agency pay raises. The current estimates for 1980 also include an allowance for relatively uncontrollable programs of \$0.1 billion in budget authority and \$0.5 billion in outlays. These amounts allow for somewhat higher cost-of-living increases in various retirement and other income security programs than were assumed at the time that the detailed program estimates for this review were prepared. Not all of the effects of the recent OPEC price change could be taken into account in the detailed estimates in time for this review. The amounts in this allowance will be distributed among the individual programs at a later time.

An allowance for the energy security trust fund is included, reflecting amounts still to be allocated to specific proposals. Additional amounts are classified in the energy, income security, and transportation functions.

The general contingency allowance for 1979 and 1980 included in the March estimates has been distributed to specific programs, such as the Middle East peace treaty and the energy security trust fund.

## 950: UNDISTRIBUTED OFFSETTING RECEIPTS

	(\$ billions)		
	Actual 1978	Estimate 1979	Estimate 1980
<u>Budget Authority and Outlays</u>			
January estimate.....	-15.8	-18.7	-19.0
March changes:			
Offshore oil receipts.....	---	0.6	-*
Interest received by trust funds.....	---	-*	*
March estimate.....	-15.8	-18.1	-19.1
Changes:			
Offshore oil receipts.....	---	-0.3	0.4
Interest received by trust funds.....	---	-*	*
Employer share, employee retirement..	---	---	-*
Current estimate.....	-15.8	-18.4	-18.7
<hr/>			
* \$50 million or less.			

The current estimates of undistributed offsetting receipts are \$0.3 billion above the March estimates for 1979 and \$0.4 billion below the March estimates for 1980. These changes decrease budget authority and outlays in 1979 and increase them in 1980.

Receipts from offshore oil leases are now estimated at \$3.2 billion in 1979 and \$2.3 billion in 1980. The \$0.3 billion increase in 1979 receipts is due to higher than anticipated revenues from the recent sale in California. The \$0.4 billion decrease in 1980 is a result of a proposed new oil and gas leasing program recently announced by the Secretary of the Interior. The new program shifts sales previously scheduled in 1980 to 1981 and future years.

## OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES, 1978-1980

	(\$ billions)		
	Actual	Estimate	
	1978	1979	1980
January and March estimates.....	10.3	12.0	12.0
Changes:			
Federal Financing Bank.....	---	1.5	3.8
Postal Service.....	---	-1.1	0.3
Other.....	---	-*	*
Current estimate.....	10.3	12.4	16.1

\* \$50 million or less.

While the total outlay estimates for off-budget Federal entities in 1979 are only slightly higher than the March estimates, they reflect significant offsetting changes in the estimates of the Postal Service and the Federal Financing Bank (FFB). The 1980 outlay estimates for off-budget entities are up substantially, due largely to an increase in FFB outlays.

The current estimates for Postal Service outlays are \$1.1 billion below the earlier estimates for 1979 and \$0.3 billion above the earlier estimates for 1980. Higher cost-of-living increases resulting from collective bargaining agreements add \$0.3 billion and \$1.0 billion to 1979 and 1980 outlay estimates, respectively. These increases are offset by downward reestimates of operating receipts and expenditures, elimination of the allowance for contingencies, and deferral of expenditures related to contingent liabilities of the Postal Service.

Outlays by the FFB are now estimated to be \$13.0 billion in 1979 and \$15.1 billion in 1980. These estimates are \$1.5 billion above the earlier estimates for 1979 and \$3.8 billion above the earlier estimates for 1980. Higher than previously anticipated purchases of loan assets, largely from the Farmers Home Administration, increase estimated outlays by \$2.4 billion in 1979 and \$5.3 billion in 1980. These increases are partly offset by lower than previously estimated purchases of guaranteed loan originations, largely from the Rural Electrification Administration, which reduce outlays by \$0.8 billion in 1979 and \$1.6 billion in 1980.

## Part 3

## LONG-RANGE BUDGET OUTLOOK

This section presents the long-range budget outlook. As required by law, it also contains projected outlays for open-ended programs and fixed costs, and spending from balances of budget authority for non-mandatory programs.

Long-Range Economic Assumptions and the Budget Outlook

Long-Range Economic Goals.--The long-range economic assumptions differ in nature from the short-range economic forecast presented earlier. These assumptions are not forecasts of economic events, but projections that assume progress in moving toward lower unemployment rates and greater price stability.

Two sets of longer-range economic assumptions, and budget projections corresponding to each, are shown. One set, discussed in this section, assumes the achievement of the medium-term goals specified in the Full-Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act). These goals are highly ambitious and may be difficult to achieve. The other set of assumptions, discussed in a later section, are less ambitious.

The medium-term economic goals stated in the Full Employment and Balanced Growth Act of 1978 are: attainment of an unemployment rate of 4.0% for the entire civilian labor force (and 3.0% for adult workers aged 20 and over); and an inflation rate of no more than 3.0% per year, as measured by the Consumer Price Index. Both goals are assumed to be attained by the end of calendar year 1983. These goals are shown in Table 18.

Budget Totals.--As shown in Table 15, outlays consistent with the Humphrey-Hawkins goals are projected to rise \$196 billion, from \$542 billion in 1980 to \$738 billion in 1984. Receipts under these economic assumptions are projected to increase more rapidly, from \$514 billion in 1980 to \$825 billion in 1984.

Table 15.--THE BUDGET OUTLOOK, 1980-1984  
(in billions of dollars)

	1980	1981	1982	1983	1984
Receipts.....	513.8	597.4	688.9	764.8	825.3
Outlays.....	<u>542.4</u>	<u>599.3</u>	<u>642.3</u>	<u>700.9</u>	<u>738.0</u>
Surplus or deficit (-)....	-28.7	-1.9	46.6	63.9	87.3
Budget authority.....	622.8	674.8	728.6	786.2	829.5

The current projections show a deficit of \$1.9 billion in 1981 but substantial surpluses thereafter. It should be strongly emphasized that the budget margins projected after 1981 do not imply that budget surpluses of such magnitude will in fact occur in those years. These projected surpluses simply reflect resources that would be available to accommodate future discretionary fiscal and budgetary policy decisions -- tax reductions, new or expanded programs, or debt reduction. The Administration is committed to achieving a balanced budget as soon as economic conditions permit. When that will be possible depends upon economic developments, such as progress against inflation, the extent to which further tax cuts are needed to maintain economic growth, our success in overcoming the current energy crisis, and the need for future program increases or decreases -- none of which can be anticipated with any certainty now.

Budget Impacts of Major Initiatives.--As is the case with the underlying economic assumptions, the long-range budget projections for 1983 and 1984 are not forecasts. For the most part, they are extrapolations -- based in part upon the economic assumptions shown in Table 18 -- of the costs of programs proposed in the 1980-1982 multi-year planning base. Existing and proposed programs and tax laws are assumed to continue unchanged throughout the projection period. The projections are, therefore, an estimate of the degree to which future budgetary resources are or would be committed by current law and Administration policy. They include the projected budget impact of welfare reform, starting in 1981 and fully effective in 1982; and the Administration's national health insurance plan, beginning in 1983. Estimates for national health insurance are included in the allowances function. Costs of welfare reform are included in the allowances function in 1981, but are distributed to the education, training, employment, and social services; health; and income security functions in 1982, 1983, and 1984.

The welfare reform plan would make several program improvements, increase efficiency and reduce fraud and abuse through administrative improvements, and provide fiscal relief to State and local governments. Specific program reforms would establish a national minimum benefit level for the aid to families with dependent children program (AFDC); transform the optional program for assistance to families with unemployed fathers into mandatory assistance for unemployed parents; furnish job-search assistance; attempt to provide an employment and training opportunity for the principal earner in AFDC families for whom a private sector job cannot be found; and further expand the earned income tax credit (EITC) to increase incomes of working poor families.

The Administration's proposed national health plan would:

- establish a Federal program called Healthcare to provide improved health protection for the aged, disabled, poor, the near-poor with large medical expenses, and others who cannot purchase coverage in the private sector;
- require that all employers provide health insurance for employees and their dependents; the mandated benefit package would limit out-of-pocket expenses for covered services to no more than \$2,500 per year, with the employee share of premium costs for the mandated coverage limited to no more than 25%; and
- improve the efficiency of health services through hospital cost containment, a capital expenditure limit for hospitals, and other reforms designed to improve competition in the health care sector.

Coverage and benefits under the national health plan will begin in 1983. Preliminary estimates of the costs of the plan are \$24 billion for 1983 and \$27 billion for 1984.

The estimates and projections also include the effects of the Administration's energy initiative.

The energy security trust fund was proposed by the President in conjunction with his proposed windfall profits tax. The windfall profits tax is designed to prevent United States oil producers from reaping unearned profits as a result of the phased decontrol of domestic oil prices. The revenues produced by that tax, as well as an additional appropriation to be requested by the President, are proposed to finance an energy security trust fund. The major purposes of the fund are to:

- assist low-income households to pay additional energy costs resulting from decontrol;



- provide for additional investments in energy efficient mass transit;
- expand research, development, and demonstration programs to increase energy supply and conservation; and
- provide for the establishment of a solar energy bank as announced in the President's Solar Energy Message on June 20, 1979.

These programs are intended to ease the transition to higher petroleum prices while accelerating our search for alternatives to costly imported oil.

The long-range receipts and outlay projections are sensitive to changes in the underlying assumptions, especially those concerning future economic conditions. As the section below on alternative assumptions illustrates, the deficits and surpluses could be markedly different from those shown above if the economy follows a different path. Additional information on projected receipts, budget authority, and outlays is provided in the tables at the end of this part.

Projections of Outlays for Open-Ended Programs and Fixed Costs.-- Outlay projections for open-ended programs and fixed costs are shown in Table 26, as required by Section 221(b) of the Legislative Reorganization Act of 1970.

These projections indicate that, under existing legislation, payments for individuals are estimated to grow by roughly 8.4% a year from 1980 to 1984. Outlays for net interest are projected to increase through 1981 and decline thereafter. Outlays for other open-ended programs and fixed costs are projected to increase somewhat during the 1980-1984 period. Total open-ended programs and fixed costs are projected to comprise 56% of total budget outlays in 1984, a slight decrease from the 1980 share of 59%.

Spending from Balances of Budget Authority Available at the End of Fiscal Year 1980: Non-Mandatory Programs.--Section 221(b) of the Legislative Reorganization Act of 1970 amended the Budget and Accounting Act of 1921 to require that the President transmit to the Congress "summaries of estimated expenditures, in fiscal years following such ensuing fiscal year [1980, this year], of balances carried over from such ensuing fiscal year." Table 27 presents these estimates.

The current estimate of the balances at the end of fiscal year 1980 for programs that have controllable outlays is \$279.8 billion. About \$12.8 billion of this total is in guarantee and

insurance program balances, very little of which is expected ever to be spent. The spending pattern from the balances in other programs, which amount to \$267.0 billion, is fairly consistent among the programs. The bulk of the spending from balances takes place in 1981, and declines rapidly thereafter. About 43% is expected to be spent in 1981 and approximately 22% in 1982. About 15% (\$40.5 billion) is expected to remain unexpended at the end of fiscal year 1984. An estimated \$9.7 billion of the 1980 end-of-year balances is expected to expire (without being spent) during fiscal years 1981 through 1984.

#### Budget Projections Under Alternative Economic Assumptions

This section presents an alternative set of economic assumptions and a corresponding set of budget projections.

The Administration continues to support the goals of the Full Employment and Balanced Growth Act. The assumptions underlying the estimates and projections in preceding sections were consistent with those goals. However, as noted in the January 1979 Economic Report of the President, attainment of the medium-term unemployment and inflation goals by the end of 1983 would be difficult -- particularly in view of the problems created by OPEC price increases since October 1978 -- and represents a rather optimistic assumption about future economic performance. For this reason, prudent multi-year budget planning requires that longer-range budget projections include consideration of a range of possible future economic conditions.

Under the alternative assumptions presented here, the economy is assumed to grow in real terms by an average of 3.6% a year for the entire 1981-1984 period. The rate of unemployment corresponding to this growth projection is 5-1/2% at the end of calendar year 1984. The rate of inflation is assumed to drop by about half a percentage point a year after 1980, reaching 5-1/2% a year in 1984. These more conservative assumptions may be more appropriate for budget planning purposes than those of the preceding sections.

Budget estimates and projections based on the alternative economic assumptions are shown in the following table. In comparison with the estimates and projections under the Humphrey-Hawkins goals, this table shows higher deficits and lower potential budget surpluses.

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Table 16.--THE BUDGET OUTLOOK UNDER ALTERNATIVE  
ECONOMIC ASSUMPTIONS, 1980-1984  
(in billions of dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Receipts.....	513.8	597.5	687.1	769.4	856.9
Outlays.....	542.4	600.3	650.9	722.6	774.7
Surplus or deficit (-)....	-28.7	-2.8	36.2	46.9	82.1

Because of the higher rate of inflation, by 1984 the levels of both receipts and outlays are significantly higher under the alternative assumptions. These differences are shown in Table 17.

Table 17.--DIFFERENCES IN BUDGET PROJECTIONS UNDER  
ALTERNATIVE SETS OF ECONOMIC ASSUMPTIONS, 1980-1984  
(in billions of dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Receipts</u>					
Receipts under economic goals.....	513.8	597.4	688.9	764.8	825.3
Effects of higher inflation.....	---	2.3	12.9	34.7	64.6
Effects of lower real growth.....	---	-2.2	-14.7	-30.1	-33.0
Receipts under alternative economic assumptions.....	513.8	597.5	687.1	769.4	856.9
<u>Outlays</u>					
Outlays under economic goals.	542.4	599.3	642.3	700.9	738.0
Effects of higher inflation.....	---	0.5	3.6	11.1	23.6
Effects of higher unemployment.....	---	0.1	1.6	4.5	6.1
Effects of higher interest rates and higher deficits	---	0.4	3.4	6.1	7.0
Outlays under alternative economic assumptions.....	542.4	600.3	650.9	722.6	774.7

Table 18.--LONG-RANGE ECONOMIC GOALS, 1981-1984  
(calendar years; dollar amounts in billions)

	Assumed for Budget Projections			
	1981	1982	1983	1984
<u>Major Economic Indicators</u>				
Gross national product, (percent change, 4th quarter over 4th quarter):				
Current dollars.....	11.7	10.2	7.6	6.1
Constant (1972) dollars.....	5.3	5.5	4.4	3.0
GNP deflator (percent change, 4th quarter over 4th quarter)...	6.1	4.5	3.0	3.0
Consumer Price Index (percent change, December over December).	6.0	4.5	3.0	3.0
Unemployment rate (percent, 4th quarter).....	6.0	4.8	4.0	4.0
<u>Annual Economic Assumptions</u>				
Gross national product:				
Current dollars:				
Amount.....	2,859	3,169	3,448	3,664
Percent change, year over year.....	11.2	10.8	8.8	6.3
Constant (1972) dollars:				
Amount.....	1,481	1,563	1,642	1,696
Percent change, year over year.....	4.1	5.5	5.1	3.3
Incomes:				
Personal income.....	2,338	2,571	2,779	2,947
Wages and salaries.....	1,504	1,673	1,826	1,941
Corporate profits.....	260	315	348	372
Price level:				
GNP deflator:				
Level (1972=100), annual average.....	193.0	202.8	210.0	216.1
Percent change, year over year.....	6.8	5.1	3.5	2.9
Consumer Price Index 1/:				
Level (1967=100), annual average.....	251.5	264.4	273.8	281.9
Percent change, year over year.....	7.1	5.2	3.5	2.9

See footnotes at end of table.

Table 18 (continued)

	Assumed for Budget Projections			
	1981	1982	1983	1984
Unemployment rates:				
Total, annual average.....	6.4	5.2	4.2	4.0
Insured, annual average <sup>2/</sup> .....	3.3	2.8	2.3	2.1
Federal pay raise, October (percent) <sup>3/</sup> .....	5.5	5.5	5.5	5.5
Interest rate, 91-day Treasury bills (percent) <sup>4/</sup> .....	7.2	5.6	4.4	4.2

<sup>1/</sup> The index shown is the CPI for urban wage earners and clerical workers. There are now two versions of the CPI published. One estimates the cost-of-living for wage earners and clerical workers in urban areas; the other, more recently developed, is more comprehensive, covering all urban dwellers. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.

<sup>2/</sup> This indicator measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

<sup>3/</sup> Pay raises become effective in October of each year -- the first month of the new fiscal year. Thus, the October 1979 pay raise will set new pay scales that will be in effect during fiscal year 1980. Under the comparability pay system, the President makes recommendations for Federal pay rates each year, after consultation with specified representatives. The projected rates are simply assumptions for purposes of developing budget estimates and do not represent a prior determination of future pay raise recommendations to be made by the President. Total compensation of Federal employees includes elements that are not included in pay.

<sup>4/</sup> Average rate on new issues within period. Before the 1980 budget, interest rates for the forecast period were assumed to remain at the levels prevailing at the time the estimates were made. Because it would be unrealistic to assume continuation of the same level of interest rates with changing inflation, however, it is now assumed, by convention, that future interest rates will change with the rate of inflation.

Table 19.--ESTIMATED EFFECT OF ADMINISTRATIVE ACTIONS AND  
PROPOSED LEGISLATION ON RECEIPTS, 1979-1984  
(in billions of dollars)

	Current Estimate				Projection	
	1979	1980	1981	1982	1983	1984
Receipts under current law.....	466.8	510.1	579.0	662.5	738.4	795.9
Extension of airport and airways trust fund taxes.....	---	0.1	0.8	0.9	1.0	1.1
Receipts on a current services basis.....	466.8	510.1	579.9	663.4	739.4	796.9
Proposed legislation and administrative actions other than extensions:						
Energy program:						
Windfall profits tax.....	---	2.5	8.1	12.7	12.5	12.9
Energy conservation credits.....	---	-0.1	-0.2	-0.4	-0.5	-0.7
Other income tax effects 1/.....	*	0.6	2.4	4.5	5.7	6.1
Waiver of import duties and fees.....	-0.3	-0.6	---	---	---	---
Foreign tax credit.....	0.1	0.8	0.7	0.7	0.7	0.8
Subtotal, Energy program.....	-0.2	3.2	11.0	17.5	18.4	19.1
Cash management initiatives.....	---	---	4.8	4.8	1.6	0.8
Railroad retirement tax increase.....	---	0.2	0.2	0.3	0.3	0.4
Tax-exempt mortgage bonds.....	---	0.3	1.0	2.6	5.3	8.9
Oil and hazardous substance clean-up.....	---	---	0.1	0.3	0.4	0.4
Tax treatment of independent contractors.....	---	---	0.7	0.8	0.9	1.0
Welfare reform.....	---	---	---	-0.1	-0.3	-0.2
Negotiated tariff reduction.....	---	-0.2	-0.5	-1.0	-1.5	-2.1
Other.....	-0.1	0.1	0.2	0.2	0.2	0.2
Total, Proposed legislation and administrative actions other than extensions.....	-0.3	3.6	17.6	25.4	25.3	28.4
Total receipts.....	466.5	513.8	597.4	688.9	764.8	825.3

1/ The effect of deregulation of crude petroleum prices on income tax receipts is included under energy policy.

\* \$50 million or less.

Table 20.--BUDGET RECEIPTS BY MAJOR SOURCE, 1979-1984  
(in billions of dollars)

	Current Estimate				Projection	
	1979	1980	1981	1982	1983	1984
Individual income taxes.....	216.6	234.2	277.2	322.8	364.2	399.8
Corporation income taxes.....	67.8	71.5	76.1	87.7	100.2	108.3
Social insurance taxes and contributions.....	141.3	162.6	189.6	217.2	236.6	250.8
Excise taxes.....	18.6	21.2	27.7	32.6	33.2	34.2
Estate and gift taxes.....	5.4	5.7	6.0	6.5	7.2	7.7
Customs duties.....	7.4	8.1	9.2	9.6	10.0	10.2
Miscellaneous receipts.....	<u>9.4</u>	<u>10.4</u>	<u>11.7</u>	<u>12.5</u>	<u>13.4</u>	<u>14.2</u>
Total budget receipts.....	466.5	513.8	597.4	688.9	764.8	825.3

Table 21.--COMPOSITION OF BUDGET OUTLAYS, 1978-1984  
(dollar amounts in billions)

	Actual	Current Estimate				Projection	
	1978	1979	1980	1981	1982	1983	1984
<b>National defense:</b>							
Direct Federal payments for individuals.....	9.2	10.2	11.4	12.9	14.1	15.1	16.0
Grants to States and localities.....	0.1	0.1	*	0.1	0.1	0.1	0.1
Other.....	<u>96.0</u>	<u>105.2</u>	<u>115.2</u>	<u>126.4</u>	<u>136.4</u>	<u>146.9</u>	<u>157.2</u>
Subtotal, National defense.....	105.2	115.5	126.7	139.4	150.6	162.1	173.3
<b>Nondefense:</b>							
Direct Federal payments for individuals.....	170.6	189.3	215.7	238.5	256.4	299.2	316.7
Payments for individuals through States and localities.....	24.7	26.7	28.8	31.6	33.7	36.1	38.9
All other grants to States and localities.....	53.1	54.9	55.1	57.5	59.1	59.0	58.9
Net interest.....	35.4	43.2	46.9	48.7	46.4	43.7	42.3
Other.....	<u>61.7</u>	<u>66.6</u>	<u>69.4</u>	<u>83.6</u>	<u>96.0</u>	<u>100.8</u>	<u>107.8</u>
Subtotal, Nondefense.....	<u>345.6</u>	<u>380.6</u>	<u>415.8</u>	<u>459.9</u>	<u>491.7</u>	<u>538.7</u>	<u>564.7</u>
Total.....	<u>450.8</u>	<u>496.2</u>	<u>542.4</u>	<u>599.3</u>	<u>642.3</u>	<u>700.9</u>	<u>738.0</u>

\* \$50 million or less.



Table 21 (continued)

	Actual	Current Estimate			Projection		
	1978	1979	1980	1981	1982	1983	1984
<u>Percent of Total Outlays</u>							
<b>National defense:</b>							
Direct Federal payments for individuals.....	2.0	2.1	2.1	2.2	2.2	2.2	2.2
Grants to States and localities.....	*	*	*	*	*	*	*
Other.....	<u>21.3</u>	<u>21.2</u>	<u>21.2</u>	<u>21.1</u>	<u>21.2</u>	<u>21.0</u>	<u>21.3</u>
Subtotal, National defense.....	23.3	23.3	23.4	23.3	23.4	23.1	23.5
<b>Nondefense:</b>							
Direct Federal payments for individuals.....	37.9	38.1	39.8	39.8	39.9	42.7	42.9
Payments for individuals through States and localities.....	5.5	5.4	5.3	5.3	5.3	5.1	5.3
All other grants to States and localities.....	11.8	11.1	10.2	9.6	9.2	8.4	8.0
Net interest.....	7.9	8.7	8.6	8.1	7.2	6.2	5.7
Other.....	<u>13.7</u>	<u>13.4</u>	<u>12.8</u>	<u>13.9</u>	<u>15.0</u>	<u>14.4</u>	<u>14.6</u>
Subtotal, Nondefense.....	<u>76.7</u>	<u>76.7</u>	<u>76.6</u>	<u>76.7</u>	<u>76.6</u>	<u>76.9</u>	<u>76.5</u>
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	=====	=====	=====	=====	=====	=====	=====

\* 0.05% or less.

Table 22.--BUDGET OUTLAYS BY FUNCTION, 1978-1984  
(in billions of dollars)

	Actual	Current Estimate			Projection		
	1978	1979	1980	1981	1982	1983	1984
National defense 1/.....	105.2	115.5	126.7	139.4	150.6	162.1	173.3
International affairs.....	5.9	7.3	8.8	9.7	9.8	10.9	12.2
General science, space and technology.....	4.7	5.1	5.7	5.5	5.3	5.0	4.7
Energy.....	5.9	7.1	8.5	10.0	9.0	8.9	9.2
Natural resources and environment.....	10.9	11.6	11.8	13.1	14.1	14.7	15.6
Agriculture.....	7.7	6.7	2.5	2.7	3.1	3.4	3.9
Commerce and housing credit.....	3.3	2.8	3.2	3.2	2.8	2.5	2.3
Transportation.....	15.4	17.2	18.3	19.8	20.1	20.6	21.2
Community and regional development.....	11.0	10.1	7.5	8.3	8.4	8.6	8.7
Education, training, employment, and social services.....	26.5	30.0	30.1	31.1	36.6	36.0	35.8
Health.....	43.7	49.4	54.4	60.2	65.8	71.5	77.7
Income security.....	146.2	161.2	185.2	203.8	219.5	234.6	245.7
(Social security).....	(92.2)	(102.9)	(116.8)	(130.4)	(143.5)	(155.8)	(165.4)
(Other).....	(54.0)	(58.3)	(68.4)	(73.3)	(76.0)	(78.8)	(80.3)
Veterans benefits and services.....	19.0	20.3	20.8	21.4	22.1	22.5	22.6
Administration of justice.....	3.8	4.3	4.4	4.4	4.4	4.4	4.4
General government.....	3.8	4.3	4.4	4.4	4.6	4.5	4.5
General purpose fiscal assistance.....	9.6	8.7	9.0	8.7	8.7	8.7	8.7
Interest.....	44.0	53.0	57.8	60.8	60.5	59.6	60.3
Allowances 2/.....	---	---	2.1	13.7	19.7	46.9	54.1
Undistributed offsetting receipts.....	-15.8	-18.4	-18.7	-20.8	-22.8	-24.9	-27.0
<b>Total budget outlays.....</b>	<b>450.8</b>	<b>496.2</b>	<b>542.4</b>	<b>599.3</b>	<b>642.3</b>	<b>700.9</b>	<b>738.0</b>

MEMORANDUM

Outlays of off-budget Federal entities.....	10.3	12.4	16.1	11.8	11.3	12.3	10.6
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1/ Includes allowances for civilian and military pay raises for the Department of Defense.

2/ Includes allowances for civilian agency pay raises (1980-84), the energy security trust fund (1980-84), contingencies for relatively uncontrollable programs (1980-84), general contingencies (1981-84), start-up costs of welfare reform (1981), and the proposed health plan (1983-83). The allowances for welfare reform in 1982-84 are distributed by function.

Table 23.--BUDGET OUTLAYS BY AGENCY, 1978-1984  
(in billions of dollars)

	Actual	Current Estimate			Projection		
	1978	1979	1980	1981	1982	1983	1984
Legislative branch.....	1.0	1.2	1.3	1.2	1.3	1.3	1.3
The Judiciary.....	0.4	0.5	0.6	0.6	0.7	0.7	0.7
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	4.4	5.1	6.3	7.9	7.9	7.9	8.9
Agriculture.....	20.4	21.5	18.4	20.6	21.7	22.7	24.0
Commerce.....	5.2	4.3	3.3	3.3	3.0	3.1	3.2
Defense-Military 1/.....	103.0	112.8	123.5	136.0	147.3	158.8	170.0
Defense-Civil.....	2.6	2.9	3.0	3.3	3.6	3.6	3.8
Energy.....	6.3	7.6	9.4	10.3	9.4	9.1	9.3
Health, Education, and Welfare.....	162.9	181.1	202.1	223.0	242.7	261.6	276.6
Housing and Urban Development.....	7.6	8.9	10.8	11.9	13.0	14.0	15.2
Interior.....	3.8	4.0	3.8	4.3	4.6	4.9	5.0
Justice.....	2.4	2.5	2.5	2.5	2.5	2.4	2.4
Labor.....	22.9	23.4	26.4	26.6	24.7	22.2	20.8
State.....	1.3	1.5	1.7	1.8	1.9	2.0	2.2
Transportation.....	13.5	15.3	16.4	18.0	18.6	19.1	19.4
Treasury.....	56.4	65.3	70.6	73.2	72.8	71.9	72.6
Environmental Protection Agency.....	4.1	4.4	4.8	5.1	5.7	6.1	6.7
General Services Administration.....	0.1	0.1	0.1	0.3	0.4	0.3	0.2
National Aeronautics and Space Administration.....	4.0	4.2	4.8	4.6	4.4	4.2	3.9
Veterans Administration.....	19.0	20.3	20.8	21.3	22.1	22.5	22.6
Office of Personnel Management.....	11.0	12.6	14.7	16.5	18.5	20.1	21.5
Other agencies.....	14.4	15.0	13.7	13.7	13.2	14.0	14.1
Allowances 2/.....	---	---	2.1	13.7	25.2	53.1	60.5
Undistributed offsetting receipts.....	-15.8	-18.4	-18.7	-20.8	-22.8	-24.9	-27.0
Total budget outlays.....	450.8	496.2	542.4	599.3	642.3	700.9	738.0

1/ Includes allowances for civilian and military pay raises for the Department of Defense.

2/ Includes allowances for civilian agency pay raises (1980-84), the energy security trust fund (1980-84), contingencies for relatively uncontrollable programs (1980-84), general contingencies (1981-84), welfare reform (1981-84), and the proposed health plan (1983-84).

Table 24.--BUDGET AUTHORITY BY FUNCTION, 1978-1984  
(in billions of dollars)

	Actual 1978	Current Estimate				Projection	
		1979	1980	1981	1982	1983	1984
National defense 1/.....	117.9	126.9	138.4	150.0	160.7	172.4	184.2
International affairs.....	9.8	13.8	14.1	13.8	15.4	16.7	18.0
General science, space and technology.....	4.9	5.4	5.9	5.6	5.3	5.0	4.7
Energy.....	8.2	7.4	20.2	9.1	8.6	6.4	6.6
Natural resources and environment.....	13.6	13.1	12.9	14.4	14.8	14.8	14.9
Agriculture.....	2.6	9.1	4.9	5.3	3.9	3.9	3.9
Commerce and housing credit.....	5.3	6.1	8.3	6.7	6.8	6.9	7.0
Transportation.....	15.0	19.2	19.9	21.9	20.8	20.9	21.4
Community and regional development.....	10.3	9.3	8.7	9.3	8.9	9.1	9.0
Education, training, employment, and social services.....	22.4	32.5	31.4	31.6	36.8	36.2	35.9
Health.....	46.5	52.2	58.9	69.6	79.4	87.3	94.8
Income security.....	186.1	191.2	218.3	241.2	264.7	282.8	300.9
(Social security).....	(88.0)	(100.3)	(116.3)	(133.8)	(154.3)	(170.8)	(189.4)
(Other).....	(92.1)	(90.9)	(102.0)	(107.4)	(110.3)	(112.0)	(111.5)
Veterans benefits and services.....	19.0	20.5	21.4	21.9	22.1	22.4	22.7
Administration of justice.....	3.9	4.2	4.3	4.3	4.4	4.4	4.5
General government.....	4.1	4.4	4.5	4.6	4.5	4.5	4.6
General purpose fiscal assistance.....	9.7	8.5	9.0	8.7	8.7	8.7	8.7
Interest.....	44.0	53.0	57.8	60.8	60.5	59.6	60.3
Allowances 2/.....	---	---	2.7	16.8	25.1	49.1	54.5
Undistributed offsetting receipts.....	-15.8	-18.4	-18.7	-20.8	-22.8	-24.9	-27.0
<b>Total budget authority.....</b>	<b>501.5</b>	<b>558.5</b>	<b>622.8</b>	<b>674.8</b>	<b>728.6</b>	<b>786.2</b>	<b>829.5</b>
MEMORANDUM							
Budget authority of off-budget Federal entities...	13.2	16.3	17.5	14.2	14.2	14.2	14.2

1/ Includes allowances for civilian and military pay raises for the Department of Defense.

2/ Includes allowances for civilian agency pay raises (1980-84), the energy security trust fund (1980-84), contingencies for relatively uncontrollable programs (1980-84), general contingencies (1981-84), start-up costs of welfare reform (1981), and the proposed health plan (1983-83). The allowances for welfare reform in 1982-84 are distributed by function.

Table 25.--BUDGET AUTHORITY BY AGENCY, 1978-1984  
(in billions of dollars)

	Actual	Current Estimate				Projection	
	1978	1979	1980	1981	1982	1983	1984
Legislative branch.....	1.1	1.2	1.3	1.4	1.3	1.3	1.3
The Judiciary.....	0.5	0.5	0.6	0.6	0.7	0.7	0.8
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	7.5	11.7	12.1	12.6	13.6	12.2	13.0
Agriculture.....	16.5	24.4	22.4	24.9	24.4	25.2	26.0
Commerce.....	2.3	2.6	3.9	3.5	3.5	3.6	3.6
Defense-Military 1/.....	115.3	124.1	135.1	146.5	157.3	169.1	180.9
Defense-Civil.....	2.8	2.8	3.1	3.8	3.9	3.8	4.0
Energy.....	10.7	9.6	7.5	9.7	9.5	9.4	9.6
Health, Education, and Welfare.....	162.2	183.0	207.6	236.2	267.1	292.3	317.6
Housing and Urban Development.....	38.0	31.2	33.6	34.0	34.0	34.0	34.1
Interior.....	4.6	4.7	4.5	4.9	5.0	5.1	5.0
Justice.....	2.4	2.5	2.4	2.4	2.4	2.4	2.4
Labor.....	20.0	28.3	28.2	30.2	29.8	27.7	25.9
State.....	1.5	1.7	1.8	2.0	2.0	2.2	2.3
Transportation.....	13.5	17.3	17.8	20.1	19.0	19.1	19.6
Treasury.....	56.8	65.5	70.8	73.4	73.1	72.1	72.8
Environmental Protection Agency.....	5.5	5.4	5.1	5.5	5.7	5.8	5.8
General Services Administration.....	0.2	0.3	0.3	0.3	0.3	0.3	0.3
National Aeronautics and Space Administration.....	4.1	4.5	4.9	4.6	4.3	4.0	3.7
Veterans Administration.....	19.0	20.4	21.3	21.9	22.1	22.4	22.7
Office of Personnel Management.....	18.2	21.1	23.4	24.7	26.1	27.1	27.9
Other agencies.....	14.6	13.9	30.7	15.4	15.2	15.4	15.9
Allowances 2/.....	---	---	2.7	16.8	31.0	55.6	61.4
Undistributed offsetting receipts.....	-15.8	-18.4	-18.7	-20.8	-22.8	-24.9	-27.0
Total budget authority.....	501.5	558.5	622.8	674.8	728.6	786.2	829.5

1/ Includes allowances for civilian and military pay raises for the Department of Defense.

2/ Includes allowances for civilian agency pay raises (1980-84), the energy security trust fund (1980-84), contingencies for relatively uncontrollable programs (1980-84), general contingencies (1981-84), welfare reform (1981-84), and the proposed health plan (1983-84).

Table 26.--PROJECTIONS OF OUTLAYS FOR OPEN-ENDED PROGRAMS AND FIXED COSTS, 1980-1984\*  
(in billions of dollars)

<u>Open-Ended Programs and Fixed Costs</u>	<u>Estimate</u>			<u>Projection</u>	
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<b>Payments for individuals:</b>					
Social security and railroad retirement.....	121.8	136.6	151.1	164.4	174.7
Military retired pay.....	11.4	12.9	14.1	15.1	16.0
Other Federal employees retirement and insurance..	14.6	16.5	18.3	19.9	21.2
Unemployment assistance.....	15.3	15.2	13.4	12.0	11.3
Veterans benefits.....	13.8	13.6	13.3	13.2	13.1
Medicare and medical.....	46.6	53.0	60.1	68.0	76.6
Housing payments.....	5.1	6.1	7.2	8.3	9.5
Public assistance and related programs.....	<u>28.0</u>	<u>29.8</u>	<u>30.6</u>	<u>31.8</u>	<u>31.5</u>
Subtotal, Payments for individuals.....	256.6	283.7	308.1	332.6	353.9
Net interest.....	46.9	49.2	47.3	45.1	44.3
General revenue sharing.....	6.9	6.9	6.9	6.9	6.9
Other open-ended programs and fixed costs.....	<u>10.1</u>	<u>9.6</u>	<u>10.3</u>	<u>10.6</u>	<u>11.2</u>
Total, Open-ended programs and fixed costs...	320.6	349.3	372.4	395.1	416.4

\* This table is supplied pursuant to the requirements of Section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510).

Table 27.--ESTIMATED SPENDING FROM THE END OF FISCAL YEAR 1980 BALANCES OF  
 BUDGET AUTHORITY: NON-MANDATORY PROGRAMS  
 (in billions of dollars)

	Federal Guarantee and Insurance Programs: Reserves for Losses, and Standby and Backup Authority	Other Unexpended Balances, September 30, 1980	Total
Total balances, end of 1980 (current estimate).....	12.8 -----	267.0 -----	279.8 -----
Spending from balances in:			
1981.....	1.0	114.0	115.0
1982.....	0.6	58.1	58.7
1983.....	0.6	28.9	29.5
1984.....	0.5	15.8	16.4
Expiring balances, 1981 through 1984.....	---	9.7	9.7
Unexpended balances as of the end of 1984.....	10.0	40.5	50.5

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Table 28.--ALTERNATIVE LONG-RANGE ECONOMIC ASSUMPTIONS, 1981-1984  
(calendar years; dollar amounts in billions)

	Assumed for Alternative Budget Projections			
	1981	1982	1983	1984
<u>Major Economic Indicators</u>				
Gross national product, (percent change, 4th quarter over 4th quarter):				
Current dollars.....	11.4	10.3	9.8	9.3
Constant (1972) dollars.....	4.0	3.5	3.5	3.5
GNP deflator (percent change, 4th quarter over 4th quarter)...	7.1	6.6	6.1	5.6
Consumer Price Index (percent change, December over December).	6.8	6.5	6.0	5.5
Unemployment rate (percent, 4th quarter).....	6.3	6.0	5.7	5.5
<u>Annual Economic Assumptions</u>				
Gross national product:				
Current dollars:				
Amount.....	2,856	3,161	3,477	3,807
Percent change, year over year.....	11.0	10.7	10.0	9.5
Constant (1972) dollars:				
Amount.....	1,471	1,525	1,579	1,634
Percent change, year over year.....	3.4	3.7	3.5	3.5
Incomes:				
Personal income.....	2,338	2,579	2,830	3,091
Wages and salaries.....	1,502	1,662	1,828	2,002
Corporate profits.....	260	303	344	383
Price level:				
GNP deflator:				
Level (1972=100), annual average.....	194.1	207.2	220.2	233.0
Percent change, year over year.....	7.4	6.7	6.3	5.8
Consumer Price Index 1/:				
Level (1967=100), annual average.....	252.4	269.1	285.8	301.9
Percent change, year over year.....	7.6	6.6	6.2	5.6

See footnotes at end of table.



Table 28 (continued)

	Assumed for Alternative Budget Projections			
	1981	1982	1983	1984
Unemployment rates:				
Total, annual average.....	6.5	6.1	5.9	5.6
Insured, annual average 2/.....	3.4	3.2	3.0	2.8
Federal pay raise, October (percent) 3/.....	5.5	5.5	5.5	5.5
Interest rate, 91-day Treasury bills (percent) 4/.....	8.2	8.2	7.7	7.2

1/ The index shown is the CPI for urban wage earners and clerical workers. There are now two versions of the CPI published. One estimates the cost-of-living for wage earners and clerical workers in urban areas; the other, more recently developed, is more comprehensive, covering all urban dwellers. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.

2/ This indicator measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

3/ Pay raises become effective in October of each year -- the first month of the new fiscal year. Thus, the October 1979 pay raise will set new pay scales that will be in effect during fiscal year 1980. Under the comparability pay system, the President makes recommendations for Federal pay rates each year, after consultation with specified representatives. The projected rates are simply assumptions for purposes of developing budget estimates and do not represent a prior determination of future pay raise recommendations to be made by the President. Total compensation of Federal employees includes elements that are not included in pay.

4/ Average rate on new issues within period. Before the 1980 budget, interest rates for the forecast period were assumed to remain at the levels prevailing at the time the estimates were made. Because it would be unrealistic to assume continuation of the same level of interest rates with changing inflation, however, it is now assumed, by convention, that future interest rates will change with the rate of inflation.

Table 29.--BUDGET RECEIPTS BY MAJOR SOURCE, 1979-1984  
 (UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS)  
 (in billions of dollars)

	Current Estimate				Projection	
	1979	1980	1981	1982	1983	1984
Individual income taxes.....	216.6	234.2	277.2	322.8	370.0	421.9
Corporation income taxes.....	67.8	71.5	76.1	86.0	97.5	108.8
Social insurance taxes and contributions.....	141.3	162.6	189.6	216.7	237.3	257.9
Excise taxes.....	18.6	21.2	27.7	32.6	33.2	34.4
Estate and gift taxes.....	5.4	5.7	6.0	6.5	7.2	7.9
Customs duties.....	7.4	8.1	9.2	9.6	10.1	10.6
Miscellaneous receipts.....	<u>9.4</u>	<u>10.4</u>	<u>11.8</u>	<u>12.9</u>	<u>14.2</u>	<u>15.3</u>
Total budget receipts.....	466.5	513.8	597.5	687.1	769.4	856.9

Table 30.--COMPOSITION OF BUDGET OUTLAYS, 1978-1984  
(UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS)  
(dollar amounts in billions)

	Actual	Current Estimate				Projection	
	1978	1979	1980	1981	1982	1983	1984
<b>National defense:</b>							
Direct Federal payments for individuals.....	9.2	10.2	11.4	12.9	14.2	15.5	16.8
Grants to States and localities.....	0.1	0.1	*	0.1	0.1	0.1	0.1
Other.....	<u>96.0</u>	<u>105.2</u>	<u>115.2</u>	<u>126.7</u>	<u>137.8</u>	<u>150.6</u>	<u>164.1</u>
Subtotal, National defense.....	105.2	115.5	126.7	139.7	152.1	166.2	181.0
<b>Nondefense:</b>							
Direct Federal payments for individuals.....	170.6	189.3	215.7	238.8	259.3	307.0	332.6
Payments for individuals through States and localities.....	24.7	26.7	28.8	31.5	34.2	36.9	39.9
All other grants to States and localities.....	53.1	54.9	55.1	57.5	59.1	60.1	61.1
Net interest.....	35.4	43.2	46.9	49.1	49.8	49.8	49.4
Other.....	<u>61.7</u>	<u>66.6</u>	<u>69.4</u>	<u>83.7</u>	<u>96.5</u>	<u>102.5</u>	<u>110.8</u>
Subtotal, Nondefense.....	345.6	380.6	415.8	460.7	498.8	556.4	593.8
Total.....	<u>450.8</u>	<u>496.2</u>	<u>542.4</u>	<u>600.3</u>	<u>650.9</u>	<u>722.6</u>	<u>774.7</u>
	=====	=====	=====	=====	=====	=====	=====

\* \$50 million or less.

Table 30 (continued)

	Actual	Current Estimate				Projection	
	1978	1979	1980	1981	1982	1983	1984
<u>Percent of Total Outlays</u>							
<b>National defense:</b>							
Direct Federal payments for individuals.....	2.0	2.1	2.1	2.2	2.2	2.1	2.2
Grants to States and localities.....	*	*	*	*	*	*	*
Other.....	<u>21.3</u>	<u>21.2</u>	<u>21.2</u>	<u>21.1</u>	<u>21.2</u>	<u>20.8</u>	<u>21.2</u>
Subtotal, National defense.....	23.3	23.3	23.4	23.3	23.4	23.0	23.4
<b>Nondefense:</b>							
Direct Federal payments for individuals.....	37.9	38.1	39.8	39.8	39.8	42.5	42.9
Payments for individuals through States and localities.....	5.5	5.4	5.3	5.3	5.2	5.1	5.1
All other grants to States and localities.....	11.8	11.1	10.2	9.6	9.1	8.3	7.9
Net interest.....	7.9	8.7	8.6	8.2	7.6	6.9	6.4
Other.....	<u>13.7</u>	<u>13.4</u>	<u>12.8</u>	<u>13.9</u>	<u>14.8</u>	<u>14.2</u>	<u>14.3</u>
Subtotal, Nondefense.....	<u>76.7</u>	<u>76.7</u>	<u>76.6</u>	<u>76.7</u>	<u>76.6</u>	<u>77.0</u>	<u>76.6</u>
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	=====	=====	=====	=====	=====	=====	=====

\* 0.05% or less.

Table 31.--BUDGET OUTLAYS BY FUNCTION, 1978-1984  
(UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS)  
(in billions of dollars)

	Actual	Current Estimate			Projection		
	1978	1979	1980	1981	1982	1983	1984
National defense 1/.....	105.2	115.5	126.7	139.7	152.1	166.2	181.0
International affairs.....	5.9	7.3	8.8	9.7	9.7	10.8	12.2
General science, space and technology.....	4.7	5.1	5.7	5.5	5.3	5.0	4.7
Energy.....	5.9	7.1	8.5	10.0	9.0	8.9	9.2
Natural resources and environment.....	10.9	11.6	11.8	13.1	14.1	14.7	15.6
Agriculture.....	7.7	6.7	2.5	2.7	3.1	3.4	3.9
Commerce and housing credit.....	3.3	2.8	3.2	3.2	2.8	2.5	2.3
Transportation.....	15.4	17.2	18.3	19.8	20.1	20.6	21.2
Community and regional development.....	11.0	10.1	7.5	8.3	8.4	8.6	8.7
Education, training, employment, and social services.....	26.5	30.0	30.1	31.2	36.7	37.5	38.3
Health.....	43.7	49.4	54.4	60.1	66.1	72.7	80.0
Income security.....	146.2	161.3	185.2	204.0	222.4	241.9	259.7
(Social security).....	(92.2)	(102.9)	(116.8)	(130.5)	(144.3)	(158.3)	(173.0)
(Other).....	(54.0)	(58.3)	(68.4)	(73.5)	(78.1)	(83.6)	(86.7)
Veterans benefits and services.....	19.0	20.3	20.8	21.4	22.2	22.8	23.1
Administration of justice.....	3.8	4.3	4.4	4.4	4.4	4.4	4.4
General government.....	3.8	4.3	4.4	4.5	4.6	4.5	4.5
General purpose fiscal assistance.....	9.6	8.7	9.0	8.7	8.7	8.7	8.7
Interest.....	44.0	53.0	57.8	61.3	63.9	66.3	68.4
Allowances 2/.....	---	---	2.1	13.8	20.3	48.3	56.8
Undistributed offsetting receipts.....	-15.8	-18.4	-18.7	-20.9	-22.9	-25.4	-28.0
 Total budget outlays.....	 450.8	 496.2	 542.4	 600.3	 650.9	 722.6	 774.7

MEMORANDUM

Outlays of off-budget Federal entities.....	10.3	12.4	16.1	11.8	11.3	12.3	10.6
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1/ Includes allowances for civilian and military pay raises for the Department of Defense.

2/ Includes allowances for civilian agency pay raises (1980-84), the energy security trust fund (1980-84), contingencies for relatively uncontrollable programs (1980-84), general contingencies (1981-84), start-up costs of welfare reform (1981), and the proposed health plan (1983-83). The allowances for welfare reform in 1982-84 are distributed by function.

Table 32.--BUDGET OUTLAYS BY AGENCY, 1978-1984  
(UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS)  
(in billions of dollars)

	Actual	Current Estimate				Projection	
	1978	1979	1980	1981	1982	1983	1984
Legislative branch.....	1.0	1.2	1.3	1.2	1.3	1.3	1.3
The Judiciary.....	0.4	0.5	0.6	0.6	0.7	0.7	0.7
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	4.4	5.1	6.3	7.9	7.9	7.9	8.9
Agriculture.....	20.4	21.5	18.4	20.5	22.0	23.5	25.1
Commerce.....	5.2	4.3	3.3	3.3	3.0	3.1	3.2
Defense-Military 1/.....	103.0	112.8	123.5	136.3	148.7	162.8	177.7
Defense-Civil.....	2.6	2.9	3.0	3.3	3.6	3.6	3.8
Energy.....	6.3	7.6	9.4	10.3	9.4	9.1	9.3
Health, Education, and Welfare.....	162.9	181.1	202.1	223.0	243.8	265.7	287.1
Housing and Urban Development.....	7.6	8.9	10.8	11.9	13.0	14.0	15.2
Interior.....	3.8	4.0	3.8	4.3	4.6	4.9	5.0
Justice.....	2.4	2.5	2.5	2.5	2.5	2.4	2.4
Labor.....	22.9	23.4	26.4	26.8	26.4	26.8	27.0
State.....	1.3	1.5	1.7	1.8	1.9	2.0	2.2
Transportation.....	13.5	15.3	16.4	18.0	18.6	19.1	19.4
Treasury.....	56.4	65.3	70.6	73.7	76.1	78.5	80.6
Environmental Protection Agency.....	4.1	4.4	4.8	5.1	5.7	6.1	6.7
General Services Administration.....	0.1	0.1	0.1	0.3	0.4	0.3	0.2
National Aeronautics and Space Administration.....	4.0	4.2	4.8	4.6	4.4	4.2	3.9
Veterans Administration.....	19.0	20.3	20.8	21.3	22.2	22.7	23.1
Office of Personnel Management.....	11.0	12.6	14.7	16.6	18.5	20.5	22.4
Other agencies.....	14.4	15.0	13.7	13.7	13.2	14.1	14.3
Allowances 2/.....	---	---	2.1	13.8	25.8	54.5	63.2
Undistributed offsetting receipts.....	-15.8	-18.4	-18.7	-20.9	-22.9	-25.4	-28.0
Total budget outlays.....	450.8	496.2	542.4	600.3	650.9	722.6	774.7

1/ Includes allowances for civilian and military pay raises for the Department of Defense.

2/ Includes allowances for civilian agency pay raises (1980-84), the energy security trust fund (1980-84), contingencies for relatively uncontrollable programs (1980-84), general contingencies (1981-84), welfare reform (1981-84), and the proposed health plan (1983-84).

REVISIONS IN ADMINISTRATION BUDGET ESTIMATES  
SINCE THE MID-SESSION REVIEW OF THE 1980 BUDGET

There have been a number of changes in the Administration's budget estimates since the Mid-Session Review was issued on July 12. The changes resulted from events that occurred too late for us to incorporate them in the Mid-Session Review. These changes include:

- a revision of estimates for the energy initiatives that the President announced on July 15 (see Attachment A);
- increased amounts for the transportation of refugees that were announced at the Tokyo economic summit and at the United Nations refugee conference in Geneva (see Attachment B); and
- the Comptroller General's ruling on the 1979 Labor-HEW Appropriations Act and the subsequent language in the conference report on the 1979 supplemental appropriations bill (see Attachment C).

In addition, corrections have been made in the 1979 and 1980 off-budget outlay estimates for the Federal Financing Bank, the 1979 outlay estimates for local public works, and the 1980 budget authority and outlay estimates for the student loan insurance fund. These changes are shown more fully in Attachment C.

The following table shows our current estimates of the 1979 and 1980 budget totals (in billions of dollars):

	1979		1980	
	Mid- Session Review	Current	Mid- Session Review	Current
Receipts.....	466.5	466.5	513.8	513.9
Outlays.....	496.2	496.8	542.4	543.3
Deficit.....	-29.7	-30.3	-28.7	-29.4
Budget authority.....	558.5	559.2	622.8	646.1
Debt subject to limit (end of year).....	821.5	822.9	885.6	882.6
Off-budget entities:				
Budget authority.....	16.3	17.1	17.5	13.0
Outlays.....	12.4	13.2	16.1	11.6

A detailed comparison of the differences between the Mid-Session Review and the current estimates is shown in Attachment D.



## ENERGY SECURITY PROGRAM

The Mid-Session Review did not include detailed estimates for the President's energy security program announced on July 15. The program initiatives announced by the President include increases in three major areas: low-income assistance, transportation efficiency, and energy supply and conservation investments, including the Energy Security Corporation. These increases are contingent upon enactment of a windfall profits tax.

The proposed level of funding for low-income assistance in 1980 has been increased from \$0.5 billion in the Mid-Session Review to \$1.6 billion. The Administration believes that low-income families should receive assistance to offset increased energy costs that will be incurred in the coming winter. The current estimates include \$2.4 billion in both budget authority and outlays in 1981 and in following years.

The President's revised energy proposal includes \$16.5 billion for energy-related transportation investments. Most of these funds are to be used for improvements in the Nation's mass transit systems, with additional amounts to be used for auto-use management, fuel economy standards research, and basic automotive research. The current estimates include \$1.4 billion in budget authority and \$0.3 billion in outlays for 1980, with significant increases estimated for outlays in future years.

The largest change since the Mid-Session Review is the President's proposed Energy Security Corporation. As a federally-chartered corporation, the Energy Security Corporation would be the primary vehicle for increasing domestic production of synthetic fuels through price guarantees, production guarantees, direct loans, loan guarantees, and construction of as many as three government-owned synthetic fuel plants. To finance the Energy Security Corporation, the President will request that \$88.0 billion in budget authority be provided, including \$0.1 billion for the purchase by the Treasury of Corporation stock. Any obligations entered into by the Corporation that commit U.S. Government funds will be financed by the energy security trust fund.

In addition, the proposal calls for increased funding and tax expenditures for other energy supply and conservation investments. In 1980, proposed budget authority for energy supply and conservation programs -- other than those of the Corporation -- has been increased from \$0.7 billion in the Mid-Session Review to \$1.3 billion, while outlays have increased from \$0.1 billion to \$0.3 billion. The increases include provision for a regional strategic petroleum reserve, a second

solvent refined coal plant, enhanced coal research and development, and incentives for residential and commercial conservation. Tax expenditures have increased from \$0.1 to \$0.2 billion in 1980, primarily to provide for increased exploration of unconventional sources of natural gas.

The following two tables show the current and the Mid-Session Review estimates for the energy security program.

ENERGY SECURITY PROGRAM -- ESTIMATES AS OF SEPTEMBER 4, 1979  
(fiscal years; in millions of dollars)

	<u>1980 1/</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Windfall tax receipts.....	2,907	9,311	14,694	14,747	14,517
Additional resources 2/.....	<u>523</u>	<u>1,989</u>	<u>3,794</u>	<u>---</u>	<u>---</u>
Total receipts.....	3,430	11,300	18,488	14,747	14,517
Tax expenditures.....	<u>-246</u>	<u>-566</u>	<u>-793</u>	<u>-1,086</u>	<u>-1,387</u>
Net to energy security trust fund.....	3,184	10,734	17,695	13,661	13,130
 <u>Budget Authority</u> 					
Energy security trust fund 3/:					
Low-income assistance.....	1,600	2,400	2,400	2,400	2,400
Transportation efficiency 4/.....	1,445	1,550	1,710	1,730	1,650
Energy supply and conservation.....	1,330	900	1,400	1,400	1,400
Energy Security Corporation financing:					
Energy Security Corporation financing authority 5/.....	21,900	22,000	22,000	---	22,000
Treasury purchase of Energy Security Corporation stock..	<u>100</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total, Budget authority.....	26,375	26,850	27,510	5,530	27,460

See footnotes at end of table.

ENERGY SECURITY PROGRAM -- ESTIMATES AS OF SEPTEMBER 4, 1979 (continued)

	<u>1980 1/</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Outlays</u>					
Energy security trust fund <u>3/</u> :					
Low-income assistance.....	1,600	2,400	2,400	2,400	2,400
Transportation efficiency <u>4/</u> .....	312	1,001	1,274	1,557	1,684
Energy supply and conservation.....	270	699	876	1,142	1,280
Energy Security Corporation financing:					
Energy Security Corporation financing authority <u>6/</u> .....	---	---	---	100	500
Treasury purchase of Energy Security Corporation stock..	100	---	---	---	---
<b>Total, Outlays.....</b>	<b>2,282</b>	<b>4,100</b>	<b>4,550</b>	<b>5,199</b>	<b>5,864</b>

1/ Since budget authority for programs to be financed from the energy security trust fund may exceed receipts, legislation will be proposed to finance the additional amounts from anticipated trust fund receipts.

2/ Additional corporation income taxes resulting from decontrol.

3/ Obligations of the Energy Security Corporation will be financed by the energy security trust fund. Permanent, indefinite budget authority will be provided in the amount of obligations undertaken each year. Treasury outlays will occur when the Energy Security Corporation borrows from the Treasury. Estimates of these obligations depend upon the activities of the Corporation.

4/ These figures represent the transportation efficiency investments included in the President's July 15 initiative. The spending pattern assumes adoption of a transportation supplemental early in fiscal year 1980.

5/ Treasury authority to make loans to the Energy Security Corporation to the limit (\$87.9 billion) of the Corporation's line of credit as provided by its statutory charter.

6/ Rough estimate reflecting the amounts of loans and loan guarantee mechanisms that might be used. When more detail is available on projects and mechanisms to be used, better outlay estimates will be provided.

ENERGY SECURITY TRUST FUND -<sup>1</sup> MID-SESSION REVIEW ESTIMATES 1/  
(fiscal years; in millions of dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Windfall tax receipts.....	2,535	8,072	12,666	12,548	12,863
Additional resources <u>2/</u> .....	<u>640</u>	<u>2,429</u>	<u>4,539</u>	---	---
Total receipts.....	3,175	10,501	17,205	12,548	12,863
Tax expenditures.....	<u>-96</u>	<u>-227</u>	<u>-361</u>	<u>-528</u>	<u>-553</u>
Net to energy security trust fund.....	3,079	10,274	16,844	12,020	12,310
<u>Budget Authority</u>					
Low-income assistance (604).....	532	776	800	800	800
Mass transit assistance (401).....	181	260	300	320	370
Energy supply and conservation (271).....	730	2,619	2,269	50	50
Special reserved account (allowance for energy security trust fund).....	<u>1,636</u>	<u>6,619</u>	<u>13,475</u>	<u>10,850</u>	<u>11,090</u>
Total, Budget authority.....	3,079	10,274	16,844	12,020	12,310
<u>Outlays</u>					
Low-income assistance (604).....	532	776	800	800	800
Mass transit assistance (401).....	20	71	136	217	402
Energy supply and conservation (271).....	134	1,361	1,520	882	872
Special reserved account (allowance for energy security trust fund).....	<u>753</u>	<u>3,241</u>	<u>7,238</u>	<u>7,846</u>	<u>9,613</u>
Total, Outlays.....	1,439	5,241	9,694	9,745	11,687

1/ Superseded by revised estimates developed after the President's energy initiative was announced on July 15.

2/ Additional corporation income taxes resulting from decontrol.

DEPARTMENT OF JUSTICE  
Immigration and Naturalization Service

<u>1980 Budget Appendix Page</u>	<u>Heading</u>	<u>1980 Budget Request Pending</u>	<u>1980 Proposed Amendment</u>	<u>1980 Revised Request</u>
625	Salaries and expenses...	\$304,354,000	\$1,559,000	\$305,913,000

This proposed increase would provide funds for an additional 32 permanent employees -- 30 abroad and two in Washington, DC -- to process an increased number of Southeast Asian refugees resulting from an expansion of the refugee program. The number of refugees from Indochina is now expected to be 14,000 per month throughout 1980. This proposal would increase 1980 outlays by \$1,547,000.

DEPARTMENT OF STATE  
Other

<u>1980 Budget Appendix Page</u>	<u>Heading</u>	<u>1980 Budget Request Pending</u>	<u>1980 Proposed Amendment</u>	<u>1980 Revised Request</u>
682-	Migration and refugee assistance.....	\$223,951,000	\$207,290,000	\$431,241,000

(In the paragraph under this heading, delete the period after "Hemisphere" and insert the following: Provided, that \$207,290,000 of this appropriation shall be available only upon enactment into law of additional authorizing legislation.)

The proposed amendment would provide for the costs of transportation and reception and placement for an additional 84,000 Indochinese refugees now estimated to arrive in the United States during fiscal year 1980. The amendment also provides for the United States share of the cost for care and maintenance for the increased number of refugees in Southeast Asia, as well as for the establishment of a special refugee processing center in that area. This proposal would increase 1980 outlays by \$176 million.

NOTE: The additional costs for domestic medical assistance and welfare programs under refugee assistance in the Department of Health, Education, and Welfare have not yet been determined.

## OTHER CHANGES

1979 HEW Appropriations

The Mid-Session Review estimates included a reduction of \$1.0 billion in budget authority and \$0.8 billion in outlays to reflect an amendment to the 1979 Labor-HEW Appropriations Act that called for savings through elimination of waste, fraud, and abuse. A subsequent ruling by the Comptroller General and the 1979 Supplemental Appropriations Act restored most of these funds. The following table shows the Mid-Session Review and current estimates for the affected programs.

	(In millions of dollars)		
	1979		
	Mid-Session Review	Current	Change
Grants to States for medicaid:			
Budget authority.....	11,384	11,710	326
Outlays.....	11,919	12,340	421
Assistance payments program:			
Budget authority.....	6,255	6,628	373
Outlays.....	6,288	6,661	373

Federal Financing Bank

A substantial correction was made in the Mid-Session Review estimates of loan assets sold to the Federal Financing Bank (FFB) by the Farmers Home Administration (FmHA). The following table shows the current estimates for the FFB.

	(In millions of dollars)	
	Budget Authority	Outlays
<u>1979 Estimate</u>		
Mid-Session Review.....	16,156	13,023
Current.....	16,955	13,822
Difference.....	799	799
<u>1980 Estimate</u>		
Mid-Session Review.....	17,310	15,121
Current.....	12,852	10,663
Difference.....	-4,457	-4,457

C-2

The current estimates of the outlays of the off-budget Federal entities are \$13.2 billion in 1979 and \$11.6 billion in 1980. As compared to the January and March estimates, outlays of the off-budget Federal entities are now \$1.2 billion higher in 1979 and \$0.3 billion lower in 1980.

#### Local Public Works

The 1979 outlay estimate for this program in the Mid-Session Review was \$2,051 million, the same as the March estimate. A downward reestimate of \$200 million in 1979 was inadvertently omitted from the Mid-Session Review. This reestimate reflects actual spending trends in recent months. The current estimate for local public works outlays in 1979 is \$1,851 million.

#### Student Loan Insurance Fund

There was a technical error in the Mid-Session Review estimates for the student loan insurance fund in 1980. The following table shows the correct amounts.

	<u>(In millions of dollars)</u>		
	<u>1980</u>		
	<u>Mid-Session Review</u>	<u>Current</u>	<u>Change</u>
Student loan insurance fund:			
Budget authority.....	1,296	1,139	-157
Outlays.....	1,229	1,075	-154



Distribution of Allowance for Relatively Uncontrollable Programs

The Mid-Session Review estimates included an allowance for relatively uncontrollable programs in 1980 because there was not enough time to incorporate all of the effects of the OPEC price change in the detailed estimates. This allowance has now been distributed among the following programs:

<u>Function and Program</u>	<u>(In millions of dollars)</u>		
	<u>Existing Law, 1980</u>		
	<u>Mid-Session Review</u>	<u>Current</u>	<u>Change</u>
<b>National defense:</b>			
Military retired pay:			
Budget authority.....	11,452	11,546	94
Outlays.....	11,435	11,529	94
<b>Income security outlays:</b>			
Social security.....	117,161	117,414	253
Supplemental security income.....	6,260	6,270	10
Federal employee retirement and disability.....	14,346	14,461	115
<b>Allowances:</b>			
Allowance for relatively uncontrollable programs:			
Budget authority.....	109	---	-109
Outlays.....	475	---	-475

REVISED ADMINISTRATION TOTALS AS OF SEPTEMBER 10, 1979  
(in millions of dollars)

	1979		1980	
	BA	Outlays	BA	Outlays
Mid-Session Review Totals.....	558,468	496,164	622,803	542,435
Subsequent changes:				
Revised energy initiative:				
Energy Security Corporation financing.....	---	---	22,000	100
Low-income assistance.....	---	---	1,068	1,068
Transportation efficiency.....	---	---	1,264	292
Energy supply and conservation.....	---	---	600	136
Allowance.....	---	---	-1,636	-753
Subtotal, energy.....	---	---	23,296	843
Refugee amendment:				
Refugee assistance.....	---	---	209	178
Other.....	---	---	-1	-1
Subtotal, refugee amendment.....	---	---	208	177
1979 HEW Appropriations:				
Grants to States for medicaid.....	326	421	---	---
Assistance payments program.....	373	373	---	---
Subtotal, 1979 appropriations.....	699	794	---	---
Distribution of allowance for uncontrollable programs:				
Social security.....	---	---	---	253
Supplemental security income.....	---	---	---	10
Civil service retirement.....	---	---	---	115
Defense retirement.....	---	---	94	94
Allowance.....	---	---	-109	-475
Subtotal, distribution.....	---	---	-15	-3
Technical corrections:				
Higher education.....	---	---	-157	-154
Local public works.....	---	-200	---	---
Revised Administration Totals.....	559,167	496,758	646,135	543,298

ADDENDUM

Mid-Session estimates of off-budget entities.....	16,334	12,434	17,490	15,079
Technical corrections.....	799	799	-4,457	-4,457
Revised total.....	17,133	13,233	13,033	11,622

Senator BYRD. Miss Rivlin we are glad to have you.

STATEMENT OF MS. ALICE M. RIVLIN, DIRECTOR,  
CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. Thank you, Mr. Chairman. My statement is very short I think it might be most useful if I just read it.

Senator BYRD. Fine.

Ms. RIVLIN. I am pleased to appear before you today to testify on the Treasury's request for an increase in the statutory debt limit. My statement will cover two principal topics:

First, the budget estimates for fiscal years 1979 and 1980 underlying the Second Concurrent Resolution on the Budget for fiscal year 1980, as reported by the Senate Budget Committee and now under consideration on the Senate floor; and

Second, the budget outlook for fiscal years 1981 and 1982, using the Senate Budget Committee recommendations in the second budget resolution for 1980.

BUDGET ESTIMATES FOR 1979 AND 1980

The Senate Budget Committee's recommended unified budget deficit for fiscal year 1980 is \$28 billion. This is slightly below the \$29.9 billion deficit assumed for 1979. The committee recommends a budget with outlays of \$542.7 billion, which represents a 9.4 percent increase over the \$495 billion projected for 1979. The receipt floor in the recommended resolution is \$514.7 billion, a 10.6 percent increase over the 1979 level, as is shown in table 1.

TABLE 1.—BUDGET TOTALS BY FUND GROUP

[By fiscal year, and billions of dollars]

	1979	1980
<b>Receipts:</b>		
Federal funds.....	319.1	348.9
Trust funds.....	188.2	210.2
Interfund transactions.....	-41.0	-44.4
Total.....	466.3	514.7
<b>Outlays:</b>		
Federal funds.....	363.2	387.9
Trust funds.....	174.0	199.2
Interfund transactions.....	-41.0	-44.4
Total.....	496.2	542.7
<b>Surplus of deficit (-):</b>		
Federal funds.....	-44.1	-38.9
Trust funds.....	14.2	10.9
Total.....	-29.9	-28.0

Source "Second Concurrent Resolution on the Budget, Fiscal Year 1980," prepared by the Senate Committee on the Budget, 96th Cong 1st sess. (1979)

The committee's recommended deficit for 1980 is \$28 billion, which is \$5 billion higher than the first concurrent resolution deficit that was approved in May. Since that time, the Congression-

al Budget Office has reestimated both spending and receipts. These reestimates, based on a new economic forecast and a comprehensive review of spending and receipt patterns, resulted in an increase in estimated spending of \$9 billion and an increase in receipts of \$3.7 billion. The major part of the spending increase shown in table 2 is attributable to increases in benefit payments for social security, unemployment insurance, federal employee retirement, and food stamps. These increases are the result of the forecast of higher inflation and unemployment than assumed in the first concurrent resolution. On the revenue side, the major reestimate—for the individual income tax—is based on recent Treasury collection data that show individual income tax collections coming in much faster than previously anticipated.

TABLE 2.—CBO reestimates to the 1980 First Concurrent Resolution

[In billions of dollars]	
First Concurrent Resolution .....	532.0
Changes caused by reestimates:	
Social security .....	1.7
Federal employee retirement .....	0.6
Unemployment insurance .....	2.3
Food stamps .....	0.5
Medicare and medicaid .....	0.9
Black lung disability trust fund .....	0.5
Education and training .....	0.5
Defense .....	2.5
Net interest .....	2.1
Agriculture .....	-3.1
Other .....	0.5
First Concurrent Resolution Reestimated .....	541.0

Source: Congressional Budget Office.

It should be noted that the economic outlook remains very uncertain. If the economy in 1980 turns out to be weaker than forecast by CBO in July, the deficit could rise, perhaps substantially, above the \$28 billion contained in the Budget Committee recommendation. For example, if the average unemployment rate in calendar year 1980 were 1 percentage point higher than in the CBO forecast, the budget deficit for 1980 would automatically rise by about \$18 billion. Approximately \$6 billion of the increase would be attributable to increased benefit payments for unemployment insurance, food stamps, and public assistance. About \$12 billion would be caused by lower receipts associated with lower income levels. This means that an average unemployment rate for 1980 of slightly above 8.3 percent—rather than 7.3 percent, as assumed in the Budget Committee recommendation—would increase the deficit to the \$40 to \$50 billion range. This deficit figure could be increased further if the Congress were to choose to enact spending or tax stimulus measures to counteract rising unemployment.

I am not predicting any of these dire things, I am just saying that they might happen.

On the inflation front, for which the outlook remains very uncertain, an increase in the inflation rate would have small short-run effects on the deficit. Spending for indexed benefit programs would automatically increase somewhat, but the increase would be offset by higher revenues as inflation pushed taxpayers into higher income brackets.

Finally, interest rates can also affect the deficit. If short- and long-term rates for 1980 were to exceed the CBO forecast by 1 percentage point, the deficit would automatically increase by over \$1 billion because of higher outlays for interest on the public debt.

#### THE DEBT CEILING

The temporary limit on the public debt that is scheduled to expire on September 30, 1979, is, as you know, \$830 billion. This limit appears to be sufficient to accommodate the latest estimates for fiscal year 1979; there is little danger that the ceiling will be breached. The debt subject to limit in the Budget Committee recommendation for fiscal year 1980 is \$887.4 billion. This represents an increase of about \$58 billion, and is approximately equal to the 1979 increase, as is shown in table 3. Let me take a moment to discuss the components of the estimates. The unified budget deficit of \$28 billion for 1980 would be financed by borrowing from the public. In addition, the Treasury would issue debt securities that are subject to limit to trust funds that show surpluses and to certain agencies that operate insurance funds and currently show an excess of receipts over outlays. This combined trust fund-agency surplus is estimated to be \$14 billion.

TABLE 3.—DEBT SUBJECT TO LIMIT

[By fiscal year and billions of dollars]

	1979	1980
Budget deficit .....	29.9	28.0
Trust fund and agency investment.....	18.0	14.0
Deficit of off-budget Federal entities.....	12.0	16.0
Total to be financed .....	59.9	58.0
Means of financing (other than borrowing) and other adjustments.....	-3.2	
Increase in debt subject to limit .....	56.7	58.0
Debt subject to limit (beginning of year) .....	772.7	829.4
Debt subject to limit (end of year) .....	829.4	887.4

Source: "Second Concurrent Resolution on the Budget, Fiscal Year 1980," prepared by the Senate Committee on the Budget, 96th Cong. 1st sess. (1979), and the Congressional Budget Office.

The off-budget deficit also increases the borrowing requirements of the Treasury. The off-budget deficit assumed in the committee recommendation for fiscal year 1980 is \$16 billion. Most of this deficit is attributable to the credit activities of the Federal Financing Bank. CBO has generally supported bringing the activities of off-budget entities on budget so that the unified budget would fully reflect spending by the Federal Government. In particular, we have advocated changing the budgetary recording of agency transactions with the Federal Financing Bank so that those transactions are reflected in the agency budgets.

The total amount to be financed in the recommended resolution is \$58 billion. When this is added to the estimated debt at the end of fiscal year 1979, it brings the total debt subject to limit by the end of fiscal year 1980 to \$887.4 billion.

## THE BUDGET OUTLOOK FOR 1981 AND 1982

CBO has long advocated the inclusion of multiyear targets in annual budget resolutions. In the absence of these targets, the short-run consequences of legislative actions tend to overwhelm the longer-range considerations. Even as early as the spring of 1979, decisions on 1980 budget totals were severely restricted by decisions that had already been made. Consequently, it has been very difficult to exert control over budget totals in the near term.

The Public Debt Limit Act of 1979, approved in April, contained what we believed was an historic provision requiring the Senate Budget Committee to report a multiyear budget resolution for fiscal years 1981 and 1982, along with the first budget resolution for 1980. That provision resulted in the debate and passage of a multiyear budget for 1980-82 in the Senate in the spring.

The Senate Budget Committee has continued the precedent set in the first budget resolution and recommended budget targets for 1981 and 1982 in their recommendations for the 1980 second budget resolution. The 1981 and 1982 recommendations represent a proposed budget plan or multiyear target rather than a simple extrapolation of the 1980 recommendation. For example, the outyear recommendation assumes a phasedown of general revenue sharing starting in 1981, funding for welfare reform starting in 1982, and an infusion of budget authority for energy initiatives in 1982. On the receipts side, the revenue target for 1982 assumes a \$55 billion tax cut.

The recommended targets result in budget surpluses of \$15.0 billion in 1981 and \$25.6 billion in 1982, as is shown in table 4. The surpluses would decrease the need for new borrowing in 1981 and 1982; the public debt, however, would still increase, albeit by decreasing amounts, under the recommended targets because of the need to finance off-budget deficits and to issue securities to trust funds that will be in surplus, as is shown in table 5.

Table 4.—BUDGET TOTALS BY FUND GROUP

[By fiscal year, and in billions of dollars]

	1981	1982
<b>Receipts:</b>		
Federal funds .....	409.5	432.3
Trust funds .....	241.2	277.8
Interfund transactions .....	-47.1	-51.7
<b>Total .....</b>	<b>603.6</b>	<b>658.4</b>
<b>Outlays:</b>		
Federal funds .....	413.1	437.0
Trust funds .....	222.6	247.5
Interfund transactions .....	-47.1	-51.7
<b>Total .....</b>	<b>588.6</b>	<b>632.8</b>
<b>Surplus or deficit (—):</b>		
Federal funds .....	-3.6	-4.4
Trust funds .....	18.6	30.3
<b>Total .....</b>	<b>15.0</b>	<b>25.6</b>

Source: "Second Concurrent Resolution on the Budget, Fiscal Year 1980," prepared by the Senate Committee on the Budget, 96th Cong. 1st sess. (1979).

TABLE 5.—DEBT SUBJECT TO LIMIT

(By fiscal year, and in billions of dollars)

	1981	1982
Budget surplus.....	—15.0	—25.6
Trust fund and agency investment.....	21.8	28.8
Deficit of off-budget federal entities.....	12.0	12.0
Total to be financed.....	18.8	15.2
Increase in debt subject to limit.....	18.8	15.2
Debt subject to limit (beginning of year).....	887.4	906.2
Debt subject to limit (end of year).....	906.2	921.4

Source: "Second Concurrent Resolution on the Budget, Fiscal Year 1980," prepared by the Senate Committee on the Budget, 96th Cong. 1st sess. (1979), and the Congressional Budget Office.

To summarize, the Budget Committee recommendation for 1980 would require an increase in the temporary debt limit from \$830 billion to \$887.4 billion, assuming an expiration date of September 30, 1980. This increase in the public debt limit would be approximately equal to the increase for 1979. The recommended budgets for 1981 and 1982, however, would result in much smaller future increases. By 1982, the public debt as a percent of GNP would decline to 27.6 percent, compared with 32.7 percent for 1979.

I would be happy to answer any questions you have Mr. Chairman.

Senator BYRD. Thank you, Mrs. Rivlin.

Senator PACKWOOD.

Senator PACKWOOD. Mr. McIntyre, may I presume that you have prepared most of the budgets for the different departments for the fiscal 1981 budget?

Mr. McINTYRE. Some of the larger budgets, the ones that represent the greatest numbers of dollars, are still out. We will get those at the end of this week, next week.

Senator PACKWOOD. To Congress next January?

Mr. McINTYRE. Well, there are two provisions in the law that we have to deal with, one is known as the Byrd amendment that in effect states that set expenditures shall equal receipts beginning with fiscal year 1981 and the implication of that is that the Congress will end up in 1981 with a balanced budget.

Senator PACKWOOD. Do you read that to require you to submit a balanced budget?

Mr. McINTYRE. We have taken the position that the congressional intent is that there be a balanced budget but that under the law the President is required to submit to the Congress the budget that he thinks is necessary for meeting the national needs and for the operation of the Government. There is a second law, Mr. Packwood, that I would like to also address.

Senator PACKWOOD. I want to clarify what you just said. The

President submits the budget he thinks best for the Nation's needs and the law is depending upon the Congress to balance it if we are going to meet the law as it now exists.

Mr. McINTYRE. Under the way that law is drafted I think that is a reasonable interpretation of it. I would say, however, that we recognize the intent of the law and we certainly know well the author's intent that we present a balanced budget, if possible.

I might add, however, that is a goal shared by the President and a goal shared by me, as I have said to the chairman before this committee on numerous occasions. We will do everything that we can, economic conditions permitting, to achieve that goal.

The second statute is the amendment to the debt limit bill passed earlier this year that has two parts to it. The first part requires the Congress to have a balanced budget or, if it cannot, to submit in the 1980 concurrent budget resolution what would have to be done in order to achieve a balanced budget in fiscal year 1981. That law and specifically the part that refers to the executive branch says that if a budget that is transmitted by the President would, if adopted, result in a deficit in fiscal year 1981 or in fiscal year 1982 the President shall also transmit alternate budget proposals which, if adopted, would not result in a deficit.

We intend to comply with that provision of the law.

Senator PACKWOOD. And you will submit those proposals if your budget is not in balance at the time of the budget document in January?

Mr. McINTYRE. That is correct.

Senator PACKWOOD. I sent you a letter on July 25 asking what action you were taking to implement that second part of the alternative balanced budget which as you are aware, is my amendment, and I have not gotten any response to the letter yet.

Mr. McINTYRE. I certainly regret that. I would say it is premature for me to suggest to you what steps we would take or what alternative proposals we would make.

Senator PACKWOOD. I suggested some steps in the letter and asked for your comments on them.

Mr. McINTYRE. I will check and see why your letter has not been answered and I will see that you get an answer promptly, Senator.

Senator PACKWOOD. Let me ask you another question. On page 3 you say it is estimated now—when is now? Do you mean today or do you mean late July?

Mr. McINTYRE. That is consistent with our mid-session estimate which is late July.

Senator PACKWOOD. Continuing down on page 3: "In addition, revised incomes resulting from your economic assumptions," deflators versus inflation, what are the assumptions for fiscal year 1980 and 1981 for inflation and unemployment?

Mr. McINTYRE. Well, for calendar year 1980, which is the basis on which we publish the official forecast, and which is contained in our mid-session review, we forecast an unemployment rate of 6.9



percent in the fourth quarter and a CPI rate of 8.3 percent calculated in terms of December 1980 over December of 1979.

Senator PACKWOOD. 8.3 percent Consumer Price Index for 1980 and a 6.9 percent unemployment rate at the end of the year.

Mr. McINTYRE. That is correct.

Senator PACKWOOD. What do you have for 1981?

Mr. McINTYRE. We don't make forecasts that far in advance.

Senator PACKWOOD. All right.

That is all the questions I have of Mr. McIntyre, Mr. Chairman. I have some of Miss Rivlin.

Senator BYRD. Thank you, Senator Packwood.

Mr. McIntyre, the last time you were before this committee you said in regard to the balanced budget amendment that the administration either would comply with that statute passed by the Congress and signed by the President or would seek its repeal or would seek a modification. You are now in the process, I assume, of making up the 1981 budget. Which of those three alternatives do you anticipate you will utilize?

Mr. McINTYRE. Mr. Chairman, we have just begun the process of looking at the budget requests from the Federal agencies. We are not far enough along at this point in time to have a firm idea of what the 1981 budget will end up looking like. As has been said here today, particularly by Mrs. Rivlin, we are in a period of economic uncertainty. It is a period of time in which those of us in the budget business have to monitor economic conditions almost daily and it would be premature for me to suggest to you today what the 1981 budget will look like. I did say if we cannot submit a balanced budget for 1981, we will submit our recommendations as to what action would have to be taken to balance the budget.

Senator BYRD. You would submit your recommendations, is that what you would submit—your recommendations to balance the budget?

Mr. McINTYRE. To the Congress.

Senator BYRD. Well, let me restate what you told the committee before and then I want to ask you whether that is still your position or whether you now have a different position.

You told the committee at its last meeting, the last time you attended, that the administration either would comply with the balanced budget requirement which is now statute, part of the law, or you would seek its repeal or you would seek modification. Is that still your position?

Mr. McINTYRE. That is still my position. I would suggest to you that if we cannot achieve the balanced budget in fiscal 1981, then we should take one of the latter two actions, modification or a repeal. In any event there is still another statute on the books and I also indicated to the committee what I would do in meeting the requirements of that statute.

Senator BYRD. Now in developing your 1981 budget, what percentage increase do you deem to be appropriate?

Mr. McINTYRE. Mr. Chairman, I think that just to set up a flat percentage increase is not necessarily the appropriate way to go about budgeting. I think what we have to do is look at the national needs, to look at the agency requests to see how they met those needs and then make our decisions. I would suggest to you that our

fiscal policy, our anti-inflation policies would call for a continuation of budgetary restraint on the spending side, one in which we continue to have a budget in which there is little, if any, real growth.

Senator BYRD. The 1970 or the 1980 budget will be approximately 10 percent greater than the expenditures for 1979. Do you feel that that rate of increase should be substantially reduced?

Mr. McINTYRE. Mr. Chairman, if it is 10 percent, that is below what we expect the rate of inflation to be in 1979. Therefore, you are talking about a Federal budget in which there is no real growth, in fact there is a negative growth.

Senator BYRD. Well, I just want to try to get an understanding of your thinking.

Do you feel that there should be a reduction in the rate of increase of Government spending?

Mr. McINTYRE. Yes, sir. I have said that in the past. We should try to slow down the rate of growth in Government spending. Now we have done that over the past 5 years. The rate of growth has been at about 12 percent. The budget we submitted to the Congress in January called for a rate of growth that was in the neighborhood of 7.7 to 7.8 percent.

The reason this budget is going up and the reason that the estimates are going up are due to several factors. One, over three-fourths of the increase is due to the uncontrollable items in the budget. The total percentage of uncontrollable items in the 1980 budget was about 76 percent in the January submission. The other increases that we have submitted to you deal primarily with the energy problem that this country is facing, with our commitments in the Middle East and with some other increases that the administration is supporting. Basically what we have submitted to the Congress is a budget that does not provide any real overall growth in Government expenditures.

Senator BYRD. When President Carter was a candidate for President in 1976 he told the people of this country day after day and day after day that the Federal Government was spending too much money, that expenses had to be curbed and restrained, the rate of increase had to be reduced and a balanced budget had to be achieved. Since that time Federal spending has increased in round figures 35 percent.

Now let me ask you this and then I am going to yield to Senator Dole. The New York Times reports that you and you alone of all of the administration officials are permitted—or the others have been admonished, put it that way—not to discuss any possible tax reduction and that any such discussion must be cleared through you, according to the New York Times. My question to you is, do you foresee a tax reduction during the Presidential year of 1980?

Mr. McINTYRE. Mr. Chairman, let me answer the first parts of that question first. The President did say that he wanted to reduce the growth of the Federal budget, he did want to reduce the amount that the Federal budget represented in the gross national product. He has done that. The Federal budget has been reduced by about 1.4 percentage points of GNP from 1976, as I recall, to 1980. That percentage point decrease has changed somewhat because of a slower growing economy. It has changed from what we

proposed in January, but the fact is that the percentage that the Federal budget represents or takes from the gross national product has been reduced by President Carter and we will continue to strive to reduce that amount. If the economy slows down it drives certain expenditures up such as the unemployment compensation fund and also reduces the growth.

Senator BYRD. I am glad you mentioned the unemployment compensation fund because that brings back a question that I asked earlier to get a breakdown of that. As I understand it there is a very substantial surplus in the unemployment compensation but let's see if there is or is not a surplus in that fund.

Mr. McINTYRE. Oh, absolutely.

Senator BYRD. What is the surplus?

Mr. McINTYRE. Well, based on our January figures, and these have changed some, the surplus is about \$3.3 billion.

Senator BYRD. It has been higher than that, has it not?

Mr. McINTYRE. In 1980, the cumulative.

Senator BYRD. What is it now?

Mr. McINTYRE. The cumulative total?

Senator BYRD. The cumulative totaling \$18 billion for the trust fund. I want to know at that point, since you brought it up, what the unemployment is?

Mr. McINTYRE. We currently expect the surplus to be for 1980 to be \$2.0 billion.

Senator BYRD. So that is a surplus. Now the expenses of the deficit of the Government would be much greater, it would be \$3 billion greater were it not for that surplus in the unemployment fund which is paid entirely by the employers of this country.

Mr. McINTYRE. Let me give you those figures for all of those trust funds if I might.

Senator BYRD. Good.

Mr. McINTYRE. In the Federal Old Age Survivors and Disability Insurance Trust Fund we are talking about for 1980 now about \$700 million deficit.

The Veterans Life Insurance Trust Fund is about \$200 million surplus.

Federal Employees Retirement Fund is about \$8.3 billion. Unemployment Trust Fund \$2.0 billion.

Health Insurance Trust Fund about \$3.7 billion.

The Highway Trust Fund is about \$1.1 billion and the Airport and Airway Trust Funds about \$800 million.

Senator BYRD. All that adds up to \$18 billion.

Mr. McINTYRE. About that, yes.

Senator BYRD. About \$18 billion. In other words, without the Federal Employees Retirement Trust Fund plus those other items the cost of operating the Government would show a deficit. You have \$18 billion more than it is going to show under the bookkeeping that is being used.

Mr. McINTYRE. Without those surplus funds for the Treasury to borrow, they would have to go out and borrow that money elsewhere.

Senator BYRD. That is right.

Now the second part of my question you were going to answer.

Mr. McINTYRE. I have forgotten the second part, Mr. Chairman. Refresh my memory.

Senator BYRD. The basic part of my question was, before we went back to the previous one, you are the only one according to the New York Times who is permitted to discuss the possibility or lack of a tax reduction in 1980.

Mr. McINTYRE. I have not read that article.

Senator BYRD. Can you tell this committee or assure this committee whether the administration will recommend a tax reduction during 1980?

Mr. McINTYRE. Mr. Chairman, I would have to take the position that Secretary Miller also took. I do not know at this time. It is premature. We are in a period of economic uncertainty and our position is that we will have to monitor the economy very carefully and we will make any decisions about any type of countercyclical packages, either spending or tax reduction, at such time as it is appropriate to do so. It is not appropriate to make those recommendations at this time.

Senator BYRD. Well, I agree with that and I do not favor a tax reduction at the present time. It probably will come up, however, and the only reason I reserve judgment and the only reason that I may vote for the tax reduction now is because it appears to me that as a campaign weapon a tax reduction may be proposed in 1980. Now if that is going to be the case, I might just as well vote for it now. I just wondered whether you would be prepared to give us any assurance one way or the other.

Mr. McINTYRE. Well, it is premature to make any decision on what type of countercyclical package might be appropriate until we have seen what happens in the economy. We need to have some time to look at the 1981 agency budget requests, and until such time as economic conditions require any change in our fiscal policies—

Senator BYRD. Just one final question in that respect and I will yield.

Do you regard a tax reduction as helpful in achieving a balanced budget?

Mr. McINTYRE. As helpful?

Senator BYRD. As helpful.

Mr. McINTYRE. If you operate from a deficit and you have a tax cut, it is obviously going to increase the deficit. If you use all the surplus up, then you can still have a surplus.

Senator BYRD. But if you operate from a deficit, you feel that it would not help achieve a balanced budget?

Mr. McINTYRE. Obviously if you are operating from a deficit position and you have a tax cut, it is going to reduce your revenues or your receipts by some amount and would have the effect of increasing the deficit. But that amount would not necessarily be the same as the tax cut, because the tax cut could stimulate higher levels of economic activity and thereby yield additional tax receipts.

Senator BYRD. That being the case and because the President and you both are committed to a balanced budget, I can't conceive that you would be in a position in 1980 to advocate a tax reduction.

Mr. McINTYRE. Nobody is advocating one at this time.

Senator BYRD. Correct. I was just seeking some assurance that you probably would not so advocate.

I yield to Senator Packwood.

Senator PACKWOOD. Thank you.

Senator Dole said he would not mind if I asked Mrs. Rivlin two questions.

Mrs. Rivlin, you make some reference to your economic forecast which is 7.3 percent in 1980. Is that correct?

Ms. RIVLIN. Yes.

Senator PACKWOOD. What is your estimate for the Consumer Price Index for 1980?

Ms. RIVLIN. For calendar year 1980?

Senator PACKWOOD. No, fiscal year 1980.

Ms. RIVLIN. We estimate a rise of 9.8 percent.

Senator PACKWOOD. 9.8 percent CPI in fiscal 1980 and yet with those two figures you estimate that there would be a \$15 billion surplus in fiscal year 1980 and—

Ms. RIVLIN. In fiscal year 1981.

Senator PACKWOOD. Excuse me, 1981. You are right, for 1981.

Let me ask you the figures again for 1981 on your estimated unemployment and CPI rates.

Ms. RIVLIN. These are the rates that underlie the Senate Budget Committee's forecast?

Senator PACKWOOD. Yes.

Ms. RIVLIN. They are assuming 8.6 percent for the rise in the Consumer Price Index and 7.1 percent for the unemployment rate.

Senator PACKWOOD. With those figures we can achieve a \$15 billion surplus even though there will be some increased funding for welfare reform and as you say the infusion of budget authority for energy initiatives?

Ms. RIVLIN. The funding for welfare reform comes in in 1982, but the basic answer to your question is yes.

Senator PACKWOOD. Are you talking about a phase out by a phase down?

Ms. RIVLIN. Yes.

Senator PACKWOOD. 7.1 percent unemployment with that \$15 billion surplus?

Ms. RIVLIN. That is right.

Senator PACKWOOD. I have no other questions.

Thank you very much, Mr. Dole.

Senator BYRD. Senator Dole.

Senator DOLE. What do you anticipate next year in the way of revenues from the crude oil tax?

Mr. McINTYRE. Senator Dole, I would like to get you a more certain figure on the receipts for the windfall profits tax.

Senator DOLE. You can supply it.

Mr. McINTYRE. Senator Dole, let me get the most recent estimate of that for you.

Senator DOLE. It might help us in our deliberations on the Finance Committee if we knew what was anticipated.

Mr. McINTYRE. Our estimates as of early this month, September 4, for the energy security program show in 1981 windfall tax receipts of about \$9.3 billion, some additional receipts as a result of

decontrol of about \$1.9 billion, for a total before any tax expenditures of about \$11.3 billion.

The Treasury should have completed the estimates that you and I were discussing previously and I will see that you get the appropriate administration figures on the windfall tax receipts.

[The document to be furnished follows]:

**EXPLANATION OF ECONOMIC ASSUMPTIONS UNDERLYING WINDFALL PROFITS TAX RECEIPTS ESTIMATES**

For the purposes of budgetary estimates, the Administration has assumed that world oil prices grow at no more than the rate of domestic inflation. One reason for this is fiscal prudence. If oil prices grow at a relatively slow rate, the cost of the programs proposed by the Administration is relatively high, while the estimated receipts from the windfall profits tax would be relatively low. To ensure that the combined receipts and expenditure effects of the energy security program do not add significantly to the Federal budget deficit, the Administration chose a set of energy programs that could be financed within a conservative receipts limit. If world oil prices grow at a more rapid rate, the Administration would make appropriate changes in its fiscal and budgetary policy.

Experience with OPEC prices since the first embargo in 1973 cautions against assuming a positive rate of oil price growth. Between the OPEC price increases of 1973-1974 and the most recent round of price increases this year, real world oil prices actually declined at an average annual rate of 3.3 percent. The Administration believes that for budgetary estimates we should neither assume that oil prices will decrease in real terms in future years, nor should we expect them to increase at any particular rate. For the purposes of receipts and expenditure estimates, we believe that a zero percent rate of real increase in world oil prices is the most appropriate choice.

The Administration recognizes that world oil prices may rise at a more rapid rate than assumed. To show the effects of more rapid oil price growth, we are including estimates based on 1 percent and 2.4 percent real oil price growth in addition to the estimates used for budgetary policy.

## ADMINISTRATION WINDFALL PROFITS TAX ESTIMATES ON GROSS AND NET BASIS <sup>1</sup>

[In millions of dollars]

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Total
<b>Annual real increase in uncontrolled oil prices:</b>												
<b>0 percent:</b>												
Gross windfall profits tax.....	2,834	9,218	14,336	14,413	14,270	14,612	15,123	15,346	15,462	15,788	16,116	147,518
Net windfall profits tax <sup>a</sup> .....	2,068	6,220	9,271	8,527	8,272	8,418	8,628	8,627	8,590	8,741	8,877	86,239
<b>1 percent:</b>												
Gross windfall profits tax.....	2,918	9,731	15,498	16,158	16,674	17,774	19,091	20,130	12,121	22,433	23,791	185,319
Net windfall profits tax <sup>a</sup> .....	2,124	6,575	10,044	9,626	9,755	10,342	11,010	11,459	11,911	12,629	13,345	108,820
<b>2.4 percent:</b>												
Gross windfall profits tax.....	3,053	10,457	17,160	18,690	20,215	22,508	25,133	27,541	30,042	33,092	36,319	244,210
Net windfall profits tax <sup>a</sup> .....	2,216	7,071	11,150	11,222	11,939	13,218	14,624	15,827	17,115	18,820	20,571	143,773

<sup>1</sup> Estimates based on the economic assumptions used in the Mid-Session Review of the 1980 Budget.

<sup>a</sup> Windfall profits tax net of the decrease in corporation income taxes due to the deductibility of the tax.

**Senator DOLE.** In February when the debt limit was before Congress we did not foresee an inflation rate in excess of 13 percent. According to most experts we are in or entering a recession with rather high inflation. How do these changed circumstances insofar as inflation is concerned affect efforts to balance the budget for fiscal 1981?

**Mr. McINTYRE.** Senator Dole, in many respects the performance of the economy will make our effort to balance the budget in 1981 exceedingly more difficult than we felt that it would have been last January when we proposed the fiscal year 1980 budget and when I testified before this committee in February. We have tried to look at the changes that would result from the effects of increases in the inflation rate both in terms of what that means in higher receipts and in higher expenditures. A net increase in the deficit resulting from a 1 percentage point higher inflation and 1 percentage point lower growth, beginning in 1980, for fiscal year 1981 would total about \$4.5 billion.

**Senator DOLE.** Did Congressional budget office agree with that assessment?

**Ms. RIVLIN.** Approximately.

**Senator DOLE.** Do we have any idea at this point what cuts the administration may be proposing in order to achieve the balanced budget?

**Mr. McINTYRE.** Senator Dole, we have just begun the fiscal 1981 budget process. As I said earlier, the small agency budgets have been received at OMB but we are still expecting the budgets from the larger agencies later this week or the first part of next week. It is really just too early for us to tell you what the 1981 budget looks like. We will begin our analysis immediately. I begin my personal reviews of these budgets next month, and we will not have a good feel for what actions will be required until sometime in December.

**Senator DOLE.** How much of a windfall will the Government reap from taxes on inflation in 1979 and 1980? It is 11.6 billion this year if we assume that inflation rate is 10.3 percent or something like that?

**Mr. McINTYRE.** I can tell you that the effect of a 1 percentage point increase in the inflation rate beginning in January of 1980 would increase receipts by about \$9.6 billion.

**Senator DOLE.** There are some of us who have an interest in adjusting the system for inflation. Do you object to indexing?

**Mr. McINTYRE.** We have some real reservations about indexing the tax system, yes.

**Senator DOLE.** There are about 6 States who have adopted some form of tax indexing. In some cases the tax brackets, the personal exemption and the zero bracket or standard deduction is adjusted to reflect inflation. I believe there is increasing interest in the Congress in that concept. After all Congress has been trying to do, about unsuccessful, a type of legislative indexing. Is it easy to justify taxing inflation?

**Mr. McINTYRE.** Well, it is never easy to justify any tax, Senator Dole, but I think that what we need to recognize is that we have a budget that has substantial built-in increases because of the so-called entitlement programs. The indexing of those programs, and because of other uncontrollable types of expenditures—means that



a large part of the budget is uncontrollable in the sense that unless the Congress acts to put restrictions on those programs we are obliged to fund them.

I think one thing that this Congress and the administration is going to have to come to grips with if it intends to pursue a balanced budget on some type of regular basis is how to deal with these automatic increases in the budget. We have proposed a substantial amount to be reduced in the 1980 budget, a substantial but I think reasonable amount. We have not seen a whole lot of interest on the part of the Congress, quite candidly, in those reductions. To sit up here and talk about reducing taxes, when we cannot even deal with very modest reductions in the budget, would, I think, cause some people to wonder if we are really serious. I think that if we are going to continue to be concerned about balancing the budget, then we have got to show we are serious about Federal expenditures.

I will suggest that we ought to take that route before we start limiting and indexing the tax system and taking other actions which will, in effect, tend to increase your Federal deficit.

Senator BYRD. If Senator Dole would yield at that point, I agree with you 100 percent but in reply to one of my questions earlier you said in effect that we need to index Federal expenditures. You didn't use the word index.

Mr. McINTYRE. No, sir.

Senator BYRD. But you said that Federal expenditures needed to keep up with inflation, or words to that effect. You didn't use that exact term.

Mr. McINTYRE. I didn't say they needed to, Mr. Chairman. I said basically that the budget for 1980 was in effect a budget that represented no real growth because the inflation rate was actually—

Senator BYRD. You are indexing the expenditures.

Mr. McINTYRE. No, sir.

Senator BYRD. I don't believe in indexing the expenditures. I have not been able to convince myself that we ought to index income tax.

Mr. McINTYRE. I have taken the opposite approach. Committees have asked me why didn't I automatically give agencies an amount equal to the rate of inflation and I have argued against that and I will continue to argue against that.

Senator BYRD. But the overall total of your budget does just about that.

Mr. McINTYRE. Well, yes, certainly it does, Mr. Chairman, but you have to realize that in that overall total we have real growth in the defense area, we have a 13½ percent growth in social security, we have about a 11 percent growth in Medicare. Those growths are all offset by reductions in other programs so if you look at the budget as a total, sure there is real growth in some programs but there are reductions in other programs and there has to be for us to get down to a level of expenditures that are below actually what we expect the rate of inflation to be.

Senator BYRD. I won't go further on Senator Dole's time but I look at the total amount of spending and the total amount of spending is up substantially.

I am sorry, sir.

Senator DOLE. I certainly agree that Congress has been a contributing factor to the problem. I believe about 63 percent of Federal programs are indexed. I assume that is because acts of Congress so provide which presents a problem to any administration and I assume that would be an argument against any further indexing on the tax side.

We will have some opportunities in the next few days in the Senate to see how Congress really feels about balancing the budget. I don't think any of us are looking forward to some of the votes. It has been suggested that one way to balance the budget is to prohibit increases unless two-thirds of the Congress approves. That suggestion will probably be brought up when the debt limit, goes to the floor.

Mr. McINTYRE. Well, in general we have expressed concern about trying to establish arbitrary types of controls on the deficit. We felt that the appropriate way to deal with budget problems is for the President to submit his recommendations to the Congress for what he feels are the requirements to meet the national needs and to fulfill the statutory responsibilities required of him. The Congress should then debate those issues, make its own judgments, and I underscore the word "judgments" about the priorities, and come up with a budget to fund those problems. It is my judgment that that is the best way to proceed.

Senator DOLE. I have no further questions.

Senator BYRD. Thank you, Senator Dole.

Just a couple of brief questions.

The Government overall is really a net gainer, is it not, Mrs. Rivlin, from inflation?

Ms. RIVLIN. I don't think anybody gains from inflation, Mr. Chairman. It is true that government revenues rise in general somewhat faster than the automatic increase in government expenditures.

Senator BYRD. Yes, that is what I was referring to.

And that is correct, is it not?

Ms. RIVLIN. Yes, it is.

Senator BYRD. In regard to indexing the income tax, I have never been able to bring myself around to thinking that that is a good idea. It seems to me what that would do is to tend to encourage inflation or at least eliminate the fight against inflation. Does either one of you have a comment on that?

Ms. RIVLIN. I agree. I think it would make it more difficult for the Congress to resist a tax cut that might well not be appropriate at a moment when you had high inflation. If the tax cut were already automatic, it would be harder to undo it.

Senator BYRD. Is that your opinion?

Mr. McINTYRE. I would agree.

Senator BYRD. Now I have a slightly different view in regard to indexing capital gain. It seems to me that is in a different category because so much of capital gain is created by inflation. Do you see a distinction between indexing capital gain as against indexing a straight income?

Ms. RIVLIN. I think there is a stronger argument for indexing something on the capital gain that is created over a long period. It

is a very difficult matter, as you know, to figure out how to do it equitably.

Senator BYRD. You do feel it has some merit?

Ms. RIVLIN. I think there is some merit in it, yes.

Senator BYRD. What is your attitude, Mr. McIntyre?

Mr. McINTYRE. Well, I think that again this is something that we would prefer at this time not to see occur. I do think I agree with Mrs. Rivlin that a stronger case can be made in the capital gains area.

Senator BYRD. Is the U.S. Government's financial affairs on a sound basis? I ask you, Ms. Rivlin?

Ms. RIVLIN. I think that is a difficult question to answer yes or no. Basically, I am not worried about the financial future of the U.S. Government. I am worried about the state of the economy right now, and the decisions that need to be made about the economy—such as what the budget should be like in the next year or so—are extremely difficult. But I am not worried about the basic soundness of the financial affairs of the U.S. Government.

Senator BYRD. Mr. McIntyre, do you feel that the Federal Government over the years, including now, has been operated in a sound financial way?

Mr. McINTYRE. Overall I would have to say yes, and let me give you a couple figures to support that. First of all, the debt as a percentage of the gross national product is going down. If you look at in 1977 the debt held by the public as a percent of the gross national product, it constituted 30.1 percent. In 1978 it was 29.9 percent. We estimate that in 1979 the percentage to be 28.1 and then the 1980 estimate is 27. So I think as a percentage of GNP our debt held by the public is going down.

I think also, going back to my figures about the amount that the Government represents of the gross national product, the fact that that percentage is decreasing I think is a healthy sign. So I think, yes, that the Government has managed its finances well.

I think there is always room for improvement though. We should constantly strive to increase productivity in the Federal Government. We should have financial management plans, and along those lines, Mr. Chairman, I have at OMB a 10-point program that I instituted back in the spring of this year to deal with such matters as outstanding debt collections, to get all of the federal accounting systems approved by the GAO. I was absolutely amazed when I found out that we had a number of systems that had not been approved by the GAO. We have made tremendous progress in improving the financial management in the Federal Government and I will continue that effort while I am the Director of OMB.

Senator BYRD. I would be very glad if you would be good enough to submit to this committee, because we have held a number of hearings on it, the record of debt collection of foreign debts owed the United States.

[The following was subsequently supplied for the record:]

The following tables, reprinted from the 1978 Annual Report of the Secretary of the Treasury, show outstanding World War I debts, most of which are not being repaid, and World War II (lend-lease) and foreign assistance and foreign trade loans, virtually all of which is being repaid on schedule.

## Indebtedness of Foreign Governments

TABLE 99.—Indebtedness of foreign governments to the United States arising from World War I, Sept. 30, 1978

	Agreement obligation <sup>1</sup>	Interest accrued through Sept. 30, 1978	Total	Cumulative payments		Total outstanding	Unmatured principal	Accrued interest not yet due	Principal and interest due and unpaid
				Principal	Interest				
Armenia.....	\$11,959,917	\$35,316,276	\$47,276,193	532	-----	\$47,276,161	-----	\$150,727	\$47,125,433
Austria <sup>2</sup> .....	26,843,149	11,596,984	38,440,133	862,668	-----	37,577,465	-----	274,142	37,303,323
Belgium.....	423,587,630	421,699,637	845,287,266	19,157,630	\$33,033,643	793,095,995	\$100,880,000	2,531,063	689,684,932
Cuba.....	10,000,000	2,286,752	12,286,752	10,000,000	2,286,752	-----	-----	-----	-----
Czechoslovakia.....	185,071,023	211,507,328	396,578,351	19,829,914	304,178	376,444,258	44,745,000	1,699,816	329,999,442
Estonia.....	16,958,373	28,799,934	45,758,307	11	1,248,432	44,509,864	4,176,000	174,877	40,158,987
Finland.....	9,000,000	12,661,578	21,661,578	*9,000,000	*12,661,578	-----	-----	-----	-----
France.....	4,128,326,088	4,801,303,367	8,929,629,455	226,039,588	260,036,303	8,443,553,564	945,585,577	40,111,816	7,457,856,171
Great Britain.....	4,933,701,642	8,818,097,840	13,751,799,481	434,181,642	1,590,672,656	11,726,945,183	1,132,000,000	46,399,890	10,548,545,293
Greece.....	*34,319,844	6,573,389	40,893,233	1,784,376	5,960,558	*33,148,299	16,380,468	216,831	16,551,000
Hungary <sup>3</sup> .....	2,051,898	3,590,704	5,642,602	1,501,238	3,585,054	556,310	550,660	5,650	-----
Italy.....	2,044,870,444	570,883,606	2,615,754,050	37,464,319	63,365,561	2,514,924,170	625,400,000	6,014,058	1,883,510,112
Latvia.....	7,094,654	12,742,724	19,837,379	9,200	752,349	19,075,830	1,768,300	76,936	17,230,594
Liberia.....	26,000	10,472	36,472	26,000	10,472	-----	-----	-----	-----
Lithuania.....	6,618,395	11,218,536	17,836,931	234,783	1,003,174	16,598,975	1,751,345	65,827	14,781,803
Nicaragua <sup>4</sup> .....	141,950	26,625	168,576	141,950	26,625	-----	-----	-----	-----
Poland.....	*213,506,132	366,136,313	579,642,445	1,287,297	21,359,000	556,996,148	57,694,000	2,188,397	497,113,750
Romania.....	68,359,192	88,442,110	156,801,303	*4,498,632	292,375	152,010,295	17,089,000	656,399	134,264,896
Russia.....	192,601,297	584,454,293	777,055,590	-----	*8,750,312	768,305,278	-----	-----	768,305,278
Yugoslavia.....	63,577,714	50,189,102	113,766,815	1,952,713	636,059	111,178,043	18,944,000	632,289	91,601,754
<b>Total.....</b>	<b>12,378,615,344</b>	<b>16,037,537,569</b>	<b>28,416,152,914</b>	<b>767,971,994</b>	<b>2,005,985,082</b>	<b>25,642,195,838</b>	<b>2,966,964,350</b>	<b>101,198,720</b>	<b>22,574,032,768</b>

<sup>1</sup> Includes capitalized interest.<sup>2</sup> The Federal Republic of Germany has recognized liability for securities falling due between Mar. 12, 1938, and May 8, 1945.<sup>3</sup> \$8,480,090 has been made available for educational exchange programs with Finland pursuant to 22 U.S.C. 2455(e).<sup>4</sup> Includes \$13,155,921 refunded by the agreement of May 28, 1964, which was ratified by Congress Nov. 5, 1966.<sup>5</sup> Includes \$12,355,468 on agreement of May 28, 1964.

\*Interest payments from Dec. 15, 1932, to June 15, 1937, were paid in pengo equivalent.

<sup>6</sup> The indebtedness of Nicaragua was canceled pursuant to the agreement of Apr. 14, 1938.<sup>7</sup> After deduction of claim allowance of \$1,813,429.<sup>8</sup> Excludes payment of \$100,000 on June 14, 1940, as a token of good faith.<sup>9</sup> Principally proceeds from liquidation of Russian assets in the United States.

TABLE 100.—*Status of German World War I indebtedness, Sept. 30, 1978*

	Funded indebtedness	Interest through June 30, 1978	Total	Cumulative payments		Total outstanding	Unmatured principal	Principal and interest due and unpaid
				Principal	Interest			
<i>Agreements as of June 23, 1930, and May 26, 1932:</i>								
Mixed claims (reichsmarks).....	* 1,632,000,000	1,251,540,000	2,883,540,000	81,600,000	5,610,000	2,796,330,000	142,800,000	2,653,530,000
Army costs (reichsmarks).....	1,048,100,000	973,143,302	2,021,243,302	50,600,000	856,406	1,969,786,896	.....	1,969,786,896
Total (reichsmarks).....	2,680,100,000	2,224,683,302	4,904,783,302	132,200,000	6,466,406	4,766,116,896	142,800,000	*4,623,316,896
U.S. dollar equivalent <sup>a</sup> .....	\$1,059,107,666	\$896,655,088	\$1,955,762,754	*\$31,539,596	*\$2,048,214	\$1,922,174,944	\$57,591,240	\$1,864,583,704
<i>Agreement of Feb. 27, 1953, mixed claims (U.S. dollars).....</i>								
	97,500,000	.....	97,500,000	97,500,000	.....	.....	.....	.....

<sup>a</sup> Agreement of Feb. 27, 1953, provided for cancellation of 24 bonds totaling 489,600,000 reichsmarks and issuance of 26 dollar bonds totaling \$97,500,000. The dollar bonds mature serially over 25 years beginning Apr. 1, 1953. All unmatured bonds are of \$4 million denomination.

<sup>b</sup> Includes 4,027,612 reichsmarks (1,529,049 on moratorium agreement (Army costs) and 2,498,563 interest on funded agreement) deposited by German Government in the Konversionskasse für Deutsche Auslandsschulden and not paid to the United States in dollars as required by the debt and moratorium agreement.

<sup>c</sup> The unpaid portion of this indebtedness is converted at 40.33 cents to the reichsmark, which was the exchange rate at the time of default. The 1930 agreement provided for a conversion formula for payments relating to the time of payment. These figures are estimates made solely for this statistical report.

<sup>d</sup> Payments converted to U.S. dollars at rate applicable at the time of payment; i.e., 40.33 or 23.82 cents to the reichsmark.

TABLE 101.—Outstanding long-term principal indebtedness of foreign countries on U.S. Government credits (exclusive of indebtedness arising from World War I) as of Sept. 30, 1978, by country and major program<sup>1</sup>

[In millions of dollars and dollar equivalents]

Country	Under Export- Import Bank Act	Under foreign assistance (and related) acts	Under Agricultural Trade Development and Assistance Act		Lend-lease, surplus property, and other war accounts <sup>2</sup>	Commodity Credit Corporation export credits	Other credits <sup>3*</sup>	Total <sup>4</sup>	
			Loans of foreign currencies						
			To foreign governments	To private enterprises					
Austria .....	16.6	.....	19.8	.....	.....	.....	.....	36.4	
Belgium .....	69.0	8.5	.....	.....	.....	.....	.....	77.6	
Denmark .....	53.2	8.2	.....	.....	.....	.....	.....	61.4	
Finland .....	38.9	.....	15.0	.....	.....	.....	.....	53.9	
France .....	142.7	(*)	.....	.....	.....	59.2	20.0	221.9	
Germany, Federal Republic of .....	61.6	.....	.....	.....	.....	1.8	.....	63.5	
Iceland .....	6.3	1.4	1.0	.....	3.3	.....	.....	12.0	
Ireland .....	6.7	28.9	.....	.....	.....	.....	.....	35.6	
Italy .....	219.4	.....	.....	.....	.....	.....	.....	219.4	
Luxembourg .....	.....	.7	.....	.....	.....	.....	.....	.....	
Malta .....	.....	5.0	.....	.....	.....	.....	.....	5.0	
Netherlands .....	164.5	.....	.....	.....	.....	.....	.....	164.5	
Norway .....	237.2	5.8	.....	.....	.....	.....	.....	243.0	
Portugal .....	98.8	327.0	1.8	.....	102.0	268.3	.....	797.9	
Spain .....	861.0	84.1	149.8	.....	.2	.5	.....	1,095.7	
Sweden .....	74.0	.....	.....	.....	.....	.....	.....	74.0	
Switzerland .....	88.0	.....	.....	.....	.....	.....	.....	88.0	
United Kingdom .....	222.3	140.6	.....	.....	.....	.....	.....	3,233.5	
Yugoslavia .....	479.8	45.7	105.6	.....	62.5	(*)	17.5	711.3	
European Atomic Energy Community .....	10.1	.....	.....	.....	.....	.....	31.4	41.5	
European Coal and Steel Community .....	.....	6.6	.....	.....	.....	.....	.....	6.6	
Western Europe—Regional .....	47.6	.....	.....	.....	.....	.....	.....	47.6	
<b>Western Europe .....</b>	<b>2,897.7</b>	<b>662.5</b>	<b>293.0</b>	.....	<b>168.0</b>	<b>448.1</b>	<b>286.3</b>	<b>2,535.0</b>	<b>7,291.0</b>
Czechoslovakia .....	.....	.....	.....	.....	.....	4.9	.....	4.9	
Poland .....	180.3	17.2	.....	.....	.....	.....	659.5	857.1	
Romania .....	70.0	.....	.....	.....	.....	.....	35.3	105.2	
Union of Soviet Socialist Republics .....	442.9	.....	.....	.....	.....	674.0	.....	1,116.9	
<b>Eastern Europe .....</b>	<b>693.2</b>	<b>17.2</b>	.....	.....	.....	<b>678.9</b>	<b>694.8</b>	<b>2,084.1</b>	

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Cyprus			.6						
Egypt, Arab Republic of	23.5	731.6	181.9		615.9		12.7		13.2
Greece	28.6	586.2	40.9	0.1	7.2		136.3	53.4	1,553.1
Iran	494.7	31.6	23.5		31.2	23.3			852.7
Iraq	.7				2.9				604.2
Israel	146.3	3,765.8	32.1		233.2				3.6
Jordan	8.8	148.4	3.7		45.3				4,177.4
Lebanon	37.6	27.7			19.5				206.2
Saudi Arabia	3.8								84.8
Syria		32.7	9.3		51.2				3.8
Turkey	185.0	1,322.8	42.1	7.2	55.5			119.6	93.2
Yemen Arab Republic		1.3							1,732.2
									1.3
<b>Near East</b>	<b>929.0</b>	<b>6,648.1</b>	<b>334.1</b>	<b>7.3</b>	<b>1,061.9</b>	<b>23.3</b>	<b>149.2</b>	<b>173.0</b>	<b>9,325.7</b>
Afghanistan	1.5	80.9	1.8		25.5				109.7
Bangladesh, People's Republic	1.1	165.3		.3	524.9				691.7
India	64.5	2,710.0		44.1	656.3			8.3	3,483.3
Nepal		.1	2.0						2.2
Pakistan	61.8	1,725.8	214.8	5.3	555.7		33.0		2,596.5
Sri Lanka (Ceylon)	2.1	24.7	7.1	.2	167.8				201.9
South Asia—Regional		1.4							1.4
<b>South Asia</b>	<b>131.0</b>	<b>4,708.2</b>	<b>225.7</b>	<b>49.9</b>	<b>1,930.2</b>		<b>33.0</b>	<b>8.3</b>	<b>7,086.7</b>
Algeria	408.3				4.1				412.3
Angola	4.0								4.0
Benin		18.1							18.1
Botswana		21.9							21.9
Cameroon	14.9	24.4							39.3
Cape Verde									
Central African Empire	2.8								
Congo, People's Republic of									2.8
Ethiopia	5.3	124.4	.4		5.1				135.2
Gabon	18.0	3.1							21.1
Ghana	34.6	124.3	10.3	1.2	29.9				200.4
Guinea	14.8	6.9	19.0		47.5				88.3
Ivory Coast	50.7	6.6	1.3		1.7				60.2
Kenya	6.0	85.7			3.9			4.1	99.7
Liberia	13.3	76.7			2.2	14.7			106.9
Madagascar (Malagasy Republic)		6.0							6.0
Malawi		26.8							26.8
Mali		3.9	.2						4.0
Mauritania	3.8								3.8
Morocco	46.4	366.1	44.7	1.2	89.5		17.6		565.6

See footnotes at end of table.

TABLE 101.—Outstanding long-term principal indebtedness of foreign countries on U.S. Government credits (exclusive of indebtedness arising from World War I) as of Sept. 30, 1978, by country and major program<sup>1</sup>—Continued

[In millions of dollars and dollar equivalents]

Country	Under Export-Import Bank Act	Under foreign assistance (and related) acts	Under Agricultural Trade Development and Assistance Act		Lend-lease, surplus property, and other war accounts <sup>2</sup>	Commodity Credit Corporation export credits	Other credits <sup>3,4</sup>	Total <sup>5</sup>	
			Loans of foreign currencies						
			To foreign governments	To private enterprises					
Mozambique .....	1.8							1.8	
Niger .....		3.1						3.1	
Nigeria .....	10.4	77.2						87.6	
Rwanda .....		.5						.5	
Senegal .....	5.1	8.0	1.0					14.1	
Sierra Leone .....	24.1				2.0			26.1	
Somalia .....		15.4			5.5			20.9	
South Africa .....						(*)			
Sudan .....	14.8	12.1	3.7		18.9			50.7	
Swaziland .....		2.7						2.7	
Tanzania .....		61.3			24.7			86.0	
Togo .....	1.4							1.4	
Tunisia .....	23.2	205.8	67.6	.8	75.4			372.7	
Uganda .....	1.8	10.7						12.5	
Upper Volta .....	1.0							1.0	
Zaire (Congo) .....	240.5	169.7	3.2	.3	51.0	9.8		474.5	
Zambia .....	47.3	39.4			9.5			96.1	
Council of the Entente States .....		18.2						18.2	
East African Common Services Organization .....					1.2			1.2	
University of East Africa .....		2.6						2.6	
West Africa Development Bank .....		1.0						1.0	
African—Regional .....	14.2	4.2						18.5	
<b>Africa .....</b>	<b>1,008.5</b>	<b>1,526.8</b>	<b>151.4</b>	<b>3.5</b>	<b>372.1</b>	<b>14.7</b>	<b>28.5</b>	<b>4.1</b>	<b>3,099.6</b>
Australia .....	167.5							167.5	
Burma .....		28.2	14.5					42.7	
China, Republic of .....	671.5	281.7	25.1		13.6	116.1	.1	1,108.1	
Hong Kong (United Kingdom) .....	34.9							34.9	
Indonesia .....	421.3	516.5			936.0	32.5	19.5	1,930.8	
Japan .....	719.5				3.0		6.7	729.2	
Kampuchea (Khmer Republic) .....					209.2			209.2	
Korea, Republic of .....	379.4	874.6		.5	651.1	15.3	391.8	2,464.1	
Laos .....		(*)							

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Malaysia	48.3	62.9							111.2
New Zealand	110.0								110.0
Philippines	240.1	183.5	3.6	.1	76.5	(*)	83.0		586.8
Singapore	128.0								128.0
Thailand	57.0	66.1	1.0		12.3		12.4		148.9
Vietnam, Republic of		58.8			40.8				99.6
<b>Eastern Asia and Pacific</b>	<b>2,977.5</b>	<b>2,072.3</b>	<b>44.2</b>	<b>.6</b>	<b>1,942.5</b>	<b>163.9</b>	<b>506.8</b>	<b>153.0</b>	<b>7,861.0</b>
Antigua	.8								.8
Argentina	207.8	157.8	(*)					(*)	365.6
Bahamas	8.4								8.4
Barbados	1.8								1.8
Belize (British Honduras)		.1							.1
Bermuda	1.9								1.9
Bhiva	34.1	213.4	9.6	.5	37.3		20.8	(*)	315.7
Brazil	978.1	1,304.9	6.9		80.7	.2		.1	2,371.0
Canada	261.3								261.3
Cayman Islands (United Kingdom) (Caribbean Reg.)	4.7								4.7
Chile	183.5	641.3	16.4		121.6		51.4	.1	1,014.3
Colombia	40.0	807.5	2.6		30.4			.1	880.7
Costa Rica	10.0	86.8					.1	.1	97.0
Cuba	36.3								36.3
Dominican Republic	48.3	173.2			35.9		6.5	.5	264.5
Ecuador	8.5	109.7			10.5		.6	.1	129.4
El Salvador	6.2	79.4							85.5
Guatemala	23.2	95.4			.1			.2	118.9
Guyana	6.2	58.5			2.3				67.0
Haiti	19.6	13.8			21.7			.1	55.3
Honduras	7.8	78.0			6.3			.1	92.3
Jamaica	59.0	31.3	2.6		16.3			(*)	106.6
Mexico	590.1	68.9							661.6
Netherlands Antilles	2.8								2.8
Nicaragua	14.6	149.9							164.6
Panama	51.6	136.5							188.1
Paraguay	4.0	45.8	3.8		6.7				60.2
Peru	81.3	186.5	3.8	.1	7.2		137.5	.1	416.4
Saint Lucia									
Surinam	2.7	.5							3.1
Trinidad and Tobago	13.4								13.4
Uruguay	.6	62.9	(*)		20.8			(*)	84.4
Venezuela	90.7	48.6						.1	139.4
Andean Development Corp		4.3							4.3
Caribbean Development Bank		20.8							20.8
Central American Fund for Economic Integration		156.2							156.2

See footnotes at end of table.

TABLE 101.—Outstanding long-term principal indebtedness of foreign countries on U.S. Government credits (exclusive of indebtedness arising from World War I) as of Sept. 30, 1978, by country and major program<sup>1</sup>—Continued

[In millions of dollars and dollar equivalents]

Country	Under Export-Import Bank Act	Under foreign assistance (and related) acts	Under Agricultural Trade Development and Assistance Act		Lend-lease, surplus property, and other war accounts <sup>2</sup>	Commodity Credit Corporation export credits	Other credits <sup>3</sup>	Total <sup>4</sup>
			Loans of foreign currencies					
			To foreign governments	To private enterprises				
Central American Fund for Monetary Integration .....		10.0						10.0
Western Hemisphere—Regional .....		20.7						20.7
Western Hemisphere—Unspecified .....		4.1				6.8		10.8
<b>Western Hemisphere .....</b>	<b>2,799.3</b>	<b>4,766.8</b>	<b>45.7</b>	<b>.6</b>	<b>397.8</b>	<b>7.0</b>	<b>216.9</b>	<b>8,235.9</b>
United Nations .....							38.1	38.1
Worldwide—Unspecified .....		.4						.4
<b>Worldwide .....</b>		<b>.4</b>					<b>38.1</b>	<b>38.5</b>
<b>Worldwide total .....</b>	<b>11,436.5</b>	<b>20,402.9</b>	<b>1,094.1</b>	<b>62.0</b>	<b>5,872.9</b>	<b>1,335.8</b>	<b>1,915.6</b>	<b>45,032.8</b>

<sup>1</sup> Less than \$50,000.

<sup>2</sup> Includes estimates for the U.S. dollar equivalent of receivables denominated in other than dollars and/or payable at the option of the debtor in foreign currencies, goods, or services. The total amount of such estimates approximates \$2,466.4 million as of Sept. 30, 1978. Long-term loans and credits have an original maturity of more than 1 year.

<sup>3</sup> Includes \$187,500 due on a settlement which is not reported in the "status of accounts under lend-lease and surplus property agreements" in table 102. Data excludes indebtedness shown in table 102 consisting of \$20.8 million net uncollected short-term "cash" receivables, \$57.8 million deferred interest, and \$33.5 million of interest arrears as of Sept. 30, 1978.

<sup>4</sup> Reflects debt reorganization adjustment pursuant to a debt reorganization agreement with Indonesia. Over the entire term this adjustment will be zero.

<sup>5</sup> Reflects agreement concerning settlement of U.S. claims in connection with the withdrawal of U.S. military personnel, supplies, and equipment from French territory following decisions of the French Government in 1966 (Freeloc, 26 UST 1909; TIAS 8146). This indebtedness of June 12, 1975, is not included in the tables of the NAC Annual Report which are prepared by the Department of Commerce.

<sup>6</sup> Excludes outstanding interest deferred by formal agreement or in arrears, but includes capitalized interest.

TABLE 102.—Status of accounts under lend-lease and surplus property agreements (World War II), Sept. 30, 1978

Country, etc.	Settlement obligation and interest billed (net)	Credits			Total outstanding	Status of amounts outstanding	
		Collections		Other credits		Amounts past due <sup>1</sup>	Due over a period of years by agreement
		U.S. dollars	Foreign currency (in U.S. dollar equivalent)				
Australia	\$44,061,711	\$34,535,925	\$8,662,269	\$863,517	-----	-----	
Austria	10,591,497	3,054,425	6,980,265	556,807	-----	-----	
Belgium	117,118,010	43,580,775	12,196,413	61,340,822	-----	-----	
Burma	6,708,049	1,005,395	5,560,577	142,077	-----	-----	
Canada	388,765,008	388,765,008	-----	-----	-----	-----	
China	196,344,669	16,062,109	1,591,796	8,521,771	{ \$173,753,459 *—3,584,436	{ \$108,744,941 *—3,584,436	
Czechoslovakia	11,530,883	596,731	1,062,961	1,990,966	7,880,225	-----	
Denmark	5,240,273	4,266,935	931,000	42,338	-----	-----	
Ethiopia	4,558,958	3,899,523	23,621	635,814	-----	-----	
Finland	25,169,113	22,200,172	2,271,136	697,805	-----	-----	
France	1,302,916,477	1,140,841,988	51,445,798	51,402,738	59,225,953	59,225,953	
Germany, Federal Republic of <sup>2</sup>	224,740,874	4,177,286	218,755,345	-----	1,808,242	1,808,242	
Greece	72,203,796	41,703,907	29,344,893	1,156,763	*—1,767	*—1,767	
Greenland	8,351	8,351	-----	-----	-----	-----	
Hungary	21,710,868	-----	19,892,866	1,818,002	-----	-----	
Iceland	4,855,981	4,496,553	359,428	-----	-----	-----	
India	198,051,154	184,777,327	8,686,867	4,541,835	45,125	45,125	
Indonesia	85,083,234	47,905,590	3,765,000	904,647	*32,507,997	32,507,997	
Iran	49,508,319	3,782,002	9,635,795	-----	36,090,522	36,090,522	
Iraq	54	54	-----	-----	-----	-----	
Italy	268,135,731	166,324,766	98,269,394	3,541,571	-----	-----	
Japan	13,728,410	-----	12,971,483	756,927	-----	-----	
Korea	39,935,191	-----	20,524,308	4,107,955	15,302,928	15,302,928	
Liberia	19,902,594	4,717,937	-----	461,974	14,722,682	14,722,682	
Lebanon	1,656,638	-----	521,819	1,134,819	-----	-----	
Luxembourg	120	120	-----	-----	-----	-----	
Middle East	50,377,090	11,142,267	39,234,823	-----	-----	-----	
Netherlands	176,795,845	103,219,747	45,192,686	28,383,412	-----	-----	
New Zealand	4,935,288	2,176,363	2,114,004	644,921	-----	-----	
Norway	21,277,848	11,262,135	8,435,075	1,580,638	-----	-----	
Pakistan	40,308,976	40,308,976	-----	-----	-----	-----	
Philippines	5,000,000	-----	2,005,855	2,988,159	5,986	5,986	

See footnotes at end of table.

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STATISTICAL APPENDIX

TABLE 102.—*Status of accounts under lend-lease and surplus property agreements (World War II), Sept. 30, 1978—Continued*

Country, etc.	Settlement obligation and interest billed (net)	Credits			Total outstanding	Status of amounts outstanding	
		Collections		Other credits		Amounts past due <sup>a</sup>	Due over a period of years by agreement
		U.S. dollars	Foreign currency (in U.S. dollar equivalent)				
Poland .....	551,104,064	\$40,718,320	\$10,385,744	-----	-----	-----	-----
Saudi Arabia .....	21,427,120	21,427,120	-----	-----	-----	-----	-----
Southern Rhodesia .....	1,415,511	1,371,932	-----	-----	543,579	543,579	-----
Sweden .....	2,115,456	240,690	1,824,653	550,113	-----	-----	-----
Thailand .....	7,064,989	2,235,736	4,178,322	650,931	-----	-----	-----
Turkey .....	14,474,333	11,082,482	2,110,714	1,281,137	-----	-----	-----
Union of South Africa .....	117,774,298	116,608,623	242,488	923,187	-----	-----	-----
United Kingdom .....	1,221,890,381	581,547,333	40,792,980	154,635,336	444,914,732	-----	*\$444,914,732
U.S.S.R. ....	978,689,250	246,789,250	-----	57,900,000	674,000,000	-----	674,000,000
Yugoslavia .....	709,570	63,377	16,300	623,065	6,828	-----	6,828
American Republics .....	136,685,117	114,365,405	11,921,130	3,154,183	7,244,399	494,399	*6,750,000
American Red Cross .....	2,023,387	2,023,387	-----	-----	-----	-----	-----
Federal agencies .....	243,114,726	243,092,796	21,930	-----	-----	-----	-----
Military withdrawals .....	187,630	649	186,981	-----	-----	-----	-----
Miscellaneous items .....	1,472,077	1,136,573	335,504	-----	-----	-----	-----
United Nations Relief and Rehabilitation Administration .....	7,226,762	7,226,762	-----	-----	-----	-----	-----
<b>Total .....</b>	<b>6,218,595,681</b>	<b>3,674,742,802</b>	<b>682,452,223</b>	<b>397,434,230</b>	<b>1,463,966,454</b>	<b>153,298,791</b>	<b>1,310,667,664</b>

<sup>a</sup> Principal and interest past due as of Sept. 30, 1978, and items subject to negotiation.

<sup>b</sup> Credit. Represents amounts collected under advance payment agreements not applied to outstanding indebtedness.

<sup>c</sup> Reduced due to settlement of a third party claim.

<sup>d</sup> Agreement dated Mar. 16, 1971, provides for payment of principal and interest on deferred principal semiannually on June 11 and Dec. 11 of each year beginning June 11, 1971, and interest on principal beginning June 11, 1985, respectively.

<sup>e</sup> Includes \$103,543,802 principal and interest postponed pursuant to agreement.

<sup>f</sup> Represents amount which is postponed by agreement pending settlement of certain claims.

Mr. McINTYRE. I am talking about a different thing now than the foreign debts. I am talking about debts, loans that the Government makes.

Senator BYRD. What is the matter with the foreign debt?

Mr. McINTYRE. I am trying to tackle one thing at a time, Mr. Chairman. We have over \$4 billion that we have identified in outstanding debts right here in this country.

Senator BYRD. You have \$60 billion elsewhere.

Mr. McINTYRE. One thing at a time.

Senator BYRD. I am glad you are looking into that and I hope that you will not overlook the fact that a multitude of foreign countries are heavily indebted to this country without any payments being made. Now if you have any facts otherwise, this committee would be most interested in it.

To get back to my question whether this Government over a period of time has been operated on a sound financial basis, I must say that I am not in agreement at all with either one of you. I don't think it has been so but your answer eliminates my second question.

My second question was going to be, do you think we can get the Government on a sound basis without all of us undergoing some little hardship, and I don't believe we can. I think this country unfortunately will have to take some inconveniences as time goes by if we are to get what seems to me needs to be done, get the Government's finances on a sounder basis.

I want to thank both of you, Ms. Rivlin and Mr. McIntyre, for being here. I ran into—and I would be interested in your view on this—a statement by Wilbur Cohen whom I know Ms. Rivlin knows well, I am not sure whether Mr. McIntyre does or not. He is a very able individual, he served in government for many, many years and he brought up a point. He brought up a point on September 4 which seems to me has a lot of merit. He brings out the fact that the unified budget takes into account, of course, the trust funds as well as the Federal funds operation and surprisingly to me because I think he had a different view in the past. He thinks it would be desirable if the two were separated and that the general operations of government stand on its own and the trust funds stand separately. Do either of you have a view one way or the other on that?

Ms. RIVLIN. I do. I think it is useful to know both pieces of information separately, what the trust fund situation is and what the rest of the Government situation is. But for purposes of considering what is the total impact of the Federal Government on the economy—which is, I think, one of the most useful things about a budget—putting them together is desirable. It tells you what is the total outflow and the total income of the Federal Government and that seems to me to be useful.

Senator BYRD. I think it desirable to have that figure as you say but it does not give you the true picture as to the deficits of the general operation of government as distinguished from the specialized operations as noted in the trust fund.

Ms. RIVLIN. You need to know that, too. But it does tell you overall what the U.S. Government is taking in and what it is paying out.

Senator BYRD. Right. I think that you were in government when that system was changed.

Ms. RIVLIN. Yes.

Senator BYRD. That came about under Lyndon Johnson's administration when he was running very high deficits, and in order to cut down the deficits he unified the budget process and utilized the trust fund surplus to reduce the overall deficit. Prior to that time—and that was only how many years ago, probably about 1967 or 1968 that that came about, was it not? Prior to that time we had always operated on a Federal funds basis.

Do you have any comments, Mr. McIntyre?

Mr. MCINTYRE. Well, only to say that I was just going to say that the issue was debated back when the Budgets Concepts Commission was doing its work and made its report in the middle of the late 1960's. I think that generally would agree with Ms. Rivlin's observations about the treatment of the trust funds and the Federal funds. I do think it is helpful to look at both the trust funds and the Federal funds but I think that really the true judging of the budget is its impact on the economy.

Senator BYRD. I think I will insert in the record an editorial from yesterday's Wall Street Journal dealing with the budget." Do either of you have any comment on that?

[The editorial referred to follows:]

#### REVIEW AND OUTLOOK—BUDGET SHAM

With the autumn air comes the second congressional budget resolution for fiscal year 1980. But judging from the advance notices, fresh air hasn't penetrated the same old stale stuff. Faced with rising inflation rates, a declining defense posture, rising marginal tax rates and declining economic growth, the budget committees seem primarily occupied with giving the impression that there's more defense spending than is really there and less of every other kind of spending.

In preparation for the coming round, the House Budget Committee's Inflation Task Force has released its "Summary of Recommendations," a report which committee member Rep. Majorie Holt says "cannot be taken seriously by any member concerned with our national security and the future health of our economy."

And little wonder. The report concludes: "Ultimately, if we don't want high inflation rates, we face the choice of accepting one these three: (1) higher taxes, (2) high unemployment, (3) reduced defense expenditures." No mention here of reducing non-defense expenditures or cutting tax rates to lessen supply-side disincentives to production.

Objecting to the task force's disregard for the factual record, Mrs. Holt compares 1969 spending levels with the latest OMB estimates for 1979 and comes up with a 10-year growth in the national defense spending of 44 percent compared to 359 percent for community and regional development, 335 percent for education, training, employment and social services, 319 percent for health, and 332 percent for income security.

Over in the Senate where the Budget Committee has completed markup of the resolution, money has been added to defense. But committee member Orrin Hatch says it represents no additional real commitment to defense. All the committee is doing is buying the same defense as before. There simply wasn't enough money in the numbers in the first resolution to buy the force structure in the budget. Furthermore, says Senator Hatch, there's no 3 percent annual real growth to meet the NATO pledge in the 5-year projection accompanying the committee's budget resolution. The committee's projection shows only a 2.6 percent real growth in defense outlays by the end of the entire 5-year period, and budget authority in the defense function actually declines 2.3 percent in real terms. As a percentage of GNP the Senate Budget Committee's projection has national defense declining from 5.1 percent in 1980 to 4.3 percent in 1984.

Meanwhile Senator Schweiker (R., Pa.), who intends to offer an amendment prohibiting any real spending growth in the overall 1980 budget, has found a variety of views as to which inflation projection represents no real spending growth. After

consulting a number of forecasters, leading economists and former members of the Council of Economic Advisers, Sen. Schweiker's office found that the budget committee had the highest inflation projection, matched only by that of Otto Eckstein whose DRI model is much in use by the Congressional Budget Office.

In the least, says Sen. Schweiker, other forecasters believe we can do much better on the inflation front than the budget committee assumes. And in the worse, the CBO has assumed a higher inflation rate in order to mask real spending increases.

Looking over the budget numbers we see that the Senate Budget Committee has jumped 1980 spending more than \$10 billion above the figure in the first budget resolution four months ago. Projected spending in the out-years has jumped even more dramatically, with 1984 outlays \$31 billion greater in the second resolution than in the first.

Thus, the "austere budget" claimed on the basis of the numbers in the first budget resolution last spring evaporated before it could become law. Having convinced themselves that they have fended off the tax revolt with budget sham, the Congress is cranking the spending machine back up with its programs still intact. At some point the deceit is going to catch up with the budget committees.

**Ms. RIVLIN.** I think it is likely to come to pass whether it is an amendment or not.

**Senator BYRD.** You think it is likely to come to pass?

**Ms. RIVLIN.** Yes.

**Senator BYRD.** I don't think I have asked you this question. What do you estimate the inflation rate to be in the first part of 1980?

**Ms. RIVLIN.** We are hopeful that it will come down somewhat. We were estimating around 11 percent for the Consumer Price Index for calendar year 1979, although we may be optimistic about that. We were hoping that figure would come down somewhat further in 1980 to around 9 percent.

**Senator BYRD.** Come down to about 9 percent.

The historic high on interest rates is 12.75 percent for the commercial banks, and I think Secretary Miller testified that it was 10 percent the Federal Government is now paying for money.

**Mr. McINTYRE.** 10.5.

**Senator BYRD.** 10.5 percent which is another historic high. How do the two of you see interest rates looking ahead, say, 6 months?

**Mr. McINTYRE.** Senator, we obviously don't have control over what happens with interest rates, that is a function of the Federal Reserve System and the Federal Reserve Board. Our outlook for inflation is that the rate will slow down and be reduced in 1980.

**Senator BYRD.** You use 9 percent?

**Mr. McINTYRE.** We have not made that judgment what we will be doing in 1981. We won't make that judgment until late in December.

**Senator BYRD.** And the 1980 budget then was based on what rate?

**Mr. McINTYRE.** The midsession review of the budget for 1980 assumes interest rates for the 91-day Treasury bills of about 9 percent in calendar year 1979 and 8.2 percent in calendar year 1980.

**Senator BYRD.** So you I take it then you look for interest rates to come down some in the first 9 months of 1980.

**Mr. McINTYRE.** Our overall thought is that if inflation begins to abate, then we would think that interest rates would be coming down also.

**Senator BYRD.** Is that your feeling too, Mrs. Rivlin?

**Ms. RIVLIN.** Yes; it is. We had been expecting that the Federal Reserve might ease off before now. We expect, as everyone does,

that unemployment will unfortunately rise in the next few months, and we expect that, in the face of that, the Federal Reserve would ease off on interest rates—that they might even have done so already, although of course they have not.

Senator BYRD. Of course I believe that the three of us, you two take one view and I take the other on that matter because I think that it is important that the Federal Reserve does keep pressure on if we are going to moderate inflation. I think it is going to take both pressure from the Federal Reserve Board and restraint and moderation from both the executive branch and the Congress, and I want to emphasize that I think Congress is as much of a culprit in this whole thing or more than any other group. I am not exonerating Congress in any way, shape, or form and my feeling may very well be wrong because I am in a minority around this place but I feel that we are going to have to have the American people as a whole and each of us individually, businesses and everybody else, we are going to have to make some sacrifices if we are going to get on what I would consider a sounder basis.

Thank you both very much. We appreciate your being here. Your testimony has been very helpful.

Ms. RIVLIN. Thank you, Mr. Chairman.

Mr. McINTYRE. I thank the Chair.

Senator BYRD. The subcommittee will stand adjourned.

[Whereupon, at 4:25 p.m., the subcommittee adjourned.]

