The original documents are located in Box 9, folder "Budget - FY1977 (2)" of the Robert T. Hartmann Files at the Gerald R. Ford Presidential Library.

10:05 A.M. EST
FRIDAY, JULY 16, 1976

BUDGET BRIEFING

OF

PRESIDENT GERALD FORD
VICE PRESIDENT NELSON ROCKEFELLER
JAMES T. LYNN
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
AND
MEMBERS OF THE CABINET
AND GOVERNMENT AGENCIES

JULY 16, 1976

ROOM 450
EXECUTIVE OFFICE BUILDING

DATE: 7/16/76
TO: Counsellor Hartmann
FROM: GWEN ANDERSON
INFORMATION
ACTION
APPROPRIATE
HANDLING ✓
OTHER

COMMENTS:

Thomas/ss

P R O C E E D I N G S

MR. LYNN: I think you all have the Mid-Session Review now. If you don't, we will be happy to hand it out.

As you know, this is an update of the fiscal situation required by law. In order to prepare that update we have to update our economic forecasts that we used in January to prepare the President's budget. The updated forecast indicates a stronger economy with lower unemployment and lower inflation than we projected in January. I know Mr. Greenspan and Mr. Seidman will be happy to join me in answering questions on that point.

On the fiscal side, on the budget side, the situation is akin to the villager sitting at the foot of the volcanic mountain. Eruption hasn't occurred yet but it is about to at any moment. When you look at these figures, they still do not reflect in large measure actions anticipated unless Congress should change its spots in the next couple of weeks.

As I figure it, where we stand now is, unless Congress changes its mind promptly, they will, by action or inaction, in the next few weeks, be adding about another $13 billion to fiscal year 1977 spending. That is more or less what they had in their projections for the first concurrent budget resolution this year.

Although we have not finalized numbers in this regard and we are still working on this, the total effect of Congressional action and inaction on the President's budget, if you take into account the effect that 1977 outlays have on adding to the base for additions in years thereafter, will be this: an addition of some $18 billion over the President's budget for 1977, somewhere around $27 billion or more to 1978, and at least another 27-- probably $30 billion to $35 billion -- add-on in FY 1979.

In other words, if you were to give the American people anywhere near the kind of tax cuts that the President has proposed at any time during the period from now through fiscal year 1979, you would, if Congress continues the way it is going, end up with deficits somewhere around $20 billion to $30 billion in fiscal year 1979, the year that the President has chosen for us to get back to a balanced budget. That doesn't allow for any major new initiatives that Congress might be adding on in the period ahead.

A word about FY 1976: it is closed. As the overview says, it is history. The deficit is substantially lower than we predicted in January, over $6 billion lower, but I urge you all to take a look at the combined figures for FY 1976 and one transition quarter -- and that is in the first summary table. You will find that the differences for those two periods together, FY 1976 and the transition quarter, is about $2.5 billion. In other words, we are only $2.5 billion under the estimate we made in January for both periods.

With that little bit of background, we will be happy to answer your questions. You may direct them to anyone here. I think you know the people we have -- Alan Greenspan, Chairman of the Council of Economic Advisers. We have next to him Mr. Dale McOmber, who is my chief assistant for preparation of the budget; Bill Seidman, the President's Assistant for Economic Affairs; Mr. George Dixon, Deputy Secretary of the Treasury. Bill Simon is not in town today.

Where is my good friend Paul O'Neill?

We will take your questions.

QUESTION: Mr. Lynn, these FY 1976 estimates, are these the final sort of estimates, or do we get another set the end of this month?

MR. LYNN: These are the last estimates. We would have final figures, which are not estimates, in the next week, possibly two weeks, but, hopefully, a week or so. In other words, the final numbers. The year will have been over then about 20 some days and we will have gathered all the numbers from all the agencies and departments and we will then have final figures. We do not as yet have all the final figures, and that is why we are still in an estimating mode today.

QUESTION: On page 6 of the last draft, what is logic of excluding the effects of five appropriation bills from your expenditures?

MR. LYNN: The only reason we did was a matter of timing. These bills were signed within the last three days, I guess it is, or four days, and we had to prepare the budget update with all the documents and all the tables and there wasn't any way of our getting them in.

You will notice we have given you the effect of those proposals so that you can add them in if you care to do so.

QUESTION: You are not implying vetoes?

MR. LYNN: No. In fact, a number of these bills have already been signed, but the President has also said that he will look carefully at proper opportunities for rescissions and deferrals.

QUESTION: Could you outline the major elements that went into the improved projections?

MR. LYNN: I think I should call on Mr. Greenspan to answer that question.

MR. GREENSPAN: What was the question?

MR. LYNN: The question is: "Can we outline the major factors that went into the improved forecast?"

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MR. GREENSPAN: The major factor was our experience of the past six months, which turned out to be somewhat better than we had projected in the estimates which were made sometime in mid-December.

Clearly, the growth rate of the economy has exceeded our earlier projections. The unemployment rate is a good deal lower than we had anticipated at the time, and so is the inflation rate by a rather significant amount.

So what you are observing, in a way, are the attempts to embody in the annual data additional information which has occurred and come to us duing the past six months.

QUESTION: What I am actually asking is why unemployment is lower, why inflation is higher?

MR. GREENSPAN: I think you have to start by asking why is real GNP higher? Because a substantial part of the lower-than-expected unemployment rate reflects a higher-than-expected growth in the economy.

The best way to describe that is to say that in part, the improved inflation outlook, that is, the better-than-expected inflation, I believe, has improved the state of confidence in the economy both by consumers and by businessmen at a rate faster than we had expected.

It is fairly evident that the exceptionally strong surge that we have been seeing over the past six months on the average reflects essentially the restoration of confidence among consumers and business.

This is happening at a rate somewhat faster than we had expected it would, creating a strong real GNP growth. That is, a stronger overall growth in the economy and, therefore, a much more rapid increase in employment than we had projected and, conversely, a sharper decline in unemployment.

Even so, there is a somewhat lower rate of unemployment than we would have expected even with the high rate of growth in GNP. But unquestionably, the major and overwhelming factor contributing to the downward revision is the upsurge in the economy generally, which we attribute substantially to the improvement in confidence.

QUESTION: Given the jumps in the prices of wholesale food and raw materials in the last few weeks, do you think that inflation estimate may improve?

MR. GREENSPAN: No. In fact, the data that we have doesn't actually confirm what you are suggesting. There has not been an upsurge of any great significance within those particular components.

On the contrary, I would say the evidence we have at this point actually implies a somewhat better-than-expected pattern of prices than we had envisaged earlier in the year.

The projection we are making implicit from here through the end of the year is somewhere in the area of 5-1/2 percent to perhaps 5.7 percent on the average in the consumer price index. It is quite possible that estimate may be a bit high.

In fact, the President said yesterday to me, "You know, I wonder whether given the marked improvement in the crops that we are now seeing, and the stability of energy prices, especially in oil, whether in fact we might basically see a somewhat better rate than we are in fact projecting?"

If I were to look at the odds and where we are apt to be wrong, given the very most recent evidence, I suspect that we may do better on this issue than we have implicitly put into these numbers.

QUESTION: Mr. Greenspan, this is a question of policy, but it will be directly related to the projections.

There has been a short fall in agricultural production in Eastern and Western Europe and yet the American farmer is expecting a surplus crop.

Now, the State Department has made indications that we would intend to pressure the Administration to use both sale of agricultural products, as well as the question of drought in the Eastern European Bloc as political pressure points rather than opening up other things.

Would you state the Administration's position on this?

MR. GREENSPAN: First of all, I was not aware the State Department was independent of the Administration.

QUESTION: I can give you the sources.

MR. GREENSPAN: I am just referring to the nature of -- I mean, the State Department as an institution by definition is part of the Administration, I hope.

QUESTION: Right.

MR. GREENSPAN: First of all, I do think we are aware of the fact, as you point out, there has been a significant drought throughout Western Europe. From what we can judge on the basis of crop estimates throughout the world, the crops around the world actually are better, rather than worse.

In fact, certainly our crops at this time look surprising. We do not envisage any particular problems with respect to food shortages or crop shortages.

With respect to the other questions you raised, I think that I would direct them specifically to the State Department. I have no knowledge of the statement you are making.

QUESTION: Under public expenditures notes, it looks now as if it is going to be higher than President Ford desired and you estimate earlier in the year for the next year, and yet, your general inflation forecast for next year is also improved.

Would this suggest that the Congressional budget is still a relatively modest one with regard to inflation?

MR. GREENSPAN: First, I meant to follow up on one point of the previous question and then I will come to this.

Let me say the President has stipulated that there will be no restrictions on exports of farm commodities and that is the policy of this Administration.

With respect to the next question, I think that what we are dealing with is a trend that is basically involved in the longer term. When one looks at inflation and the budget, it is essential to view not the immediate short-term factors, which are basically what these changes have been, but to look at the longer term thrust.

The essential forecast that is made here with respect to the inflation rate is not based on Congressional budget numbers. It is the President's budget numbers, and as far as I can see, if we can get the type of budgetary trends which were built into these numbers, we have every reason to expect the continued unwinding of inflation and eventually the ending of the very exceptionally strong unstabilizing forces which are involved which inflation has imparted to our economic process.

QUESTION: Do you really think it is going to make any difference to our inflation forecasts for next year whether the budget spending is $413.1 billion or $400 billion? You said you used the President's. Does it make a difference?

MR. GREENSPAN: Yes, I think the difference basically is described not in very specific numbers. It is exceptionally difficult to do a direct translation. But what you can say is that the higher the budget and the greater the deficit, the greater is the risk that we are reigniting inflationary forces. Unfortunately, we do not have the capacity, once those inflationary forces are rekindled, to unwind the process.

In other words, what we have to be aware of is that once you trigger inflationary accelerations, it is exceptionally difficult to unwind them. Therefore, I think that the risk implicit in levels of spending higher than those proposed by the President, at least in my view, takes an imprudent risk considering the problems that will exist in this country if we rekindle inflation.

Inflation is the most job-destructive type of force that this economy as it stands now knows.

MR. LYNN: If I could add to that two things.

One is it is not just the effect of what Congress does or fails to take action on for 1977. I think one of the real shortcomings of the processes of our government over a number of years has been inadequacies in looking at the out-year effect, the effect in future years of new bases that are built in the budget.

What is implied in these add-ons by the Congress is an escalating amount of deficit in the future years, at least if you are going to do anything to try to periodically reduce taxes.

The other thing I would say, a lot depends, too, on how you have a deficit. Congress shows a preference for having stimulation come through government programs. These are add-ons of government programs.

They try to reduce the deficit by cutting out the proposed tax cuts that the President has put into his budget for 1977. We think that if you are looking at things like productivity, if you are looking at things like investment in the private sector to get more goods and services, if you are looking at real rewarding jobs, the best way to do it is a combination of factors.

Surely, we have spending in this combination -- public works projects are up I think 17 percent year over year, between 1976 and 1977 in the President's budget -- but he proposes taking the additional action on the tax side: lowering the amount of tax to the working people, 200 million people, roughly, for the average american family; also giving some further tax relief, although it is modest to business; and at the same time having a special program for new construction on the tax side for the areas of the highest unemployment. For example, if you build a new building or new project in the course of this year you get a special kind of tax treatment.

Therefore, I am just saying it makes a difference on how you get to a stimulus a deficit, whether it's make-work on the one side by spending or whether it is by innovative tax proposals on the other side and tax cuts.

QUESTION: The Congressional Budget Office or congressional budget committees have stated that the tax bill now on the Senate floor would result in a tax revenue loss of about $5 billion a year after five years, and I know the Administration has not commented yet on the impact of those. How do you all feel?

MR. LYNN: I must say to you that we have been trying to do some work on this ourselves between Treasury and OMB. I have been so immersed in getting this budget out in the last three, four days, I probably have in my briefcase some numbers but I haven't seen them yet.

Perhaps Mr. Dixon or Mr. Seidman would like to follow up with an answer to that.

MR. DIXON: I have not seen those numbers either. Charlie Walker, can you comment?

MR. WALKER: We are endeavoring to keep track of the motion as it takes place and until they finally decide

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QUESTION: Would you take your average unemployment figure for calendar 1976 of 7.3 and translate it into an end-of-the-year figure, which you have done before, but before the official revisions, and also translate it into the October figure, which will be the last one published before the elections. And then I would like to address also a question to anyone else who cares to comment. Do you think the Administration has gotten sufficient credit for the economic improvement that is reflected in these numbers?

MR. LYNN: On the first one, how is your translation today?

MR. GREENSPAN: It hasn't changed. I stated recently, and it is implicit in the forecast, the unemployment rate is projected to be under seven percent at the end of the year.

I wouldn't want to characterize what it is going to be between now and then or for any specific month because I think we have enough problems trying to get annual statements. Monthly statements are exceptionally difficult to do.

MR. LYNN: As to whether we are getting sufficient

5 credit, I have been in government seven years and the one thing one always has to resist is a temptation to have the feeling or an inclination to have the feeling that anybody understands what a great job he is doing or that the President is doing. I think there is a growing awareness by the American people that our economy is coming back at a very healthy rate, that we are getting a handle on inflation, that we are improving the employment situation. I am fully confident that that as further months go by the vast majority of the American people will understand what is happening in this economy by way of improvement and will give the credit to the President.

MR. SEIDMAN: I would like to add one thing to that. I think what has not received sufficient credit is the fact that we are being led out of this recession by the private sector without new spending programs, and within the budget, substantially within the budget that the President has proposed, and it is the private sector and revitalization of this sector under the President's policies that have brought us out. I think the key factor that hasn't come across is that this kind of a thing is being done as a private sector recovery.

QUESTION: How do you reconcile ---

MR. LYNN: We have one here.

QUESTION: If you had known a year ago that a year later you were going to announce in fact a $70 billion budget is-6

deficit for FY'76, would you have also thought at the same time you could take pride in a lower inflation rate and the kind of inflation prospect Mr. Greenspan outlined? Would you put the two things together?

MR. LYNN: I think that is pretty difficult to answer from this. We had economic assumptions back in January of this year and those assumptions include the deficit numbers that were in the budget and the deficit numbers for FY'76 were pretty well established. The die was cast, so to speak, by January, as it usually is, half way through a fiscal year. So that our statements on what would happen to inflation at that time were based on the kind of deficit we faced.

Now I will say to you, as I have said very often, no one knows with exact precision where a deficit or a manner of getting to a deficit gets you by way of inflation and when it reaches critical mass proportions. Nobody does. Anybody that says they do within a billion dollars or two billion dollars or three billion dollars is simply fooling you. But as I also said on a number of occasions, it is a little bit like the person wandering around on top of a cliff on a moor at night with no light. I would far better walk slowly and cautiously than I would run around out there and find myself off the edge of the cliff.

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QUESTION: This Administration and you, particularly, Mr. Greenspan, also associated high deficits with the high risk of inflation.

MR. LYNN: We still do.

QUESTION: What my question really related to was, aren't you somewhat surprised with the $70 billion deficit you can still point to a fairly good record on inflation in the last six months and you are looking forward to, as Dr. Greenspan said, to perhaps even a lesser rate?

MR. GREENSPAN: I think it is the time frame which is causing the problem. First, I think it is a mistake to tend to associate specific deficits in a current period of time with specific price changes.

One of the problems I think we have always had in this country and in fact it is the type of problem I think is probably universal, is that the effect of deficits on inflation is usually quite delayed.

It is a long process you go through. The problem that we confront is not the short-term ups and downs of prices which are affected by such things as larger or lesser crops and external things -- petroleum prices, for example.

The best way to look at a relationship with deficits and inflation is to recognize that the effects of today's deficit, its financing, its impact upon the economy and the like, is unlikely to be felt for a year, 18 months or longer. It is a longer term, cumulative process.

Now, I think that what is very important in looking at an inflation rate is not a quarter's deficit or a year's deficit, probably not even two years' deficit. I think the question is where is the system headed. I would think at this particular point the issue is not the immediate deficit, the question is largely, where are we going.

The one thing I think is very important to focus on is that -- this is a very important issue -- if we have set into motion a set of fiscal policies which will lead to a significant rekindling of inflationary forces a year or so out, I say that we will not be able at that point to very easily pull in the reins without doing very significant damage to the economy.

I, therefore, think that it is most important that we focus on the relationship between deficits and inflation, to recognize that the larger the deficits that we are putting into place right now, the higher the risk in the future.

If we knew exactly what the translations were, you could be a bit more exact on what the relationships are. We don't, but we believe that because inflation is really, as I indicated before, the biggest job-destruction program that you can imagine, we must be very cautious in recognizing these relationships and not say, "Well, for God's sake, the deficit is very large, inflation is going down, therefore we are okay." That is a non sequitur.

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QUESTION: Do the transition quarter figures in this report reflect any as yet unannounced rescissions or deferrals?

MR. LYNN: Do they reflect any?

QUESTION: As yet unannounced rescissions or deferrals?

MR. LYNN: No, there won't be anything in any of these documents that reflects anything unannounced. As I did say, there are some appropriation bills where the President will give consideration to deferrals and rescissions, but there is no reflection in this document of anything we may have on our mind that we haven'e announced yet.

QUESTION: Could you give us some idea what you think of the operation of the Congressional budget process?

MR. LYNN: Yes; I think it has accomplished some good. One thing it has done, it has acquainted members of the committees particularly and, to a lesser extent, the Congress as a whole, as to how a billion dollars here and a billion dollars there after a while adds up to real money, and that is a plus. I think that it has accomplished some restraints.

I have to say that as to 1976, in staying under their ceiling, I would point out two things. I doubt very much if they would have made it except for the effect of the Presidential vetoes when you do the mathematics of it, and, secondly, as I have said before, it reminds me a little of a high jumper setting the bar at two and a half feet and crowing when he managed to get over it.

In 1977 I would say they moved the bar up slightly. They moved it to maybe three, three and a half feet, but I do think the process is something that has to be made to work, and I think they have made some progress but they have a lot more to make.

What I have a fear of is that because of respect and deference to the individual jurisdictions of authorizing and appropriating committees and subcommittees, the exercise could be too much of one simply adding up numbers and then applying a little minor restraint here and there to the numbers and not looking hard at major policy options -- like the trade-off of tax cuts, which the President proposes against major spending, like the kinds of reforms that the President is proposing in education bloc grants and health services' bloc grants, the social services' Title XX bloc grants and so on.

In other words, budgeting is a process that should bring out new innovative solutions to problems of government, to get rid of red tape, to deliver services better, more effectively. But unless the budget committees work out an effective arrangement with the chairmen of those committees, of those multiple committees around, all the

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budget committee will end up doing over the years is adding up numbers with small mechanical reductions. And I have fears in that regard, and I sincerely hope that we will see some coordination between the other committees and the budget committees so they can do something a lot more substantive with more spending restraint than they have been able to do this year.

QUESTION: You have numbers, changes in levels of wages and salaries; part of that is due to growth in employment. Can you tell us what your expectation is now, perhaps using average hourly wages or compensation per hour for increases in labor costs this year and next year and what the settlements of major collective bargaining agreements so far this year have done or not done?

MR. GREENSPAN: Well, we don't ordinarily release what implied projections are on wages. I don't think we intend to break that precedent.

I will say that, first, as you know, the straight time average hourly earnings figures have done somewhat better than, I think, any of the forecasters had expected.

As you know, from June to June -- that is the year ending June -- as I recall, the private, non-farm total earnings were up 7 percent from the last six months and the annual rate, as I recall, was something in the area of 6.5 percent.

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The detailed data we are going to get on the second quarter will be available on collective bargaining agreements, I think, next week, as I recall, next Friday.

I don't want to comment on any individual settlements or the like or their implication, but I think that as best we can see at this moment the type of inflation estimates -- I shall go backwards -- one of the things that is implicit in our inflation forecasts, obviously, is some judgment about what wage trends would be, so that, that has been factored in. We are not, as you can see, expecting an acceleration in inflation, and I think one could infer from that that we are not expecting an acceleration in labor costs.

QUESTION: Back to the question of credit. Some people on the other side, Congress, for instance, are saying it was they who have caused this upsurge in the recovery -- specifically referring to the tax cut that they raised some $10 billion or whatever it was in a year when credit will be important.

How do you think you will counter this argument, the fact the Democratic Congress did cause the upsurge?

MR. LYNN: I think we will counter that kind of argument from the other side on the facts, and the facts are the President came forth with a program for an initial tax cut. The President came forth with a combination of various ways of working our way out of this recession, helping the

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people that could not help themselves during the recession, but creating the stage for the economy to come back.

I think that his going to the American people on this issue and directly to the Congress did restrain the Congress from where they were headed otherwise to upwards of $100 billion of deficits, and I do think by holding down that growth in government spending, the tax cuts that were given, the further tax cuts that the President proposes, government reform and so on, are setting a path for this country to balance the budget, that has given a confidence that has allowed the private sector, the individual consumer and business, to say to themselves things are going to get better. And we have now seen the results, things are getting better.

MR. NESSEN: Could I interject? I have to go do my own briefing, and I thought your audience might want to hear the President's reaction to the budget revisions that you are announcing today.

I talked to him this morning, and he asked me to come over and relay the fact that the President is pleased that today's budget revisions show that unemployment is coming down faster than expected, that inflation is coming down faster than expected and that the economy is improving and growing faster than expected.

The President believes that his economic policies are the major reason for this improvement. The President intends to continue to pursue his economic policies vigorously. These policies are aimed at encouraging further growth in the private economy without rekindling inflation, without imposing more bills of deficits on the American taxpayers and without imposing a more complex bureaucracy on the American people.

The President, as I said, is pleased at these revisions today, but he wanted me to speak of his continuing concern that he is not going to be satisfied until the inflation rate is even lower, that inflation is truly and fully under control, and he certainly continues to be concerned about the number of people out of work, and he is not going to be satisfied there and his goal is going to be that he will be satisfied only when every American who wants a job can go and get a job.

QUESTION: It has been widely said that consumer confidence, presumed consumer confidence, led the country out of the recession. I am wondering how do you project retail sales for the coming 12 months? Do you have some thoughts on that?

MR. GREENSPAN: Well, since retail sales are the major part of the Gross National Product, one can assume they will move roughly in line with the Gross National Product. We are expecting investment to pick up somewhat, but we have

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every reason to expect fairly strong retail sales trends, perhaps not as large as some of the earlier surges that have occurred because confidence can come back only to normal, and it is not quite there, but it is getting a good deal closer. And, obviously, when you get to it, sales move closely with disposable income.

We haven't reached that point yet, but we would expect, as a general statement, retail markets will behave in the strong way that they have and expect, for example, this Christmas' buying season to be quite a big one.

QUESTION: Do you have a specific number on retail sales?

MR. GREENSPAN: No.

QUESTION: All three of the latest confidence surveys have been pointing down. How do you explain that?

MR. GREENSPAN: I think that these changes of confidence as measured by those indexes go up and they go down, and I frankly find looking at the pattern of retail markets currently is usually a better gauge of what consumers are in fact doing. The confidence indexes tend to be somewhat delayed in their measurement, and while I think they are quite useful for a number of things, and I think they do very roughly measure the trend in confidence, I think it is more important to look at what the consumers are actually doing with their money. What they are doing with their

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money suggests that they are confident and more confident than I think the data have shown in quite a long period of time.

QUESTION: When would you expect the budget to move back into surplus under Congressional targets for spending?

MR. LYNN: The question was, when would I expect the budget to come back into balance under the Congressional resolution that was passed this year?

I would say, never. They way they are going it is manana. You get the balanced budget manana. You know what that Spanish word means. It is always tomorrow, but tomorrow never comes.

It is a little like the camel on the desert approaching an oasis. As you get closer it turns out to be a mirage. That is what I meant when I said earlier when you translate the kind of things they proposed in their budget by way of additional government spending to future years, adding on at that same rate of growth, or anywhere even close to it, adding it into bases, for 1978 and 1979, you are up to $20 billion or $30 billion more spending than we have in our lines for those out years. There is just no way they will ever get there. They could have one. They could have it if they decided to increase taxes in the country.

QUESTION: The $40 billion surplus projected for 1980, that would indicate they would be in surplus one year after?

MR. LYNN: Take a look at the charts for years and years past, whether done by my good friends at Brookings, or my good friends in the Bureau of Budget, or the Office of Management and Budget. They always show that out there, but this President, I will tell you, is bound and determined to get there. What we do is we never show out-year numbers after the Congressional action is taken. Then when it is all taken, we show the out-year numbers the next year, and guess what, the year of the balanced budget has moved one year.

Did you notice how carefully Congress did not show the out-year effect of their Congressional resolution? There is nothing on it.

In the preliminaries, if I recall correctly, one House or the other in a report showed some out-year numbers, but the other one didn't. And when they got to the conference report and went back on the Floor, I don't believe they gave any indication of out-year numbers to the people in the Congress.

QUESTION: How much of those out-year spending effects would be offset by continued rejection of your tax cut proposals?

MR. LYNN: Somewhat, but not in its entirety. I can provide that for you. I don't have it with me today. I have some numbers I can provide for you.

QUESTION: Thank you.

MR. LYNN: Of course the answer to your question is, too -- what you are saying then is that you are going to doom the American people to having inflation eat away in the tax rates at their income and never even compensate for that by way of further tax reductions. That is something I don't want and the President doesn't want.

END (10:45 A.M., EST)

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

FOR RELEASE
at 11:00 a.m. (E.D.T.)
Friday, July 16, 1976

MID-SESSION REVIEW OF THE 1977 BUDGET

DATE: 7/16/76

TO: Counsellor Hartmann

FROM: GWEN ANDERSON

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NOTE: All years referred to are fiscal years unless otherwise noted. The transition quarter (TQ) is between the fiscal year ending on June 30, 1976, and the new fiscal year beginning on October 1, 1976.

Detail may not add to totals due to rounding.

OVERVIEW

In some respects, the figures that follow in this Mid-Session Review simply update the President's budget by setting forth reestimates based on more current data, including a new economic forecast, and by reflecting new or changed Presidential proposals during the intervening 6-month period. However, inasmuch as the figures that follow also reflect legislative actions and inactions since January that foreclose, either partially or completely, proposals reflected in the President's budget, this Mid-Session Review is -- like all updates of a President's budget for any year -- a composite. For the part of a budget year that has expired, the figures are simply historical, reflecting completed interaction of the branches of government. For the part of a budget year that still remains, the figures represent the President's proposals, but only to the extent they have not been so foreclosed.

Fiscal year 1976 is now history. Estimates are still used in this report only because final figures will not be known for a week or two.

The transition quarter and fiscal year 1977 figures that follow are part history and part Presidential proposals. For example, on the receipts side, the President's budget proposed further income tax cuts effective July 1, 1976, which would be offset to a limited extent in fiscal year 1977 by unemployment insurance and social security tax increases effective January 1, 1977. However, at least thus far, the Congress has not acted legislatively on any of these or other substantive tax proposals. The Mid-Session Review takes account of this inaction -- this history since January -- by deferring the effective date for the proposed income tax cuts from July 1, 1976 to January 1, 1977, and -- in view of the long lead time necessary to put an unemployment tax increase into effect after enactment -- by deferring the effective date on the latter increase from January 1, 1977 to January 1, 1978. As discussed more fully later in this report, this change increases receipts for the transition quarter and fiscal year 1977 from those shown in January.

Another example, but on the outlay side: Among the proposals in the President's budget to restrain the growth in Federal spending were proposed rescissions totalling $3.3 billion. However, the Congress has since rejected all but $138 million of these requested savings. This "history" increases the outlays for all three budget periods presented in the Mid-Session Review.

Except for possible reestimates, it is unlikely that the final figures for fiscal year 1976 and the transition quarter will differ materially from those presented in this report. Final results for fiscal year 1977 are far more uncertain. This year, the Congress has moved much more quickly than in the recent past with respect to 1977 appropriations bills and has stated its intention to complete such bills well before the September deadline for its Second Concurrent Budget Resolution. However, at the time this report is required, the Congress has not yet completed action on numerous appropriations and other necessary legislation -- for example, taxes -- that will have a very important effect on the outlays, receipts, and deficits for fiscal year 1977 as well as subsequent years. The disparity between the President's tax cut and spending restraint proposals on the one hand and both the First Concurrent Budget Resolution for 1977 and spending appropriations bills on the other, adds to this uncertainty. It would appear that a legislative change in the date for the Mid-Session Review to sometime in August would result in far less uncertainty, and would be more helpful in the process leading to the Second Concurrent Resolution in future years.

INTRODUCTION

This report, with respect to the 1977 budget, is transmitted to the Congress pursuant to Section 201 of the Budget and Accounting Act, as amended.

Part 1 contains revised budget summaries for fiscal years 1976, the transition quarter (TQ) and fiscal year 1977. Final data on fiscal year 1976, which ended on June 30, will not be available until later this month. Thus the 1976 estimates in this report are subject to further revision. The estimates for the transition quarter and fiscal year 1977 are necessarily tentative.

Part 2 presents 5-year projections of receipts, outlays, and budget authority. It also shows projected outlays for open-ended programs and fixed costs and outlays from balances of budget authority for non-mandatory programs available at the end of fiscal year 1977.

PART 1. THE BUDGET OUTLOOK

Budget Totals

The 1976 totals are still tentative since final data on spending and receipts in June, the last month in fiscal year 1976, will not be available until later this month. Receipts for 1976 are now estimated to be $299.4 billion, $1.9 billion above the budget estimate, and outlays are expected to be $369.1 billion, $4.5 billion below the January estimate. If these estimates hold, the deficit for 1976 will be $69.6 billion, down $6.4 billion from the January figure.

Table 1

BUDGET TOTALS
(fiscal periods; in billions of dollars)

	Receipts	Outlays	Deficit (-)
1975 Actual............................	281.0	324.6	-43.6
1976 Estimate:			
January............................	297.5	373.5	-76.0
March..............................	297.5	374.4	-76.9
Current 1/.........................	299.4	369.1	-69.6
TQ Estimate:			
January............................	81.9	98.0	-16.1
March..............................	81.9	98.5	-16.6
Current 1/.........................	82.1	102.1	-20.0
1976 and TQ Estimates Combined:			
January............................	379.4	471.5	-92.1
March..............................	379.4	473.0	-93.5
Current 1/.........................	381.6	471.2	-89.6
1977 Estimate:			
January............................	351.3	394.2	-43.0
March..............................	351.3	395.8	-44.6
Current 1/.........................	352.5	400.0	-47.5

1/ Includes impact of congressional action and inaction through June.

The current estimates for the transition quarter show receipts virtually unchanged at \$82.1 billion and outlays of \$102.1 billion, \$4.1 billion above the January estimate. Part of the outlay increase is due to the transfers to the transition quarter of some spending previously expected to occur in fiscal year 1976. A \$2.5 billion downward revision in estimated tax collections has been offset by congressional inaction on the additional income tax cuts proposed by the President.

Combined estimates of outlays for 1976 and the transition quarter show essentially no change from the January estimates.

The President continues to propose further cuts in income taxes from current levels, offset in part by an increase in unemployment and social security taxes. However, in view of congressional inaction on these proposals thus far, the current estimates reflect a 6-month delay in the income tax cut and a one-year delay in the unemployment tax increase. On this basis, 1977 receipts are estimated at \$352.5 billion.

For 1977, the budget that the President sent to the Congress in January called for outlays of \$394.2 billion. The current estimate, which takes into account reestimates, Administration proposals, and congressional action and inaction through June, is \$400.0 billion.

The current estimates do not include the effect of five 1977 appropriation acts passed by the Congress just before the current recess. Excluding the effect of such rescissions and deferrals as the President may propose, these five acts would increase outlays by \$1.2 billion in 1977 and by \$0.6 billion thereafter. The current estimates also exclude the impact of the public works jobs bill that the President vetoed earlier this month. This bill would have added $1.5 billion to 1977 outlays and $2.5 billion in later years.

Short-Range Economic Assumptions

The economic assumptions through calendar year 1977, presented in Table 2, are based on experience since the budget assumptions were developed for use in the January budget presentation.

The up-dated forecast indicates a stronger economy, with lower unemployment and lower inflation, than projected in January. The rate of unemployment, which was estimated in January to average 7.7% in calendar year 1976 and 6.9% in calendar year 1977, is now expected to average 7.3% in 1976 and 6.4% in 1977. In January, the consumer price index was forecast to increase by 5.9% from December 1975 to December 1976 and by the same amount from December 1976 to December 1977. The current forecasts are 5.0% and 5.7%, for the respective periods. Last January, real growth was projected at 6.2% in calendar year 1976 and 5.7% in calendar year 1977. The corresponding figures in the current forecast increase to 6.8% for 1976 and remain at 5.7% for 1977.

Table 2

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

	Actual		Forecast	
	1974	1975	1976	1977
Gross national product				
Current dollars:				
Amount..................................	1,407	1,499	1,687	1,890
Percent change..........................	7.7	6.5	12.5	12.0
Constant (1972) dollars:				
Amount..................................	1,211	1,186	1,267	1,339
Percent change..........................	-1.8	-2.0	6.8	5.7
Incomes (current dollars):				
Personal income............................	1,155	1,246	1,381	1,531
Wages and salaries.........................	763	802	889	992
Corporate profits..........................	132	117	152	178
Prices (percent change)				
GNP deflator:				
Year over year..........................	9.7	8.8	5.3	6.0
Fourth quarter over fourth quarter......	11.4	6.5	5.1	6.2
CPI:				
Year over year..........................	11.0	9.1	5.7	5.6
December over December..................	12.2	7.0	5.0	5.7
Unemployment rates (percent)				
Total......................................	5.6	8.5	7.3	6.4
Insured 1/.................................	3.8	7.2	5.9	5.3
Federal pay raise, October (percent)..........	5.5	5.0	4.7	7.5
Interest rate, 91-day Treasury bills (percent) 2/................................	7.9	5.8	5.2	5.4

1/ Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

2/ Because of the difficulty of forecasting interest rates, the budget has generally followed the convention of assuming that interest rates remain constant at the level prevailing at the time that interest outlays are estimated. The rates shown above for calendar year 1977 were those prevailing at the end of June 1976. Actual rates in 1976 prior to June averaged less than those at the end of June. For this reason, the average rate for 1976 is less than the rate shown for 1977.

Budget Receipts

Receipts in 1976 are now estimated to be $299.4 billion, compared with the January estimate of $297.5 billion. For the transition quarter, receipts have been revised upward from $81.9 billion to $82.1 billion. Receipts for 1977, estimated at $351.3 billion in January, are now estimated at $352.5 billion. Because the Congress has failed to act on the additional income tax reductions proposed by the President, these estimates assume that the proposed reductions will go into effect January 1, 1977, rather than July 1, 1976, as originally proposed. The Congress has extended withholding rates in effect during the first half of calendar year 1976 through September 30, 1976. The temporary tax provisions in effect during the first half of calendar year 1976 are assumed to be extended through December 1976. The estimates also assume delay in the proposed unemployment tax increases from January 1977 to January 1978.

The receipts estimates are based on the economic assumptions presented in Table 2 and are shown by major source in Table 6.

Changes in budget receipts.--Receipts in 1976 have been revised upward by $1.9 billion. Reestimates, primarily of corporate income taxes, have increased 1976 receipts by $2.1 billion, while inaction on a proposal to write off silver certificates has decreased receipts by $0.2 billion. For the transition quarter, reestimates of tax payments and revised economic assumptions have reduced receipts by $2.5 billion. More than offsetting this decrease, however, is a delay in enactment of the President's proposed income tax cuts, which increases receipts in the transition quarter by $2.7 billion.

Table 3

CHANGES IN BUDGET RECEIPTS
(fiscal periods; in billions of dollars)

	1976	TQ	1977
January budget estimate	297.5	81.9	351.3
Subsequent changes:			
Reestimates and revised economic assumptions	+2.1	-2.5	-0.2
Delay[1] in President's proposed income tax cuts	---	+2.7	+3.3
Delay[2] in unemployment tax increases	---	---	-2.1
Other congressional inaction	-0.2	-*	+0.2
Current estimate	299.4	82.1	352.5

[1] From July 1, 1976 to January 1, 1977.

[2] From January 1, 1977 to January 1, 1978.

* Less than $50 million.

In 1977, receipts are $1.2 billion higher than estimated in January. Congressional inaction on the President's proposed tax cuts increases 1977 receipts by $3.3 billion. The failure of the Congress to enact the President's proposal to increase unemployment insurance taxes reduces 1977 receipts by $2.1 billion, while an assumption that the Congress will not act on a proposal to write off silver certificates until 1977 reduces receipts by $0.2 billion in 1976 and raises them an equal amount in 1977.

Table 4

MAJOR CHANGES IN BUDGET OUTLAYS
(fiscal periods; in billions of dollars)

	1976	TQ	1977
January budget estimate	373.5	98.0	394.2
Changes included in March update:			
Congressional rejection of rescissions and overturn of deferrals	0.3	0.2	1.1
Medicare	0.3	0.2	0.7
Federal unemployment benefits and allowances	0.5	-0.1	---
Interest on the public debt	-0.3	---	---
Labor-HEW Appropriations Bill, 1976	0.3	0.1	0.3
Highway trust fund	-0.2	---	-0.1
Allowance for contingencies	-0.2	-0.2	-0.8
All other changes included in March update	0.2	0.3	0.4
Total budget outlays, March update	374.4	98.5	395.8
Subsequent changes:			
Rents and royalties on the Outer Continental Shelf	0.3	---	2.0
Unemployment compensation	-0.4	*	-1.4
Interest on the public debt	-0.2	-0.3	-1.1
Energy programs	-0.1	0.1	1.1
Foreign economic assistance, including P.L. 480	-1.2	0.6	0.4
Military assistance	-1.2	1.0	0.1
Medicare	-0.1	0.1	0.8
Veterans programs	-0.6	*	0.6
Department of Defense	-0.8	-*	0.4
Housing and community development programs (HUD)	-*	0.7	0.4
Earned income credit	-0.3	0.2	0.6
Agricultural price support and related programs	-0.4	0.3	0.1
Allowance for contingencies	---	---	-0.7
All other subsequent changes	-0.4	1.0	0.9
Current estimate	369.1	102.1	400.0

* Less than $50 million.

Budget Outlays

Table 4 shows the major changes in outlays since January.

Based on 11 months of actual data, outlays in 1976 are now estimated at $369.1 billion, $4.5 billion below the January estimate. Outlays for 1976 totalled $335 billion through May. The current estimate of $369.1 billion anticipates outlays of $34.1 billion in June. Final figures are expected to be available by July 26. Outlays for the TQ are currently estimated at $102.1 billion, $4.1 billion above the January estimate.

In the case of several programs -- notably military assistance, P.L. 480, agricultural price supports, and the earned income credit -- outlays previously expected to occur in 1976 are now expected to occur in the TQ or in 1977. The late enactment of the Foreign Assistance Appropriations Act for 1976 has also caused a shift in spending from 1976 to the TQ and 1977. Outlays for interest on the public debt and the unemployment trust fund have been revised downward for both 1976 and the TQ.

Outlays for 1977 are currently estimated at $400.0 billion, $5.7 billion above the January estimate. Outlays are expected to be $2 billion higher in 1977 because of revised estimates for rents and royalties on the Outer Continental Shelf. Uncertainty about scheduled sales as a result of court litigation and other delays has caused a downward reestimate in these receipts, which are treated as an offset to outlays. Outlays for medicare have been revised upward by $1.5 billion since January and $0.8 billion since March. These increases reflect congressional inaction on the cost-sharing reforms proposed by the Administration and revised estimates. Outlays for energy are $1.1 billion above the budget estimate. Most of this increase is for the new oil reserve program established by the

Energy Policy and Conservation Act, which was covered in large part by the allowance for contingencies. Veterans benefits are also up ($0.6 billion), largely for cost-of-living increases in compensation and pension benefits.

Outlays for the Department of Defense and military assistance are up by $0.5 billion in 1977, largely as a result of proposed increases for repairing the Belknap and additions for shipbuilding and the Minuteman III. The Congress has failed -- so far -- to act upon legislative proposals for restraining defense costs. These initiatives would save over $3 billion in defense spending in 1977 and $23 billion over the next 5 years. About half of these savings can be achieved by administrative action, and the steps necessary to achieve them are being taken. The remaining initiatives require congressional action. If the Congress does not pass the necessary legislation, additional funds will be required for defense.

The increases in total outlays that have occurred to date are partially offset by elimination of the allowance for contingencies and by decreases for unemployment benefits and interest.

Outlays for unemployment compensation have been revised downward ($1.4 billion in 1977), largely as a result of experience to date and expected lower unemployment rates. Outlays for interest on the public debt have also been revised downward ($1.3 billion since January) because of somewhat lower interest rates and the decreased deficit in 1976.

Altogether, completed congressional action has increased 1977 outlays by approximately $3 billion since January and $1.5 billion since March. Since these estimates do not include congressional action on appropriations for 1977, most of the congressional increase reflects congressional action on 1976 appropriations, rejection of rescissions and deferrals, and inaction on proposed legislation to reduce outlays. These estimates assume that the earned income credit will be extended through calendar year 1976.

Additional detail on outlays by agency and function is shown in Tables 7 and 8.

Table 5

MAJOR CHANGES IN BUDGET AUTHORITY
(fiscal periods; in billions of dollars)

	1976	TQ	1977
January budget estimate	408.4	88.1	433.4
Changes included in March update:			
Congressional rejection of proposed rescissions	2.2	0.3	---
Foreign military sales program	-1.6	0.4	-1.6
Labor-HEW Appropriations Bill, 1976	0.9	*	---
Interest on the public debt	-0.3	---	---
Allowances	-0.2	-0.2	-1.0
All other changes included in March update	0.5	0.3	0.4
Total budget authority, March update	409.8	88.8	431.2
Subsequent changes:			
Federal-Aid Highway Act of 1976	1.9	3.3	-3.3
Supplemental Railroad Appropriations, 1976	0.1	0.7	-1.1
Unemployment compensation	0.2	*	-1.1
Interest on the public debt	-0.2	-0.3	-1.1
Allowances	---	---	-0.8
Export-Import Bank	---	---	-0.7
Rents and royalties on the Outer Continental Shelf	0.3	---	2.0
Department of Defense	-0.5	-*	1.7
Energy programs	-0.1	*	1.6
Veterans programs	-0.2	0.1	0.9
Military assistance	-0.9	-0.1	0.1
Foreign economic assistance	-0.7	0.4	0.3
Earned income credit	-0.3	0.2	0.6
All other subsequent changes	0.4	0.7	1.2
Current estimate	409.9	93.9	431.4

* Less than $50 million.

Budget Authority

Table 5 shows the major changes in budget authority since January.

In comparison to the January estimates, total budget authority has increased by $1.5 billion in 1976, $5.8 billion in the TQ, and decreased by $2.0 billion in 1977. A major portion of the change in all periods arises from congressional action to shift funds for highways and loans to ConRail out of 1977 and into 1976 and the TQ. Together, the Federal-Aid Highway Act of 1976 and the Supplemental Railroad Appropriations for 1976 have increased budget authority by $2 billion in 1976, $4 billion in the TQ, and decreased budget authority by $4.5 billion in 1977. Congressional action on the unemployment tax increases proposed by the President is also the major reason for the $1.1 billion decrease in 1977 budget authority for unemployment compensation. The elimination of the allowance for contingencies and reestimates for foreign military sales, interest on the public debt, and the Export-Import Bank account for the other major decreases since January.

The decreases in total 1977 budget authority are partially offset by increases in other areas. The downward reestimate in offshore oil receipts increases budget authority by $2.0 billion. Budget authority for the Department of Defense is up by $1.7 billion since January, due to the proposed increases for repair to the Belknap, shipbuilding, and the Minuteman III. Other increases include energy, particularly for the strategic oil reserves which was covered in large part by the allowance for contingencies, and proposed cost-of-living increases for veterans compensation and pensions.

The Budget by Fund Group, and Debt Subject to Limit

Tables 11 and 12 contain figures on the 1975-1977 budget totals by fund group. Most of the changes in the current estimates for 1976-1977 have occurred in Federal funds.

Since January, estimates of Federal funds receipts for 1976 have increased by $2.2 billion, while outlays have decreased by $4.1 billion, resulting in a $6.3 billion decrease in the anticipated 1976 Federal funds deficit. On the other hand, the estimated size of the Federal funds deficit for the TQ and 1977 has increased. Since January, the estimated Federal funds deficit in the TQ has increased by $3.9 billion, largely as a result of higher outlays. The estimated Federal funds deficit for 1977 has increased by $3.5 billion since January, with receipts up by $3.2 billion and outlays up by $6.7 billion.

Table 13 contains data on debt subject to limit. In comparison to January, debt subject to limit is now estimated to be lower at the end of 1976 and the TQ, and higher at the end of 1977.

Table 6

RECEIPTS BY MAJOR SOURCE, 1975-1977
(fiscal periods; in billions of dollars)

	1975	1976 Estimate			TQ Estimate			1977 Estimate		
	Actual	January	March	Current[1]	January	March	Current[1]	January	March	Current[1]
Individual income taxes.......	122.4	130.8	130.8	131.2	40.0	40.0	39.7	153.6	153.7	152.6
Corporation income taxes......	40.6	40.1	40.1	41.4	8.4	8.4	8.9	49.5	49.4	53.1
Social insurance taxes and contributions...............	86.4	92.6	92.6	92.6	25.2	25.2	25.1	113.1	113.1	111.0
Excise taxes..................	16.6	16.9	16.9	16.9	4.4	4.4	4.4	17.8	17.8	17.8
Estate and gift taxes.........	4.6	5.1	5.1	5.2	1.4	1.4	1.4	5.8	5.7	5.8
Customs duties................	3.7	3.8	3.8	4.0	1.0	1.0	1.1	4.3	4.3	4.6
Miscellaneous receipts........	6.7	8.3	8.3	8.1	1.5	1.5	1.5	7.2	7.2	7.4
Total budget receipts....	281.0	297.5	297.5	299.4	81.9	81.9	82.1	351.3	351.3	352.5

[1] Includes impact of congressional action and inaction through June.

Table 7

BUDGET OUTLAYS BY FUNCTION, 1975-1977
(fiscal periods; in billions of dollars)

	1975	1976 Estimate			TQ Estimate			1977 Estimate		
	Actual	January	March	Current 1/	January	March	Current 1/	January	March	Current 1/
National defense	86.6	92.8	92.8	90.6	25.0	25.0	26.0	101.1	101.1	101.6
International affairs	4.4	5.7	5.7	4.5	1.3	1.4	2.0	6.8	6.9	7.1
General science, space, and technology	4.0	4.3	4.3	4.4	1.2	1.2	1.2	4.5	4.5	4.5
Natural resources, environment, and energy	9.6	11.8	11.8	11.7	3.3	3.3	3.9	13.8	13.8	15.1
Agriculture	1.7	2.9	2.9	2.5	0.7	0.7	0.9	1.7	1.9	1.8
Commerce and transportation	16.0	17.8	17.6	17.9	4.8	4.8	5.3	16.5	16.4	16.4
Community and regional development	4.4	5.8	5.9	5.5	1.5	1.6	1.7	5.5	5.7	6.0
Education, training, employment, and social services	15.2	18.9	19.2	18.7	4.4	4.7	4.9	16.6	17.6	18.4
Health	27.6	32.1	32.7	33.4	8.3	8.6	8.8	34.4	35.5	36.5
Income security	108.6	128.5	129.0	128.0	32.7	32.9	33.3	137.1	137.1	136.2
Veterans benefits and services	16.6	19.0	19.0	18.4	4.4	4.4	4.4	17.2	17.2	17.8
Law enforcement and justice	2.9	3.4	3.4	3.4	0.9	0.9	0.9	3.4	3.4	3.4
General government	3.1	3.5	3.5	3.3	1.0	1.0	0.9	3.4	3.4	3.5
Revenue sharing and general purpose fiscal assistance	7.0	7.2	7.2	7.2	2.0	2.0	2.0	7.4	7.4	7.4
Interest	31.0	34.8	34.5	34.7	9.8	9.8	9.5	41.3	41.3	40.2
Allowances:										
Civilian agency pay raises	---	---	---	---	---	---	---	0.8	0.8	0.8
Contingencies	---	0.2	---	---	0.2	---	---	1.5	0.7	---
Undistributed offsetting receipts:										
Employer share, employee retirement	-4.0	-4.2	-4.2	-4.2	-1.0	-1.0	-1.0	-4.5	-4.5	-4.5
Interest received by trust funds	-7.7	-8.0	-8.0	-8.1	-2.1	-2.1	-2.1	-8.4	-8.4	-8.3
Rents and royalties on the Outer Continental Shelf	-2.4	-3.0	-3.0	-2.7	-0.5	-0.5	-0.5	-6.0	-6.0	-4.0
Total budget outlays	324.6	373.5	374.4	369.1	98.0	98.5	102.1	394.2	395.8	400.0

1/ Includes impact of congressional action and inaction through June.

Table 8

BUDGET OUTLAYS BY AGENCY, 1975-1977
(fiscal periods; in billions of dollars)

	1975	1976 Estimate			TQ Estimate			1977 Estimate		
	Actual	January	March	Current 1/	January	March	Current 1/	January	March	Current 1/
Legislative branch	0.7	0.9	0.9	0.9	0.2	0.2	0.2	1.0	1.0	1.0
The judiciary	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.4	0.4	0.4
Executive Office of the President	0.1	0.1	0.1	0.1	*	*	*	0.1	0.1	0.1
Funds appropriated to the President	4.0	5.1	5.2	3.5	0.8	0.8	2.2	4.0	4.0	4.5
Agriculture	9.7	14.2	14.3	13.4	3.3	3.3	4.1	10.8	11.1	11.1
Commerce	1.6	2.0	2.0	2.0	0.6	0.6	0.5	2.2	2.2	2.2
Defense-Military (including pay raises)	85.0	89.8	89.7	89.0	24.5	24.5	24.5	99.6	99.6	100.0
Defense-Civil	2.1	2.2	2.2	2.1	0.7	0.7	0.7	2.2	2.2	2.2
Health, Education, and Welfare	112.4	127.7	128.6	129.2	33.7	34.3	34.5	140.1	142.2	143.5
Housing and Urban Development	7.5	7.2	7.2	7.2	1.9	2.0	2.6	7.2	7.2	7.5
Interior	2.1	2.6	2.6	2.5	0.8	0.8	0.9	2.6	2.7	2.7
Justice	2.1	2.3	2.3	2.3	0.6	0.6	0.6	2.2	2.2	2.3
Labor	17.6	26.4	26.9	26.0	5.8	5.9	6.1	22.1	22.1	21.1
State	0.8	1.2	1.2	1.1	0.4	0.4	0.4	1.0	1.0	1.1
Transportation	9.2	12.3	12.1	12.0	3.4	3.4	3.4	12.9	12.8	12.8
Treasury	41.2	45.3	45.0	44.7	12.2	12.2	12.2	51.4	51.4	50.9
Energy Research and Development Administration	3.2	4.1	4.1	3.8	1.2	1.2	1.2	5.3	5.3	5.3
Environmental Protection Agency	2.5	3.2	3.2	3.3	0.8	0.8	1.2	4.5	4.5	4.6
General Services Administration	-0.6	0.2	0.2	-*	*	*	*	-0.6	-0.6	-0.6
National Aeronautics and Space Administration	3.3	3.5	3.5	3.7	0.9	0.9	0.9	3.7	3.7	3.7
Veterans Administration	16.6	19.0	19.0	18.4	4.4	4.4	4.4	17.2	17.2	17.8
Other independent agencies	17.3	19.0	19.0	18.6	5.1	5.1	5.1	21.3	21.3	21.9
Allowances	---	0.2	---	---	0.2	---	---	2.3	1.5	0.8
Undistributed offsetting receipts:										
Employer share, employee retirement	-4.0	-4.2	-4.2	-4.2	-1.0	-1.0	-1.0	-4.5	-4.5	-4.5
Interest received by trust funds	-7.7	-8.0	-8.0	-8.1	-2.1	-2.1	-2.1	-8.4	-8.4	-8.3
Rents and royalties on the Outer Continental Shelf	-2.4	-3.0	-3.0	-2.7	-0.5	-0.5	-0.5	-6.0	-6.0	-4.0
Total budget outlays	324.6	373.5	374.4	369.1	98.0	98.5	102.1	394.2	395.8	400.0

1/ Includes impact of congressional action and inaction through June.

* $50 million or less.

Table 9

BUDGET AUTHORITY BY FUNCTION, 1975-1977
(fiscal periods; in billions of dollars)

	1975	1976 Estimate			TQ Estimate			1977 Estimate		
	Actual	January	March	Current 1/	January	March	Current 1/	January	March	Current 1/
National defense	91.9	102.3	100.7	99.3	23.4	23.9	23.8	114.9	113.3	115.1
International affairs	4.4	6.4	6.5	5.8	0.9	0.9	1.3	9.7	9.7	9.2
General science, space, and technology	4.0	4.4	4.4	4.4	1.1	1.1	1.1	4.6	4.6	4.6
Natural resources, environment, and energy	16.5	19.2	19.2	19.2	2.4	2.4	2.4	9.7	9.7	11.5
Agriculture	5.9	4.1	4.1	4.1	0.3	0.3	0.3	2.3	2.3	2.3
Commerce and transportation	32.4	18.6	18.7	20.7	2.4	2.4	6.5	17.9	17.9	13.7
Community and regional development	5.4	4.8	5.7	5.7	0.5	0.6	0.6	5.8	5.9	5.7
Education, training, employment, and social services	15.5	19.7	21.2	21.2	4.9	5.2	5.3	15.9	16.0	16.9
Health	29.9	32.3	33.4	33.7	8.6	8.6	8.7	38.0	38.0	38.4
Income security	159.3	140.3	140.3	140.1	28.8	28.8	29.4	157.7	157.9	157.3
Veterans benefits and services	16.7	19.9	19.9	19.7	4.5	4.5	4.6	17.7	17.7	18.5
Law enforcement and justice	3.0	3.3	3.3	3.3	0.8	0.8	0.9	3.3	3.3	3.3
General government	3.1	3.5	3.6	3.5	0.9	0.9	0.9	3.5	3.5	3.5
Revenue sharing and general purpose fiscal assistance	7.1	9.5	9.5	9.6	2.0	2.0	2.0	7.3	7.3	7.3
Interest	31.0	34.8	34.5	34.7	9.8	9.8	9.5	41.3	41.3	40.2
Allowances:										
Civilian agency pay raises	---	---	---	---	---	---	---	0.8	0.8	0.8
Contingencies	---	0.2	---	---	0.2	---	---	1.8	0.9	---
Undistributed offsetting receipts:										
Employer share, employee retirement	-4.0	-4.2	-4.2	-4.2	-1.0	-1.0	-1.0	-4.5	-4.5	-4.5
Interest received by trust funds	-7.7	-8.0	-8.0	-8.1	-2.1	-2.1	-2.1	-8.4	-8.4	-8.3
Rents and royalties on the Outer Continental Shelf	-2.4	-3.0	-3.0	-2.7	-0.5	-0.5	-0.5	-6.0	-6.0	-4.0
Total budget authority	412.1	408.4	409.8	409.9	88.1	88.8	93.9	433.4	431.2	431.4

1/ Includes impact of congressional action and inaction through June.

Table 10

BUDGET AUTHORITY BY AGENCY, 1975-1977
(fiscal periods; in billions of dollars)

	1975 Actual	1976 Estimate January	1976 Estimate March	1976 Estimate Current 1/	TQ Estimate January	TQ Estimate March	TQ Estimate Current 1/	1977 Estimate January	1977 Estimate March	1977 Estimate Current 1/
Legislative branch	0.8	0.9	0.9	0.9	0.2	0.2	0.2	0.9	0.9	0.9
The judiciary	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.4	0.4	0.4
Executive Office of the President	0.1	0.1	0.1	0.1	*	*	*	0.1	0.1	0.1
Funds appropriated to the President	8.7	9.1	7.5	6.1	0.2	0.8	1.1	6.4	4.8	5.2
Agriculture	15.2	14.7	14.9	15.0	2.4	2.4	2.9	11.8	11.8	12.0
Commerce	1.8	2.3	2.3	2.3	0.5	0.5	0.5	1.7	1.7	1.6
Defense-Military (including pay raises)	85.8	96.2	96.2	95.7	23.0	23.0	23.0	111.2	111.3	113.0
Defense-Civil	1.8	2.1	2.1	2.2	0.7	0.7	0.7	2.2	2.2	2.2
Health, Education, and Welfare	116.7	125.3	127.7	128.4	34.5	34.8	35.0	145.0	145.2	145.8
Housing and Urban Development	53.9	27.7	28.3	28.1	0.4	0.4	0.5	21.7	21.7	21.8
Interior	3.8	2.5	2.5	2.5	0.8	0.8	0.8	2.6	2.7	2.7
Justice	2.1	2.2	2.2	2.2	0.6	0.6	0.6	2.1	2.1	2.1
Labor	19.8	20.6	20.6	20.4	3.2	3.2	3.2	20.7	20.9	20.3
State	1.2	1.0	0.9	0.9	0.4	0.4	0.4	1.1	1.1	1.2
Transportation	19.1	8.3	8.4	10.5	1.0	1.0	4.4	11.7	11.7	8.8
Treasury	41.4	47.6	47.3	47.0	12.2	12.2	12.1	51.4	51.4	50.9
Energy Research and Development Administration	3.5	5.0	5.0	4.5	1.3	1.3	1.3	6.0	6.0	6.7
Environmental Protection Agency	8.5	0.8	0.8	0.8	0.2	0.2	0.2	0.7	0.7	0.7
General Services Administration	-0.7	0.2	0.2	0.2	*	*	*	-0.6	-0.6	-0.6
National Aeronautics and Space Administration	3.2	3.6	3.6	3.6	0.9	0.9	0.9	3.7	3.7	3.7
Veterans Administration	16.7	19.9	19.9	19.6	4.5	4.5	4.6	17.7	17.7	18.5
Other independent agencies	22.4	33.2	33.2	33.6	4.4	4.4	5.0	30.9	30.8	29.2
Allowances	---	0.2	---	---	0.2	---	---	2.6	1.6	0.8
Undistributed offsetting receipts:										
Employer share, employee retirement	-4.0	-4.2	-4.2	-4.2	-1.0	-1.0	-1.0	-4.5	-4.5	-4.5
Interest received by trust funds	-7.7	-8.0	-8.0	-8.1	-2.1	-2.1	-2.1	-8.4	-8.4	-8.3
Rents and royalties on the Outer Continental Shelf	-2.4	-3.0	-3.0	-2.7	-0.5	-0.5	-0.5	-6.0	-6.0	-4.0
Total budget authority	412.1	408.4	409.8	409.9	88.1	88.8	93.9	433.4	431.2	431.4

1/ Includes impact of congressional action and inaction through June.

* $50 million or less.

Table 11

BUDGET RECEIPTS AND OUTLAYS BY FUND GROUP, 1975-1977
(fiscal periods; in billions of dollars)

	1975	1976 Estimate			TQ Estimate			1977 Estimate		
	Actual	January	March	Current 1/	January	March	Current 1/	January	March	Current 1/
Receipts										
Federal funds	187.5	198.4	198.4	200.5	54.8	54.8	55.0	230.8	230.7	234.0
Trust funds	118.6	134.8	134.8	133.9	33.8	33.8	33.9	157.7	157.8	155.6
Intragovernmental transactions	-25.1	-35.6	-35.6	-35.0	-6.6	-6.6	-6.8	-37.2	-37.2	-37.2
Total	281.0	297.5	297.5	299.4	81.9	81.9	82.1	351.3	351.3	352.5
Outlays										
Federal funds	238.5	276.9	277.7	272.8	69.8	70.1	74.0	286.2	287.2	292.9
Trust funds	111.2	132.2	132.3	131.3	34.9	35.1	35.0	145.2	145.8	144.2
Intragovernmental transactions	-25.1	-35.6	-35.6	-35.0	-6.6	-6.6	-6.8	-37.2	-37.2	-37.2
Total	324.6	373.5	374.4	369.1	98.0	98.5	102.1	394.2	395.8	400.0
Surplus or Deficit (-)										
Federal funds	-51.0	-78.5	-79.3	-72.3	-15.0	-15.3	-18.9	-55.5	-56.6	-59.0
Trust funds	7.4	2.5	2.4	2.6	-1.1	-1.3	-1.0	12.5	12.0	11.4
Total	-43.6	-76.0	-76.9	-69.6	-16.1	-16.6	-20.0	-43.0	-44.6	-47.5

1/ Includes impact of congressional action and inaction through June.

Table 12

BUDGET SURPLUS OR DEFICIT (-) BY FUND GROUP AND TYPE OF TRANSACTION, 1975-1977
(fiscal periods; in billions of dollars)

	1975	1976 Estimate			TQ Estimate			1977 Estimate		
	Actual	January	March	Current 1/	January	March	Current 1/	January	March	Current 1/
Federal Funds										
Transactions with the public	-32.4	-49.6	-50.4	-43.9	-10.1	-10.4	-13.8	-25.1	-26.2	-28.6
Transactions with trust funds	-18.6	-28.9	-28.9	-28.4	-4.9	-4.9	-5.1	-30.3	-30.3	-30.3
Total	-51.0	-78.5	-79.3	-72.3	-15.0	-15.3	-18.9	-55.5	-56.6	-59.0
Trust Funds										
Transactions with the public	-11.2	-26.4	-26.5	-25.8	-6.0	-6.3	-6.2	-17.8	-18.3	-18.9
Transactions with Federal funds	18.6	28.9	28.9	28.4	4.9	4.9	5.1	30.3	30.3	30.3
Total	7.4	2.5	2.4	2.6	-1.1	-1.3	-1.0	12.5	12.0	11.4
Budget Totals										
Federal funds	-51.0	-78.5	-79.3	-72.3	-15.0	-15.3	-18.9	-55.5	-56.6	-59.0
Trust funds	7.4	2.5	2.4	2.6	-1.1	-1.3	-1.0	12.5	12.0	11.4
Total	-43.6	-76.0	-76.9	-69.6	-16.1	-16.6	-20.0	-43.0	-44.6	-47.5

1/ Includes impact of congressional action and inaction through June.

Table 13

DEBT SUBJECT TO LIMIT
(fiscal periods; in billions of dollars)

	1975	1976 Estimate		TQ Estimate		1977 Estimate	
	Actual	January	Current 1/	January	Current 1/	January	Current 1/
Unified budget deficit..	43.6	76.0	69.6	16.1	20.0	43.0	47.5
Portion of budget deficit attributable to trust funds surplus or deficit (-)..	7.4	2.5	2.6	-1.1	-1.0	12.5	11.4
Federal funds deficit..........................	51.0	78.6	72.3	15.0	18.9	55.5	59.0
Effect of off-budget agencies on debt subject to limit...........	9.5	9.3	9.2	4.0	4.8	11.1	11.4
Total to be financed...........................	60.6	87.9	81.4	19.0	23.7	66.5	70.3
Means of financing other than borrowing, and other adjustments....	-2.3	2.1	5.9	-0.1	-6.1	0.8	3.2
Change in debt subject to limit................	58.2	90.0	87.3	18.9	17.6	67.3	73.5
Debt subject to limit, beginning of fiscal period 2/.............	476.0	534.2	534.2	624.2	621.6	643.1	639.2
Anticipated debt subject to limit, end of fiscal period 2/........	534.2	624.2	621.6	643.1	639.2	710.4	712.7

1/ Includes impact of congressional action and inaction through June.

2/ The statutory debt limit is permanently established at $400 billion. Public Law 94-232 increased the temporary debt limit to $627 billion through June 30, 1976. Public Law 94-344 further increased the temporary limit to $636 billion through September 30, 1976, to $682 billion through March 31, 1977, and to $700 billion through September 30, 1977. Based on the estimates shown, legislation is needed to change the temporary limits.

PART 2. LONG-RANGE PROJECTIONS

The 1977 budget presented projections of budget authority and outlays through 1981 by function and major agency. In addition, the budget provided detailed economic assumptions on which the projections were based. This section presents revisions of the long-range projections, along with projected outlays for open-ended programs and fixed costs and outlays for balances of budget authority for non-mandatory programs available at the end of fiscal year 1977.

Long-Range Economic Assumptions

Because of the difficulty of forecasting exogenous events, it is not possible to provide accurate economic forecasts for the years beyond 1977. As a practical matter, the 1977 forecasts also involve a large degree of uncertainty. Therefore, the economic data in Table 14 for the years 1978-1981 are derived using a simple mechanical projection based on the 1977 forecast.

The projection assumes that real economic growth proceeds at a 6.5% rate from the first quarter of 1978 until the third quarter of 1979, when unemployment falls below 5.0%. At that point, the real growth rate is gradually slowed until it reaches a level slightly in excess of the rate of growth of full capacity GNP during 1980. It is further assumed that this growth path is consistent with a continual deceleration in the rate of inflation. Historical relationships were used to derive the projections for the other economic variables shown in Table 14.

There is no intent to imply that the economy will follow this exact path, nor that it is an ideal path. The economy may grow less rapidly in some periods and more rapidly in others. The purpose of presenting these assumptions is solely to provide a base for projecting the budget.

Table 14

LONG-RANGE ECONOMIC ASSUMPTIONS
(calendar years; dollar amounts in billions)

	Assumed for Purposes of Budget Projections			
	1978	1979	1980	1981
Gross national product				
Current dollars:				
Amount	2,121	2,370	2,575	2,747
Percent change	12.2	11.7	8.6	6.7
Constant (1972) dollars:				
Amount	1,418	1,508	1,575	1,634
Percent change	5.9	6.3	4.4	3.7
Incomes (current dollars):				
Personel income	1,720	1,920	2,083	2,220
Wages and salaries	1,121	1,252	1,361	1,452
Corporate profits	201	223	242	258
Prices (percent change)				
GNP deflator:				
Year over year	6.0	5.1	4.0	2.9
Fourth quarter over fourth quarter	5.7	4.7	3.6	2.5
CPI:				
Year over year	5.6	5.1	4.1	2.9
December over December	5.4	4.7	3.5	2.4
Unemployment rates (percent):				
Total	5.7	5.1	4.8	4.7
Insured 1/	4.1	3.2	3.2	3.2
Federal pay raise, October (percent)	7.0	6.5	5.75	5.0
Interest rate, 91-day Treasury bills (percent) 2/	5.4	5.4	5.4	5.4

1/ Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

2/ Because of the difficulty of forecasting interest rates, the budget has generally followed the convention of assuming that interest rates remain constant at the level prevailing at the time that interest outlays are estimated. The rates shown above for calendar years 1978 through 1981 were those prevailing at the end of June.

Budget Projections

The revisions in budget outlays, budget authority, and receipts through 1981 reflect:

-- the out-year effects of the changed economic forecast for 1977;

-- program experience and Presidential proposals since January; and

-- congressional action and inaction through June 1976.

The receipts projections shown reflect the economic assumptions presented in Table 14, and assume current tax law as modified by the President's tax proposals. These proposals are discussed in Part 1 of this report.

The outlay and budget authority estimates indicate the degree to which resources would be committed by the continuation of existing and Presidentially-proposed programs at the levels currently recommended for 1977. The 1977 estimates reflect the impact of congressional action and inaction through June. However, an assumption is made generally that where the Congress has changed program levels from those recommended by the President, that change will be temporary. These projections are not intended as forecasts of future receipts, outlays, or budget authority because no attempt is made to predict future decisions or their effects. Nor are the projections intended as recommendations for future-year funding, since the continuation of Federal programs and taxes is a matter properly subject to continuous review in light of changing conditions.

In general, the projections assume that program levels remain constant except where they would change under current law or where there is an explicit Administration recommendation to increase or decrease program levels over time. Thus, while defense personnel requirements are assumed to remain constant, defense purchases are assumed to rise in real terms. The projections allow for changes in beneficiary populations for programs such as social security. Allowances are also made for future cost-of-living adjustments to benefit levels, Federal pay, and other cost increases. These allowances are consistent with the economic assumptions outlined in Table 14.

Table 15 compares projected total receipts and total outlays. The difference between these figures -- the budget margin -- is the potential budget surplus or deficit that would be expected to occur if there were to be no tax changes, no new programs, and no discretionary program increases or decreases other than those currently recommended.

Table 15

THE FISCAL OUTLOOK, 1977-1981
(fiscal years; in billions of dollars)

	1977 Current estimate[1]	1978	1979	1980	1981
Projected outlays..............	400.0	433.3	461.5	492.2	522.2
Projected receipts.............	352.5	405.2	462.6	513.9	558.3
Budget margin or deficit (-).	-47.5	-28.1	1.1	21.7	36.1
Budget authority...............	431.4	480.9	517.3	554.2	586.2

1 Includes impact of congressional action and inaction through June.

Details of the long-range receipt, outlay, and budget authority projections are shown in Tables 16 through 21.

Table 16

PROJECTED RECEIPTS BY MAJOR SOURCE, 1977-1981
(fiscal years; in billions of dollars)

	1977 Current estimate	1978	1979	1980	1981
Individual income taxes	152.6	179.7	214.8	244.5	267.3
Corporation income taxes	53.1	58.6	62.8	68.2	72.2
Social insurance taxes and contributions	111.0	130.1	146.0	159.9	176.1
Other	35.7	36.8	39.0	41.2	42.8
Total receipts	352.5	405.2	462.6	513.9	558.3

Table 17

PROJECTED BUDGET OUTLAYS BY FUNCTION, 1977-1981
(fiscal years; in billions of dollars)

	1977 Current estimate[1]	1978	1979	1980	1981
National defense	101.6	113.0	121.2	132.0	142.5
International affairs	7.1	8.0	8.0	8.2	8.2
General science, space, and technology	4.5	4.8	4.8	4.6	4.3
Natural resources, environment, and energy	15.1	17.1	16.6	15.7	15.6
Agriculture	1.8	2.7	2.7	2.6	2.6
Commerce and transportation	16.4	19.3	19.0	19.3	18.5
Community and regional development	6.0	6.1	6.2	6.0	5.9
Education, training, employment, and social services	18.4	16.4	16.4	16.6	16.8
Health	36.5	39.9	42.8	46.2	50.7
Income security	136.2	142.4	154.1	167.0	181.1
Veterans benefits and services	17.8	17.8	17.4	17.1	16.8
Law enforcement and justice	3.4	3.4	3.4	3.4	3.4
General government	3.5	3.6	3.8	3.7	3.6
Revenue sharing and general purpose fiscal assistance	7.4	7.7	7.9	8.1	8.2
Interest	40.2	44.1	47.5	49.1	50.1
Allowances	0.8	5.1	9.3	11.8	14.1
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.5	-4.9	-5.2	-5.6	-6.0
Interest received by trust funds	-8.3	-9.2	-10.2	-10.7	-11.3
Rents and royalties on the Outer Continental Shelf	-4.0	-4.0	-4.0	-3.0	-3.0
Total budget outlays	400.0	433.3	461.5	492.2	522.2

[1] Includes impact of congressional action and inaction through June.

Table 18

PROJECTED BUDGET OUTLAYS BY AGENCY, 1977-1981
(fiscal years; in billions of dollars)

	1977 Current estimate[1]	1978	1979	1980	1981
Legislative branch	1.0	1.0	1.1	1.0	1.0
The judiciary	0.4	0.4	0.4	0.5	0.5
Executive Office of the President	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President	1.5	4.6	4.0	3.9	3.6
Agriculture	11.1	12.8	13.1	13.4	13.8
Commerce	2.2	2.0	2.0	2.2	2.0
Defense-Military (including pay raises)	100.0	111.0	119.2	130.1	140.7
Defense-Civil	2.2	2.3	2.3	2.3	2.3
Health, Education, and Welfare	143.5	155.3	168.1	182.0	196.6
Housing and Urban Development	7.5	8.5	9.2	9.8	11.4
Interior	2.7	3.1	3.1	3.1	3.1
Justice	2.3	2.2	2.2	2.1	2.1
Labor	21.1	16.4	15.3	15.3	16.2
State	1.1	1.2	1.3	1.5	1.6
Transportation	12.8	14.3	14.8	15.3	14.9
Treasury	50.9	53.7	57.1	59.0	60.1
Energy Research and Development Administration	5.3	5.6	5.5	5.2	4.8
Environmental Protection Agency	4.6	5.7	5.7	5.1	5.1
General Services Administration	-0.6	-0.1	-*	-*	*
National Aeronautics and Space Administration	3.7	3.8	3.9	3.8	3.4
Veterans Administration	17.8	17.8	17.4	17.1	16.8
Other independent agencies	21.9	24.6	25.8	27.1	28.3
Allowances	0.8	5.1	9.3	11.8	14.1
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.5	-4.9	-5.2	-5.6	-6.0
Interest received by trust funds	-8.3	-9.2	-10.2	-10.7	-11.3
Rents and royalties on the Outer Continental Shelf	-4.0	-4.0	-4.0	-3.0	-3.0
Total budget outlays	400.0	433.3	461.5	492.2	522.2

[1] Includes impact of congressional action and inaction through June.

* $50 million or less.

Table 19

COMPOSITION OF BUDGET OUTLAYS
(fiscal years; dollar amounts in billions)

	Actual 1975	Current Estimate 1/ 1976	Current Estimate 1/ 1977	Projection 1978	Projection 1979	Projection 1980	Projection 1981
Domestic Assistance							
Payments for individuals:							
Direct 2/	$126.5	$148.1	$158.6	$166.6	$179.2	$193.2	$209.2
Indirect (grants-in-aid)	16.1	19.6	21.0	22.9	24.7	26.5	28.4
All other grants-in-aid 2/	33.5	39.8	40.9	41.4	41.6	40.9	41.3
Subtotal, Domestic assistance	176.1	207.5	220.4	230.9	245.5	260.7	278.9
Direct Federal Operations							
National defense	86.6	90.6	101.6	113.0	121.2	132.0	142.5
Net interest	23.3	26.6	31.9	35.0	37.3	38.4	38.8
Other	38.5	44.4	46.1	54.5	57.6	61.1	61.9
Subtotal, Direct Federal operations	148.4	161.6	179.5	202.4	216.0	231.6	243.3
Total budget outlays	$324.6	$369.1	$400.0	$433.3	$461.5	$492.2	$522.2
PERCENT OF TOTAL OUTLAYS							
Domestic Assistance							
Payments for individuals:							
Direct 2/	39.0%	40.1%	39.7%	38.4%	38.8%	39.3%	40.1%
Indirect (grants-in-aid)	5.0	5.3	5.2	5.3	5.3	5.4	5.4
All other grants-in-aid 2/	10.3	10.8	10.2	9.6	9.0	8.3	7.9
Subtotal, Domestic assistance	54.3	56.2	55.1	53.3	53.2	52.9	53.4
Direct Federal Operations							
National defense	26.7	24.5	25.4	26.1	26.3	26.8	27.3
Net interest	7.2	7.2	8.0	8.1	8.1	7.8	7.4
Other	11.9	12.0	11.5	12.6	12.5	12.5	11.9
Subtotal, Direct Federal operations	45.7	43.8	44.9	46.7	46.8	47.1	46.6
Total budget outlays	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1/ Includes impact of congressional action and inaction through June.

2/ Excludes military retired pay and grants classified in the national defense function.

Table 20

PROJECTED BUDGET AUTHORITY BY FUNCTION, 1977-1981
(fiscal years; in billions of dollars)

	1977 Current estimate[1]	1978	1979	1980	1981
National defense	116.1	122.6	130.3	142.3	149.7
International affairs	9.2	9.8	9.6	9.3	9.2
General science, space, and technology	4.6	4.8	4.7	4.6	4.2
Natural resources, environment, and energy	11.5	15.6	14.3	14.1	14.1
Agriculture	2.3	1.9	2.5	2.5	2.4
Commerce and transportation	18.7	18.9	19.0	18.9	18.2
Community and regional development	6.7	6.0	6.0	6.1	5.9
Education, training, employment, and social services	16.9	16.4	16.7	16.9	17.1
Health	38.4	44.5	49.4	54.1	63.4
Income security	157.3	177.0	194.9	211.6	226.2
Veterans benefits and services	18.5	17.6	17.6	17.2	16.7
Law enforcement and justice	3.3	3.4	3.4	3.4	3.5
General government	3.5	3.6	3.7	3.5	3.5
Revenue sharing and general purpose fiscal assistance	7.3	7.7	7.9	8.1	8.3
Interest	40.2	44.1	47.5	49.1	50.1
Allowances	0.8	5.1	9.3	11.8	14.1
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.5	-4.9	-5.2	-5.6	-6.0
Interest received by trust funds	-8.3	-9.2	-10.2	-10.7	-11.3
Rents and royalties on the Outer Continental Shelf	-4.0	-4.0	-4.0	-3.0	-3.0
Total budget authority	431.4	480.9	517.3	554.2	586.2

[1] Includes impact of congressional action and inaction through June.

Table 21

PROJECTED BUDGET AUTHORITY BY AGENCY, 1977-1981
(fiscal years; in billions of dollars)

	1977 Current estimate[1]	1978	1979	1980	1981
Legislative branch	0.9	1.0	1.1	1.0	1.0
The judiciary	0.4	0.4	0.5	0.5	0.6
Executive Office of the President	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President	6.2	6.6	4.2	6.2	3.4
Agriculture	12.0	12.2	12.9	13.2	13.5
Commerce	1.6	2.0	2.0	2.2	2.0
Defense-Military (including pay raises)	113.0	118.9	128.2	138.0	148.2
Defense-Civil	2.2	2.3	2.3	2.3	2.3
Health, Education, and Welfare	145.8	163.7	181.2	197.1	216.5
Housing and Urban Development	21.8	32.8	35.4	38.5	41.8
Interior	2.7	3.1	3.1	3.2	3.0
Justice	2.1	2.2	2.1	2.1	2.1
Labor	20.3	17.6	18.5	19.0	19.1
State	1.2	1.3	1.4	1.5	1.7
Transportation	8.8	13.0	13.6	13.5	13.1
Treasury	50.9	53.8	57.3	59.1	60.2
Energy Research and Development Administration	6.7	5.7	5.3	5.1	4.8
Environmental Protection Agency	0.7	4.7	4.7	4.7	4.7
General Services Administration	-0.6	-0.2	-0.1	-0.1	-0.1
National Aeronautics and Space Administration	3.7	3.9	3.8	3.7	3.3
Veterans Administration	18.5	17.6	17.6	17.2	16.7
Other independent agencies	29.2	31.3	32.3	33.6	34.6
Allowances	0.8	5.1	9.3	11.8	14.1
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.5	-4.9	-5.2	-5.6	-6.0
Interest received by trust funds	-8.3	-9.2	-10.2	-10.7	-11.3
Rents and royalties on the Outer Continental Shelf	-4.0	-4.0	-4.0	-3.0	-3.0
Total budget authority	431.4	480.9	517.3	554.2	586.2

[1] Includes impact of congressional action and inaction through June.

Projections of Outlays for Open-Ended Programs and Fixed Costs

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, for the first four fiscal years following the ensuing fiscal year [1977],. . . which will be required under continuing programs which have a legal commitment for future years or are considered mandatory under existing law. . ." Table 22 contains these estimates.

Table 22 indicates that benefit payments to individuals under existing legislation are projected to grow by roughly 8% a year from 1977 to 1981. Although legislation to renew the program is pending, outlays for the existing general revenue sharing program are shown in this table as dropping from $6 billion in 1975 and 1976, to $3 billion in 1977, and to zero in 1978 because the current statutory authorization expires after December 1976 and only the existing program is currently "relatively uncontrollable." (In Tables 17-18, and 20-21, however, the program is shown as continuing uninterrupted through 1981.). Outlays for other open-ended programs and fixed costs are projected to be relatively stable.

As the footnote on Table 22 states, the estimates represent simple projections of outlays under existing law. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other Government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

Table 22

PROJECTIONS OF OUTLAYS FOR OPEN-ENDED PROGRAMS AND FIXED COSTS, 1977-1981*
(fiscal years; in billions of dollars)

Relatively Uncontrollable Under Present Law	1977 Current estimate	1978	1979	1980	1981
Open-Ended Programs and Fixed Costs					
Payments for individuals:					
Social security and railroad retirement	87.0	95.9	105.7	115.8	125.7
Military retired pay	8.5	9.5	10.2	11.0	11.7
Other Federal employees retirement and insurance	10.0	11.5	13.0	14.4	15.5
Unemployment assistance	16.0	12.0	10.6	10.4	11.2
Veterans benefits	13.8	13.4	13.1	12.8	12.5
Medicare and medicaid	31.9	37.1	42.9	49.2	56.1
Housing payments	3.1	3.5	4.5	5.4	7.1
Public assistance and related programs	21.6	18.5	19.5	20.4	21.3
Subtotal, Payments for individuals	191.8	201.4	219.4	239.4	261.1
Net interest	31.9	34.9	37.3	38.4	38.8
General revenue sharing (existing law only)	3.4	---	---	---	---
Other open-ended programs and fixed costs	9.9	10.8	10.8	10.5	10.0
Total, Open-ended programs and fixed costs	237.0	247.1	267.5	288.3	310.0

* This table is supplied pursuant to the requirements of Section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510). The estimates represent simple projections of outlays under existing law and exclude proposed legislation. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

Outlays for Balances of Budget Authority Available at the end of Fiscal Year 1977: Non-Mandatory Programs

Section 221(b) of the Legislative Reorganization Act of 1970 also amended the Budget and Accounting Act of 1921 to require that the President shall transmit to the Congress "summaries of estimated expenditures, in fiscal years following such ensuing fiscal year [1977 this year], of balances carried over from such ensuing fiscal year." Table 23 contains these estimates.

The current estimate of the balances at the end of fiscal year 1977 for programs that have controllable outlays is $211 billion. About $11 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 $199.5 billion, is fairly consistent among the programs. The bulk of the spending takes place in 1978, and declines rapidly thereafter. About 44% is expected to be spent in 1978 and almost 20% in 1979. About 18% ($35.1 billion) is expected to remain unexpended at the end of fiscal year 1981. An estimated $7.4 billion of the 1977 end-of-year balances are expected to expire (without being spent) during fiscal years 1978 through 1981.

Table 23

ESTIMATED SPENDING FROM END OF FISCAL YEAR 1977 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, 1977	Total
Total balances, end of 1977 (current estimate)......	11.2	199.5	210.7
Spending from balances in:			
1978..	0.8	88.1	88.9
1979..	0.7	39.2	39.9
1980..	0.7	19.1	19.8
1981..	0.7	10.6	11.3
Expiring balances, 1978 through 1981................	---	7.4	7.4
Unexpended balances as of end of 1981..............	8.3	35.1	43.4