

BUDGET TRENDS, HIGHLIGHTS, AND ISSUES

BY FUNCTION: FISCAL YEAR 1976

CONGRESSIONAL  
RESEARCH

SET

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BUDGET TRENDS, HIGHLIGHTS, AND ISSUES BY FUNCTION,  
FISCAL YEAR 1976

This report comprises a collection of short analyses of the fifteen budget functions. The individual reports show the outlay trends, highlights and issues. These reports have been prepared by the Congressional Research Service subject divisions in whose area of speciality the majority of the function's programs and activities fall.

The reports by function are presented in the same order as they appear in the budget.

OUTLAYS BY FUNCTION FOR SELECTED FISCAL YEARS, 1966-1970  
(Amounts in Millions of Dollars)

Function	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> <sup>PR</sup> (est.)	<u>1976</u> (est.)
National defense	55,856	76,807	78,569	85,276	94,027
International affairs	4,554	3,093	3,593	4,853	6,294
General science, space and technology	6,790	4,294	4,154	4,183	4,581
Natural resources, environment, and energy	3,074	4,449	6,390	9,412	10,028
Agriculture	2,441	4,288	2,230	1,773	1,816
Commerce and transportation	8,956	10,397	13,100	11,796	13,723
Community and regional development	1,540	4,010	4,910	4,887	5,920
Education, manpower, and social services	4,093	9,045	11,600	14,714	14,623
Health	2,638	14,716	22,074	26,486	28,050
Income security	28,895	55,423	84,431	106,702	118,724
Veterans benefits and services	5,921	9,776	13,386	15,466	15,592
Law enforcement and justice	554	1,299	2,462	3,026	3,288
General government	1,426	2,159	3,327	2,646	3,180
Revenue sharing and general purpose fiscal assistance	242	488	6,746	7,033	7,249
Interest	11,286	19,609	28,072	31,331	34,419
Allowances for: (Energy tax equalization payments civilian agency pay raises, and contingencies)	--	--	--	700	8,050
Undistributed offsetting receipts: (Employer share, employee retirement, interest received by trust funds, rents and royalties on the Outer Continental Shelf)	<u>-3,613</u>	<u>-8,427</u>	<u>-16,651</u>	<u>-16,839</u>	<u>-20,193</u>
Total unified budget outlays	134,652	211,425	268,392	313,446	349,372

OUTLAYS BY FUNCTION AS A PERCENT OF TOTAL BUDGET,  
for Selected Fiscal Years, 1966-1976

<u>Function</u>	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> <u>(est.)</u>	<u>1976</u> <u>(est.)</u>
National defense	41.5%	36.3%	29.3%	27.2%	26.9%
International affairs	3.4	1.5	1.3	1.6	1.8
General science, space and technology	5.0	2.0	1.6	1.3	1.3
Natural resources, environment, and energy	2.3	2.1	2.4	3.0	2.9
Agriculture	1.8	2.0	0.8	0.6	0.5
Commerce and transportation	6.7	4.9	4.9	3.8	3.9
Community and regional development	1.1	1.9	1.8	1.6	1.7
Education, manpower, and social services	3.0	4.3	4.3	4.7	4.2
Health	2.0	7.0	8.2	8.5	8.0
Income security	21.5	26.2	31.5	34.0	34.0
Veterans benefits and services	4.4	4.6	5.0	5.0	4.5
Law enforcement and justice	0.4	0.6	0.9	1.0	0.9
General government	1.0	1.0	1.2	0.8	0.9
Revenue sharing and general purpose fiscal assistance	0.2	0.2	2.5	2.2	2.1
Interest	8.4	9.3	10.5	10.0	9.9
Allowances for: (Energy tax equalization payments civilian agency pay raises, and contingencies)	--	--	--	0.2	2.3
Undistributed offsetting receipts: (Employer share, employee retirement, interest received by trust funds, rents and royalties on the Outer Continental Shelf)	<u>-2.7</u>	<u>-4.0</u>	<u>-6.2</u>	<u>-5.4</u>	<u>-5.8</u>
Total unified budget outlays	100%	100%	100%	100%	100%



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I. SUMMARY

The national defense category of the FY 1976 budget totals \$107.7 billion in budget authority, an increase of \$16.4 billion over the current projection for FY 1975. The increase is required, the Administration states, to cover pay raises and underestimates of inflation in past years, particularly in the shipbuilding program, and to reverse the erosion of Department of Defense (DoD) purchasing power. Using the Administration's estimates for price inflation, however, the new budget request contains \$8.2 billion in real growth for DoD military obligations and foreign military assistance programs. Proposed outlays total \$94.0 billion, an increase of \$8.75 billion over FY 1975 estimates. Due to the lag between obligations and actual disbursements in the procurement area, the proposed increase in obligational authority in FY 1976 will produce corresponding increases in outlays in subsequent years.

The defense category estimates are based upon some important assumptions as to Congressional action and economic trends. For FY 1976, the estimates assume Congressional approval of the President's proposals to hold Federal pay raises to 5% and to place an 18 month moratorium on retiree cost-of-living increases. They also assume enactment of legislation

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1/ The national defense category of the FY 1976 budget includes regular Department of Defense military appropriations (including retired pay), foreign military assistance, defense activities of the Energy Research and Development Administration (formerly the Atomic Energy Commission), and miscellaneous defense-related activities such as the Selective Service System. Much of the detailed discussion in this paper will be limited to the Department of Defense and military assistance portions of the national defense category. (See Table I).

which would produce receipts from sale of petroleum reserves. If these assumptions are not borne out, spending in FY 1976 would be \$96 billion, or \$2.2 billion more than the budget estimate.

The FY 1976 national defense category is displayed by appropriation category in Table I. This table includes supplemental requests for FY 1975 budget authority as well as proposed additional requests identified by the Administration for FY 1976.

The greatest increase in the FY 1976 budget is in the General Purpose Forces category. The Army will add three divisions to its active force structure. Large increases have been budgeted for the procurement of tracked vehicles, tanks, tactical aircraft, and in the Navy shipbuilding program. The budget request also includes \$2.3 billion for underestimation of cost growth in previously funded shipbuilding programs.

Strategic missile forces and bombers are unchanged in total.

\$3.146 billion is included in the budget request for construction of new ships and conversion of existing ships.

There is a growth of \$1.6 billion in research and development and some \$1 billion in military construction.

Thus, there are three major areas that account for the increase in the FY 1976 budget over the prior year. These are:

- Increased personnel costs due to cost-of-living salary increases for active duty and retired military personnel and civilians. Stated costs will be increased by an additional \$1.8 billion if presidential proposals to limit pay increases for Federal employees are not enacted.

TABLE I.  
THE NATIONAL DEFENSE CATEGORY  
FY 1976 BUDGET

## BUDGET AUTHORITY - IN MILLIONS OF DOLLARS

<u>Defense Functions</u>	<u>FY 1974</u> <u>Actual</u>	<u>FY 1975*</u> <u>Estimate</u>	<u>FY 1976*</u> <u>Request</u>
Department of Defense - Military			
Military Personnel	24,167	24,983	25,078
Retired Military Personnel	5,151	6,276	6,885
Operation and Maintenance	23,955	26,242	29,182
Procurement	17,028	16,729	24,720
Research, Development, Test & Evaluation	8,176	8,572	10,179
Military Construction	1,563	1,927	2,887
Other	1,191	1,327	2,036
Allowances for:			
Civ. & Mil Pay Raises			1,232
Other Legislation			142
Deduct: Offsetting Receipts	-159	-262	-591
Total DOD-Military	81,073	85,795	101,749
Military Assistance	7,825	4,963	4,591
Total DOD-Military and Military Assistance	<u>88,898</u>	<u>90,758</u>	<u>106,340</u>
Atomic Energy Defense Activities - ERDA	1,586	1,767	1,896
Defense Related Activities	-1,178	-1,204	-532
Deductions for Offsetting Receipts	-13	- 7	-3
Total National Defense	<u>89,293</u>	<u>91,314</u>	<u>107,700</u>

\* All known supplementals and budget amendments are included.

- Cost growth, primarily underestimation of past inflation. \$2.3 billion is included to cover increased costs for ships approved by Congress in prior years.
- Program growth which is projected in almost all areas but is most pronounced in General Purpose Forces. Procurement, operation and maintenance, military construction, research and development, are all scheduled for real increases over FY 1976 "in an effort to reverse the trends which have resulted in sharp declines in real purchasing power in recent years."

### III. MAJOR ISSUES

#### A. General Purpose Forces

The Administration has chosen FY 1976 as the year to expand, modernize, or make up for previous year underfunding in a wide variety of general purpose forces. These forces (as distinguished from nuclear strategic forces) include most of the Army, Navy, Marine Corps, tactical Air Force units, and National Guard and Reserve forces. In addition intelligence, communications, research and development, and indirect support programs funds are, in large proportion, attributable to these forces. In FY 1975, general purpose forces consumed approximately 70 percent of defense outlays. The FY 1976 budget reflects a substantial but not yet determined increase in this proportion. As a result of the major increase in this budget category, the real growth in baseline forces <sup>1/</sup> spending is greater than in any year since 1967. Why the large number of general purpose force improvements were packed into this particular budget is a question which should be explored.

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<sup>1/</sup> Base-line force costs do not include military retired pay, military assistance, and the incremental costs attributed to our presence in Southeast Asia.

### 1. Increase in Army Combat Strength

The FY 1976 budget requests funds to increase Army combat divisions from 13 to 16 by the end of FY 1976, while maintaining overall strength at the current level of 785,000. Plans call for converting support and headquarters positions to combat positions and reducing the number of maneuver battalions in all CONUS-based divisions from 10 to 9, using the extra battalions to fill new divisions. The new divisions will consist of two rather than three brigades, with the third brigade to be provided when needed from the Army Reserve or National Guard upon mobilization. The Administration apparently feels the new divisions are required because U.S. conventional ground forces are not adequate to deal with potential threats, especially in Western Europe.

Long-term cost estimates for the new combat forces are not available; there will be immediate increases in operation and maintenance, weapons and equipment procurement, and military construction costs. Some \$600 million has been attributed to this buildup in Army strength for FY 1976. Expenditure for tanks has increased to \$498.3 million in FY 1976 (\$256.5 million in FY 1975) and for armored personnel carriers to \$103.6 million (\$7.7 million in FY 1975). Some part of these increases can be attributed to the new combat forces.

Elimination of excess manpower from unnecessary support units, without establishing new combat divisions, could result in substantial savings.

## 2. Underestimation of Shipbuilding Costs

Prominent among FY 1976 general purpose force requests is an amount of \$2.3 billion to cover increased costs of ships approved by Congress in previous years. These costs arise, according to the Administration, largely due to unforeseen inflation. This amount involves no new programs and no additional ships. This type of cost growth has arisen in many areas, but is said to be much greater in shipbuilding programs because of the long lead times involved. This request actually represents a request for reconsideration of Congressional appropriations for shipbuilding programs over many years past. Such "underfunding" is not unique to the shipbuilding program. It is handled by the Services in many ways, including requests for supplemental appropriations (as this request, in effect, represents), deferring work, reprogramming funds from lower priority projects, ordering lesser quantities, making design changes, etc. This request, along with requests for new ship construction, can be expected to lend urgency to calls for a re-examination of the Navy general purpose fleet mission and the total Navy shipbuilding program and its eventual costs.

### 3. Tactical Air Forces

Modernization of the tactical air arms of each Service continues at an accelerated pace. Replacement of carrier based F-4's by F-14's will require an acquisition cost increment of approximately \$722 million. (Total F-14 program cost will be approximately \$7 billion dollars.) The Air Force companion program--replacement of F-4's with F-15's--will require a FY 1976 increment of approximately \$1.7 billion. Total F-15 program cost is estimated at more than \$11 billion. Development costs of lightweight prototype fighters for Navy and Air Force show significant increases; these costs will continue their rapid acceleration in future years. Substantial funds are also requested for improvement and modernization of Marine Corps and Army tactical and support air.

Despite the record rise in the general purpose force funding request, Navy carrier-based attack wings will decrease from 14 to 13 and attack aircraft carriers decrease from 15 to 13 in the active forces.

### 4. Operation and Maintenance

While a substantial portion of the increase requested for Operation and Maintenance relates to pay increases and general inflation, there is real program growth of \$652 million to upgrade material and personnel readiness and to enhance general purpose force capability. Increased funds are allotted for aircraft spare parts, war reserve requirements, air operations, ship alterations and maintenance, and real property maintenance.



### B. Strategic Forces

Strategic forces would receive \$7.7 billion in the FY 1976 budget, as well as a substantial portion of the \$9.4 billion allocated for research and development. These funds will permit continued development of the B-1 bomber and the beginning of full-scale production in 1977; continued development of the Trident submarine system with initial deployment in 1979; design of a lower cost alternative to Trident; development of ICBMs that could be launched from mobile launchers; continued development of long-range cruise missiles; up-dating ballistic missile defense technology; improvements in capabilities for surveillance and early warning; and improvements in the command, control, and communications of strategic forces.

SALT II guidelines authorize the United States and the Soviet Union 2400 strategic nuclear delivery systems each. President Ford has expressed an "obligation" to reach that ceiling. Since each Trident costs \$1 billion and each B-1 costs \$86 million, substantial savings could result if the United States could provide for its defense with strategic weapons even slightly below that ceiling.

### C. Security Assistance

The FY 1976 budget contains some \$3.3 billion for support to other nations. This includes \$1.293 billion in military assistance for South Vietnam. The major portion of these funds is for procurement of aircraft (\$62.7 million), tanks and other weapons (\$40.6

million), ammunition (\$673.3 million), for supply operations (\$125.0 million), and for "other activities" (\$312.2 million).

Grant aid to other countries is requested in the amount of \$1.04 billion. Included in this amount is \$250 million to reimburse the military departments for defense stocks diverted to Cambodia in 1974. (The President has authorized a similar drawdown of \$75 million in FY 1975.) This year, training of foreign military personnel has been removed from the grant aid total, and a separate account of \$30 million is being requested for this activity. \$560 million is requested in FY 1976 to finance foreign military credit sales.

The Foreign Assistance Act of 1974 (PL 93-599) directed the President to submit to the first session of the 94th Congress a detailed plan for the reduction and eventual elimination of the military assistance (grant aid) program. The status of that plan and its influence on this budget request is not known.

D. Production Support for Foreign Military Sales

This \$300 million item constitutes a new program. This authority would allow the transfer of these funds to defense procurement accounts. This money would be used to initiate procurement of items which have been or it is anticipated will be sold to certain allies for delivery on an urgent basis. Thus, the early procurement of these items, in addition to the needs of U.S. forces, would prevent the drawing down of U.S. inventories in order to make good on certain time-sensitive sales. This authority, then, is designed to provide some flexibility to the aid/sales program and moderate the effect of such sales upon the readiness of U.S. active forces.

### III. RELATION OF THE FY 1976 BUDGET TO NATIONAL SECURITY

FY 1975 was a year for new strategic weapons initiatives; FY 1976 is the year budgeted for expansion, refurbishment, modernization, and readying general purpose forces. It is this budget area that accounts for a major portion of the record, post-Vietnam real growth in the FY 1976 budget.

The budget reflects the greatest emphasis on baseline general purpose force capability since the Kennedy-Johnson years. The Administration bases its justification for these forces on the need to deter or repel limited threats by means short of strategic nuclear conflict. In previous years two major contingencies were cited as the basis for the general purpose force structure: (a) an attack by the Warsaw Pact nations on NATO, and (b) aggression in Eastern Asia which would involve forces of a major hostile power. The real growth in general purpose force capability raises fundamental questions. Has the conventional balance of power shifted? Does the possibility of involvement in Middle East military operations add a new dimension to United States strategy? Does the increased emphasis on manpower-intensive general purpose forces portend increasing defense manpower costs during future years? Does this budget contain a bargaining chip designed to strengthen the U.S. hand in our negotiations with the Soviet Union for mutual and balance force reductions (MBFR) in Europe? Are additional ground combat forces in being needed, or could the manpower from which divisions are being formed be eliminated? What is the scope, cost, and rationale for the total Navy shipbuilding program? What tactical aviation forces are required in the baseline force?

These are among the major issues which invite exploration during hearings on defense authorization and appropriations in this session.

INTERNATIONAL AFFAIRSOverview

The \$5.9 billion requested for International Affairs represents an increase of \$213 million over the amounts authorized or appropriated for fiscal 1975. In percentage terms, the portion of the total budget devoted to international affairs has decreased from 1.9 percent in FY71 to slightly less than 1.7 percent for fiscal 1976.

The 1976 budget presentation for international affairs is unusual for two reasons: there is still no fiscal 1975 appropriation for those programs authorized by the Foreign Assistance Act, and an increase for 1975 food aid programs totaling \$622 million has been incorporated in the budget within the last 30 days.

For 1976, major increases have been proposed for the Food and Nutrition Section of Functional Development Assistance and for Security Supporting Assistance. The increases for fiscal 75 PL 480 food aid and for the Food and Nutrition Section for fiscal years 1975 and 1976 reflect Administration concern with immediate hunger problems facing certain less developed countries. An important new program is the \$7 billion budget authority requested for 1976 to comprise the United States quota of a \$25 billion Special Financing Facility to be created in the OECD to make loans to industrialized countries for use to cover balance of payments deficits caused by recent large oil price increases. Legislation authorizing U.S. expenditures for this facility will be submitted to Congress when its final configuration has been negotiated. The following table sets out the amounts requested for international affairs for fiscal 1976, authorizations or appropriations for fiscal 1975, and actual budget authority for fiscal years 1971 and 1974.

INTERNATIONAL AFFAIRS <sup>1/</sup>  
(In millions of dollars)

	<u>1971</u> <u>Actual</u>	<u>1974</u> <u>Actual</u>	<u>Fiscal 1975</u> <u>Appropriations</u> <sup>2/</sup>	<u>Fiscal 1976</u> <u>Budget Request</u>
a. Conduct of Foreign Affairs State, USIA, ACDA, BIB	687	952	1,010	1,214
b. Food Aid				
PL 480-TPCF <sup>2/</sup>	1,246	964	1,602 <sup>3/</sup>	1,318 <sup>2/</sup>
Title I - sales	(851)	(578)	(1,149) <sup>3/</sup>	(912)
Title II - grants	(395)	(384)	(453)	(406)
c. Economic Assistance	1,928	3,663	3,117 <sup>2/</sup>	3,406
1) Functional Development Assistance	(740)	(574)	(849)	(1,006)
2) Security Supporting Assistance, Indochina Post-War Relief, Contingency Fund, Peace Corps	(617)	(707)	(1,089)	(1,642)
3) Multilateral Banks, Int. Orgs. & Programs	(571)	(2,382)	(1,179)	(758)
Totals for Categories Listed Above	3,861	5,579	5,729	5,938
Special Financing Facility	--	--	--	7,000
Grand Total	3,861	5,579	5,729	12,938

<sup>1/</sup> Military assistance is discussed under National Defense

<sup>2/</sup> There is as yet no fiscal 1975 appropriation for activities funded by the Foreign Assistance Act, and PL 480 figures are total program costs, not appropriations

<sup>3/</sup> Includes \$178 million added after the budget closed

Conduct of Foreign Affairs

A total of \$1,214 million has been requested to conduct the operations of the Department of State, the United States Information Agency, the Arms Control and Disarmament Agency, and the Board for International Broadcasting. Since fiscal 1971, the amounts requested for these agencies have increased almost 100 per cent. In addition, the percentage of the total international affairs function devoted to the conduct of foreign affairs has increased from 17 percent for fiscal years 1974 and 1975, to 20 percent for fiscal 76. While these agencies do incur costs for the construction and maintenance of facilities, as a percentage of the total these costs are relatively low. The lion's share of the budgets of these agencies is expended for salaries and expenses, and the growth in their budgets has come about mainly because of higher costs due to federal pay increases and to inflation.

Food Aid

The most significant figures in the budget proposal for food aid are those for the remainder of fiscal 1975. Until the budget document was released, the ultimate size of the Public Law 480 food aid program remained unclear with conflicting statements concerning the program coming from Administration spokesmen. Through November 1974, total program costs were assumed to be the \$981 million indicated in fiscal 1975 congressional presentations. The new budget shows a total program

increase over the fiscal 1975 budget request of \$444 million for the remainder of the fiscal year. In addition, the Director of the Office of Management and Budget, in releasing the budget, announced a further \$178 million allocation for 1975, making a \$622 million increase over the 1975 program presented to Congress. This makes a total of \$1,602 million. OMB has indicated that this increase is due partly to congressional pressure to increase food aid to the most seriously affected less developed countries.

For 1976, total program costs are projected to be \$1,318 million, a \$284 million decrease from the expanded 1975 figure, but a \$354 million increase over the 1974 program. However, because of continuing high commodity prices, the volume of food aid in 1976 will remain well below prior levels. In fiscal 1970, for example, 229 million bushels of wheat and 20.7 million hundredweight of rice cost \$526 million. By 1974, \$537 million was expected to purchase only 37 million bushels of wheat and 13.6 million hundredweight of rice. The high commodity prices which have existed since the beginning of 1973 are not expected to fall significantly in the near future.

#### Economic Assistance

The \$3,406 million for economic assistance 1976 is \$294 million more than is presently authorized for the programs included in this category. However, because of the \$421 million decrease in the request for multilateral banks when compared with 1975, the request for Functional Development Assistance, Security Supporting Assistance, and Indochina Post War Relief is actually some \$717 million larger than authorized for fiscal 1975. This represents a 27 percent increase for these programs. Economic assistance represents 57 percent of the fiscal 1976 international



affairs request -- up from the 54% authorized for economic aid for fiscal 1975.

Functional Development Assistance provides the budgetary framework for U.S. bilateral development assistance activities. The \$272 million fiscal 1976 increase -- to a total of \$1,011 million -- is a reflection of the Administration's desire to provide more U.S. aid for the immediate needs of the majority of the people living in less developed countries. The major portion of the increase and the major portion of the appropriation will be for food and nutrition and population planning and health. For 1976, a \$190 million increase has been requested for Security Supporting Assistance. This follows an increase of \$268 million in fiscal 1975. Thus in two years there has been a 490 percent increase in the amounts programmed for Security Supporting Assistance. The largest part of the \$580 million 1976 request is scheduled to be used for Israel, Egypt, Syria, and Jordan. The request for Indochina Postwar Reconstruction Assistance represents a \$335 million increase over the amount authorized for 1975. If enacted, the Indochina relief request would be some 95 percent larger than for 1974. Finally, because of the irregular incidence of capital subscription payment requirements, the request for Multilateral Banks and International Organizations and Programs is down \$421 million from the 1975 authorization, and down some \$1.6 billion compared with 1974. Special Financing Facility

The balance of payments surplus on current account of the members of the Organization of Petroleum Exporting Countries (OPEC) has risen



from \$5 billion in 1972 to over \$60 billion in 1974 as a result of dramatic increases in oil prices. Most of this surplus has come from industrialized consuming nations, and continuing large surpluses are expected to be recorded by the oil exporting countries in the immediate future. Because certain industrialized countries may encounter difficulties financing the increased cost of their oil imports, the Administration has recommended that a Special Financing Facility be established to act as a lender of last resort to those members of the OECD experiencing serious oil-related balance of payments problems. The purpose of the facility is to provide a mechanism for recycling oil funds among industrialized countries but outside of the IMF's comparable oil facility.

The most recent available version of the U.S. proposal envisions a \$25 billion two-year fund which would lend to OECD borrowers at current market interest rates to cover oil-related balance of payments deficits. The U.S. quota in the facility would be a maximum of \$7 billion, based on GNP and foreign trade. According to the budget, budget authority for the full \$7 billion will be requested for fiscal year 1976 even though only \$1 billion is expected to be lent out by the end of the fiscal year. At this time, the ultimate size of the facility, the duration of its existence, the exact size of members' quotas, and the precise method of its operation are still being negotiated. When these negotiations are completed, the Administration intends to present the final configuration to Congress with its request for the authorization of U.S. expenditures.

GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The description of this classification on page 64 of the Budget for FY 1976 may be misleading. This category is limited to the budget of the National Science Foundation, the budget of the United States Geological Survey of the Department of Interior, the budget of the National Aeronautics and Space Administration exclusive of items related to aeronautical activities, and elements of the budgets of the Smithsonian Institution and the new Energy Research and Development Administration. Although this category does include most of the previous "space research and technology" functions as stated, its coverage of life sciences and nuclear sciences is limited to activities of the NSF and to those activities formerly conducted through the Physical Research Division of the AEC. Thus, most of the nuclear research and development activity and all of the biomedical and environmental research, as well as all plasma physics basic research, formerly conducted by the AEC is not contained in the category of General Science, Space, and Technology. The estimated total outlay of \$1,043 million indicated for general science and basic research under this category in FY 1975 is less than half the total outlay for all basic scientific research, estimated at \$2,586 million for that same year. The remainder is distributed among several other functional categories.

Category 251. GENERAL SCIENCE AND BASIC RESEARCH

This item includes the entire budget of the National Science Foundation plus those parts of the budget of the Energy Research and Development Administration entitled Space Nuclear Systems and Physical Research. The Physical Research category consists of the former Atomic Energy Commission basic research efforts in high energy physics, nuclear science, materials sciences, and molecular sciences. It is scheduled for approximately a 10% increase in all four areas, to provide research which will facilitate development of new energy sources and to provide increased utilization of high energy accelerators. The Space Nuclear Systems Program is specifically to provide nuclear power sources for scheduled flights such as the NASA Mariner series. This item is scheduled to increase by approximately 8% in FY 1976 in order to continue its mission.

The National Science Foundation's budget will increase by \$78.3 million in FY 1976 to a total of \$775.4 million. Of this amount, \$20 million represents deferrals from FY 1975. The major components of the budget increase are: \$39.4 million for increased support of basic research, with emphasis on areas relating to energy and food production; \$18 million for two replacement aircraft for the Antarctic Research Program; \$6.7 million to expand and house computing facilities of the National Center for Atmospheric Research; \$3.0 million to begin operation and testing of the Very Large Array radiotelescope of the National Radio Astronomy Observatory; \$4.0 million for a new program in climate dynamics, to subsume and expand upon earlier Foundation activities; \$3.6

million to expand the Ocean Sediment Coring Program; and \$1.9 million for preliminary work on the Arctic Offshore Program. Major reductions are programmed as follows: Research Applied to National Needs, down \$3.2 million to \$79.5 million; Science Education Improvement, down \$7.2 million to \$54.0 million primarily due to a \$5.1 million reduction in the Science Literacy Program; and science advisory activities down \$2.0 million due to a transfer of most of the Energy R&D Policy Research Office function to the Energy Research and Development Administration.

Category 252. EARTH SCIENCES

The Earth Sciences Section of the Budget of the United States Government FY 1976 (page 91) contains an outline of the programs of the Geological Survey. These programs include topographic surveys and mapping, geological and mineral resources surveys and mapping, water resources investigations, and the supervision of leasing of Federally owned natural resources. Outlays for the Survey will be \$266 million which is an increase of \$28 million over FY 1975. The increases are primarily to support Outer Continental Shelf and onshore energy and mineral leasing programs.

## Functional Classification 250:

GENERAL SCIENCE, SPACE AND TECHNOLOGY BUDGET OUTLAYS FY 1966,  
FY 1971, FY 1974-1976

(millions of dollars)

250 General Science, Space and Technology	Actual FY 1966	Actual FY 1971	Actual FY 1974	Estimate FY 1975	Estimate FY 1976
251 GENERAL SCIENCE AND BASIC RESEARCH	858	1,009	1,016	1,043	1,134
Energy Research and Development Adminis- tration <u>1/</u> Physical Research, Space Nuclear Systems, Plant and Equipment, and a proportional amount for Program Support	489	487	369	394	414
National Science Foundation (total budget)	369	522	647	649	720
252 EARTH SCIENCES	74	114	178	238	266
Geological Survey, Department of Interior	74	114	178	238	266
Smithsonian Institution Trust Funds <u>2/</u>					
253 MANNED SPACE FLIGHT	4,210	1,885	1,473	1,538	1,705
National Aeronautics and Space Administration	4,210	1,885	1,473	1,538	1,705
254 SPACE SCIENCE, APPLICATIONS, AND TECHNOLOGY	1,213	933	1,168	1,040	1,127
National Aeronautics and Space Administra- tion	1,213	933	1,168	1,040	1,127

255 SUPPORTING SPACE ACTIVITIES	435	355	322	327	351
National Aeronautics and Space Adminis- tration	435	355	322	327	351
Deductions for Offset- ting Receipts	-1	-2	-3	-3	-3
TOTAL GENERAL SCIENCE, SPACE AND TECHNOLOGY	6,790	4,294	4,154	4,183	4,581

1/ Formerly AEC. These data were derived by subtracting the NSF outlay from the OMB totals for account 251 as contained in Table 17 of the FY 1976 Budget, at pp. 360-61.

2/ Represents outlays for the Canal Zone Biological Area fund (60 Stat. 1101; 20 U.S.C. 79.79a) ranging from \$24,000 for FY 1966, to \$57,000 for FY 1974, and an estimated \$50,000 for FY 1976.

SPACE RESEARCH AND TECHNOLOGY  
Categories 253, 254 and 255 1/

Overview

Fiscal Year 1976 is a year of no new starts for NASA. The largest program in FY 1976 is the continued development and prototype production of the space shuttle. The shuttle is a reusable and more economical transportation system and is expected to provide relatively routine commutation to space. Its development will require \$1.2 billion in FY 1976 or about 38% of the funding in this category.

The year will be active in terms of launches. Twenty-eight are planned, one of which will be manned. This will be the Apollo-Soyuz test project. The Viking missions (2) to Mars will be launched in August and will reach Mars during the summer of 1976.

The remainder of the launches will consist of 4 weather satellites, a navigational satellites, eleven communication satellites, and nine scientific satellites.

Among the scientific satellites is Landsat-2, (formerly called ERTS-B) which will further test and demonstrate the utility of satellite remote sensing of earth resources including crop inventories, water resources, etc. Other areas of scientific investigation include astronomy, chemistry and dynamics of the upper atmosphere and a test of relativity.

It is notable that half (14) of the FY 1976 launches are reimbursable launches, i. e. commercial, other user agency or international launches

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1/ In "The Budget for Fiscal Year 1976", Space Research and Technology is the total of three sub-categories:  
253. Manned Space Flight  
254. Space Science, Applications and Technology  
255. Supporting Space Activities.

Figures for years prior to 1974 were derived, in the same way.



for which NASA is fully reimbursed.

### Trends

In the following table the funding for the Space Research and Technology category is shown from 1966 projected through 1976. The line below shows the same figures in constant 1967 dollars using the GNP deflator factor. <sup>2/</sup> The third line shows the percentage change between one year and the year prior in 1967 dollars.

#### SPACE RESEARCH AND TECHNOLOGY (millions of dollars)

1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
5858	5336	4594	4081	3563	3173	3195	3091	2963	2905	3183
5858	5336	4439	3779	3128	2648	2570	2402	2160	1916	1923
	-9%	-17%	-15%	-17%	-15%	-3%	-7%	-10%	-11%	+0.3%

It may be seen from the table that the average percentage decline over the past decade is about 10% per year and that the program is now a third the size it was ten years ago.

The downward trend has steadily decreased the Nation's space activities and capabilities. NASA's operations in this category are now characterized by deferred obligations, deferred outlays, program slow downs and delays. The prospect of slippages and ultimate increases in costs due to delays are now present. Personnel has been steadily reduced. (A reduction for the total agency of 300 is planned for FY 1976.)

<sup>2/</sup> The GNP deflators for FY 1975 and FY 1976 were computed by assuming a 10.5% increase for FY 1975 over FY 1974 and a 9.15% increase for FY 1976 over FY 1975. These changes were computed by interpolation between calendar year percentage changes from the economic assumption table of the President's 1976 budget message.

It is suggested that the downward trend in level of effort is the most significant trend in the category. It could be profitable to evaluate the trend in terms of present return on investment, potential future economic and scientific benefits as well as the relative position of the U.S. with Russia in space technology and capability.

Categories 253, 254 and 255. SPACE RESEARCH AND TECHNOLOGY 1/

Fiscal Year 1976 is planned as a year of no new starts for NASA. The largest program in FY 1976 is the continued development and prototype production of the space shuttle. The shuttle is reusable, is planned to be a more economical transportation system and is expected to provide relatively routine commutation to space. Its development will require \$1.2 billion in FY 1976 or about 38% of the funding in this category.

The year will be active in terms of launches. Twenty-eight are planned, one of which will be manned. This will be the Apollo-Soyuz test project. The Viking missions (2) to Mars will be launched in August and will reach Mars during the summer of 1976.

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254. Space Science, Applications and Technology

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## NATURAL RESOURCES, ENVIRONMENT, AND ENERGY

This is a newly structured functional category for FY 1976 and includes six broad subcategories: (1) energy, (2) pollution control and abatement, (3) water resources and power, (4) conservation and land management, (5) recreational resources, and (6) other natural resources. However, it should be noted that a number of programs directly related to this functional category are not included. This is particularly evident with respect to environmental programs.

Budget outlays for this category are estimated at more than \$10 billion for FY 1976, an increase of about 6.5 percent over FY 1975. The following table depicts the growth of these programs over the last decade.

## NATURAL RESOURCES, ENVIRONMENT, AND ENERGY

(In Millions of Dollars)

PROGRAM	OUTLAYS					% Change FY 75 to FY76	Recommended Budget Authority FY 1976
	1966	1971	1974	Estimate 1975	1976		
Energy	468	441	606	1,454	2,240	+ 53	2,491
Pollution Control and Abatement	158	702	2,032	2,914	2,974	+ 2	- 0 -
Water Resources and Power	1,706	2,053	2,540	3,301	3,282	- .6	7,638
Conservation and Land Management	640	865	757	1,272	939	- 26	785
Recreation Resources	245	476	662	800	856	+ 7	857
Other Natural Resources	246	387	498	546	607	+ 11	694
Deductions for Offsetting Receipts	-390	-475	-705	-875	-869	- .7	-869
TOTAL	\$3,074	\$4,449	\$6,390	\$9,412	\$10,028	+6.5	\$12,226

## Highlights and Issues

### 1. Energy

Outlays for this subcategory are estimated at \$2.2 billion for FY 1976 an increase of 53% over FY 1975.

General operating programs of the Federal Energy Administration (FEA), the newly established Energy Research and Development Administration (ERDA) and the Department of Interior increased from \$152 million to \$498 million from 1975 to 1976 and include funds for the development of energy policy, uranium enrichment activities, and the management and leasing of federally owned oil, natural gas, and coal resources.

The Administration has announced that it intends to lease all promising oil areas on the Outer Continental Shelf by 1978. Federal receipts from rents and royalties of the Outer Continental Shelf were \$6.7 billion in FY 1974 and are estimated at \$5.0 billion for FY 1975 and \$8.0 billion for FY 1976. However, there is considerable controversy as to the proposed leasing schedule. Critics argue that leasing should be delayed until more accurate energy resource data is available on the extent of the oil and gas deposits on Federal lands and the environmental impacts of OCS development are more carefully weighed. In addition, it is likely that the Congress will again consider legislation which would amend current leasing policy with respect to rents and royalties. As a consequence, Federal receipts from OCS development could fluctuate from current estimates.

Federal energy regulation outlays are estimated to decline from 171 million in FY 1975 to \$164 million for FY 1976. Funds are provided for the Federal Power Commission, the Federal Energy Administration, and the Nuclear Regulatory Commission to administer programs regulating the development and sale of petroleum, natural gas, and electric power.

Energy Research and Development continues to expand from the estimated \$1.1 billion in outlays for FY 1975 to approximately \$1.6 billion for FY 1976. This represents a 39% increase over FY 1975 and is more than a 100% increase over FY 1974 outlays of \$739 million.

The Energy Research and Development Administration will carry out the bulk of energy R&D work with proposed outlays of \$57 million for solar energy (\$8 million in FY 75), \$28.3 million for geothermal energy (\$14 million in FY 75), and \$23 million for advanced energy systems (\$12 million in FY 75). Outlays for energy conservation research are projected at \$32 million compared to \$16 million for FY 1975.

A high priority will also be given to coal liquefaction and gasification with coal utilization objectives estimated at \$289 million, an increase of \$101 million from FY 1975.

Energy R&D for thermonuclear fusion is projected at \$120 million (\$85 million in FY 75) although it is argued that fusion probably cannot contribute power for domestic sources until the turn of the century. Fission power reactor development will increase nearly \$60 million to \$443 million with the largest portion--\$261 million--going into the Liquid Metal Fast Breeder Reactor (LMFBR) program.

The levels of energy R&D funding for specific energy sources will be the subject of extensive debate as to the adequacy and mix of these outlays.

The following table provides a breakdown of budget authority and outlays for energy by Agency.

Function and department or other unit	BUDGET AUTHORITY			OUTLAYS		
	1974 actual	1975 esti- mate	1976 esti- mate	1974 actual	1975 esti- mate	1976 esti- mate
— Energy:						
Department of the Interior.....	9	52	50	12	21	47
Energy Research and Develop- ment Administration.....	516	1,405	1,885	454	1,099	1,638
Environmental Protection Agency.....		134	112		32	113
Other independent agencies:						
Federal Energy Administra- tion.....	73	142	187	33	127	208
Federal Power Commission.....	28	33	36	27	37	36
Nuclear Regulatory Commis- sion.....	82	147	220	80	139	198
Total .....	709	1,914	2,491	606	1,454	2,240

\* Includes both Federal funds and trust funds.

## 2. Pollution Control and Abatement

Outlays for this subcategory are estimated at nearly \$3 billion for FY 1976 of a total of \$6.9 billion in outlays projected for all Federal environmental programs (see Special Analysis of the Budget - Special Analysis Q, p. 268-281).

\$2.3 billion of this total will be for grants for the construction of waste treatment plants. \$4 billion of previously impounded funds are also to be allotted to States for waste treatment facilities in FY 1976. However, of a total of \$13 billion available for obligation for waste treatment facility construction needs only \$4 billion has been obligated to date. In addition, \$5 billion remains to be released by the



Administration from the total of \$18 billion previously authorized by the Congress. There are two major issues associated with water pollution control funding. One is the estimate of need; the other is how to distribute available funds among the states. Before P.L.92-500 was enacted, there had been an estimate that some \$12-18 billion would be needed. Since then, two additional estimates have been made, showing about \$60 billion and \$350 billion in needed construction. Changing definitions account for part of this increase--should sewers be included, should storm water sewers and sanitary sewers be separated, for example.

On the distribution side, the formula in use before P.L.92-500 was based on population. Since then, two formulae have been developed for fiscal years 1973 and 1974 and a revised needs formula for FY 1975. The latter formula also required that no state shall receive less money than it received in 1972. In terms of future impact on the budget, resolution of the definition of need will be a major factor. The table below provides a summary of budget authority and outlays by agency.

Function and department or other unit	BUDGET AUTHORITY			OUTLAYS		
	1974 actual	1975 esti- mate	1976 esti- mate	1974 actual	1975 esti- mate	1976 esti- mate
<b>Pollution control and abate- ment:</b>						
Department of the Interior.....	*	*	*	*	*	*
Department of the Treasury.....	1	*	-----	-----	*	-----
Environmental Protection Agen- cy <sup>1</sup> .....	5,953	4,112	631	2,030	2,905	2,967
Other independent agencies:						
Interstate Commission on the Potomac River Basin.....	*	*	*	*	*	*
Other temporary study com- missions.....	10	7	-----	1	9	6
<b>Total .....</b>	<b>5,964</b>	<b>4,119</b>	<b>631</b>	<b>2,032</b>	<b>2,914</b>	<b>2,974</b>

\*Less than \$500,000.

<sup>1</sup> Includes both Federal funds and trust funds.

### 3. Water Resources and Power

Outlays for this subcategory are estimated at \$3,282 million, a \$19 million decline from FY 1975. Outlays for water resource development programs of the Corps of Engineers, Bureau of Reclamation, and the Soil Conservation Service total to approximately \$2.8 billion with no new construction projects proposed. The Bonneville Power Administration will be on a self-financing basis in 1975 with revenues from power sales to be used to expand and maintain the system. This represents a savings in outlays for FY 1976 of \$68 million.

Function and department or other unit	BUDGET AUTHORITY			OUTLAYS		
	1974 actual	1975 esti- mate	1976 esti- mate	1974 actual	1975 esti- mate	1976 esti- mate
<u>Water resources and power:</u>						
Department of Agriculture <sup>1</sup> .....	181	151	163	153	182	166
Department of Defense--Civil <sup>1</sup> .....	1,766	1,717	1,942	1,666	1,903	1,989
Department of the Interior <sup>1</sup> .....	231	1,766	419	300	383	362
Department of State.....	9	13	15	13	21	23
Other independent agencies:						
Delaware River Basin Com- mission.....	*	*	*	*	*	*
Susquehanna River Basin Commission.....	*	*	*	*	*	*
Other temporary study com- missions.....				*	*	
Tennessee Valley Authority.....	46	77	5,088	401	800	731
Water Resources Council <sup>1</sup> .....	7	10	10	7	12	11
<b>Total</b> .....	<b>2,242</b>	<b>3,734</b>	<b>7,638</b>	<b>2,540</b>	<b>3,301</b>	<b>3,282</b>

### 4. Conservation and Land Management

Outlays for this subcategory are estimated at \$939 million, a \$333 million decrease from the FY 1975 level of \$1,272 million.

The decreased funding level results from the planned termination of the agricultural conservation program and reductions in Forest Service outlays.

The Forest Service will harvest some 10.8 billion board feet (BBF) of timber during FY 1976 which is substantially unchanged from 1974 and 1975. Expected revenues from timber sales are estimated at \$485 million.

Programs designed to increase long term public forest growth and private forest management, along with the transportation infrastructure for the national forest system are less than prior efforts and in some cases severely reduced. Thus the timber production program will not permit a measured response to meet increased wood needs should housing starts rise nor will it help meet the longer term projected wood supply needs.

Outlays for conservation and land management by the Bureau of Land Management (BLM) will increase \$14 million to \$230 million. A total of \$63 million--\$29 million more than 1975 will be spent by BLM to meet the Department of Interior's accelerated oil and gas leasing schedule.

Function and department or other unit	BUDGET AUTHORITY			OUTLAYS		
	1974 actual	1975 esti- mate	1976 esti- mate	1974 actual	1975 esti- mate	1976 esti- mate
Conservation and land management:						
Department of Agriculture <sup>1</sup> .....	953	706	473	591	1,001	649
Department of Commerce.....	12	15	18	1	20	17
Department of the Interior <sup>1</sup> .....	205	267	293	165	250	272
Other independent agencies:						
Marine Mammal Commission.....	*	1	1	*	1	1
Other temporary study commissions.....				*		
<b>Total</b> .....	<b>1,170</b>	<b>989</b>	<b>785</b>	<b>757</b>	<b>1,272</b>	<b>939</b>

\*Less than \$500,000.

<sup>1</sup> Includes both Federal funds and trust funds.

## 5. Recreational Resources

Outlays for this subcategory are estimated at \$855 million, an increase of \$55 million from the FY 1975 level.

Acquisition and development of recreation land will be funded at \$300 million, the same rate for FY 1975. States will receive \$176 million of this amount in the form of matching grants (50/50 basis) from the Land and Water Conservation Fund. It has been argued that this funding level should be increased to a more liberal figure of \$1 billion per year and that the States matching ratio should be decreased.

The energy crisis has also prompted suggestions that new recreation facilities be located near urban centers or central to public transportation routes.

Outlays for the National Park Service and the Fish and Wildlife Service are estimated at \$559 million an increase of \$21 million over FY 1975.

Function and department or other unit	BUDGET AUTHORITY			OUTLAYS		
	1974 actual	1975 esti- mate	1976 esti- mate	1974 actual	1975 esti- mate	1976 esti- mate
Recreational resources:						
Department of Defense--Civil						
Department of the Interior <sup>1</sup>	743	958	856	662	799	855
Other independent agencies:						
Smithsonian Institution				*	*	
Total	744	959	857	662	800	856

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

<sup>1</sup>Includes both Federal funds and trust funds.

## 6. Other Natural Resources

Outlays for other natural resources will total \$607 million for FY 1976 an increase of \$61 million. The National Oceanic and Atmospheric Administration accounted for \$462 million of this amount.

Function and department or other unit	BUDGET AUTHORITY			OUTLAYS		
	1974 actual	1975 esti- mate	1976 esti- mate	1974 actual	1975 esti- mate	1976 esti- mate
Other natural resources:						
Department of Commerce <sup>1</sup>	370	450	499	398	420	462
Department of the Interior <sup>1</sup>	153	171	190	97	122	140
Department of State	4	4	5	4	4	5
Total	527	626	694	498	546	607

<sup>1</sup>Includes both Federal funds and trust funds.

AGRICULTURE

The cost of Federal programs for the agricultural sector has declined sharply in the past five years. A combination of strong foreign demand and depressed domestic production of grain and fiber commodities has lifted market prices well above "target" prices set in the 1970 and 1973 Farm Acts. In turn, all government transfer payments for production adjustment and income support for producers of major crops have been suspended. The remaining outlays cover programs of disaster protection, commodity distribution, research and extension programs, and consumer protection through regulatory programs. The table below outlines the agricultural budget over a ten-year period.

Outlays for Selected Fiscal Years  
(Amounts in millions of dollars)

<u>Function</u>	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Agriculture - Total	2,441	4,288	2,230	1,773	1,816
Farm Income Stabilization	2,004	3,651	1,458	887	881
Price Support Activities	1,686	3,376	1,059	1,003	608
Sugar Act	88	86	83	86	9
Other	230	190	317	-201	265
Agricultural Research, etc.	446	639	775	889	938
Research Programs )	503*	543*	296	334	367
Extension Programs )			193	211	220
Consumer Programs	-	206	216	255	250
Other	-	65	69	90	100
Deductions for Receipts	-8	-2	-3	-3	-3
Recommended Budget Authority	5,067	5,146	4,546	5,873	4,273
*includes trust funds					

Developments and Issues - 1975-1976

The major issue facing the agriculture budget for 1976 is the expected costs of price support and related programs. These outlays will vary significantly depending on the size of grain crops produced in 1975. The favorable prospect for large crops means that market prices could drop significantly and raise the cost of income support programs. This would be particularly true if target prices in the Agriculture and Consumer Protection Act of 1973 are revised to increase the degree of farm income protection. Each 10¢ increase in the differential between market price and target price for wheat, corn and cotton has the potential for raising budget costs by \$1.4 billion.

A second issue relates to costs of grain and fiber storage programs. The issue of whether to stockpile these commodities to stabilize market supplies is unresolved. The outlay figures in the current budget for the Commodity Credit Corporation appear to have no allowance for rebuilding any government stockpiles. Projected outlays are expected to decline in 1976, to \$1,762 million from \$2,110 in 1975 and \$1,745 in 1974. Good growing weather for crops in the summer of 1975 will either raise these outlays sharply in the fall and winter months or if all excess production is placed on the market, grain and fiber prices will drop well below current levels.

The final issue relates to expenditures for improving the productivity of American agriculture and the agribusiness sector. The 1976

budget increases research outlays by \$33 million, 9.9%. With inflation expected to continue in double digit figures, there is a question of how effective this added amount will be in bringing forth new technological innovations. The importance of this component of the budget is increasing as world population growth continues to raise total world food requirements.



## COMMERCE AND TRANSPORTATION

Major programs under this function include support of the many modes of transportation, mortgage credit programs, subsidy payments to the U.S. Postal Service and related business, loans, promotion and regulatory activities.

To a very large degree the Federal Government's support for housing is through mortgage credit and insurance programs.

1. Mortgage Credit Programs:

The proposed 1976 budget assumes that the private mortgage market will be able to supply an adequate volume of credit for housing. No new Federal agency programs are proposed. Existing authority under the Emergency Home Purchase Assistance Act will not be fully utilized. The Act authorized purchase of \$7.75 billion in mortgages through the Government National Mortgage Association (GNMA). The budget indicates that no further commitments will be made under this authorization beyond the \$6 billion already committed. However, this implicitly assumes that the expected increase in mortgage credit availability materializes.

2. Transportation Programs:

Transportation encompasses four of the seven subfunctions in this functional category and accounts for more than 80 percent of total outlays. It includes programs intended to assist in providing transportation services to the general public, including the purchase of equipment, construction of facilities, research and development, provision of communications directly related to transportation, operating subsidies, and regulatory activities directed specifically toward the transportation industry rather than toward general commerce.



Relationship to Total Federal Outlays and the Economy

Total transportation expenditures in the United States average about 20 percent of gross national product annually. Of total annual Federal outlays, those assisting all forms of transport have ranged from 1.8 percent in 1955, before the Highway Trust Fund was established, to 4.3 percent in 1966.<sup>1/</sup> Since 1971 transportation outlays have averaged less than 4 percent of total Federal outlays, declining to an estimated 3.3 percent in 1976. Between 1971 and 1976, Federal outlays for all transportation have increased from \$8.1 billion to \$11.4 billion, or 40.7 percent, compared to a 65.2 percent increase in total Federal outlays during the same period (current dollars).

Federal expenditures for transportation have a greater direct impact on the national economy than the above percentages may indicate, since most of the Federal funds are grants-in-aid, with matching requirements for state and local governments. Federal expenditures on transportation facilities annually account for over 30 percent of all governmental expenditures, Federal, state and local, for transport facilities.

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<sup>1/</sup> All years refer to fiscal years.

Outlays by Subfunctional Category

As shown in Table I, ground transportation has been consistently the largest subfunctional category of Federal (non military) transportation outlays. In 1966, highway improvements accounted for 69.8 percent of total Federal transportation outlays. Air transportation was next with 16.8 percent and water transport accounted for 12.4 percent. The share of total transportation outlays for highway construction and improvement decreased to 58.4 percent in 1971, while water transport outlays increased slightly to 13.0 percent. Outlays for air transportation were 22.5 percent of total transportation outlays in 1971.

Although in 1976 the estimated share for highway outlays has declined to 43.6 percent compared to 23.4 percent for air transport and 15.0 percent for water transport, highway improvement was still clearly by far the largest single Federal transportation program, with outlays amounting to an estimated \$5 billion in 1976. Ground transportation outlays together will comprise 60.8 percent of Federal transportation expenditures in 1976.

Despite the relatively consistent, if slightly declining, percentage through the years represented by aggregate transportation outlays as part of total Federal outlays, within the three broad subfunctional categories (ground, air and water transportation), the rates of increase since 1971 have differed considerably, reflecting shifts in

emphases by the administration and Congress among transportation programs. As shown in Table I, total ground transport outlays have increased, in current dollars, at the least rate, 33.8 percent, compared to a 46.4 percent increase in outlays for air transportation and a 62.1 percent increase for water transport, including funds for the U.S. Coast Guard.

Differential trends in program funding also reflect shifting emphases by the government, especially in rail transport and urban mass transit. Outlays for these two program areas have increased 737 and 614 percent respectively since 1971. Nevertheless, in 1976 railroad assistance amounting to a budgeted \$494 million accounts for only 4.3 percent of total Federal transportation outlays, up from \$59 million and 0.7 percent in 1971. Urban mass transportation outlays, an estimated \$1.26 billion in 1976, account for 11.0 percent of total transportation outlays, up from \$176 billion and 2.2 percent in 1971.

Subsidies for support of shipping, \$685 million, account for 6.0 percent of the total Federal transportation outlays. Outlays for airports and airways remain second to highways in amount of outlays in 1976, amounting to \$2.67 billion, or 23.4 percent of total transportation outlays. Subsidies for air carriers have risen at less than half the rate for airports and airways assistance, up 20.0 percent from \$55 million in 1971 to an estimated \$66 million in 1976.

Summary

Federal outlays for transportation in 1976 remain at approximately the same percent of total Federal outlays as in recent years (3.3 percent in 1976). Differentials in rates of increase of outlays for modal transportation programs continue however, and the programs expanding at the greatest rates continue to be mass transit and inter-city rail transport. Other programs such as aviation, the Coast Guard, and highways are also expanding in current dollar terms, but at lesser rates of growth. Outlays for air transport in 1976 remain more than twice as much as those for mass transit and railroads combined, and just over one-half as large as outlays for highway construction and improvement. Overall, transportation outlays have increased proportionately less since 1971 than the growth in overall Federal outlays, 40.7 to 65.2 percent respectively.

Also discussed in the 1976 Budget are administration proposals to extend the Highway Trust Fund but to focus future expenditures on completion of the interstate highway system. Other Federal-aid highways would be supported from general revenues beginning in 1978. The administration also proposes to expand uses of the airport-airways trust fund and to provide direct grants to AMTRAK for capital equipment as well as operating losses, replacing the present loan guarantee program for AMTRAK equipment.

TABLE I.

FEDERAL OUTLAYS FOR TRANSPORTATION  
Selected Years

(\$ millions)

	FY 1966	<u>1/</u> %	FY 1971	<u>1/</u> %	FY 1974	<u>1/</u> %	FY 1975 (est.)	<u>1/</u> %	FY 1976 (est.)	<u>1/</u> %	% Change 1971-76
<u>TOTAL FEDERAL OUTLAYS</u>	<u>\$134,652</u>		<u>\$211,425</u>		<u>\$268,392</u>		<u>\$313,446</u>		<u>\$349,372</u>		<u>65.2</u>
<u>TOTAL COMMERCE AND TRANSPORTATION</u>	8,956	<u>2/</u> 1.2	10,397	<u>2/</u> 1.0	13,100		11,796		13,723	<u>2/</u> .8	
<u>GROUND TRANSPORTATION</u>	<u>4,075</u>	70.9	<u>5,180</u>	64.1	<u>5,583</u>	60.5	<u>6,380</u>	61.2	<u>6,931</u>	60.8	<u>33.8</u>
Highway improvement and construction	4,012	69.8	4,727	58.4	4,574	49.5	4,652	44.6	4,967	43.6	5.1
Highway and traffic safety			107	1.3	157	1.7	166	1.6	162	1.4	51.4
Mass transit	18	.3	176	2.2	590	6.4	986	9.4	1,257	11.0	614.
Railroads			59	.7	223	2.4	529	5.1	494	4.3	737.
<u>AIR TRANSPORTATION</u>	<u>964</u>	16.8	<u>1,824</u>	22.5	<u>2,236</u>	24.2	<u>2,464</u>	23.6	<u>2,670</u>	23.4	<u>46.4</u>
Airways and airports	804	14.0	1,547	19.1	1,870	20.2	2,092	20.0	2,288	20.1	47.9
Air carrier subsidies	75	1.3	55	.7	73	.8	67	.6	66	.6	20.0
Aeronautical research and technology					292	3.2	304	2.9	316	2.8	
<u>WATER TRANSPORTATION</u>	<u>711</u>	12.4	<u>1,053</u>	13.0	<u>1,357</u>	14.7	<u>1,511</u>	14.5	<u>1,707</u>	15.0	<u>62.1</u>
Coast Guard	405	7.0	617	7.6	851	9.2	955	9.2	1,022	9.0	65.6
Shipping	303	5.3	428	5.3	507	5.5	556	5.3	685	6.0	60.0
<u>OTHER TRANSPORTATION</u>	---		<u>37</u>	.5	<u>57</u>	.6	<u>79</u>	.8	<u>82</u>	.7	
Regulation					38	.4	47	.4	50	.4	
<u>TOTAL TRANSPORTATION</u> <u>3/</u>	<u>5,750</u>	<u>4/</u> 4.3	<u>8,094</u>	<u>4/</u> 3.8	<u>9,233</u>	<u>4/</u> 3.4	<u>10,434</u>	<u>4/</u> 3.3	<u>11,390</u>	<u>4/</u> 3.3	<u>40.7</u>

Sources: FY 1969 Budget of the U.S.; FY 1973 Budget of the U.S.; FY 1976 Budget of the U.S.

- 1/ % of total transportation outlays  
2/ % of gross national product  
3/ Excluding offsetting receipts  
4/ % of total Federal outlays

## COMMUNITY AND REGIONAL DEVELOPMENT

This function comprises a group of community and regional development programs and programs concerned with urban and rural renewal. The following table shows the budget outlays for this function. While the outlays level fluctuates from year to year, it generally amounts to between 1 1/2 and 2 percent of the total budget.

TABLE

Outlays for Selected Fiscal Years, 1966 - 1976  
(Amounts in millions of dollars)

<u>Subfunctions</u>	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> (est.)	<u>1976</u> (est.)
Community development	724	2,613	3,045	3,280	4,068
Area and regional development	764	1,245	1,129	1,142	1,382
Disaster relief and insurance	220	341	764	492	501
Deduction for offsetting receipts	- 169	- 189	- 27	- 27	- 31
<b>Total:</b>					
Amount	<u>1,540</u>	<u>4,010</u>	<u>4,910</u>	<u>4,887</u>	<u>5,920</u>
As percent of total budget	1.1	1.9	1.8	1.6	1.7

The community development subfunction accounts for nearly 70 percent of total outlays for this function.

The commitments under the community development bloc grant program authorized in 1974 are budgeted at \$2,550 million in 1976, an increase of only \$55 million over the 1975 level. The 1974 Act authorized commitments of \$2,950 million in fiscal 1976. This program established in 1974 replaces the previously enacted categorical grant programs.

Grants for comprehensive planning and management will be provided at a program level of \$50 million. This money will come out of \$100 million appropriated for fiscal 1975 which was intended for a single year. If the deferral stands, no appropriation will be required for 1976.



EDUCATION, MANPOWER AND SOCIAL SERVICES

Education, manpower, and social services is a new "function" created by adding the social services component that was formerly contained in the income security discussion. These programs cover a wide array of service activities including manpower training, employment assistance, all levels of education, education research, social services, and rehabilitation services. Federal outlays for these programs doubled between 1966 and 1971 and are expected to rise by another 62% between 1971 and 1976. However, outlays are budgeted to decline by nearly \$100 million between 1975 and 1976 as a result of proposed legislation to decrease Federal matching for social services offset partly by nominal increases for all education programs and all manpower programs.

EDUCATION, MANPOWER AND SOCIAL SERVICES  
(Outlays in millions of dollars)

	Actual			Estimate	
	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Education	2,740	5,497	5,989	7,257	7,386
Manpower	1,093	2,109	3,129	4,396	4,542
Social Services	<u>267</u>	<u>1,448</u>	<u>2,496</u>	<u>3,106</u>	<u>2,740</u>
Total outlays (Includes deductions for offsetting receipts)	4,093	9,045	11,600	14,714	14,623



Outlays for Federal education programs have grown by 165% from 1966 to 1975, an average of almost 11 1/2% per year. The proposed budget for 1976 would result in a growth of 1.8% in such education outlays over 1975.

Highlights of the 1976 budget request for education programs include:

- (1) Proposed legislation which would reduce outlays by \$270 million in 1976 in the area of school assistance in Federally-affected areas (impact aid);
- (2) Rescission of \$221 million of enacted 1975 appropriations and \$50 million of advance 1976 enacted appropriations, primarily in the areas of vocational education, education of the handicapped, and higher education institutional aid;
- (3) Elimination of programs in environmental education, drug abuse education, categorical programs in vocational education, college library resources, formula grants for emergency school assistance, and two major higher education student aid programs;
- (4) Initial funding of programs under the Special Projects Act; and
- (5) Substantial funding increases for Basic Opportunity Grants, the Guaranteed Student Loan Program, and the National Center for Education Statistics.

#### Elementary, Secondary, and Vocational Education

With the enactment of P.L. 93-380, debate shifts from the form of aid to elementary and secondary education to amounts. Budget authority for 1976 for compensatory education of disadvantaged children and for two new consolidated programs which are to begin operation in 1976 -- support and innovation grants, libraries and learning resources -- has already been provided through an advance appropriation (P.L. 93-554). Advance funding for 1977 has been requested by the Administration, at the same budget authority level as the 1976 appropriation for each program.

Under provisions of the Education Amendments of 1974, the program of school assistance in Federally-affected areas -- impact aid -- is scheduled to undergo substantial structural changes in 1976. The 1976 budget follows the pattern of 1974 and 1975 requests in proposing a sizeable cut in budget authority for this program.

primarily through proposed legislation under which a school district would receive only the portion of its impact aid entitlement which exceeds 5% of the school district's total budget.

It is proposed, as in the 1975 budget, that Federal aid to school systems undergoing desegregation which is provided under the Emergency School Aid Act be cut by almost 2/3; and that this program be restructured to remove all formula grant provisions.

Largely as a result of a landmark U.S. Supreme Court case (Lau v. Nichols), it is anticipated that expenditures for bilingual education -- for children from families whose primary language is other than English -- by all levels of government will rise substantially in the near future. However, the Federal budget for 1976 proposes the rescission of \$15 million in 1975 budget authority already enacted for this program, and proposes 1976 budget authority which is 17.7% below the enacted 1975 appropriation.

Some data indicate that only 59% of handicapped youth between ages 5-17 are receiving the educational services they need. Recent State court cases and Federal legislation expanded the Federal and State responsibility to see that these needs are met. According to the 1976 budget request, the \$200 million appropriated by Congress for both 1975 and 1976 will be cut to \$98 million for the two years. This represents no increase in funding for these programs in the 3-year period 1974-1976.

Federal budget authority for vocational education rose from \$57 million in 1964 to \$479 million in 1973. State and local expenditures accounted for more than 80% of the total expenditures. The 1976 budget request reflects a cut in the Federal contribution to State grant programs for vocational education. According to the proposed revised 1975 funding levels the State grant program would be cut by \$23 million and a further cut of \$125 million from 1975 appropriation levels is proposed for 1976.

Higher Education

Higher education outlays doubled in the 5-year period 1966-71, and are expected to climb an additional 62% to \$2.3 billion by 1976. The direction of Federal funding for higher education has been toward an increasing concentration in student assistance programs. The major programs, excluding veterans' education programs and Social Security education benefits, are: (1) the Basic Educational Opportunity Grant Program, (2) the Guaranteed Student Loan Program, (3) the Supplemental Educational Opportunity Grant Program, (4) the National Direct Student Loan Program, and (5) the College Work-Study Program. In addition, the State Student Incentive Grant Program provides funds on a matching basis to States to foster State student assistance programs.

The funding mix for these programs has been a major issue. Under the provisions of the Education Amendments of 1972, no payments may be made through the Basic Educational Opportunity Grant Program unless certain appropriation levels are reached for the Supplemental Educational Opportunity Grant Program, the National Direct Student Loan Program and the College Work-Study Program. Yet the budgets for fiscal years 1974-1976 did not request funds for either Direct Loans or Supplemental Grants, and concentrated student assistance in Basic Grants and Guaranteed Student Loans. Proponents of this funding balance in Federal student assistance argue that the critical needs of economically disadvantaged students can best be met by the Basic Educational Opportunity Grant Program and the needs of more financially secure students can be met through the Guaranteed Student Loan Program. It is also adduced that direct student aid as provided by these two programs creates a competitive market in higher education benefiting both students and institutions.

Those who object to such a funding balance refer to the provisions of the law concerning funding for Basic Grants as evidence that Congress did not want the institutional-based programs to be ended through a concentration on Basic Grants. They also argue that the institutional-based programs provide a flexibility in the distribution of funds through the financial aid officer, assumed to be aware of an individual student's financial condition.

There is a further issue concerning student loan programs. With a default rate estimated by the Office of Education at approximately 18% of the cumulative dollar amount of mature loans under the Federally Insured Student Loan portion of the Guaranteed Student Loan Program, questions have been raised as to the role of loan programs in the total realm of Federal student assistance.

#### Research and General Education Aids

In contrast to the 1974 and 1975 requests, a relatively small increase in funding is proposed for 1976 for the National Institute of Education (\$10 million -- 14.3% -- over the 1975 appropriation). NIE is the primary Federal agency for education research.

There has been considerable debate about the role of and funding level for NIE since its creation in 1972. Consideration of extension of the authorization for NIE during the 94th Congress may serve to help clarify its function and lead to a greater consensus on the agency's priorities and appropriate funding level.

A major reduction in funding for library resources programs is proposed for 1976, with all college library programs to be eliminated (including rescission of enacted 1975 appropriations of \$20 million), and public library programs to be reduced by 42.3%, with most of requested 1976 funds to be allocated according to proposed legislation for interlibrary cooperation and demonstrations.

EMPLOYMENT AND TRAINING

Outlays for manpower training (including public employment) programs doubled between 1966 and 1971, and are estimated to double again between 1971 and 1976. In the 1976 budget, outlays for programs under the Comprehensive Employment and Training Act would rise from \$3.2 billion to \$3.3 billion from 1975 to 1976 but budget authority would decline from \$3.3 billion to \$2.4 billion. The reduction in budget authority results from the decision not to recommend extension of the nationwide public service employment program authorized under Title VI of the Act at this time. In essence the budget provides for holding level the existing programs of training and a sharp reduction in the number of public service employment opportunities as funding for existing jobs expires over the course of the year. (Accordingly, enrollees would decline from 289,000 to 163,000.)

The proper role and size of a public service employment program in periods of high unemployment is a matter of substantial controversy. The Administration's budget relies mainly on tax and macroeconomic policy to stimulate employment, while giving less emphasis to subsidized jobs as an employment generating tool. Others believe that public service programs can create jobs for a substantial percentage of the unemployed and advocate substantial increased funding both for 1975 and 1976. Experience under the CETA program is limited and the maximum capacity of that program to provide additional employment opportunities is not known.

The Work Incentive (WIN) Program is designed to place welfare recipients in training and jobs. Although the Administration notes the "dramatic fluctuations" in budget authority, they state that the WIN program level will remain level over the three-year period due to the practice of "carrying-over" large amounts of

obligated but unexpended funds. Critics note that in cutting back on "carry-over" funds the amount of WIN child care has been substantially reduced from 1974 and even more so over what the States believed was necessary to carry out their current program responsibilities. They claim that the reduction in carry-over funds into fiscal 1976 has restricted the ability of the program to enter into contracts for public service employment (PSE) and on-job-training (OJT) beyond the end of this fiscal year. This situation will make it difficult for the program to meet the statutory 1/3 expenditure requirement for PSE and OJT without causing further program distortion.

SOCIAL SERVICES

The newly-enacted Social Services Amendments of 1974 (P.L. 93-647) ended a two-year dispute over what Federally-subsidized services might be offered to whom by States. Although the law retains the old \$2.5 billion annual ceiling on Federal spending, and the 75% Federal reimbursement rate, it authorizes States for the first time to offer services on a general basis to persons ineligible for cash aid, permitting services for all whose gross income is no more than 115% of their States's median -- adjusted for family size.

The President's budget proposes to reduce Federal spending for social services in fiscal year 1976 by shifting \$448 million of the total service bill from the Federal government to States. This plan, which requires a change in the Social Security Act, would lower the Federal reimbursement rate from 75% to 65% in 1976 (and to 50% in 1977).

If Congress should accept the Administration plan, Federal spending for social services would be reduced to an estimated total of \$1,500 million in 1976, compared with the projected total of \$1,892 million in 1975. If Congress refuses to change the law, the budget indicates that spending would climb to \$1,948 million in 1976. This forecast may turn out to be conservative in view of the enlarged authority that States will have in FY 1976 to operate social services as they wish.

A legislative issue that may recur in the 94th Congress is the proposal to permit reallocation of unused funds among States that certify their need for more. In 1976 thirteen States plan to spend their full allotment of funds, and another eight to almost reach their ceiling.

Rehabilitation services in the budget encompasses two separate programs -- the Vocational Rehabilitation Program first enacted in 1921 and the Developmental Disabilities Services Program created in 1970 as an expansion of the 1964 Mental Retardation Facilities Construction Act.

The Federal-State vocational rehabilitation program has grown substantially in the past decade. In 1965, the program served 441,332 handicapped persons and rehabilitated 134,859 of them. In fiscal year 1975, the appropriation had increased to \$785 million, the estimated numbers of persons served had more than doubled, to 1,860,000 and the estimated number of persons rehabilitated had increased to 363,000.

The fiscal year 1976 budget proposes only a slight increase in the budget authority for rehabilitation services, and, for the first time in the history of the program, foresees a decline in the numbers of handicapped persons served by the program -- to 1,660,000 -- and in the numbers of persons rehabilitated -- to 332,000.



HEALTH

Federal health activities have grown dramatically in the decade 1966-1976. After enjoying nearly a six-fold increase in the first five years of the decade, outlays for health are expected to nearly double over the remaining 5 years--exceeding \$28 billion in 1976. As a percentage of the Federal budget, health programs have quadrupled from 2% in 1966 to an estimated 8% in 1976. The two major health financing programs of Medicare and Medicaid account for nearly four-fifths of all health spending in the coming budget year.

HEALTH

(Outlays in millions of dollars)

	<u>Actual</u>		<u>Estimate</u>		
	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Health services (including Medi- care and Medicaid)	1,153	12,107	18,502	22,346	24,072
Health research and education	948	1,687	2,334	2,681	2,484
Prevention and con- trol of health prob- lems	275	459	750	908	920
Health planning and construction	262	465	494	590	612
Less: offsetting receipts	-1	-2	-6	-39	-39
<b>Total outlays</b>	<b>2,638</b>	<b>14,716</b>	<b>22,074</b>	<b>26,486</b>	<b>28,050</b>

For fiscal year-1976, the Budget includes an increase in outlays of \$1.6 billion for Medicare and Medicaid. For other HEW health programs, a reduction of \$.2 billion in outlays is included, although the appropriation request is about the same as the fiscal year 1975 revised budget. Within this budget, considerable shifts in program emphasis are contemplated. The most notable are legislative modifications for Medicare and Medicaid and the overall reduction of about 20% in Federal contributions for health services grant programs.

The funding levels for fiscal year 1976 are compared to the "1975 revised budget." This revised budget is based on the early approval by the Congress of major revisions to the 1975 budget and of legislation affecting outlays in the so-called "non-controllable" programs. These revisions include rescissions of enacted appropriations of \$808 million--\$292 million in unobligated Hill-Burton funds appropriated in 1973 and 1974 and \$516 million covering a variety of HEW health programs appropriated in 1975. The revised 1975 budget also includes reductions in funding levels for programs currently operating under a temporary continuing resolution. If these levels become the funding authority for the remainder of the fiscal year, the President will also propose rescissions in these areas.

#### Financing and Providing Medical Services

By far the largest outlay for health activities in the Federal budget is for programs for financing and providing medical services. A total of \$24.1 billion is contemplated in fiscal year 1976.

The 1976 Budget includes a total outlay of \$22.1 billion for Medicare and Medicaid, an increase of almost \$1.6 billion over the 1975 revised budget. This estimate is based on the passage of cost-control and related legislative proposals being submitted by the Department in an effort to stem the increases in the so-called "uncontrollable" programs. Enactment of these measures would reduce outlays which would otherwise occur by \$.5 billion in 1975 and \$2.0 billion in 1976. Also incorporated in the estimate are administrative actions under both programs which would reduce outlays in both years.

Recommended Medicare legislation includes modifying the current cost-sharing structure under the hospital insurance program by requiring a co-insurance equal to 10 percent of hospital charges above the deductible amount and increasing the deductible under the supplementary insurance program by the same percentage as social security payments increase. In addition, a maximum cost-sharing liability of \$750 per benefit period under the hospital insurance program and \$750 per year under the supplementary insurance program would be instituted. Total reductions in Medicare outlays in 1976 would be \$1.3 billion, offset by a \$.1 billion increase in Medicaid outlays. Recommended Medicaid legislation includes lowering the matching floor on Federal participation from 50% to 40% (affecting the 13 highest income States) and eliminating Federal matching for adult dental care. Total 1976 reductions in Medicaid outlays would be \$.7 billion.

The Administration is also proposing a reduction of about 20% in 1976 in grant programs providing for the direct delivery of health care. This

is in addition to the proposed 1975 rescissions and modifications in authorities for programs operating under a continuing resolution. Included in this cutback are programs for family planning, maternal and child health, migrant health, neighborhood health centers, alcoholism and community mental health centers. The Budget contemplates that the reductions in Federal funds will be offset by increased non-Federal funding--thus fostering greater local "accountability." HEW has indicated that it will assist affected grantees in recovering third-party reimbursement for services covered under Medicare, Medicaid, and private health insurance. The major exception to these reductions is direct health services provided under the Indian health services program.

#### Health Resources

Programs to develop health resources include health research and training, and health planning and construction. Budget outlays of \$3.1 billion for these programs in 1976 represents a decrease of \$174 million from 1975.

The Budget for the National Institutes of Health constitutes a significant portion of health resources funds. In fiscal year 1975, the Administration recommended a total rescission for NIH of \$351 million. This would reduce the NIH budget as authorized by Congress from \$2.1 billion to slightly more than \$1.7 billion. It would appear that the fiscal year 1976 budget of approximately \$1.8 billion for NIH reflects a similar effort by the Administration to reduce authorized increases in the NIH budget using the rescission mechanism.

For the past two years, the Administration, supported by various categorical legislative acts, has proposed substantial increases in funding for the National Cancer Institute and the National Heart and Lung Institute, while recommending either a stabilization or slight decrease in the budgets of the remaining eight NIH categories. Congress, on the other hand, while accepting the Administration's proposed budget increases in cancer and heart programs, has disagreed with proposed cutbacks in other NIH categories. Accordingly, Congress has appropriated slightly increased funding for all NIH categories. As a result, the budget as appropriated for NIH by the Congress has substantially exceeded the budget for NIH as recommended by the Administration.

In the fiscal year 1976 Budget, the Administration continues to recommend sizeable increases in NIH cancer and heart programs as supported by legislative acts. At the same time, certain research areas, besides the cancer and heart programs have been recommended for slight budget increases or for stabilization at fiscal year 1975 levels. The result of this trend is that NIH cancer and heart programs will constitute nearly 50 percent of the total NIH budget, reflecting a continuing emphasis on those programs as compared to the emphasis on remaining NIH programs.

In addition to the training activities supported by HEW, the Budget proposes a cutback from 1975 in health manpower programs. Existing programs are currently operating under a continuing resolution at a level of \$377 million. The \$339 million budget request for 1976 is based on the Administration's proposed legislation in 1974. Under this proposal

capitation grants and general student assistance support would be gradually phased out while Federal support, in the form of project grants, will focus on the distributional problems of health personnel.

The President's Budget proposes to implement the recently enacted planning and resources development authority (replacing Comprehensive Health Planning, Regional Medical, and Hill-Burton programs) with an appropriation request of \$175 million. The Budget is based on the assumption that Congress will approve the 1975 supplemental request for existing health planning activities and the essentially zero-funding requests for 1975 for Hill-Burton and Regional Medical Programs.

#### Prevention and Control of Health Problem

The President's 1976 Budget for HEW includes \$920 million in outlays for activities relating to the prevention and control of health problems. These include consumer safety, communicable disease control, occupational health and safety, prevention and control of drug abuse, alcoholism, and mental illness. The 1976 budget for these functions includes a slight increase over 1975 for programs relating to food, drug, and product safety and those for occupational health and safety. On the other hand, it incorporates a decrease in project grants for communicable disease prevention and control activities in funds targeted toward the prevention and control of substance abuse and mental illness.

INCOME SECURITY

As the Administration has repeatedly emphasized in its discussions of the 1976 budget proposals, most of the items under the heading "Income Security" represent expenditures which have been considered uncontrollable. For the most part they are for payments to individuals who are entitled to specific kinds and amounts of payments or benefits under laws enacted by the Congress.

Expenditures for income security purposes have grown very rapidly over the last decade. In 1966 Federal budget outlays for these programs amounted to about \$29 billion. In 1976 they are projected to approach \$119 billion, or about 34 percent of all Federal outlays.

The 1976 proposed budget reflects a desire by the Administration to exercise a degree of control over some of these expenditures which have hitherto been considered uncontrollable. The outlay figures can be considered realistic only insofar as the legislative proposals which they assume are considered likely to be passed. For example, failure to enact a series of legislative proposals to limit cost of living and pay increases to 5 percent would add an estimated \$6 billion to the budget, and approximately \$3.9 billion of this amount would be in income security programs.

INCOME SECURITY PROGRAMS  
(Outlays in billions of dollars)

	Actual			Estimate	
	1966	1971	1974	1975	1976
General Retirement and Disability Insurance	21.4	37.5	58.6	67.5	74.4
Federal Employee Retirement and Disability	1.7	3.2	5.6	7.1	7.9
Unemployment Insurance	2.3	6.2	6.1	14.7	18.2
Public Assistance and other Income Supplements <u>1/</u>	3.3	7.0	8.9	9.0	9.1
Supplementary Security Income	-	-	2.3	4.7	5.4
Food Stamps	0.1	1.6	2.9	3.7	3.9
Total outlays <u>2/</u>	28.9	55.4	84.4	106.7	118.7

1/ Less food stamps and supplemental security income.

2/ Totals may not add due to rounding.



The following data show by program the 1976 estimated budget savings in income security programs if the 5 percent limit is enacted, and also the approximate number of persons currently receiving benefits under the programs:

<u>Program</u>	<u>Savings</u> (Billions of dollars)	<u>Individuals Affected</u> ( Millions of Individuals)
Social Security (OASDI)	\$2.5	30.6
Railroad Retirement	.1	1.1
Civil Service Retirement	.7	1.3
Supplemental Security Income	.1	3.6
Food Stamps	.3	17.1
Child Nutrition	.2	15.2 (School lunch only)

Critics argue that if there is going to be a reduction in the "uncontrollable" programs, the problem should be approached with some consistent policy. They claim that such a policy is not readily apparent from the proposed legislative changes of the Administration. As to the prohibition against full cost-of-living adjustments, it falls on the needy in the Supplemental Security Income programs, but there is no prohibition against cost-of-living increases for AFDC recipients. Nor is there any proposal to limit Federal matching for State and local welfare administrative costs to reflect a 5 percent policy. In other areas the proposed changes deal with alleged undesirable program characteristics and anomalies:

eliminating the lump-sum retroactive payments on early Social Security retirement and eliminating the monthly test of retirement earnings under Social Security. Similarly in the public assistance area, some of the proposals would establish Federal standards to control work expense allowances and accounting period deemed undesirable in certain State AFDC programs. Other legislative proposals are aimed at shifting Federal financing obligations to the States.

#### Social Security Cash Benefits

The 1976 Budget indicates that the income to the social security cash-benefits programs (old-age, survivors, and disability insurance) will be about \$70.3 billion while outgo will be about \$0.8 billion more, \$71.1 billion. This amounts to about 23.6 percent of total budget income and 20.3 percent of total outlays.

The reliability of the outlay figures are open to question inasmuch as they assume three changes in the Social Security Act which would provide:

- (1) that the automatic cost-of-living benefit increase which will be paid in July and subsequent months will be limited to 5 percent, rather than the approximately 8.7 percent called for under present law;
- (2) that the provisions of law which allow benefits to be paid retroactively for as many as 13 months before application be modified so that no retroactive benefits will be paid when an individual applies for the reduced benefits which are paid when benefit payments begin before age 65; and
- (3) that the provisions of law which permit the payment of benefits to people under age 72 who earn more than the exempt amount (\$2,520 a year for 1975) for months in which they have no substantial employment (less than \$210) be changed so that annual earnings alone determine the amount of benefits paid.

If the proposed changes are not enacted, the cash-benefits expenditures will be increased by about \$3.1 billion, \$2.5 billion of which would result from the payment of an 8.7 percent cost-of-living increase and \$0.6 billion if the other two changes are not made. As a result, outlays would be \$74.3 billion (21.3 percent of total budget outlays) and \$4.1 billion more than estimated income.

The income figures, on the other hand, are dependent upon the level of employment and the rates of wage rises which are experienced.

### Unemployment Insurance

The Budget for 1976 calls for outlays of about \$18.2 billion for unemployment insurance. This represents a \$3.5 billion increase over estimated expenditures (\$14.7 billion) for 1975 and is three times the 1974 amount. Part of the increase is due to the rising unemployment rates and part results from the enactment of two new temporary programs.

One of the new programs, the Emergency Extended Unemployment Compensation Act, provides for up to 13 weeks of additional benefits to people who are insured under the unemployment compensation program. As a result, an individual might be paid unemployment insurance for as many as 52 weeks, 26 weeks of regular benefits, 13 weeks of benefits under the permanent extended benefits program and 13 weeks under the emergency program. Payments under the new program are authorized through March of 1978.

The other program, the Special Unemployment Assistance Program, provides up to 26 weeks of payments to people who do not qualify for payments under the regular unemployment insurance program. Payments under this program are authorized through March of 1976. There are some indications that Congress may extend this program for an additional year. If so, expenditures for 1976 may be somewhat higher than shown in the Budget.

A major determinant of unemployment insurance outlays is the unemployment rate. If the rate is higher than assumed, expenditures will be higher; if the rate is lower than assumed, expenditures, of course, will be less than anticipated. The 1976 Budget assumes that for calendar year 1975, the total unemployment rate will be 8.1 percent while the insured rate will be 7.5 percent. For calendar year 1976, the assumed rates are 7.9 percent for total unemployment and 6.9 percent for insured unemployment. These compare with a total unemployment rate of 5.6 percent and an insured rate of 3.8 percent for calendar year 1974.

Railroad Retirement

Included in the 1976 Budget is an anticipated outlay of \$3.4 billion (up from \$3 billion for 1975) for the Railroad Retirement program. This figure is based on the assumption that legislation will be enacted to limit to 5 percent the automatic cost-of-living increase which will be paid in July and subsequent months. If the legislation is not enacted and the approximately 8.7 percent increase which would be payable under present law is allowed to go into effect, expenditure for 1976 will rise approximately \$100 million to \$3.5 billion.

Federal Employees Retirement and Disability Payments

The 1976 Budget includes estimated outlays of \$7.9 billion for Federal civilian retirees and their survivors. This represents an increase of \$0.8 billion over estimated outlays for 1975. These amounts assume that Congress will provide legislation limiting the automatic cost-of-living increase to 5 percent in the period January 1975-June 1976. If this legislation is not enacted, outlays for 1976 will increase to \$8.6 billion.

In connection with the proposed limitation on the cost-of-living increases a similar limitation is proposed on Federal civilian salaries. Taken together, the two proposals could have a significant effect on the long-range costs of the program, depending on the degree, if any, to which the reductions are made up by subsequent legislation.

### Supplemental Security Income

The 1976 budget includes \$5.4 billion in obligations for the Supplemental Security Income (SSI) program. Of that amount, \$4.9 billion is for benefit payments to 4.5 million aged, blind, and disabled persons who it is estimated will receive the basic Federal benefit or a combination of the Federal benefit and a State supplement. In addition, an estimated 460,000 people will receive State supplements only. Nearly \$500 million will be spent for administration of the program.

The 1976 budget proposes saving \$85 million by a legislative proposal to limit the automatic cost-of-living increase to 5%.

Regulations require that SSI eligibility be redetermined no less frequently than annually. The 1976 budget proposes saving \$100 million by redetermining the eligibility of individuals converted from the old State public assistance rolls and new accessions. It is questionable whether the Department will be able to meet its schedule of redeterminations, while also handling new applications on a timely basis. Approximately 2 1/2 million conversion cases must be redetermined; yet as of January 1, 1975, only 314,929 cases had been completed. Until the conversion cases have been handled, there will be no systematic review of new cases.

The 1975 budget had estimated that by June 30, 1974, 4.8 million recipients would be on the SSI rolls and that by June 30, 1975, 5.6 million would be on the rolls. <sup>1/</sup> The 1976 budget estimates that by June 30, 1975, 4.47 million recipients (over 1 million below last year's estimate) will be on the rolls. By the end of 1976 it is estimated that 5.07 million recipients will be receiving SSI benefits. There is no indication that the Social Security Administration has revised its estimate of the total number of those eligible for SSI -- at 7 million.

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<sup>1/</sup> 3.6 million persons were receiving Federally administered SSI payments in July 1974.

Benefit payments are approximately \$200 million higher for 1975 than projected. The increase in benefit payments is said to be due to the fact that cases converted from the States' public assistance rolls are receiving an average monthly benefit under SSI that is approximately 45% higher for the aged and 22% higher for the disabled than was anticipated a year ago.

#### Aid to Families with Dependent Children

The President's Budget proposes to reduce slightly Federal spending for cash aid to needy families with children in fiscal year 1976. However, the budget also estimates that both the number of beneficiaries and the average size of their monthly check will rise in 1976. The recipient count is projected at a monthly average of 11,241,000, up 2 percent from the 1975 estimate, and the average monthly benefit at \$67.41 per recipient, up 7 percent, resulting in aggregate annual Federal-State payments of \$9 billion, up almost 10 percent from 1975.

The implicit assumption of the Administration's budget is that the Federal government, which in recent years has paid about 54% of the AFDC total, will shoulder a smaller part in 1976. The Administration seeks to reduce its AFDC funding role both directly -- by a legislative proposal to lower the matching rates for some States, and indirectly -- by rules that impose accuracy standards as a condition for full reimbursement. In 1976 HEW plans to deny reimbursement for erroneous payments that exceed Federally-prescribed uniform tolerance levels, 3 percent for ineligible payments, 5 percent for overpayments. If States should fail to achieve these targets of "quality control," the Federal share of the cost of total AFDC payments would decline.

The budget proposes that \$4,084 million be appropriated for AFDC in 1976, only barely above the 1974 outlay level, and down 3 percent from the revised estimate for 1975, \$4,208 million. If Congress should reject the AFDC legislative changes sought by the President, the budget indicates that Federal costs of AFDC would rise to about \$4.3 billion in 1975 and to \$4.6 billion in 1976. If the quality control program were overturned, these budget estimates would climb still higher.

The budget proposes that Congress make four "outlay-reducing" changes in the law governing AFDC (Title IV of the Social Security Act). These changes and the potential savings credited to them follow:

	<u>Savings in Outlays</u> (Millions of dollars)	
	<u>FY 1975</u>	<u>FY 1976</u>
Revise the income disregard provisions to standardize procedure and limit work-related deductions	\$ 63	\$200
Adopt a quarterly accounting period for AFDC	20	146
End the option for States to choose the more advantageous Federal reimbursement formula of two	20	60
Revise absent parent support	<u>10</u>	<u>90</u>
Total .....	\$ 113	\$496

The Administration's proposal to standardize and limit the AFDC expense disregard would lower the earnings level at which AFDC families could continue to receive a partial welfare check. Although the Senate approved such a measure in 1973, the House has not considered it. The proposal to lengthen the AFDC income



accounting period from one month to three months would provide (according to the budget documents) more equitable treatment of persons with fluctuating income and would probably reduce Federal AFDC costs somewhat, but could require an expansion of other aid (mostly State funded) for families in emergency need. The proposal to eliminate the "regular" AFDC reimbursement formula, replacing it with the Medicaid formula, would increase the cost of State matching for AFDC benefits in some of the poorest States that pay the lowest benefits.

#### Domestic Food Assistance Programs

Federal appropriations for the Food Stamp Program have grown more than 6-fold over the last 5 years -- from about \$600 million in fiscal 1970 to just under \$4 billion for fiscal 1975. Participation has risen from approximately 4 million persons (as a monthly average during fiscal 1970) to well over 16 million persons in the first half of fiscal 1975 (17.1 million estimated as of December 1974). And average benefits have jumped about 100% -- from about \$10 per person per month in fiscal 1970 to over \$20 per person per month in the first half of fiscal 1975.

Most of this growth in costs and participation has been due to a series of legislative changes in the Food Stamp Program. First, an automatic "cost-of-food" escalator has been built into the program and, as a consequence, food stamp allotments and income eligibility standards are adjusted every 6 months according to changes in food prices. Second, the Congress has mandated that the Food Stamp Program be available nationwide, and hundreds of new counties have come into the program since July 1974, making the program available in virtually every part of the country and Puerto Rico, the Virgin Islands, and Guam. Third, recent

legislation increased the Federal matching share of State and local administrative costs (effective October 1, 1974) from about 1/3 to a flat 50% of all such costs.

The Administration's budget for fiscal 1976 projects the first decrease in Food Stamp Program appropriations in the history of the program -- down about \$550 million, from \$3,990 million in fiscal 1975 to \$3,453 million for fiscal 1976. Outlays, on the other hand, are expected to rise slightly from about \$3,672 million to \$3,860 million, with the difference between 1976 appropriations (\$3.5 billion) and outlays (\$3.9 billion) being made up through the use of an expected "carryover" of almost \$400 million from fiscal 1975.

Moreover, the fiscal 1976 budget indicates that the Administration will propose a 5% ceiling on "cost-of-food" increases in food stamp benefits, effective through June 1976. This action (requiring Congressional approval) would limit increases in food stamp allotments over the next year to, at most, \$1 or \$2 per person per month, and reduce fiscal 1976 costs by a further \$217 million.

However, the Administration's Food Stamp Program budget for fiscal 1976 makes 2 major assumptions which, if not fulfilled, could lead to substantially larger-than-anticipated Federal costs in both fiscal 1975 and 1976:

- (1) It assumes that announced administrative actions to increase food stamp purchase prices (to 30% of each household's net monthly income starting March 1, 1975) will not be blocked by Congressional action. Thereby, over \$200 million in fiscal 1975 savings and more than \$650 million in fiscal 1976 savings are assumed. However, Congress did act to block increased food stamp purchase prices (the House acted on February 4, 1975 and the Senate on the following day) and this will add substantially to the budget estimate for the program.

- (2) It assumes a relatively small increase in average monthly participation (to 15.6 million persons in fiscal 1976). However, if current participation levels (over 17 million persons in December 1974) continue into fiscal 1976, the budget estimates may prove significantly short of actual participation and Federal costs may be substantially higher than anticipated. For example, the dollar impact of an extra 1 million people in the program over the course of a year is about \$250 million, at current benefit levels.

Expenditures for Child-Fooding Programs -- with the School Lunch Program accounting for the bulk -- have grown steadily over the past 8 years. In fiscal 1975, they will reach just over \$2 billion (including and commodity assistance). Budget increases have been due to increased Federal subsidies, legislative changes in program structure, some new programs, and looser eligibility standards for free and reduced-price meals.

For fiscal 1976, the budget requests an overall decrease in Federal funding for child nutrition -- to \$1,850 million, with no funding proposed for 4 programs. However, it then goes on to propose a more relevant mix of the child nutrition programs (substituting a "block grant" program for the current system of guaranteed subsidies per meal served). The net result, which would be a further substantial reduction in Federal child nutrition costs -- down to \$1,500 million -- if Congress approves the "block grant" concept for child nutrition assistance.

### Housing

The 1976 budget for housing programs indicates the Administration is going ahead with its previously announced plans to make the new phased housing program (section 8) the primary means of housing assistance. It is expected that 200,000 units will be made available in fiscal year 1975 and an additional 400,000 in 1976. Required outlays for the housing function are, therefore, projected at \$2.1 billion in 1975 and \$2.6 billion in 1976. Commitments for all housing programs are projected to be \$26.1 billion for fiscal 1976, up from \$23.5 billion in 1975. These commitments, however, represent the maximum payouts over the life of the various housing

assistance programs. Only 6,000 additional units of conventional public housing are to be provided in fiscal 1976. Operating subsidies for conventional public housing are expected to rise to \$525 million in fiscal 1976 compared with \$450 million in 1975. Starting in 1976, all funds for public housing and leased housing are to be released through an appropriations act, rather than through basic authorizing legislation as in the past.

No new commitments are provided under the interest subsidy programs -- Sections 235 and 236. Nor are funds provided for counseling services to families to help avert foreclosures under Section 235.

The 1974 legislation authorized operating subsidies for subsidized multifamily housing projects financed under Section 236 to most higher operating costs resulting from increased taxes or utility expenses. The 1976 budget provides no funds for this purpose.

Rural housing loans in 1976 would provide an estimated 107,000 units compared with 125,000 units projected for fiscal 1975. The 1976 program level is predicated upon a substantial volume of loans for existing and rehabilitated units rather than new construction. Actual results with existing and rehabilitated houses fell considerably short of projections in 1974.

VETERANS

During the period 1966-76, outlays for veterans' benefits and services are estimated to increase by over 163% -- rising from \$5.9 billion in 1966 to \$15.6 billion in 1976. Of the 1976 spending total, income security accounts for \$7.7 billion, or nearly half; hospital and medical care for \$3.9 billion, or 25%; and education, training, and rehabilitation for \$3.6 billion, or 23%.

VETERANS' BENEFITS AND SERVICES  
(Outlays in millions of dollars)

	Actual			Estimate	
	1966	1971	1974	1975	1976
Income security	4,184	5,966	6,789	7,671	7,707
Education, training and rehabilitation	54	1,659	3,249	4,042	3,600
Housing	169	-179	-15	-283	-104
Hospital and medical care	1,318	2,036	3,006	3,553	3,906
Other veterans' bene- fits and services	198	296	359	484	485
Deductions for off- setting receipts	-2	-2	-2	-2	-2
Total outlays	5,921	9,776	13,386	15,466	15,592

Much of the increased spending is attributable to the rise in veteran population which grew from 25.5 million in 1966 to 29.4 million in 1976 (an increase of 15.3%). Another significant share can be traced to increases in the cost-of-living, which generated compensatory increases in nearly all benefit levels. Finally, the scope and quality of veterans' benefits were increased during the period with the enactment of new legislation -- including the enactment of a post-Korean GI Bill for education and training, the recent 22.7 % increase in these benefits, and the liberalization of VA medical benefits.

Developments and Issues: 1975-1976

The recent issues in veterans' benefits are a continuation of the debate over what kinds and levels of benefits should be made available to veterans in consideration of their military service. This debate is likely to become more animated with the advent of the All-Volunteer Military Force, since questions may be raised concerning the extent to which any or all of the present panoply of veterans' benefits represent an attempt to compensate for disruption and/or actual personal harm sustained as a result of the draft -- which was essentially an involuntary act.

Impact of the Economy on Benefits

Since most of the spending for veterans' benefits is uncontrollable in the short-run, some attention must be paid to the effect of the economy on the expected costs of veterans' benefits. Continuing inflation is likely to generate increased demand for compensatory legislation to raise benefits for compensation, pension, and GI Bill benefits. There seems to be a general acceptance of the idea that these benefits should not be eroded in purchasing power. Thus, the Administration's budget assumptions concerning continued price increases of 8-11% through calendar year 1976 should influence the cost of the programs significantly.

Moreover, unemployment is also an important factor in pensions and the GI Bill. There appears to be some relationship between a declining supply of jobs, and an inclination of Vietnam era veterans to take advantage of the training and regular monthly stipend provided by the GI Bill. The Administration's budget assumes that the unemployment rate will not dip below 7% until calendar year 1978 -- which should have some continuing effect on these programs.

### Structural Changes

Structural changes in veterans pensions, and other uncontrollable veterans programs would have an important budgetary impact. For example, a 10% increase in compensation, pensions, and the GI Bill would cost an estimated \$1 billion or more. In the 93rd Congress the Administration proposed an entirely new pension proposal costing approximately \$250 million. The President, in his Economic Message of November 26, 1974, recommended that Congress continue to consider the proposal but that its implementation be deferred. Its cost in 1976 was estimated at \$361 million, if the program were to be enacted and implemented.

### Readjustment Benefits

There is a decrease in outlays for readjustment benefits in 1976 of \$442 million. According to the VA, the number of post-Korean conflict veterans and servicemen in training is expected to continue to increase through 1975 and then from over 2.4 million to almost 2.1 million in 1976. This decline is based upon the anticipated enactment of legislation to repeal the 2-year extension of the eligibility delimiting date provided by Public Law 93-337. This legislative proposal is assumed to be effective by March 1, 1975 and is estimated to save \$600 million in FY 1976.

However, it should be noted that over the past five fiscal years, the original budget estimates for education and training benefits have been substantially lower than the amount ultimately spent. These differences have ranged from \$49 million in 1972 to \$700 million in 1974, averaging a yearly percentage discrepancy of 28%. One of the reasons given for the VA's underestimates of GI bill costs has been unanticipated benefit increases which have precipitated a higher participation rate, and therefore necessitated supplemental appropriations. The supplemental requested for fiscal year 1975 is \$638 million.

Medical Care

With so much of the VA budget uncontrollable in the short-run, a great deal of budgetary pressure is usually placed on the one major controllable item -- VA medical care. The problem is not a new one, and budgetary constraints are viewed by many as attempts to shrink the supply of hospital capacity in an effort to restrict free medical care to cover only those veterans with service-connected ailments. (Under present law, all veterans who have a service-connected disability, are 65 years of age or older, or indicate an inability to pay for community hospital care must be admitted on a predetermined priority basis. Care for those with non-service-connected needs can only be limited to the extent that hospital bed space is not available.) Hence, the pressure to restrict the number of operating beds -- by increasing turnover in present beds, while decreasing the absolute number of such beds -- is seen by many as a way of screening out the long-term care needs represented by many older veterans with non-service-connected ailments. Restriction of supply may occur through efforts to close entire hospitals (as under the Johnson Administration in the mid-60's); or to close individual wards under the Nixon Administration, and to restrict construction to the replacement of existing hospital beds. In 1972, the Congress was so concerned with attempts to reduce the number of operating beds that it wrote a legislative requirement into H.R. 10880, the Veterans Health Care Expansion Act of 1972, that mandated a minimum level of operating beds (93,500), and an average daily patient census of no less than 85,500. This bill was vetoed by the President. Subsequently, the Congress agreed to lift these legislative requirements and P.L. 93-82 provides for a guarantee from the Administration that no attempt would be made to restrict entry to hospitals -- while presumably permitting continued efforts to increase turnover rates for use of existing hospital beds consistent with maintaining or improving the quality of care provided. It is estimated that in 1976, 1,138,480 veterans will be treated in VA



facilities, an increase of 53,380 or 5% over 1975. However, the average daily patient census is expected to remain at 82,000 -- the level expected in 1975. The staff-to-patient ratio is expected to increase from 1.59:1 in 1975 to 1.67:1 in 1976.

There is a record request for budget authority for construction programs of \$404 million, an increase of over \$100 million above 1975 to fully fund already approved construction projects and initiate new ones.

Over \$112 million has been earmarked for the implementation of the recommendations resulting from the agency study (Quality of Care Survey) last year of patient care at VA hospitals and clinics.

LAW ENFORCEMENT AND JUSTICE

The 1976 budget includes total budget outlays of nearly \$3.3 billion for the new functional category of law enforcement and justice, an increase of nearly 9% over 1975. However, as the table below indicates, it represents a 6-fold increase over the Federal expenditures on law enforcement and criminal justice just 10 years ago -- and an increase of about 150% over the expenditures five years ago. These marked increases in expenditures reflect the emergence of Federal anticrime assistance to State and local governments (beginning in the mid-1960s), and the considerable growth of Federal law enforcement and prosecution functions in the past decade.

LAW ENFORCEMENT AND JUSTICE  
(Outlays in millions of dollars)

	Actual			Estimates	
	1966	1971	1974	1975	1976
Federal law enforcement and prosecution	418	815	1,274	1,582	1,726
Federal judicial activities	84	152	221	323	350
Federal correctional and rehabilitative activities	60	104	202	219	258
Law enforcement assistance (including Legal Services Corp.)	1	233	770	909	959
Deductions for offsetting receipts	- 9	- 6	- 5	- 6	- 4
Total outlays	554	1,299	2,462	3,026	3,288

The major component of this new budget category is Federal law enforcement and prosecution. These activities are primarily the responsibility of the Justice and Treasury Departments. Agencies with major programs covered under this subcategory include (with proposed 1976 budget outlays for the programs indicated in

in millions of dollars): F.B.I. (\$459), Customs Service (\$314), Justice Department legal activities (\$239), Immigration and Naturalization Service (\$209), and the Drug Enforcement Administration (\$153).

#### Developments and Issues -- 1975-1976

The decrease in the budget authority requested for the Law Enforcement Assistance Administration (LEAA) for fiscal 1976 is a significant development, particularly in view of the steadily rising budget requests for LEAA in the past. The proposed budget outlay for LEAA is \$887 million, an increase of \$25 million over the estimated 1975 outlay. However, this increase will be made up of money which has already been appropriated and is still in the funding "pipeline." The actual budget authority recommended for LEAA for fiscal year 1976 is \$769.8 million, down \$106.3 million from the 1975 budget authority of \$880 million. The legislative authorization for LEAA for 1976 is \$1.25 billion, up from the \$1 billion authorization for 1975. In addition, no funds have been requested for the LEAA-administered juvenile delinquency programs authorized by the Juvenile Justice and Delinquency Prevention Act of 1974.

In view of the 16% increase in reported crime in the first nine months of 1974, the budget cuts may indicate basic questions within the Administration concerning the effectiveness of LEAA in meeting the challenge of crime. In this vein, Acting Attorney General Laurence H. Silberman explained the decrease in the LEAA request in terms of the need for "a thorough evaluation of LEAA programs," particularly in view of the expiration of LEAA's current authorization at the end of fiscal 1976.

Another development of interest in the 1976 budget is the proposed 19% increase in the budget outlays for the Immigration and Naturalization Service (INS). This is the largest percentage increase for agencies listed under the Federal law enforcement and prosecution category, and reflects the increasing concern with the problem

of illegal aliens. The \$34 million increase for INS is to be used primarily for the detection, apprehension, and expulsion of illegal aliens.

Despite the proposed reduction of 59 positions, outlays for the F.B.I. are expected to increase by 5.5%. The increase is scheduled to be used primarily for equipment modernization and replacement.

GENERAL GOVERNMENT

The general government budget function includes many of the historical and fundamental activities of government. Some of the primary activities constituting this function are the Legislative branch operations, executive direction and management, central fiscal operation including the collecting of revenues by the Internal Revenue Service and the Bureau of Customs, central personnel management activities of the Civil Service Administration, the general property and records management primarily performed by the General Services Administration and miscellaneous general government activities. Included in this category are those services and activities that cannot be reasonably classified in any other major function. In general, all activities reasonably or closely related to other functions are included in those functions rather than placed in the general government category.

Most of the activities of the general government budget function remain rather static in a budgetary sense. In fact, outlays for this functional group has been increasing at a lesser rate than the total budget; furthermore, the nature and magnitude of these activities do not change significantly. Table 1 shows budget outlays in millions of dollars by subfunction and table 2 shows these outlays as a percent of the overall budget.

TABLE 1

GENERAL GOVERNMENT BUDGET OUTLAYS IN MILLIONS OF  
DOLLARS FOR SELECTED FISCAL YEARS

	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> (est.)	<u>1976</u> (est.)
General government (total)	1,426	2,159	3,327	2,646	3,180
Legislative function	208	342	521	618	741
Executive direction and management	17	38	117	97	106
Central fiscal operations	672	1,013	1,329	1,710	1,770
Central property and records management <u>1/</u>	583	637	1,030	204	170
Central personnel management	25	51	74	95	98
Other general government	40	218	419	468	494
Deductions for offsetting receipts	-118	-141	-164	-546	-199

1/ The Federal building fund was established, effective with fiscal year 1975, pursuant to the Public Buildings Amendments of 1972 (P.L. 92-313). Under it, payments are made to the General Services Administration (GSA) by other Federal agencies for space and related services received at rates which approximate commercial charges. For fiscal year 1976 such payments to GSA are estimated to amount to \$1.2 billion. Payments to the Federal building fund account for the substantial reduction in outlays for fiscal years 1975 and 1976 compared to prior years.

TABLE 2

GENERAL GOVERNMENT BUDGET OUTLAYS AS PERCENT OF  
TOTAL BUDGET OUTLAYS FOR SELECTED FISCAL YEARS

	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> (est.)	<u>1976</u> (est.)
General government (total)	1.06	1.02	1.24	.84	.91
Legislative function	.15	.16	.19	.20	.21
Executive direction and management	.01	.02	.04	.03	.03
Central fiscal operations	.50	.48	.50	.55	.51
Central property and records management	.43	.30	.38	.07	.05
Central personnel management	.02	.02	.03	.03	.03
Other general government	.03	.10	.16	.15	.14
Deductions for offsetting receipts	-.09	-.07	-.06	-.17	-.07

REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE

The Federal Budget for the fiscal year 1976 contains a number of programs for Federal assistance to State and local units of government.

They are briefly described below.

General Revenue Sharing:

The general revenue sharing program was authorized under Title I (the State and Local Fiscal Assistance Act of 1972) of Public Law 92-512 which was approved on October 20, 1972.

Under this legislation, the Secretary of the Treasury is authorized to make quarterly payments to qualified State and local governments during the five-year period which began on January 1, 1972 and which will continue until December 31, 1976. The authorizing legislation granted appropriations of \$30.2 billion for this purpose which become available automatically for distribution to these governmental units and which is not subject to annual review and action by the Appropriations Committees.

Through the January 1975 quarterly payment, \$17.3 billion had been paid by the Treasury Department to approximately 39,000 State and local governments throughout the United States.

During the fiscal year 1976 outlays for this program are estimated at \$6.3 billion.

The Administration plans to submit a proposal to the 94th Congress requesting an extension of this legislation through 1982 supposedly in virtually its same form. Other sources indicate that the total cost for this renewal legislation will approximate \$40 billion. If the Administration's plans are approved, outlays for this program are expected to rise by \$150 million annually until they reach a level of \$7.2 billion by 1982.



The Administration's proposed renewal legislation is also expected to give assurance of greater citizen participation in decision-making at the local level, the easing of reporting requirements by State and local governments, and an increase in the ceiling now imposed on per capita allocations to governmental units in an effort to shift more funds from more affluent communities to poorer jurisdictions.

Energy Tax Equalization Payments:

The Ford Administration is further recommending that State and local governments be compensated for the rising cost of petroleum products which would result from implementation of the President's energy proposals. This compensation would take the form of equalization payments which are estimated at \$500 million in the fiscal year 1975 and \$2 billion in fiscal year 1976. These payments would be distributed among governing units using the same formula under which general revenue sharing allocations are determined.

Other Types of Fiscal Assistance:

Other forms of Federal assistance for the benefit of State and local governments contained in the Federal Budget for the fiscal year 1976 included the following:

An increase in the Federal payment to the District of Columbia.

Continuation of the practice of the Federal Government sharing with State and local governments a portion of the receipts it derives from national forest activities, mineral leasing, grazing, etc., on public lands situated within their boundaries.

The return to Puerto Rico and the Virgin Islands of certain duties, taxes and fees collected by the U. S. Government.

The growth in Federal outlays for the revenue sharing and general purpose fiscal assistance function is shown below:

	<u>OUTLAYS</u>				
	(amounts in millions of dollars)				
	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> (est.)	<u>1976</u> (est.)
General revenue sharing <sup>1/</sup>	-----	-----	6,106	6,176	6,304
Other general purpose fiscal assistance	<u>242</u>	<u>488</u>	<u>640</u>	<u>857</u>	<u>946</u>
Total outlays, revenue sharing and general purpose fiscal assistance:					
Amount	242	488	6,746	7,033	7,249
As percent of total budget	.18	.23	2.5	2.2	2.1

1/ No outlays were made prior to fiscal year 1973. However, during the fiscal year 1973 when general revenue sharing payments were first being disbursed to State and local governments outlays amounted to \$6,636 million. It should be noted that energy tax equalization payments of \$500 million for fiscal year 1975 and \$2 billion for fiscal year 1976 are excluded from this program total; these proposed payments are included in the undistributed allowances outlays.

INTERESTBudget Outlays:

Interest is the third largest budget outlay category; it is surpassed only by the income security and national defense functions. Interest costs have more than tripled over the past decade. Outlays for this budget function amount to about 10 percent of the total budget.

About \$1.6 billion of the estimated \$36 billion interest cost of the public debt will be offset by interest collections of the Treasury Department. These collections come mainly from interest on loans to other Federal agencies to finance their lending and other business-type operations, and to a lesser extent, from interest collected directly from the public, including interest on loans to foreign governments. Table 1 shows the growth in budget outlays for the interest function.

TABLE 1

(Amounts in millions of dollars)

	<u>OUTLAYS</u>				
	<u>1966</u>	<u>1971</u>	<u>1974</u>	<u>1975</u> (est.)	<u>1976</u> (est.)
Interest on the public debt	12,014	20,959	29,319	32,900	36,000
Other interest (net offsets)	- 728	- 1,350	- 1,247	- 1,569	- 1,581
Total interest outlays:					
Amount:	11,286	19,609	28,072	31,331	34,419
As percent of total budget	8.4	9.3	10.5	10.0	9.9

The three-fold increase in budget outlays for interest over the past decade has resulted from two factors. These are: (1) increase in the amount of public debt securities outstanding, and (2) increase in the average interest rate paid on these securities. The total debt subject to the statutory limitation at end of fiscal year 1966 amounted to \$320 billion; at the end of fiscal year 1976 it is estimated to amount to \$596 billion, an increase of \$276 billion. For fiscal year 1966 the average interest rate paid on total interest bearing public debt was 4.0 percent. For fiscal year 1974 the average interest rate on the public debt was 6.6 percent and for several months it has been averaging about 6.8 percent. For fiscal year 1976 the estimated average interest rate on the public debt is 6.4 percent. To attain this significantly lower overall average interest rate will mean that the new debt incurred and the portion of current debt "rolled over" during the next year will have to be financed at interest rates substantially below current levels.

Increase in interest outlays:

In recent years interest costs have been increasing by several billion dollars annually. Table 2 shows the amount and percent of increase in budget outlays for interest for fiscal years 1973 to 1976.

TABLE 2

(Amounts in millions of dollars)

<u>Fiscal year</u>	<u>Outlays</u>	<u>Increase over Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>
1973	22,813	2,231	10.8
1974	28,072	5,259	23.1
1975 (estimate)	31,331	3,259	11.6
1976 (estimate)	34,419	3,088	9.9

Underestimate of interest outlays:

For several years interest outlays have been consistently underestimated in the budget. Original estimates of interest outlays for fiscal year 1975 have been revised upward by \$2,209 million - 7.6 percent. Table 3 compares original estimates and actual outlays for interest for fiscal years 1973 to 1976.

TABLE 3

(Amounts in millions of dollars)

<u>Fiscal Year</u>	<u>Outlays</u>		<u>Underestimate</u>	
	<u>Original Estimates</u>	<u>Actual</u>	<u>Amount</u>	<u>Percent</u>
1973	21,161	22,813	2,354	7.8
1974	24,672	28,072	3,400	13.8
1975 (estimate)	29,122	31,331 <sup>1/</sup>	2,209	7.6
1976 (estimate)	34,419			

1/ Revised estimate in 1976 budget.

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