
SECTION I. AGGREGATE IMPACTS OF RECENT ECONOMIC AND LEGISLATIVE CHANGES

Projected federal outlays have changed considerably over the past two years. These differences result from both economic and legislative factors, as shown in Table 1, which compares the baseline outlay projections prepared by the CBO in July 1981 and in February 1983. 1/ These baseline projections are designed to show what would happen to the federal budget if the policies in place when the estimates were prepared were continued into the future. This is not equivalent to assuming that there would be no new Congressional action. Without new legislation, spending programs requiring annual appropriations would quickly wither away because of the lack of funding; many other programs would disappear later, as their authorizing legislation expired. The baseline projections assume that the Congress would take action as needed to continue the policies embodied in the current legislation, including the maintenance of real resource levels to keep pace with inflation. It is important to note, however, that such a baseline does not represent an optimal level of spending, but rather what would have occurred if all policies had remained the same. 2/

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1. Unless otherwise noted, all years cited in this study are fiscal years.
 2. This discussion of the CBO baseline projections is taken from the CBO report Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983), which provides more information on the construction of baseline projections.

TABLE 1. DIFFERENCES BETWEEN CBO BASELINE OUTLAY PROJECTIONS PREPARED IN 1981 AND IN 1983 (By fiscal year, in billions of dollars)

	1983	1984	1985
1981 Baseline <u>a/</u>	792	843	895
Differences Due to:			
Changed Economic Outlook	15	4	5
Technical Estimating Differences	22	22	23
Legislative Actions	-29	-19	7
Defense Increases	15	27	47
Non-defense Discretionary			
Reductions	-26	-26	-25
Entitlement Reductions	-21	-31	-33
Effects of Legislative			
Actions on Interest Costs	3	10	19
February 1983 Baseline <u>b/</u>	800	850	929

SOURCE: Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983).

- a. The 1981 baseline projections were developed in July 1981 based on Congressional actions through the end of the 96th Congress. The 1981 baseline projections used the economic assumptions of the first budget resolution for fiscal year 1982.
- b. The 1983 baseline projections were prepared in February 1983 and include the actions of the 97th Congress. The 1983 baseline projections were developed using an updated CBO economic forecast and extrapolation. The 1983 baseline does not reflect changes enacted since January 1983, and is therefore not directly comparable to 1983 baseline estimates for individual programs shown elsewhere in this memorandum.

As Table 1 shows, baseline projections of total budget outlays differed relatively little between July 1981 and February 1983, but this resulted from several offsetting factors. First, changes in the economic outlook increased projected spending for some programs and reduced it for others. The recession of 1981-1982--unforeseen in the baseline assumptions of July 1981--caused outlays to rise for unemployment insurance, food stamps, and other programs sensitive to unemployment rates. In addition, the loss of tax revenues brought about by the recession increased deficits and therefore indirectly increased interest costs. These increases were to some extent offset, however, by lower than expected price increases, which slowed the growth of indexed benefit programs and reduced the outlay increases needed to keep discretionary programs constant in real terms.

Second, technical estimating differences increased net outlays projected in 1983 compared with the 1981 baseline by about \$20 billion per year. These consisted primarily of unexpectedly higher outlays for farm price supports and Medicare benefits and lower receipts from offshore oil leases.

Third, legislated reductions in entitlement programs and in nondefense discretionary spending reduced projected outlays in all years, but planned increases in defense spending and the indirect effects of legislative changes on interest costs--through higher deficits--drove up outlays. In 1983 and

1984, the projected spending reductions resulting from legislative changes are greater than the spending increases, but this situation is reversed in 1985, as the defense buildup gathers momentum and interest costs mount.

The effect of all these changes on the composition of projected federal spending is shown in Table 2. By 1985, total outlays are \$34 billion (or 3 percent) higher in the February 1983 projection than in the baseline of two years earlier. Spending for national defense and net interest are \$39 billion and \$45 billion higher, respectively, while entitlements and nondefense discretionary spending are \$12 billion and \$38 billion lower.

The remainder of this paper details the effects of legislated changes during the past two years on individual federal programs. It compares baseline outlay projections under current law (as of July 1983) with estimates of what spending levels for each program would have been under the laws in effect in January 1981. Both sets of projections use the CBO's February 1983 economic assumptions to allow the effects of legislative changes to be seen without the complications introduced by differences in economic factors. For each of the spending programs, the estimates of the legislative changes, though based on the economic assumptions used for CBO's February projections report, also include legislative changes enacted since February, such as the recent Social Security Amendments. (The

TABLE 2. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983
 BASELINE OUTLAY PROJECTIONS BY MAJOR SPENDING
 CATEGORY (By fiscal year, in billions of dollars)

	1983	1984	1985
July 1981 Projection			
National Defense	204	222	239
Entitlements and Other			
Mandatory Spending	372	399	430
Nondefense Discretionary			
Spending	178	188	200
Net Interest	70	67	62
Offsetting Receipts	<u>-30</u>	<u>-33</u>	<u>-37</u>
Total	792	843	895
February 1983 Projection			
National Defense	213	242	278
Entitlements and Other			
Mandatory Spending	386	394	418
Nondefense Discretionary			
Spending	145	153	162
Net Interest	87	96	107
Offsetting Receipts	<u>-32</u>	<u>-34</u>	<u>-36</u>
Total	800	850	929
Difference			
National Defense	10	20	39
Entitlements and Other			
Mandatory Spending	14	-6	-12
Nondefense Discretionary			
Spending	-32	-35	-38
Net Interest	17	29	45
Offsetting Receipts	<u>-1</u>	<u>a/</u>	<u>1</u>
Total	7	7	34

SOURCE: Congressional Budget Office.

a. Less than \$500 million.

aggregate figures shown in Tables 1 and 2 were published in February and, of course, do not reflect subsequent legislative changes.)

Using the same economic assumptions to estimate spending under the policies in effect 1981 and 1983 isolates the impact of legislative actions by removing the effects of changes in economic factors. Estimates of the impact of legislative actions, however, would vary somewhat depending on the specific economic assumptions used. Because of the recession that started in the third quarter of 1981, income levels are lower and unemployment rates are higher under the February 1983 assumptions than under those used earlier to prepare the 1981 projections. Assumed inflation rates, which affect projected cost-of-living adjustments (COLAs) for benefit levels, are also lower than those used in 1981. Therefore, estimates of the impacts of legislative changes presented here are somewhat different from the estimates of projected impacts that would have resulted if, for example, the assumptions used in January 1981 had been chosen as the analytic basis instead. Similarly, if the recovery now under way proceeds faster than the CBO projected in February--as now seems likely, at least in the short term--both revenue and outlay estimates would be affected. ^{3/} The impact of using different economic assumptions on the estimated changes in outlays

3. For discussion of the most recent CBO economic forecast, see Congressional Budget Office, The Economic and Budget Outlook: An Update (August 1983).

resulting from legislative actions would be small, however, unless the differences in assumptions were extreme. 4/

Although the net impact of both economic factors and legislative actions has been small for projected outlays as a whole, their effect has been very large for some specific programs, because of the major shifts in spending priorities within the budget in the last two years. In addition, changes in economic assumptions affect some types of programs more than others. Spending for entitlement programs such as Social Security and Unemployment Insurance, for example, depends not only on program rules but also on the number of qualifying individuals who apply for benefits, and as a result, outlays tend to rise in periods of high unemployment when more people apply. The next section outlines the impact of these factors on the composition of federal outlays and then summarizes the effects of legislative changes on programs serving families and individuals.

4. Outlay projections for human resource programs are generally less sensitive to changes in unemployment, inflation, and economic growth than are projections of interest outlays and revenues. See Congressional Budget Office, The Economic and Budget Outlook: An Update (September 1982), Appendix B.

SECTION II. FEDERAL SPENDING FOR PROGRAMS SERVING FAMILIES AND INDIVIDUALS

In the last two years, a number of major changes have been enacted in domestic spending programs, as a result of which the proportion of total federal resources going to those programs is lower than it would have been otherwise. This reduction has been to some extent offset, however, by increased spending in many of these programs caused by rising unemployment and other economic factors. Thus, the proportion of the total federal budget going to programs providing benefits for individuals--which grew from about 32 percent in 1970 to about 47 percent in 1980--has remained almost constant since then. If grants to states and localities for education, social services, and employment programs as well as direct benefit payments for individuals are considered among those programs directly serving families, then spending for this purpose accounts for about half of the total federal budget in 1983 (see Table 3).

This memorandum focuses on changes in five areas that, together, account for about one-half of the total federal budget and just over two-thirds of total nondefense spending. The expenditures considered here include almost all outlays for programs directly affecting families and individuals. These areas are:

- o Retirement and disability programs,

TABLE 3. COMPOSITION OF FEDERAL OUTLAYS, FISCAL YEARS
1982-1985

	1982	1983	1984	1985
	In Percents			
Benefit Payments for Individuals	47.9	48.3	47.5	46.3
Retirement and Disability Programs <u>a/</u>	24.9	24.8	24.9	24.3
Other Income Security	11.1	11.6	10.2	9.4
Health	10.7	10.9	11.5	11.8
Higher Education	1.1	1.0	0.9	0.9
Grants to State and Local Governments <u>b/</u>	6.5	6.1	6.1	5.9
Education, Employment and Social Services	2.3	2.1	2.0	1.9
Other	4.3	4.0	4.1	4.0
National Defense	25.7	26.7	28.5	29.9
Net Interest	11.6	10.9	11.2	11.6
Other Federal Operations	8.3	8.0	6.8	6.3

	In billions of dollars			
Total Outlays	728	800	850	929

SOURCE: Congressional Budget Office, based on February 1983 baseline budget projections.

NOTE: Components may not sum to totals because of rounding.

- a. Excludes military retirement which is shown in national defense.
- b. Excludes individual assistance grants, which are included in benefit payments for individuals.

- o Other income security programs,
- o Health programs,
- o Education and social services, and
- o Employment programs.

CHANGES IN THE COMPOSITION OF FEDERAL OUTLAYS

Overall spending for programs serving families and individuals has changed very little as a percentage of the federal budget over the last two years, and is not projected to change appreciably as a proportion of total outlays through 1985. The pattern differs across program areas, however. Federal spending for retirement and disability programs--for the most part, Social Security--was about 24 percent of total outlays in 1980, and it is projected to remain at that level through 1985. Spending for other income security programs accounted for just over 11 percent of the federal budget in both 1980 and 1982, but is projected to decline to slightly above 9 percent by 1985. Federal spending for health-care programs, by contrast, is projected to rise from 11 percent of total outlays in 1980 and 1982 to about 12 percent in 1985, largely as a result of rising hospital and other health-care costs. Spending for education (including higher education), social services, and employment programs together declined from almost 6 percent of total spending in 1980 to just over 3 percent in 1982. Moreover, the decline in the proportion of total outlays going to education, social

services, and unemployment is projected to continued, although at a slower rate, through 1985.

IMPACT OF RECENT LEGISLATIVE CHANGES IN HUMAN RESOURCES PROGRAMS

Shifts in spending levels for different groups of programs within the budget result from legislative, economic, and technical estimating factors. As indicated in Section I, the CBO has prepared estimates of what spending for human resources programs would have been under the laws in effect in January 1981, but using the economic and technical assumptions of February 1983. By comparing these estimates with current baseline projections, it is possible to calculate the total impact for each program of legislative changes enacted between 1981 and 1983. These legislative changes are summarized for the major human resources programs in Table 4. (Because of data limitations, this memorandum does not consider every human resource program, but the programs included here represent 96 percent of projected outlays for human resources in 1983.)

As Table 4 shows, outlays for virtually all of the major programs serving families and individuals are lower than they would have been under 1981 law. Across all of the human resources programs considered here, the reductions average about 7 percent. The only programs not reduced relative to the 1981 baseline are the Supplementary Feeding Program for Women,

TABLE 4. OUTLAY CHANGES IN FISCAL YEARS 1982-1985 RESULTING FROM LEGISLATIVE ACTIONS UNDERTAKEN SINCE JANUARY 1981, FOR SELECTED HUMAN RESOURCES PROGRAMS (In millions of dollars)

Programs	1982	1983	1984	1985	Total, 1982-85	Legislative Changes as a Percent of Program Outlays a
Retirement and Disability						
Social Security <u>b/</u>	-1,900	-4,602	-8,278	-9,299	-24,079	-3
Civil Service Retirement <u>c/</u>	-440	-576	-683	-850	-2,549	-3
Veterans' Pensions and Compensation	-2	-159	-199	-212	-572	-1
SSI	+32	+73	+582	+732	+1,419	+4
Other Income Security						
Unemployment Insurance	-1,000	+3,000	-4,500	-5,250	-7,750	-7
AFDC <u>d/</u>	-875	-1,222	-1,288	-1,377	-4,762	-13
Food Stamps	-1,535	-1,343	-2,031	-2,061	-6,970	-13
Child Nutrition <u>e/</u>	-1,026	-1,305	-1,392	-1,444	-5,167	-28
WIC <u>f/</u>	-48	+113	+77	+49	+191	+4
Housing Assistance <u>g/</u>	0	+107	-452	-1,420	-1,765	-4
Low Income Energy Assistance	-127	-160	-194	-232	-713	-8
Health						
Medicare	-550	-2,900	-4,150	-5,550	-13,150	-5
Medicaid	-866	-1,026	-1,336	-687	-3,915	-5
Other Health Services <u>h/</u>	-77	-238	-467	-587	-1,369	-22
Education and Social Services						
Compensatory Education	-370	-701	-799	-776	-2,646	-17
Head Start	+14	-5	-10	-10	-11	<u>i/</u>
Vocational Education	-102	-172	-161	-158	-593	-12
GSLs	-275	-787	-1,170	-1,570	-3,802	-27
Student Financial Assistance	-320	-430	-664	-720	-2,134	-13
Community Services Block Grant	-216	-247	-261	-286	-1,010	-39
Social Services Block Grant	-699	-642	-699	-817	-2,857	-22
Veterans' Readjustment Benefits	-225	-175	-150	-105	-655	-10

(Continue)

Table 4 (continued)

Programs	1982	1983	1984	1985	Total, 1982-85	Legislative Changes as a Percent of Program Outlays a
Employment and Training						
General Employment and Training	-1,260	-1,956	-2,011	-2,195	-7,422	-35
Job Corps	-13	-21	-51	-60	-145	-6
Public Service Employment	-3,760	-4,142	-4,458	-4,587	-16,947	-99
Work Incentive Program	-100	-142	-153	-161	-556	-33

SOURCE: Congressional Budget Office.

- a. Base used to calculate percentage changes is the CBO 1981 baseline projection for each program, adjusted for subsequent changes in economic assumptions but not for legislative changes. See text for fuller description.
- b. Includes Social Security Old Age and Survivors' Insurance (OASI) and Disability Insurance (DI) benefits. Also includes Railroad Retirement changes of \$300 million in 1982 and \$100 million each in 1983, 1984, and 1985.
- c. Includes Civil Service Disability benefits.
- d. Includes Child Support Enforcement.
- e. Includes the National School Lunch Program, National School Breakfast Program, Childcare Feeding Program, Special Milk Program, and Summer Feeding Program.
- f. Includes Special Supplementary Feeding Program for Women, Infants, and Children (WIC) and the Commodity Supplemental Feeding Program (CSFP).
- g. Includes both subsidized housing programs and public housing operating subsidies.
- h. Includes all programs previously under the Health Services Administration. Among these are three categorical programs, for family planning, migrant health, and black lung clinics, and two block grants, for primary care and maternal and child health. For technical reasons, the block grants for substance abuse and preventive care have been excluded. Funding for the excluded block grants declined by 16.1 percent between 1981 and 1982, compared to a 15.8 percent decline for the two that were included.
- i. Less than 0.5 percent.

Infants, and Children (WIC) and the Supplemental Security Income (SSI) program. The first of these programs, which had total outlays of about \$930 million in 1982, received \$100 million in additional funding as a result of the recently passed Emergency Jobs Appropriation Act (P.L. 98-8), which is expected to increase outlays by \$70 million and \$30 million in 1983 and 1984, respectively. Benefits for SSI, a program with outlays of about \$7.7 billion in 1982 that provides cash benefits to low-income elderly and disabled persons, were increased about 4 percent under the Social Security Amendments of 1983. 1/

Aside from these two programs, however, the reductions in human resources programs have been widespread, although some areas have been more affected than others. For example, projected 1982-1985 outlays for the retirement and disability programs have been reduced by about 3 percent, while those for employment programs have been cut by almost 60 percent. Percentage reductions in the other categories are between these extremes--about 18 percent for education and social services, about 10 percent overall for the "other income security" category, and about 5 percent in total for health-care programs.

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1. SSI outlays also rose slightly in 1982, as a result of benefit reductions in Social Security that caused small offsetting increases in SSI benefits for some recipients of benefits under both programs.

Much of the reduction in funding for employment programs results from the elimination of the Public Service Employment (PSE) program under the Omnibus Budget Reconciliation Act of 1981 (OBRA). This elimination reduced total expenditures for employment programs by almost \$17 billion over the years 1982-1985 relative to what they would have been under the 1981 baseline. Other employment and training expenditures have also been substantially reduced--by a third or more in some programs--although additional funds were appropriated for employment programs under the Emergency Jobs Appropriation Act.

Social services programs have also experienced large reductions. The social services block grant, for example, is funded at a level 22 percent lower than the adjusted 1981 baseline projection for the programs it replaced, while the community services block grant is funded at about 39 percent less than the revised 1981 baseline estimate for the Community Services Administration programs it replaced.

Reductions in education programs have been almost as large. While it is difficult to forecast what the rate of applications for student loans would have been without program changes, legislative changes in the guaranteed student loan (GSL) program have reduced projected outlays by approximately 27 percent, for example. Similarly, funding for grants to college students under means-tested student financial assistance programs--

