Three other components of the budget grow more slowly or decline under the President's proposals. Nondefense discretionary spending would rise from $145 billion in 1983 to $163 billion in 1988, an average of 2.4 percent per year. Almost $6 billion of this increase is attributable to highway spending resulting from the recently enacted Surface Transportation Assistance Act of 1982 (Public Law 97-424). All other discretionary spending is projected to increase by 8.5 percent, in total, from 1983 to 1988, an annual rate of 1.6 percent. Federal pay raises and increases in retirement contributions account for most of this remaining increase, and other spending remains virtually constant in the aggregate for the five-year period. About $61 billion, or almost 30 percent of the savings in the President's budget, relative to the baseline projections, fall in this category--and 1988 outlays would be about 11 percent below the baseline level. Consequently, nondefense discretionary spending would fall from 4.5 percent of GNP in 1983 to 3.4 percent in 1988.

Spending for entitlements and mandatory programs, other than Social Security, Medicare, and Medicaid, will decline, under the Administration's plan, from $145 billion in 1983 to $135 billion in 1988, dropping from 4.5 percent of GNP to 2.8 percent. A large part of this reduction is attributable to projected changes in the economic environment. Gradually declining unemployment is expected to result in a $7 billion drop in outlays for unemployment compensation, and diminishing crop surpluses are projected to make possible a $6.5 billion reduction in farm price support payments. In addition, the President is proposing legislation that would save about $10 billion in 1988, and a total of $40 billion over the five-year period. The largest legislative savings would be for farm price supports, federal employee retirement and disability programs, and food stamps.

Growth in offsetting receipts will also result in declining net outlays under the Administration plan. Normal growth, under current law, will produce a $9 billion increase in receipts by 1988. In addition, the budget plan includes a number of legislative initiatives that would add another $8 billion in receipts in 1988, and a total of $25 billion between 1984 and 1988. Of this total, about $10 billion reflects increased intragovernmental payments for the government's share of employee retirement contributions, which are offset in discretionary spending and do not represent net savings. In sum, offsetting receipts are projected to rise by over $17 billion from 1983 to 1988.

Each of these major spending categories will be discussed in more detail in the remainder of the chapter.

ENTITLEMENTS AND OTHER MANDATORY SPENDING

Entitlement programs provide benefits to persons, businesses, or units of government that meet eligibility requirements established in law. Social Security is the largest single entitlement program with outlays constituting about 20 percent of the entire federal budget. Other major entitlement programs include civil service retirement and disability, railroad retirement, and veterans' compensation; Medicare and Medicaid; farm price supports; Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), food stamps, and veterans' pensions; unemployment insurance; guaranteed student loans and veterans' readjustment benefits. Military retirement, also an entitlement, is not included in this section but is covered in Chapter IV on the defense budget.

Table V-3 shows outlays for entitlements and other mandatory spending programs proposed in the Administration's budget. Proposed spending in this category increases by $107.2 billion between 1983 and 1988. The fastest growing programs are Medicare, Medicaid, and Social Security. Medicaid and Medicare together grow by 76 percent and Social Security grows by 37 percent. The programs showing the greatest decline are unemployment insurance and farm price supports.

The President's budget proposes legislative initiatives in almost every major entitlement program. It proposes to reduce spending from current law levels in Social Security, Medicare, Medicaid, civil service retirement, AFDC, food stamps, guaranteed student loans, child nutrition, farm price supports, and other programs. As noted above, these legislative initiatives, if enacted, would reduce entitlement spending from CBO's baseline projections by almost $9 billion in 1984 and by $91 billion in the 1984-1988 period. These savings are shown in Table V-4. Only in unemployment insurance and in SSI are increases requested. The Administration proposes to extend the federal supplemental compensation program for the latter half of 1983 and to increase the income disregard in SSI to compensate partially for requested reductions in Social Security. These proposals would add to the legislative and administrative actions taken during the 97th Congress that have already reduced baseline spending for entitlement and other mandatory spending by $177 billion over the 1984 to 1988 period.

Proposals to reduce the growth in entitlement spending have been a consistent theme of all three of the Reagan Administration's budgets and represent a reversal of the policies and practices of the previous decade. During the 1970s, entitlement spending grew from $65 billion in 1970 to $267 billion in 1980, a fourfold increase.

TABLE V-3. PROPOSED OUTLAYS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING PROGRAMS AS ESTIMATED BY CBO (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Social Security Benefits	164.2	173.5	184.8	197.2	210.2	224.4
Other Retirement and Disability Programs	39.2	41.2	42.2	45.2	46.7	49.2
Medicare and Medicaid	75.9	83.8	94.2	105.1	118.5	133.4
Food Stamps, SSI, AFDC and Veterans' Pensions	33.2	30.7	31.4	32.3	33.2	34.8
Unemployment Benefits	32.8	25.9	24.6	24.2	24.0	23.8
Farm Price Supports	18.2	10.0	8.4	8.6	8.4	8.7
Other a/	21.6	20.6	17.7	17.1	17.4	17.9
Total	385.1	385.7	403.2	429.8	458.5	492.3

a/ A variety of programs providing educational assistance, nutrition assistance, aid to state and local governments, and aid to certain businesses.

Part of the growth in entitlement spending in the 1970s reflected increasing prices. Many of the benefits are indexed directly to changes in prices or respond more or less automatically to such changes. The growth in entitlement programs in the 1970s, however, far exceeded the increase in prices. Even after adjusting for price changes, entitlement spending grew at an average annual rate of 6.9 percent between 1970 and 1980, or from 6.7 percent of GNP in 1970 to 10.5 percent in 1980. As a percent of the federal budget, entitlement spending rose from 33 percent in 1970 to 47 percent in 1980.

This rapid real growth in the 1970s resulted in part from a natural growth in eligible recipients, but also from program liberalization and expansion. Some of the more important legislative changes during the 1970s

TABLE V-4. CBO ESTIMATE OF ADMINISTRATION'S PROPOSED REDUCTIONS IN ENTITLEMENTS AND OTHER MANDATORY SPENDING (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
CBO Baseline Outlays - Entitlements and Other Mandatory Spending	394.6	418.4	448.7	481.2	517.6	
Proposed Changes						
Social Security	-3.8	-4.2	-4.3	-4.5	-4.9	-21.7
Medicare and Medicaid	-2.5	-3.9	-5.6	-8.1	-9.1	29.2
Other retirement and disability programs	-0.7	-1.4	-1.8	-2.2	-2.5	-8.5
Food stamps, SSI, AFDC and veterans' pensions	-1.0	-1.3	-1.4	-1.3	-1.2	-6.2
Farm price supports	-0.4	-1.6	-2.2	-2.8	-3.0	-10.0
Other	-0.4	-2.7	-3.7	-3.8	-4.5	-15.1
Total Changes	8.9	15.1	18.9	22.6	25.2	-90.8
President's Budget as Estimated by CBO	385.7	403.2	429.8	458.5	492.3	

included: 15, 10, and 20 percent increases in Social Security benefits in 1970, 1971, and 1972; the indexing of Social Security benefits to the CPI (1975); the start of the SSI program (1974); the expansion of Medicare eligibility to the disabled (1972); the mandating of the food stamp program to all counties (1974); and the elimination of the food stamp purchase requirement (1979).

The President's proposals would halve the real rate of growth in entitlement spending over the five-year period, from about 2 percent per year in constant dollars to about 1 percent. The President's legislative proposals and recent trends in the major entitlement programs are discussed in more detail below.

Social Security

The Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs are expected to pay benefits totaling $177.3 billion to 37 million retired and disabled workers, their dependents, and survivors during fiscal year 1984. Outlays under existing law are estimated to increase 6.4 percent per year, with an average annual real growth rate of 1.8 percent.

The President's budget generally incorporates the recommendations of the National Commission on Social Security Reform. The commission was created in December 1981 to address the continuing deterioration of the financial position of the OASI trust fund. Members were appointed by the President, the Majority Leader of the Senate, and the Speaker of the House of Representatives. The bipartisan commission submitted its findings and recommendations on January 20, 1983, and the recommendations were quickly factored into the President's budget to meet the January 31st budget release date. The estimated outlay impact of the commission's proposals included in the President's budget for Social Security benefits are shown in Table V-5.

TABLE V-5. PROPOSED FUNDING CHANGES FOR SOCIAL SECURITY BENEFITS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
CBO Baseline Outlays	177.3	189.0	201.6	214.7	229.3	
Proposed Changes						
Six-month delay in cost-of-living adjustment	-3.8	-4.2	-4.5	-4.7	-5.2	-22.4
Miscellaneous Benefit Provisions	0.1	0.1	0.2	0.2	0.3	0.9
Total Changes	-3.8	-4.2	-4.3	-4.5	-4.9	-21.7
President's Budget as Estimated by CBO	173.5	184.8	197.2	210.2	224.4	

The only major proposal that would reduce outlay growth affects the cost-of-living adjustment (COLA). Currently, this adjustment is made to the June payment, payable in July of each year, and is equal to the change in the Consumer Price Index from the first quarter of the previous year to the first quarter of the current year. The President's budget, following the commission's recommendations, would delay this annual increase to the December benefit amount payable in January. Further, beginning in January 1985, the increase would be determined on the basis of the growth in the CPI from the third quarter of the previous year to the third quarter of the current year.

The six-month delay in the COLA, combined with adjustment in the indexing period, is estimated to save $1.7 billion in 1983, and $22.4 billion during the next five years (1984-1988). The change would affect the benefit payments of almost all the 37 million recipients. In 1984, these COLA adjustments would reduce the average yearly benefit from the baseline level by approximately $110 per person, or 2 percent.

A number of other minor proposals in the President's budget would mean, on balance, a small cost to the Social Security system. The largest of these miscellaneous changes would increase the benefit rate for disabled widows and widowers aged 50 to 59 to be the same as that for non-disabled widows and widowers first claiming benefits at age 60. This is estimated to cost $1 billion over the period. Other changes provide for increased benefits for certain groups of divorced or surviving beneficiaries, and for decreased benefits to persons with relatively short periods of work covered by Social Security. Together, these provisions would have a negligible impact on the budget.

Reducing benefits for all Social Security recipients, even by a small amount, would be a departure from recent practice. The reductions in the 1981 reconciliation act, for example, were targeted at particular groups of recipients: benefits for full-time college students between the ages of 18 and 22 and for parents of children aged 16 to 18 were phased out, the minimum benefit was eliminated for new recipients, and the lump sum death benefit was modified. Other efforts have focused on reducing the rate of growth of the DI program. Following a provision of the disability amendments of 1980, the Social Security Administration has been reviewing all continuing disability cases to assure that the recipients are still disabled. Partly as a result of these initiatives, the disability caseload has been falling for almost two years.

Most of the commission's proposals in the budget address the trust fund receipts. The proposals include taxing 50 percent of Social Security benefits for recipients with adjusted gross incomes of at least $20,000 if single and $25,000 for married couples filing jointly, increasing payroll taxes, and extending coverage to newly hired federal civilian workers and all employees of nonprofit organizations. Finally, the President's budget includes a commission proposal to transfer from the general fund $20 billion in 1983 for military wage credits and for benefit checks that were not cashed in past years. These revenue proposals are shown in greater detail in Chapter III.

The total impact on the OASDI trust funds from the reductions in trust fund outlays and the increase in income over the 1984-1988 period is a saving of $114 billion. The impact on the unified federal budget, however, is far less. There are several reasons for this. First, payments from the Treasury to the trust funds, such as interest payments on investments, are income to the trust funds but not to the federal government as a whole. Second, tax credits and tax deductions that offset some of the increases in Social Security taxes lower the net revenue gain to the government. Third, the budget shows new federal employees paying into Social Security. It is the intent of the Administration that revenues not change as a result of adding new federal employees to Social Security. The new employees are expected to pay into the civil service trust fund the difference between the civil service contribution for current employees and the Social Security tax. Finally related changes in SSI, railroad retirement, SMI premiums, Medicaid, and food stamps will affect the federal deficit without affecting the trust funds. Table V-6 shows CBO's estimate of the unified budget impact of the commission recommendations included in the President's budget. Over the five-year period, 1984-1988, these proposals would reduce the projected deficits by nearly $70 billion. Three quarters of the deficit would be produced by increased revenues.

Other Retirement and Disability Programs

The federal government provides benefits to the retired or disabled through several programs other than Social Security. Benefits are provided to former federal employees through civil service retirement and disability. Former railroad employees are compensated through the railroad retirement program. Veterans with service-connected disabilities may qualify for benefits from the veterans' compensation program. Taken together, these programs are expected to spend $39.2 billion in fiscal year 1983, and to increase gradually to $49.2 billion by 1988 (Table V-3).

The President's budget contains several proposals for reducing outlay growth in these programs from current law levels (see Table V-7).

TABLE V-6. ESTIMATED IMPACT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM'S PROPOSALS ON THE UNIFIED BUDGET DEFICIT (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Outlay Reductions						
Social Security						
COLA delay	3.8	4.2	4.5	4.7	5.2	22.4
Other proposals	-0.9	-1.1	-1.0	-1.0	-1.2	-5.2
Subtotal	2.9	3.1	3.5	3.7	4.0	17.2
Revenue Changes						
Social Security revenue increases	9.7	11.5	10.1	11.5	23.7	66.6
Loss in income tax revenues	-1.6	-6.3	-2.0	-2.4	-4.0	-16.3
Subtotal	8.2	5.2	8.1	9.2	19.7	50.4
Total Reduction in Budget Deficit	11.1	8.3	11.6	12.9	23.7	67.6

Civil Service Retirement. The President's budget includes proposals for civil service legislation to reduce benefits for early retirement, change the annuity calculation from the highest three years of earnings to the highest five years, freeze the 1984 cost-of-living increase, and continue the reduction in COLAs for optional retirees under age 62. These proposals would produce savings of $5 billion from projected current law levels during 1984-1988. Also, the President's budget proposes to increase contributions from employees' salaries and matching employer contributions from the current 7 percent to 9 percent in 1984 and to 11 percent in 1985.

While most of the outlay savings from the CBO baseline in 1984-1988 result from the COLA freeze, the most significant long-run change is the reduction in benefits for early retirement. Currently, a worker with 30

TABLE V-7. PROPOSED FUNDING CHANGES FOR OTHER RETIREMENT AND DISABILITY PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
CBO Baseline Outlays	41.9	43.6	47.0	48.9	51.7	
Proposed Changes						
Civil service retirement and disability						
Change annuity calculation and reduce benefits for early retirement	*	-0.1	-0.1	-0.3	-0.4	-0.9
COLA change	-0.3	-0.8	-0.9	-1.0	-1.1	-4.1
Railroad retirement	---	---	---	---	---	
Veterans' compensation						
COLA change	-0.2	-0.3	-0.3	-0.4	-0.5	-1.7
Retired commissioned health officers, Foreign Service retirement, Coast Guard retirement, black lung, and special benefits for disabled coal miners						
COLA change	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Other changes	*	*	-0.3	-0.3	-0.3	-0.9
Total Changes	-0.7	-1.4	-1.8	-2.2	-2.5	-8.5
President's Budget as Estimated by CBO	41.2	42.2	45.2	46.7	49.2	

* Less than $50 million.

years of service may retire at age 55 with full benefits. The Administration proposes to phase in over ten years a 5 percent reduction in benefits for each year a worker chooses to retire before age 65. Those 55 or older at enactment would not be affected by this benefit reduction.

The President's budget continues the reductions in civil service retirement outlays that have occurred since 1981. Most of the changes have centered around the COLAs. Spending reductions during the 97th Congress included replacing twice-a-year COLAs with an annual COLA based on changes in the CPI, reducing the COLA for those under 62 in 1983-1985, and delaying the COLA one month each year in 1983-1985.

The spending reductions of the 97th Congress as well as the President's proposed cuts follow a period of rapid growth for federal retirement outlays. Between 1970 and 1980, civil service retirement outlays increased from $2.8 billion to $14.7 billion, reflecting increases in COLAs and also a growth in the number of recipients. Annuitants grew from about 1 million in 1970 to 1.7 million in 1980, while active employees remained at about 2.7 million. Deductions from employees' salaries accounted for 62 percent of outlays in 1970, but only about 24 percent in 1980. While employee contributions grew from $1.7 billion in 1970 to $3.6 billion in 1980, reflecting the approximate doubling of salaries that occurred over the decade, COLAs increased average retirement benefits by about 125 percent.

In response to these changes in the balance of contributions and outlays, the Administration proposes to increase employee and employer contributions as well as to reduce benefits. Raising employer and employee contributions to 11 percent of pay would bring contributions to about 27 percent of 1988 outlays, assuming all of the proposed savings legislation was enacted. During the 1984-1988 period, federal employment is projected to be relatively constant, with new workers being included in Social Security; and annuitants are assumed to increase from about 1.9 million to 2.2 million.

Railroad Retirement. The railroad retirement program pays benefits to retired and disabled railroad workers, their dependents and survivors. In general, these benefits contain both a Social Security component and a railroad pension component. The system is financed by a payroll tax on railroad workers and by general fund transfers.

The President's budget proposes no legislative initiatives for railroad retirement. Nevertheless, beneficiaries would receive a reduction in their benefits. Because employment in the railroad industry has fallen nearly 20 percent over the past two years, the system faces a funding problem. Trust fund revenues are insufficient to meet all the liabilities. Under provisions in the railroad amendments of 1981, benefits must be reduced in the railroad retirement pension portion of the program by an amount equal to the projected unfinanced liability. The law also requires that the Social Security portion of the benefit payment be paid in full. The estimated amount by which railroad benefits must be reduced is $532 million in 1984, $1,429 million in 1985, $777 million in 1986, $1,419 million in 1987, and $983 million in 1988. These estimated reductions are included in CBO's baseline projections.

Veterans' Compensation. Veterans' compensation payments are not automatically adjusted under current law, but have historically received cost-of-living increases on October 1 of each year equal to those given to Social Security recipients in July. The Administration proposes to delay these benefit increases from October 1, 1983, to April 1, 1984. In addition, it proposes to reduce the COLA to veterans who have disabilities rated at less than 100 percent. Those with 60 to 90 percent disability ratings would receive 85 percent of the COLA, those with 40 to 50 percent ratings would receive 60 percent of the COLA, and those with 10 to 30 percent ratings would receive only 45 percent of the COLA. These proposals would reduce projected spending for veterans' compensation by $1.7 billion during 1984-1988.

Other Cost-of-Living Adjustments. The President's budget proposes to reduce growth in outlays in several entitlement programs in which benefits are automatically adjusted by increases in cost-of-living indexes. It would freeze benefit increases for one year to persons receiving payments from the Retired Commissioned Health Officers Fund, the Foreign Service Retirement and Disability Fund, and the Coast Guard retirement programs. In addition, beneficiaries of the black lung and the coal miners' disability funds would not receive cost-of-living increases in 1984. These programs are indexed to the federal GS-2 wage levels and the Administration has proposed to freeze federal salaries. These proposals would save nearly $1 billion over the next five years.

Medicare and Medicaid

Medicare and Medicaid are the major entitlement programs that provide federal funding for health services. Medicare, which includes the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) programs, covers hospital, physician, and other medical costs for persons aged 65 and over, and for most disabled persons entitled to Social Security cash benefits. Medicaid, through joint federal and state financing, pays for health services for low-income persons. In total, Medicare and Medicaid provide benefits to about 48 million people, at an estimated cost of $76 billion in 1983 (see Table V-3).

The costs of Medicare and Medicaid have been increasing at a 17 percent annual rate over the last ten years. Most of that growth is attributable to rapidly rising medical care prices, which increased 9.5 percent annually during the period; some is explained by growth of program enrollments; and the rest is due to increasing use of medical services. The President's budget contains legislative proposals in the health area that would slow the increases in federal spending for health care (see Table V-8). The proposals in the budget would strengthen incentives for both individuals and providers to act in ways that would restrain the increases in prices and utilization. Under the President's proposals, Medicare and Medicaid recipients would pay for a larger proportion of their benefits through higher coinsurance, premiums, and deductibles. Beginning in 1986, payment rates for hospital care would be fixed in advance, or prospectively, with hospitals liable for their costs in excess of the rates. Reimbursable physicians' charges would be frozen in 1984.

The proposed legislation continues the efforts of the Administration and the Congress over the last two years to moderate the growth in health programs. But even if all of the President's proposals were to be enacted, health expenditures would still continue to grow rapidly (see Table V-8). From 1984 to 1988, Medicare and Medicaid spending is projected to grow 59 percent under the Administration's plan. In contrast, spending under current law is projected to grow 65 percent over the five years.

Medicare. The 1984 budget proposals are consistent with the Administration's intent to decelerate the rate of growth in federally-funded medical care programs. CBO estimates that the Administration's proposed legislation would save $26 billion from 1984 to 1988. The legislative package would increase the cost of health care to Medicare beneficiaries while also curbing the increase in reimbursement to providers. A major proposal affecting beneficiaries would increase cost sharing for short-term hospital stays. This would be offset somewhat by lower cost sharing for catastrophic illness. In addition, Medicare beneficiaries could also expect larger SMI premiums and slight delays in Medicare eligibility.

The major proposal affecting providers is the establishment of a prospective reimbursement system to expand and extend the current limits on hospital rates. In addition, physician fees would be frozen for one year. Some physicians would pass their unreimbursed costs on to the patient, thus increasing beneficiary costs, while others would not.

This legislative package follows $27 billion in cuts for the 1984-1988 period already enacted in both the reconciliation act of 1981 and TEFRA. These cuts included transfers of Medicare's costs to both beneficiaries and to providers. Deductibles for hospital care, other medical services, and

TABLE V-8. PROPOSED FUNDING CHANGES FOR MEDICARE AND MEDICAID (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
CBO Baseline Outlays	86.3	98.1	110.6	126.6	142.5	
Proposed Changes						
Medicare						
Provider payment reductions						
Pay hospitals prospectively	0	0	-1.5	-3.4	-3.8	-8.7
Freeze physicians' fees	-0.9	-1.0	-1.2	-1.4	-1.6	-6.1
Benefit reductions						
Alter hospital cost-sharing	-1.0	-1.5	-1.7	-1.9	-2.2	-8.3
Delay initial eligibility	-0.2	-0.3	-0.3	-0.4	-0.4	-1.6
Other	-0.1	-0.1	-0.2	-0.3	-0.3	-1.0
Other	-0.1	-0.1	*	-0.1	-0.1	-0.4
Medicaid						
Mandate copayments	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Reductions on payments to states	0	-0.5	-0.4	-0.5	-0.6	-2.0
Other	-0.1	-0.1	-0.1	*	0.1	-0.4
Total Changes	-2.5	-3.9	-5.6	-8.1	-9.1	-29.2
President's Budget as Estimated by CBO	83.8	94.2	105.1	118.5	133.4	

* Less than $50 million.

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premiums paid by enrollees for the medical insurance part of Medicare were all increased. Payments to hospitals and for certain physicians' services were pared as well.

Despite the action of the last Congress, Medicare is still one of the fastest growing programs in the budget. Medicare spending climbed more than 15 percent in each of the last five years and is projected to rise 12.6 percent annually over the next five years, even with the enactment of the President's legislative package. The growth in these costs has caused the HI trust fund to fall to very low levels. Under CBO's baseline projections, the balances in the HI trust fund fall to zero in fiscal year 1987. Even with the Administration's budget proposals, the hospital insurance trust fund will become depleted by the end of the decade.

Whether these proposals will significantly reduce the explosive rise of medical care costs is unclear. The additional cost sharing proposed for short hospital stays should depress utilization somewhat and exert downward pressure on prices, but the proposed catastrophic coverage will have the opposite impact. Today, 30 percent of Medicare dollars are spent on delivering services to persons in their last year of life. This percentage could increase under the Administration's proposals. Another uncertainty is the reaction of hospitals to existing and proposed limits on Medicare payments. While both the Administration and CBO have estimated large savings from these limits, the actual savings will depend on many unknowns--the stringency of enforcement, for example, as well as the ability of hospitals to "game" the limits. Finally, the one-year freeze on physicians' fees clearly will have little long-run impact on their rates of increase, and may result in partially offsetting increases in use of physicians' services.

Medicaid. Increases in federal Medicaid expenditures have moderated considerably since the enactment of the 1981 reconciliation act. CBO estimates that the savings from that legislation total $3.4 billion over the 1984-1988 period. The Medicaid cuts enacted in TEFRA, as well as the proposed legislation in the President's 1984 budget, are modest in comparison to those affecting Medicare.

The two major legislative proposals in this year's budget are the expansion of the copayment legislation passed in TEFRA and the continuation of the reductions in payments to states passed in the 1981 reconciliation act. The copayment proposal was introduced in the President's 1983 budget. Last year, the Congress enacted a modified version that allowed states to impose certain copayments. The President is again proposing that these copayments be made mandatory. The other major proposal is to continue the reductions in payments to states, which would otherwise expire at the end of fiscal year 1984. CBO estimates that total savings in Medicaid from the President's legislation would be $3.1 billion from 1984 to 1988.

Major Means-Tested Transfer Programs

There are four major means-tested transfer programs outside of the health area: Aid to Families with Dependent Children, food stamps, Supplemental Security Income, and veterans' pensions. These programs provide the major governmental support to low-income families. They are means-tested in that persons qualify for benefits only if their incomes and resources fall below specified levels.

The AFDC program provides benefits to families with children who are deprived of parental support by the absence of a parent. In 22 states, two-parent families with an unemployed parent are also eligible for benefits. Financing of the program is partially by the federal government and partially by state and local governments. The SSI program provides benefits to the aged, blind, and disabled. It is fully federally financed, but most states provide supplements to at least some beneficiaries. The food stamp program provides food coupons to AFDC and SSI beneficiaries as well as to other households that meet the income and resource tests. The veterans' pension programs provide income support to needy war veterans who are either over age 64 or disabled from causes unrelated to military service. Low-income survivors of deceased war veterans are also eligible for benefits, which are fully financed from federal funds.

Legislation proposed by the President would reduce outlays in the four programs combined by $1.0 billion in fiscal year 1984 and $6.2 billion over the 1984-1988 period (see Table V-9). These cuts represent a 3 percent reduction in 1984 baseline outlays. They follow on large cuts from legislative actions in 1981 and 1982, estimated to total $3.4 billion in 1984. Nonetheless, program levels would remain considerably higher than in the 1970s.

Proposed legislative actions and past program trends differ significantly among these four means-tested programs, as is discussed below. Nonetheless, in all four programs, growth in the remainder of the 1980s should be considerably lower than in the 1970s.

Aid to Families with Dependent Children. Program cuts proposed in the President's budget are again sizable. Preliminary estimates by CBO show annual savings of $0.6 billion and savings for the 1984-1988 period of $2.6 billion. These savings include proposed changes in the Child Support

TABLE V-9. PROPOSED FUNDING CHANGES FOR MAJOR MEANS-TESTED TRANSFER PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
CBO Baseline Outlays	31.7	32.7	33.7	34.5	36.1	
Proposed Changes						
AFDC and child support enforcement	-0.3	-0.5	-0.6	-0.6	-0.6	-2.6
Food stamps	-1.1	-1.2	-1.2	-1.1	-1.0	-5.6
Supplemental security income	0.5	0.5	0.5	0.5	0.5	2.4
Veterans' pensions	*	-0.1	-0.1	-0.1	-0.1	-0.3
Total Changes	-1.0	-1.3	-1.4	-1.3	-1.2	-6.2
President's Budget as Estimated by CBO	30.7	31.4	32.3	33.2	34.8	

* Less than $50 million.

Enforcement (CSE) program in addition to those in AFDC. The CSE program enforces the support obligations owed by absent parents to their children; collections of support for AFDC children offset AFDC expenditures.

The President's major proposals, most of which were also proposed in last year's budget, are of three types: (1) a reduction in benefits to families with incomes or lower shelter expenses that are not currently accounted for; (2) mandating of job search and workfare for employable AFDC recipients; and (3) altering of CSE collection procedures and federal matching to improve the program's cost effectiveness.

The most controversial of these proposals would mandate job search and workfare for employable AFDC recipients whose children are six or older. Workfare requires recipients to "work off" their AFDC benefits; typically, the required number of hours of work is the AFDC benefit divided by the minimum wage. The CBO preliminary estimate of savings is considerably below the Administration's. Reasons for this estimating difference are unclear because details of the Administration's estimate, which shows savings of about $0.4 billion more than its estimate for similar legislation last year, have not been made available.

Any estimate of job search and workfare savings or costs is largely speculative. Savings to the federal government arise because some AFDC recipients lose benefits for refusing to participate in the job search and workfare programs, some find jobs they would not otherwise have found or find them more quickly, and some are deterred from even applying for AFDC. Offsetting these savings are the costs of administering such programs. There is no firm evidence yet available on whether savings exceed costs for workfare and for many types of job search. Programs initiated in the 1970s were often not cost-effective. A number of demonstrations are currently under way in AFDC, but final evaluations are not yet available and preliminary statistics are difficult to interpret. Even when they are available, it may be difficult to generalize these findings to all jurisdictions, with widely different approaches and sympathies to the proposals. Moreover, job search and workfare are now available to states at their option. It is possible that, if the states considered these proposals to be cost-effective, many would adopt them without being required, in which case little savings would arise from the proposed legislation.

If enacted, these proposed savings would add to the already sizable savings in AFDC and CSE from 1981 and 1982 legislation. The savings in 1984 of the recently enacted legislation are estimated to be $1.3 billion. If the new proposals are enacted, savings in 1984 would rise to $1.6 billion, or 16 percent of what outlays would have been in 1984 without the legislation.

Partly as a result of these legislative changes, but also because of the assumed reduction in unemployment and the difficult financial situation of the states, AFDC program trends are expected to be quite different in the 1980s as compared to the 1970s. The 1970s was a period of growth in AFDC. The numbers of beneficiary families rose from 1.8 million in 1970 to a peak of 3.8 million in 1981, partly from the trend of increasing participation among eligible families that began in the 1960s and partly from higher levels of unemployment. During the 1970s, average payments per family also rose by about 5.6 percent a year in nominal terms. With prices rising rapidly, however, average family payments declined sharply in real terms. For example, the maximum monthly payment level for a family of four fell from the 1970 level of $548 (in 1981 dollars) to the July 1981 level of $394.

For the remainder of the 1980s, numbers of families receiving AFDC are expected to remain steady at about 3.6 million, following declines from recent legislation. In these years, effects on numbers of AFDC families from falling unemployment rates are expected to be offset by sizable projected increases in numbers of female-headed households, about one-third of whom receive AFDC. Average payments per family are expected to rise by about 3.8 percent a year, more slowly than in the 1970s because of the financial pressures on states.

Food Stamps. The President's budget contains legislative proposals that would reduce food stamp program spending by modifying some aspects of eligibility rules and the method of benefit calculation, making states liable for a portion of benefit payments made in error, and delaying the cost-of-living adjustment. States would also be required to conduct workfare programs for food stamp program participants.

Most of the legislative savings would be achieved by reducing food stamp benefits to participating households. Enactment of this legislation would reduce the average household benefit by $7 to $8 monthly, or by about 7 percent. However, a substantial portion of the federal savings, nearly $0.5 billion during fiscal year 1984, would not result from reduced benefits but rather from reductions in the federal reimbursement for state administrative expenses or from direct billings to states under the proposal to make states liable for payments made in error in excess of 3 percent of all benefits. Costs incurred by states for the administration of the food stamp program would also be increased by about $0.1 billion because of the administrative expenses of operating the workfare programs.

The proposed changes would reduce food stamp outlays by about $1.1 billion in fiscal year 1984. Adding these savings to the estimated $2 billion of 1984 food stamp spending reductions enacted by the 97th Congress results in a 20 percent reduction in what spending for the program would have been in the absence of recent and proposed legislative changes.

Between 1975, when food stamps became a national program, and 1982, program outlays increased from $4.6 billion to $11.0 billion. Spending remained relatively constant between 1975 and 1978 because of declining participation, which resulted from improved economic conditions, and relatively small inflation adjustments in benefit levels. A major program change in 1979 in combination with high rates of food price inflation and increases in unemployment caused program spending to increase from $6.8 billion in 1979 to $11.3 billion in 1981. Despite continued increases in unemployment, outlays fell to $11.0 billion in 1982 because of program changes enacted during the 97th Congress.

Supplemental Security Income. In SSI, unlike the AFDC and food stamp programs, legislative proposals in the President's budget would add to program costs. The CBO preliminary estimates are that SSI outlays would rise on balance by $0.5 billion a year and $2.4 billion over the 1984-1988 period from the proposals.

The legislative proposals include an increase in the disregard on OASDI income from $20 to $50 a month; that is, an additional $30 of OASDI income of SSI beneficiaries would be disregarded in calculating countable income and SSI benefits. Hence, SSI benefits would rise for SSI beneficiaries with OASDI income. This proposal was one of the recommendations of the National Commission on Social Security Reform. Other changes proposed in the President's budget would result in SSI savings. The largest savings would arise from a six-month delay in the SSI cost-of-living adjustment.

As a result of these proposals, the current 1.6 million SSI beneficiaries with OASDI income would receive higher incomes; the increased disregard would more than offset the impact of the COLA delay. The remaining 1.8 million SSI beneficiaries, who typically have no other sources of income outside of SSI, would receive lower incomes; the impact of the COLA delay would not be offset by any increased benefits. In addition, the $50 disregard proposal would enable certain low-income OASDI beneficiaries to become newly eligible for SSI.

Because cuts in SSI as a result of 1981 and 1982 legislation were under $0.1 billion a year, the SSI program would expand as a result of legislative action taken in the last three years, if this year's proposed legislation is enacted. Nonetheless, growth in the program in the 1980s is expected to moderate considerably from that in the 1970s.

The SSI program was begun in 1974. Before then, aid to the aged, blind, and disabled was provided under a federal-state matching program as in AFDC today. After an initial buildup, numbers of beneficiaries declined somewhat during the remainder of the 1970s, primarily because more of the aged had other sources of income such as OASDI. Beginning in 1981, the rate of decline picked up considerably, partly as a result of demographic factors. Numbers of persons aged 50-59--those with the highest incidence of disability--began to decline in 1980 and will continue to decline during most of the decade. As a result, numbers of beneficiaries, which had averaged 3.9 million in 1975 and 3.7 million in 1980, are expected to decline to 3.1 million by 1988.

Growth in the program is expected to moderate not only because of beneficiary trends but also because average payments per beneficiary are estimated to grow less rapidly in the 1980s than in the 1970s. Payments in SSI have automatic COLAs and, with an anticipated slowdown in price increases, COLAs are expected to be considerably lower in the near future. In the five years 1978-1982, SSI COLAs summed to 49.3 percent; in the five years 1983-1987, COLAs are expected to sum to only 21.4 percent.

Veterans' Pensions. The President's proposal to delay for six months all automatic cost-of-living adjustments would affect the pension program established by the Veterans' and Survivors' Pension Improvement Act (Public Law 95-588) of 1978, the largest of the veterans' pension programs and the only one indexed for inflation. Preliminary CBO estimates indicate that this change would result in outlay savings of less than $0.1 billion a year. Total savings from 1984 to 1988 are estimated at $0.3 billion.

As part of the budget reconciliation process of 1982, savings provisions were enacted in veterans' pensions that are expected to reduce expenditures in 1984 by less than $0.1 billion. These savings, added to those anticipated from the President's proposal, would bring the total savings in 1984 to $0.1 billion, or 3 percent of the outlays that would have been expected without these amendments.

Even in the absence of further cost-reduction legislation, the trend in pension outlays in the 1980s is expected to be the opposite of that experienced in the 1970s, when outlays rose from $2.3 billion to $3.2 billion between 1970 and 1978. The changed outlook for pensions is attributable to the enactment of Public Law 95-588 in 1978--well before national attention focused on controlling the growth of federal expenditures. This legislation created a new pension program under which benefits are much more closely targeted to financial need. Virtually all exclusions from income for the purpose of calculating benefits and/or eligibility were eliminated, and benefits were indexed for inflation. Despite the indexation of benefits, which normally would be expected to increase costs over time, pension outlays are now projected to drop from their 1982 level of $3.9 billion to $3.5 billion in 1988, primarily as a result of the more restrictive eligibility standards of the new program.

Unemployment Insurance

Unemployment Insurance spending has risen rapidly over the last two years with the rise in the unemployment rate. Baseline spending is expected to fall from $31 billion in 1983 to $24 billion in 1988 as the unemployment situation improves.