estimate was made before the Secretary of Agriculture announced a voluntary 15 percent acreage reduction program on January 29, 1982. This acreage reduction is required for eligibility for government price support loans, target price protection, and the farmer-owned grain reserve program. CBO estimates that only 35 percent of U.S. wheat producers will participate in the program because of the lateness of the final set-aside announcement and a historical unwillingness to plow up already-planted crops.

Deficiency Payments

Using the crop production estimates contained in the August crop report, the Department of Agriculture forecast no deficiency payments in fiscal year 1982. However, as a result of actual crop size and reestimated data, there have been and will be additional deficiency payments. The national weighted average market price for the first five months of the wheat marketing year was $3.66 per bushel, $0.15 below the target price of $3.81 per bushel; as a result, payments of approximately $400 million have been made to eligible wheat producers. The weighted average national market price for barley for the first five months of the marketing year was $2.49 per bushel, $0.11 cents below the target price, and total outlays to eligible barley producers are estimated to be $50 million dollars. As of February, it is projected that $200 million will be paid in deficiency payments to eligible sorghum producers, $22 million to eligible rice producers, and $530 million to eligible cotton producers. Therefore, a total of $1.2 billion will be paid in fiscal year 1982 in deficiency payments that were not expected based on the August crop report.

Dairy Program

CBO estimates of dairy supply, demand, and program costs, as shown in the following table, are based upon USDA reports of production, cow numbers, heifer replacements, the milk-feed price ratio, and commercial use. When the August estimates were developed, these reports supported the analysis that discontinuing the level of dairy support price increases that had prevailed in the past would lead to an adjustment in supply and demand that would result in reduced government purchases. By July 1981, the rate of increase in milk production had declined from March's increase of 4.4 percent over the previous year to 2.57 percent. The milk-feed price ratio had declined from 1.42 in March to 1.36 in June, below the profitability threshold of 1.4. Also, commercial disappearance had increased 6.2 percent over the previous year in the second quarter of 1981 and increased again during the month of July. For these reasons, CBO and the Administration projected that supply and demand would move into balance over the next five years, so that decreasing outlays would be needed for dairy price supports.

CBO Dairy Supply and Demand Estimates

	August 1981	February 1982	Percent Change
Production (billions of pounds)	131.2	135.82	+3.5
Commercial use	122.6	121.6	-8
Removals	8.7	14.3	+64.4
Support Price (dollars per cwt)	13.10	13.10	--
Net Support Outlays (millions of dollars)	987	1,907	+93.2

In February's analysis, CBO estimates indicate that the adjustment will not begin in 1982 even though the support price has not been increased since October 1, 1981. Through December 1981, milk production increases had climbed to 3.2 percent, and the milk-feed price ratio had risen to 1.58 because of low crop prices. Milk cow numbers had not decreased in their gains over the previous year since July. The July cattle inventory of dairy replacement heifers showed an annual increase of 5.9 percent and declining utility cow prices indicate a reluctance to cull the dairy herd. This leads to projections of continued increases in production in 1983 and beyond but at declining rates as feed grain prices rise with the expected return of normal weather and harvests. Commercial disappearance increased only 0.7 percent in the fourth quarter of 1981, more in line with per capita consumption trends. Commercial use is expected to continue to increase 1 to 2 percent in 1983 and after. As a result of February's analysis, net removals are projected to decrease from 14.3 billion pounds of milk equivalent in 1982 to 10.8 billion pounds in 1985. The decline in removals is partially offset by the increase in price supports, causing projected dairy expenditures to decline to $1,700 million in 1985.

CCC Outlays to Date

As of February 12, 1982, CCC has net outlays of almost $8.9 billion in fiscal year 1982, of which $3.3 billion is for nine-month loans that could be redeemed within the fiscal year. Dairy outlays were $260 million through December 1981, above the $175 million in December 1980. The peak dairy purchase months of March through August are yet to come.

The following table shows monthly and cumulative CCC outlays to date. The November crop report, which contained realistic assessments of 1981 crop production, coincided with the sudden increase in loan demand that resulted from the large harvest.

CCC Actual Monthly Net Outlays for Fiscal Year 1982 (In millions of dollars)

Month	Actual Outlays	Cumulative
October	789	789
November	1,748	2,537
December	2,803	5,340
January	3,175	8,515
February 12, 1982	390	8,882

In addition to the above actual monthly outlays, the CCC is committed to pay interest on borrowings from the Treasury of approximately $1.4 billion before the end of the 1982 fiscal year. During February, the CCC will also spend an additional $750 million in sorghum, rice, and cotton deficiency payments. At the end of February 1982, the CCC will have made or have been committed to make outlays of $11 billion, of which $7.7 billion are not likely to be redeemed or offset by sales.

Agricultural Credit. CBO reestimates of agricultural credit insurance outlays principally reflect differing estimates of disaster loans. Following a 1981 record of $5.1 billion, the Administration assumes program levels of $1.6 billion in 1982 and $1.5 billion in 1983. CBO calculates a five-year average, equal to $2,940 million, and increases that average by the estimated inflation rate from 1982 to 1987. The new constraints on eligibility, deductible losses, higher interest rates mandated in the Reconciliation Act of 1981 and the availability of federal crop insurance reduce this projected average to $2.15 billion in 1982 and $2.3 billion in 1983, increasing to $2.6 billion in 1985. Asset transactions with the Federal Financing Bank (FFB) mask the increased estimate of disaster lending. Higher outlays for disaster loans will be included in reestimated FFB activity.

Other Subfunction 352. For 1982, CBO's estimates of outlays from previous years' obligations differ from those of the Administration. Most of these differences are in accounts where expenditures are mainly for personnel and operating expenses that largely spend in the year they are obligated.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	3,265	1,591	1,298	-516
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
FSLIC	226	93	76	169
Postal Service	215	---	---	---
FDIC	---	---	---	450
SBA business loans	116	137	160	200
Payments to copyright owners	-62	---	---	---
CFTC user fees	---	-22	-22	-22
Other	10	---	---	---
Total Reestimates	505	208	214	797
President's Budget Reestimated	3,770	1,799	1,512	281

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

FSLIC. The Federal Savings and Loan Insurance Corporation (FSLIC) fund provided more than $1.2 billion in 1980 and $0.9 billion in 1981 for assistance to member savings and loan (S&L) institutions. For the last two years, the net worth of many S&Ls has declined as short-term interest rates paid on deposits exceeded the earnings from long-term deposits, resulting in an estimated ratio of reserves to total industry savings deposits below 1.25 percent at the end of calendar year 1981.

Within the last two years, the FSLIC has been changing the type of assistance it provides to problem institutions. This has helped to slow down budget outlays even though the number of problem institutions has continued to grow. The current approach includes allowing interstate mergers, often packaging undesirable S&Ls with those in more favorable markets; revising accounting procedures to encourage the sale of mortgage loans and other assets; creating a new market instrument that improves the net worth of S&Ls while allowing the FSLIC to make only semiannual interest payments, rather than large, immediate cash outlays; and making contributions to institutions rather than acquiring assets.

Nonetheless, the outlay estimates provided by the Administration appear to be too low primarily because of relatively optimistic interest rate assumptions. The Administration is assuming that obligations will be more than $300 million lower in 1982 than in 1981, although the number of problem institutions and the size of their assets continue to increase. At the same time, fees from assessments are expected to decline from 1981 to 1982 by approximately $65 million. While it is not possible to estimate precisely, CBO assumes that a greater number of failures are likely to occur, and that the cash outlays needed to resolve these problems will exceed the Administration's estimates by $226 million in 1982, $93 million in 1983, $76 million in 1984, and $169 million in 1985. These estimates are consistent with the CBO baseline projections for fiscal years 1982 through 1985.

Postal Service. The 1982 payment to the Postal Service in the February budget incorrectly shows the President's September request of $619 million rather than $834 million, which is the amount provided in the continuing resolution for 1982. CBO understands that the Administration may request a rescission for the Postal Service in 1982, but none has been transmitted to date.

FDIC. While it is likely that continued assistance to mutual savings banks will be required from the Federal Deposit Insurance Corporation (FDIC), in general the banking industry is not suffering to the same degree as S&Ls from an earnings squeeze because of high interest rates. In addition, the FDIC has a portfolio approximately twice the size of the FSLIC ($12.7 billion versus $6.3 billion), which is expected to increase as earnings grow each year. Furthermore, by reducing rebates on insurance premiums, outlays can be more easily controlled. As with the FSLIC, the trend is to spread out payments for losses over time, thus minimizing federal outlays.

CBO has reestimated the Administration's 1985 net outlays upward by $450 million. While the Administration's outlay estimates for the FDIC vary from year to year in 1981-1984 by no more than about $50 million to $200 million, they jump by $800 million from 1984 to 1985 because of an anticipated payment on a note coming due in 1985. Based on an analysis of the bank concerned, it seems unlikely that the entire amount will be paid as currently scheduled, and some refinancing will be required.

SBA Business Loans. Outlay estimates for the business loan and investment fund of the Small Business Administration (SBA) have been revised upward by amounts ranging from $116 million in 1982 to $200 million in 1985, primarily because of different assumptions regarding repurchases of guaranteed loans and increased collections.

Each year since 1979, the Administration's estimates regarding disbursements for repurchases of guaranteed loans have been understated. SBA currently assumes that 18.6 percent of all loans guaranteed will default, whereas CBO assumes a default of 21.8 percent (with a net of 70 percent charged off), which is more consistent with historical trends.

In addition, the Administration's February budget estimates assume that an additional $35 million in 1982 and $110 million in 1983 (and each year thereafter) will be collected as a result of an improved debt collection program. The SBA will concentrate on improving liquidation efforts by retraining staff and legal counsel, updating information regarding data collection, and reassigning some existing personnel to this function. Nonetheless, given the state of the economy (and particularly of small businesses), CBO assumes that SBA receipts will be somewhat lower. It seems unlikely that the agency will be able to increase its collection efforts by over 35 percent without additional resources allocated specifically for this purpose.

Payments to Copyright Owners. Receipts from cable television stations and juke-box licenses are disbursed to copyright owners through this appropriation. The February budget estimates incorrectly assume that all collections to date will be disbursed in 1982. The distributions of 1978 and 1979 cable TV collections remain unresolved in the courts, and hearings on 1980 and 1981 distributions have not even begun and are likely to take more than a year to resolve. Consequently, CBO estimates that $18 million rather than $80 million will be spent for this purpose in 1982.

CFTC. While the Administration has proposed user fees to recover the cost of the regulatory activities of the Commodity Futures Trading Commission (CFTC), no estimate was included in its budget request. Consistent with the intent of the Administration, CBO has included these offsetting receipts as estimated in Major Themes and Additional Budget Details.

FUNCTION 400: TRANSPORTATION

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	21,228	19,628	18,752	19,418
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
Rail programs	-1	-47	65	49
Urban mass transportation	23	-247	134	109
Other	84	---	---	---
Total Reestimates	105	-294	199	158
President's Budget Reestimated	21,333	19,335	18,951	19,576

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

Rail Programs. Excepting Amtrak, the major rail programs involve heavy construction that requires several years from commitment of funds through design stages to project completion. The major estimating differences between CBO and the Administration are explained by differing assumptions about the time required between the appropriation of funds and project completion. The Administration is generally overly optimistic about construction schedules, assuming a shorter spend-out period. This has been the case most clearly in the Northeast Corridor project, for which OMB has overrestimated annual outlays by as much as 230 percent over the past few years. CBO's estimates have been consistently more accurate. By assuming slower obligation rates and construction schedules consistent with actual experience, CBO's 1982 and 1983 outlay estimates are below OMB's figures by a total of $62 million. These estimating differences are much less than in the past, as OMB has moved closer to CBO's assumptions.

For the rail rehabilitation program, CBO estimates that outlays will be $21 million higher than OMB in 1982 and $29 million lower in 1983. OMB has apparently used conflicting assumptions about how quickly various years' appropriations will be spent. While it uses an unusually slow spending rate for earlier appropriations, it assumes that most of the new 1982 funds will be spent within two years. The program's history indicates that four or more years is required for commitment of funds and completion of rail rehabilitation projects. CBO has applied this spending rate to both the balance of funds from previous years and to the 1982 appropriations.

Other notable estimating differences come in the Amtrak and the rail service assistance accounts. For Amtrak, CBO assumes a slightly slower delivery of capital equipment, based on an historical record of equipment delivery delays. The OMB projection of rail service assistance outlays does not, for an unknown reason, include approximately $40 million in funds that have been, or are expected to be, obligated by the end of 1983. This explains CBO's higher outlay estimate for 1984.

Urban Mass Transportation. The CBO reestimates of outlays for urban mass transportation grants result from the use of different assumptions about how quickly appropriated funds will spend. CBO expects that spending will not depart significantly from historical patterns in 1982 and 1983, but thereafter will change as a result of a shift in program mix and direction proposed by the Administration.

At the end of January 1982, the urban mass transportation fund had a total balance of approximately $870 million of unobligated funds and $7,791 million of obligated funds. The obligated funds were for capital construction projects and the purchase of rolling stock (light and heavy rail cars and buses). CBO expects these obligated funds to spend at historical rates that are slightly faster than assumed by the Administration. CBO assumes that spending of new funds starting in 1984 will be faster than recent experience. The Administration proposes to direct capital assistance grants to modernization and rehabilitation of existing systems and to provide increased funding for buses; these have quicker disbursements than the current program mix. In addition, out of the total program level, funds are set aside for the Washington, D.C., Metro system, an ongoing construction program. The older established systems have generally spent federal funding faster than the smaller systems or totally new systems. Another reason (though on a much smaller scale) that new funds will spend faster is that; in the research and development area, the Administration plans to direct efforts on short-term solutions to immediate problems rather than on long-term research.

Other. In fiscal year 1982, CBO estimates that outlays for other programs included in this function will be $84 million higher than the Administration estimate. The CBO estimate is higher primarily in two areas--federal-aid highways, where CBO is $41 million higher than the Administration, and Federal Aviation Administration operations, where CBO is $30 million higher. Both of the higher estimates are based on CBO's spending assumptions, which reflect recent historical outlay experience. In each case, the outlay difference is small (0.5 percent and 1.4 percent) compared with the program's total outlays.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	8,366	7,263	6,663	6,856
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
Disaster relief	44	42	78	76
Flood insurance	25	29	76	100
Disaster loans	50	201	317	428
Other	-18	-5	10	1
Total Reestimates	101	277	481	605
President's Budget Reestimated	8,467	7,540	7,144	7,461

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

The Administration has requested or projected the need for approximately $1.2 billion in 1983, 1984, and 1985 for the federal flood insurance, disaster loan, and disaster relief grant programs. This is approximately $1.1 billion below the CBO baseline projection for these programs over the period. In general, the Administration has assumed optimistic levels for these programs below the average experience in recent years, has not taken into account the impact of inflation on program resources, and has made optimistic assumptions about the annual performance of each program. Although the Administration has the authority to raise insurance premiums, to refuse to declare disasters, and to seek loan repayments aggressively, CBO does not expect the net impact of these changes to be as large as projected by the Administration.

90-395 0 - 82 - 9

Disaster Relief. The Administration's budget estimate for the disaster relief program administered by the Federal Emergency Management Agency assumes that the program will accrue and retain large obligated balances in 1982 and 1983. In addition, the Administration projects extremely optimistic program levels for 1984 and 1985. The CBO estimate reflects the assumption that obligated balances will be withdrawn faster than assumed by the Administration and that inadequate program funding in 1984 and beyond will result in a faster than normal drawdown of new obligations by state recipients of program funds.

Flood Insurance. The Administration's estimate for this program includes estimates for losses and adjustments that are optimistic compared with the history of the program. Although the Administration has taken several measures to reduce the cost of the program, CBO assumes that average annual losses and total insurance in force will grow faster than premiums can be adjusted for the forseeable future.

Disaster Loans. The Administration's estimates for the Small Business Administration's disaster loan program assume a sharp reduction in the demand for disaster loans, which will result in significant net receipts over the 1982-1985 period. The CBO estimate assumes the Administration's requested loan limitation in 1983, but notes that the proposed lending level of $440 million could be $100 to $300 million below demand depending upon the incidence of disasters and the public's response to 1981 program changes. In 1982 to 1985, CBO has assumed that demand for loans will result in the obligation and outlay of all available resources of the fund.

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

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	27,770	21,552	19,266	17,791
Preliminary CBO Reestimates				
Different economic assumptions				
Guaranteed student loans	29	301	602	440
Technical reestimates				
Elementary and secondary education	-320	121	64	---
Student financial assistance	9	-124	59	---
Guaranteed student loans	139	503	552	225
Employment service	211	283	---	---
Total Reestimates	68	1,084	1,277	665
President's Budget Reestimated	27,839	22,636	20,543	18,456

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

The economic factor affecting outlays for the Guaranteed Student Loan (GSL) program is the short-term interest rate. The table below shows the assumptions of the Administration and CBO for the 91-day Treasury bill rates by fiscal year. A one-percentage-point increase in the average Treasury bill rate would add over $200 million to program obligations in 1982 and almost $300 million in 1985. Since outlays lag behind obligations, the resulting outlay increases are spread over two years.

91-Day Treasury Bills (In percent, fiscal year average)

	1982	1983	1984	1985
Administration	11.6	11.1	9.6	8.9
CBO	11.8	13.0	12.2	9.9

Technical Reestimates

Elementary and Secondary Education. The February budget estimates 1982 outlays for the education for the handicapped programs at a higher level than actual spending to date would indicate. CBO has reestimated outlays for this program in 1982 downward by $174 million. In addition, the February budget uses a spending rate in 1982 for the vocational and adult education programs similar to the new spending rate associated with the 1983 block grant proposal. Since 1982 funds are not consolidated, CBO has assumed the historical spending rates will still apply. This results in $146 million lower outlays in 1982, $121 million higher outlays in 1983, and $64 million higher outlays in 1984.

Student Financial Assistance. The Administration has used a higher spending rate for the aggregate of all student assistance programs in 1983, including Pell grants, than recent experience would indicate. CBO has adjusted outlays for the student assistance programs to incorporate historical spending patterns.

Guaranteed Student Loans. CBO's estimate of outlays for the President's request for the GSL program exceeds the Administration's estimates each year in the 1982-1985 period. In 1982, CBO's estimate is $139 million higher than the Administration's. About $60 million of this difference relates to assumptions about when the President's legislative proposals will be implemented. Administration estimates assume implementation of all loan proposals in April 1982. Consistent with the 1981 experience, CBO has assumed that the President's proposals will be enacted in July 1982. This enactment schedule would permit the increase in the origination fee to be implemented in the final quarter of fiscal year 1982. All other programmatic changes would become effective in October 1982. The remainder of the outlay difference in 1982, approximately $70 million, relates to the relationship between obligations and outlays in the final quarter of the fiscal year. Historically, obligations in the final quarter of the year outlay in the next fiscal year. This implies that program savings in the last quarter of the year will not produce outlay savings until the next year. CBO's estimates assume a continuation of this historical relationship. The Administration's estimates do not reflect fully the lag between program obligations and outlays.

In 1983, CBO shows outlays for the President's request approximately $500 million above Administration estimates. Approximately $200 million of this difference is explained by the assumed delay in the implementation of the President's legislative proposals, as discussed above. An additional $100 million of the difference relates to assumed differences in loan volume. CBO generally expects lower loan volume than the Administration. Lower volumes result in smaller savings as a result of increasing the origination fee and the insurance premiums. Finally, approximately $200 million of the difference relates to estimates of the distribution of the loan volume. The federal government pays interest subsidies on the guaranteed loans while students are in school and during a short grace period after graduation. Thereafter, the student is responsible for interest payments and the costs to the government fall; a smaller government subsidy continues until the loan is repaid. CBO anticipates a higher proportion of total loan volume in the in-school status than does the Administration. CBO uses a cohort analysis to track the amount of loan volume receiving the higher subsidies. The Administration apparently uses a more aggregative technique.

CBO also estimates a larger proportion of total volume in the in-school status in the outyears than does the Administration. This appears to be a significant factor in explaining the higher CBO estimates in 1984 and 1985.

Employment Service. The February budget does not include a 1982 supplemental appropriation of $211 million for the Employment Service requested by the Administration, nor a recently submitted amendment requesting an additional $283 million for the Employment Service in 1983. The CBO technical reestimates correct the February budget estimates for these changes.

FUNCTION 550: HEALTH

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	73,437	78,105	84,917	93,539
Preliminary CBO Reestimates				
Different economic assumptions				
Hospital insurance	---	34	400	828
Medicaid	---	78	420	923
Technical reestimates				
Hospital insurance	---	230	551	225
Supplementary medical insurance	---	137	405	812
Medicaid	-193	20	-182	-647
Total Reestimates	-193	499	1,594	2,141
Unevaluated Administration Estimates	(---)	(362)	(2,355)	(4,560)
President's Budget Reestimated	73,245	78,604	86,511	95,680

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

Hospital Insurance. The hospital insurance program's costs reflect hospitals' costs of providing care. As hospitals pay more for food, fuel, equipment, and other supplies, the cost of the hospital insurance program rises. For each 1 percent increase in the price of these nonlabor inputs, which constitute about 35 percent of hospitals' costs, program spending grows roughly $100 million annually. Since the CBO economic assumptions include higher rates of inflation than the assumptions underlying the President's budget estimates, the CBO estimates of outlays for hospital insurance are higher than the Administration's in 1983-1985.

Medicaid. The costs of the Medicaid program are sensitive to both the rate of inflation and the unemployment rate. As prices rise, the cost of medical services increases, including the cost of physician services, hospitalization, and nursing home care. As the unemployment rate rises, more people become eligible for Medicaid assistance, thereby increasing the costs of the program.

In 1983, the economic differences are small because the Administration's and CBO's economic assumptions regarding the CPI and unemployment are similar. In 1984 and 1985, however, CBO has projected higher increases in prices than the Administration. In addition, the small difference between CBO's and the Administration's assumed unemployment rate widens in 1985, thus increasing the estimated economic differences even further. The higher inflation rates projected by CBO account for over 80 percent of the reestimates due to differences in economic assumptions.

Technical Reestimates

Hospital Insurance. The CBO technical reestimate for the hospital insurance component of Medicare results from different projections of hospital utilization rates, costs per day of hospitalization, and administrative costs for contractors who process claims for reimbursement under the program. The first two factors account for the bulk of the CBO reestimates.

The CBO baseline projections for hospital insurance embody higher rates of hospitalization for enrollees than assumed by the Administration for its February budget estimates, as shown in the table below. CBO's projections assume that hospital utilization will increase at the average annual rate experienced from 1973 to 1978, a rate well below the unexpectedly large increases of the last two years.

Annual Hospital Days per Aged Enrollee

	Actual	Projections			
	1981	1982	1983	1984	1985
Administration	4.187	4.163	4.190	4.194	4.216
CBO	4.187	4.223	4.258	4.295	4.331

In addition, the CBO technical reestimates reflect a different pattern of increases in the cost of a day of hospital care. As displayed below, CBO projects diminishing increases in daily hospital costs, partly because of the declining inflation rate forecast by the Administration. The Administration's projected increases fall initially, but turn up again in 1985. This reversal, coupled with CBO's continued higher utilization rate, largely explains the drop in CBO's technical reestimate from 1984 to 1985.

Change in Hospital Cost per Day under the Administration's Economic Assumptions (Percent change)

	Average Annual Increase 1977-1981	Projections			
		1982	1983	1984	1985
Administration	13.2	14.3	12.9	11.8	12.4
CBO	13.2	14.6	13.1	11.6	11.3

CBO's technical reestimates also assume continued increases in the costs of administering this program. The President's budget, on the other hand, assumes a slight decline. In spite of productivity gains, administrative costs have risen over 17 percent annually since 1977, as shown in the table below. Because CBO has not yet been able to evaluate the budgetary impact of the reductions in the federal work force assumed in the President's budget, CBO's projections assume increases only in the budget for Medicare's contractors. The estimates reflect continued increases in the contractor budget at the 8.3 percent average annual rate experienced since 1977.

Medicare Administrative Costs (In millions of dollars)

	1977	1978	1979	1980	1981	Average Annual Increase (percent)
Hospital Insurance	301	451	452	494	566	17.1
Supplementary Medical Insurance	475	504	555	593	668	8.9
Contractor Costs	(505)	(536)	(576)	(642)	(694)	8.3

Both the Administration and CBO underestimated spending in the hospital insurance program in 1981. Generally, however, CBO's estimates were closer to the mark. For example, CBO's January 1981 estimate of 1981 outlays was more than $400 million higher than the Administration's figure, but almost $1.2 billion below actual spending for the year. As recently as the September budget, the Administration underestimated outlays by $600 million, while CBO's comparable estimate fell short by $200 million.

Supplementary Medical Insurance. The CBO technical reestimates for the second component of Medicare, supplementary medical insurance, result from different projections of the use of physicians' services by the eligible population and of administrative costs. Administration and CBO assumptions about physicians' fees are similar.

The Administration's February budget estimates assume slower growth in the use of physicians' services than assumed by CBO in its baseline projections. As shown in the table below, CBO assumes a relatively slow decline in the use of these services from the high rate currently observed to a rate consistent with earlier program experience.

Projected Increases in Use of Physicians' Services (Percent change)

	Estimated Average Annual Increase 1977-1981	Projections			
		1982	1983	1984	1985
Administration a/	5.2	8.2	5.4	4.6	4.4
CBO	5.2	8.2	6.5	6.0	5.2

a/ The figures shown as the Administration's projections are weighted averages of separate projections for aged and for disabled enrollees provided by the Administration.

CBO's technical reestimates also assume that the cost of administering this program will continue to rise through 1985. The President's budget, on the contrary, assumes a slight decline. As shown in an earlier table, however, administrative costs rose 8.9 percent annually from 1977 to 1981 despite substantial productivity gains during that period. CBO's estimates of administrative costs assume continued increases in the contractor budget at the 8.3 percent average annual rate experienced since 1977.

Medicaid. The CBO technical reestimates for Medicaid flow from CBO's smaller projected growth rate of Medicaid expenditures in 1982, different levels of projected savings resulting from the 1981 reconciliation act, and lower projected savings for the Administration's proposed legislation included in the February budget.