The CRD proposal succeeds in liberalizing depreciation significantly for all assets, but reduces effective tax burdens most for short-lived assets such as industrial equipment. The proposal would also increase the investment tax credit to 10 percent for short-lived investments that are only eligible for a reduced credit under present law.

2-4-7-10. This Senate Finance Committee proposal also increases tax depreciation deductions by 40 percent and simplifies depreciation accounting. All equipment would be assigned to an open-ended depreciation account of 2, 4, 7, or 10 years. Any of three depreciation rates could be applied to each account. The investment tax credit would also be liberalized for certain short-lived assets. The pattern of tax reductions for different assets is similar to that for the Carter proposal.

10-5-3. The Capital Cost Recovery System would assign all capital investments to three depreciable-life accounts: 10 years for buildings, five years for equipment, and three years for cars and light trucks. The plan would thus shorten depreciation tax lives substantially relative to present law, under which equipment, for example, is written off over periods of up to 30 years. The plan simplifies depreciation accounting significantly, but is more costly than the other two, and its distribution of tax reductions for different assets is more uneven.

Across-the-Board Individual Income Tax Reductions

Social Security Tax Credit. The Carter budget proposes that employees be given an income tax credit equal to 8 percent of their Social Security payroll taxes. Employers would receive the same credit. Since the employer's credit would have the effect of reducing business costs, it would tend to reduce inflation and increase employment to a small degree. The credit would reduce individual income taxes for employees in fiscal year 1982 by $5.3 billion, more than offsetting the employee share of the $7 billion fiscal year 1982 increase in employee Social Security taxes (see table 11). Tax reductions would be concentrated on those with incomes between about $10,000 and $30,000. (Table 6) Low-income families would receive little benefit from this proposal, since the credit is not refundable to individuals. President Carter has also proposed an increase in the refundable earned income credit for low-income families, however. Government workers, retirees, and others who do not pay Social Security taxes would not benefit from a Social Security tax credit.

TABLE 11. REVENUE REDUCTIONS FROM DIFFERENT TYPES OF INDIVIDUAL INCOME TAX CUTS (By fiscal year, in billions of dollars)

Individual Tax Cuts	1981	1982	1983	1984	1985	1986
8 Percent Social Security Tax Credit (Employee Portion) a/	--	-5.3	-7.6	-8.5	-9.7	-11.1
Indexing Income Tax b/	-9.0	-30.5	-61.4	-101.8	-152.7	-216.6
Kemp-Roth c/	-5.3	-38.2	-76.6	-127.2	-182.1	-240.9
Extension of $200/ $400 Interest and Dividend Exclusion d/	-0.4	-2.7	-3.0	-3.3	-3.4	-3.8
Limited Employee Retirement Accounts e/	-0.6	-1.3	-1.5	-1.7	-1.8	-1.9
Education Savings Accounts f/	-0.4	-2.7	-3.0	-3.6	-4.2	-4.9
Housing Savings Accounts g/	--	-0.6	-1.9	-2.2	-2.3	-2.5
Reduction in Marriage Penalty h/	-1.1	-10.2	-12.4	-14.9	-17.2	-20.3
Increase in Capital Gains Exclusion to 70 Percent i/	--	-1.8	-2.2	-2.6	-3.0	-3.4
Reduction in Top Marginal Rate to 50 Percent	-1.5	-4.3	-5.4	-6.8	-8.5	-10.7

SOURCE: Joint Committee on Taxation and Congressional Budget Office.

NOTE: All proposals assume January 1, 1981 effective date unless otherwise noted.

a/ CBO estimate. Assumed effective as of January 1, 1982.
b/ Assumes increase in bracket widths, personal exemptions, standard deduction, and earned income credit equal to the increase in the GNP deflator assumed by CBO in each year.
c/ Assumed effective as of July 1, 1981.
d/ Includes revenue loss under present law.
e/ Proposal would permit participants in retirement plans to deduct 15 percent of income up to $1,500 annually for contributions to the plan or an IRA.
f/ Proposal would allow parents to deduct up to $1,000 per year per child for amounts deposited into education savings accounts.
g/ Assumed effective as of January 1, 1982. Proposal would allow taxpayers with incomes of $40,000 or below to deduct up to $5,000 annually ($2,500 for single taxpayers) for amounts deposited into an account toward the purchase of a first home.
h/ This proposal would give married couples a tax credit equal to the marriage penalty on their personal service income.
i/ Estimates include revenue feedback from proposal.

Indexing. A tax cut could also be designed to offset the effects of inflation on the individual income tax. The 1981 to 1986 revenue reductions from indexing are shown in Table 11. The tax savings by income level from indexing would be roughly proportional to current law tax burdens (see Table 12).

Kemp-Roth. Another major income tax cut proposal, the Kemp-Roth bill, would cut individual income tax rates across the board by 10 percent each year for the next three years, and index individual income taxes thereafter. The Kemp-Roth bill would reduce revenue by $18 billion in fiscal year 1981 if it were retroactive to January 1, 1981. Because of lags in withholding and collections, postponing the effective date to July 1, 1981, would reduce the fiscal year 1981 revenue loss to $5.3 billion. The tax reductions in later years would be much larger (see Table 11). The tax savings by income group would be similar to those from indexing, although somewhat more of the relief would go to those with incomes above $50,000.

Tax Incentives for Personal Saving

The across-the-board income tax cuts discussed above would all increase personal savings to some extent, since a portion of the tax cut would be saved. Many proposals to tie tax cuts more closely to saving have also been made and one--the temporary $200/$400 interest and dividend exclusion--was enacted last year. Some would exclude from taxable income amounts set aside in savings accounts, others would exclude the interest earned on accounts, and some would do both. Some are designed to encourage general-purpose saving, while others are aimed at increasing saving for retirement, first-time home purchases, and education. The 1981-1986 revenue losses from four such proposals are shown in Table 11.

The increase in the overall level of savings from any of these proposals is likely to be quite small. A large part of the tax reduction is attributable to savings that would take place in any event. This is especially true of the interest and dividend exclusion; at its present level of $200 for individuals and $400 for joint returns almost no additional saving is induced. The major effect of these proposals is to shift savings into the forms given a tax advantage.

Of the wide range of savings incentives that has been proposed, perhaps the most likely to result in increased total savings are those that would expand existing incentives for retirement savings, such as individual retirement accounts (IRAs) and Keogh plans. The money invested in these plans must be withdrawn from consumption for long periods, so it is less likely to be a substitute for normal everyday savings.

Marriage Penalty

About 40 percent of married couples currently pay more income tax than they would if they were single. President Carter's budget proposes a reduction in this "marriage penalty" that would cost about $10 billion a year in lost revenues when fully effective (see Table 9). The proposal, similar to one approved last year by the Senate Finance Committee, would allow a deduction of 10 percent of the first $30,000 of earnings of the lesser-earning spouse. The proposal would not precisely offset the marriage penalty for all couples, however. Some would get more than a complete offset, and some less.

An alternative that would allow a tax credit exactly equal to the amount of the marriage penalty has also been proposed. As shown in Table 11, the revenue loss would be more than the Carter proposal, and while it would be more complicated, simple tables could be devised so taxpayers could take advantage of it fairly easily.

Capital Gains Tax Cuts

The Senate Finance Committee last year approved an increase from 60 to 70 percent in the amount of capital gains excluded from taxation. This would reduce the maximum tax rate on capital gains from 28 to 21 percent (top marginal income tax rate of 70 percent times 30 percent of the gain). This proposal would achieve an increase in the mobility of capital, but its effects on total saving would mainly be compositional, increasing the attractiveness of assets offering capital gains at the expense of other forms of investment. The estimated revenue loss, reflecting some reflows from increased asset sales, is shown in Table 11.

Reduction in Top Marginal Tax Rate to 50 Percent

The top marginal income tax rate on "personal service" income (mostly wages and salaries) is now 50 percent, while all other income is taxed at rates up to 70 percent. Proposals have frequently been made to reduce the top rate to 50 percent for all income. The present high marginal rates impose a significant burden on savings and investment income and push taxpayers into tax shelters and speculative investments that can divert economic resources from their most productive uses. Reducing the top marginal rate on all income to 50 percent would result in an estimated direct revenue loss of $4.3 billion in fiscal year 1982, with almost all the tax savings going to those with incomes over $50,000 (see Tables 11 and 12). The indirect or reflow effects of such a change could be significant if investors responded by shifting from tax shelters into other more productive economic activity. A rate reduction of this kind would also reduce the top tax rate on capital gains from 28 to 20 percent, with no change in the present 40 percent exclusion of gains.

REVENUE INCREASES

Energy Taxes

Motor Fuels Tax. The Carter Budget proposes a ten cents a gallon increase in motor fuels taxes starting June 1, 1981. Thereafter, the tax would be increased quarterly in accordance with changes in producers' prices. The Administration estimates that the tax would yield $13.1 billion in fiscal year 1982, and $19.7 billion in fiscal year 1986 (see Table 9).

The proposed tax would tend to encourage conservation of motor fuels. It represents an increase in motor fuels prices of about 8 percent. Based upon available evidence, which suggests that the price elasticity of gasoline is around -.2 in the long run and somewhat less in the short run, the proposed tax would yield motor fuel savings of about 1.5 percent, or around 100,000 barrels per day in fiscal year 1982.

In 1982 and after, two cents per gallon from the proposed tax would go to the Highway Trust Fund. This is an initial increase of 50 percent in the amount of motor fuels tax devoted to highway programs, since the current tax of four cents per gallon is devoted to that purpose. Together with increases that the Administration proposes to make in other taxes that support the Highway Trust Fund, the proposed motor fuels tax would substantially restore the historical balance between highway expenditures and trust fund receipts. This would help insure that the cash balance in the trust fund is adequate to finance outstanding commitments.

The proposed tax on motor fuels would also have a significant impact on inflation, increasing the Consumer Price Index by approximately 0.6 to 0.7 percent in fiscal year 1982 and up to 1.0 percent thereafter.

TABLE 12. DISTRIBUTION OF TAX REDUCTIONS FROM INDIVIDUAL INCOME TAX CUT PROPOSALS BY INCOME GROUP (In percents)

Expanded Income Class (in thousands of dollars)	Percent of Tax Liabilities Paid Under Current Law	8 Percent Social Security Tax Credit (Employee Portion)	Indexing b/	10 Percent Rate Reduction (Kemp-Roth, 1st Year)
Below 5	-0.2 a/	1.1	1.0	.2
5 - 10	2.4	6.2	7.6	3.3
10 - 15	5.8	10.4	8.4	6.6
15 - 20	8.3	13.1	9.5	9.0
20 - 30	20.8	28.8	21.8	21.4
30 - 50	29.7	30.6	30.1	30.8
50 - 100	17.4	8.1	15.7	17.5
100 - 200	8.2	1.4	4.4	6.5
200 and above	7.5	0.3	1.4	4.6
Total	100.0	100.0	100.0	100.0

(Continued)

SOURCE: Joint Committee on Taxation, 1981 Income Levels.

a/ Figure is negative because of refundable Earned Income Credit.

TABLE 12. (Continued)

Expanded Income Class (in thousands of Dollars)	Extension of $200/$400 Interest and Dividend Exclusion	Reduction in Marriage Penalty c/	Increase in Capital Gains Exclusion to 70 Percent	Reduction In Top Marginal Rate to 50 Percent
Below 5	1.0	0.0	0.0	0.0
5 - 10	5.9	0.2	0.5	0.0
10 - 15	8.3	2.3	0.9	0.0
15 - 20	9.3	7.0	1.2	0.0
20 - 30	22.6	31.0	4.3	0.0
30 - 50	34.0	40.2	11.5	0.3
50 - 100	14.8	15.9	18.9	9.7
100 - 200	3.2	2.8	16.2	28.6
200 and above	0.8	0.5	46.5	61.5
Total	100.0	100.0	100.0	100.0

b/ Assumes indexing of bracket widths, personal exemptions, standard deduction, and earned income credit.

c/ Proposal would give married couples a tax credit equal to the marriage penalty on their personal service income.

Immediate Oil Decontrol. Another way to encourage gasoline conservation and reduce U.S. dependence on foreign oil imports would be to accelerate the decontrol of crude oil prices. Domestic crude oil price controls are currently being phased out, with all controls scheduled to be lifted by September 30, 1981. CBO estimates that ending controls on February 1 would increase fiscal year 1981 windfall profits tax liabilities by over $6 billion and net oil producer corporate income tax liabilities by around $1 billion. The net budgetary effect of immediate decontrol would be substantially less than this, however. Removal of all price controls would eliminate the subsidy currently received through the entitlements program by the Strategic Petroleum Reserve (SPR). Thus, if the proposed fill rate of 200,000 barrels per day were to be maintained, outlays for the SPR would have to increase by approximately $1.9 billion. Furthermore, higher oil prices could mean lower tax revenues from nonoil producers and higher outlays for inflation-indexed federal programs.

Limits on Tax-Exempt Bonds for Private Purposes

Another significant revenue increase proposal in the Carter budget would impose new limits on the use of tax-exempt bonds for private hospitals, student loans, and private businesses.

The use of tax-exempt state and local bonds for purposes other than schools, roads, sewer systems, public buildings, and other public projects has grown sharply in recent years. In 1980, only about 35 percent of all newly issued long-term bonds were for these traditional public purposes, while roughly 65 percent were issued to finance a variety of private activities, including housing, pollution control equipment for private industry, private hospital construction and equipment purchases, student loans, chain stores and fast-food outlets, office buildings, and recreational facilities. The Congress last year sharply curtailed the use of tax-exempt bonds for single-family housing, with a complete phase-out scheduled for the end of 1983.

Hospital Bonds. The Carter proposal would eliminate tax-exempt bond financing for all private nonprofit Section 501 (c)(3) organizations. The principal organizations affected would be private nonprofit hospitals, which issue over 70 percent of all hospital bonds. Some private colleges and universities would also be affected, however. Public hospitals, colleges, and universities could continue to use tax-exempt financing. Since these public institutions are supported by state and local tax funds, there is a strong indication that taxpayers view them as serving a valid public purpose. The five-year 1982-1986 revenue gain from this proposal would be $1.9 billion.

Student Loan Bonds. The Carter Administration proposal would prohibit the issuance of tax-exempt bonds to finance student loans. Until last year, state and local governments could make substantial profits on federally guaranteed student loans by using funds borrowed at low tax-exempt rates to make loans that received a market rate through a federal interest subsidy. Higher education legislation last year cut the federal interest subsidy to tax-exempt lenders in half, significantly reducing these profits. The Administration proposal would end the tax-exempt bond subsidy on student loans, but would allow state and local governments to get a full direct federal interest subsidy by issuing taxable bonds. The five-year 1982-1986 revenue gain would be $0.7 billion. More than half of the revenue gain would be offset, however, by larger federal interest subsidies.

"Small Issue" Industrial Development Bonds (IDBs). The Administration's proposal would put new restrictions on the use of tax-exempt small issue IDBs. At present, state and local governments may issue these bonds to provide low-cost financing for private firms for any purpose, and in any location, up to a maximum of $10 million. The Carter Administration recommends reducing the maximum amount of the bonds to a lifetime limit of $5 million and restricting their availability to manufacturing, construction, mining, or utility firms that have assets of less than $10 million. Firms located in targeted distressed areas would be able to issue bonds up to $10 million and would be exempt from any other restrictions. CBO estimates that implementation of these proposals would result in 1982-1986 revenue savings of $1.7 billion, significantly below the Administration's estimate of $5.3 billion.

Federal spending in fiscal year 1981 is now expected to exceed earlier estimates by a wide margin, largely because of higher interest rates, higher defense spending, and increased costs in various programs providing benefit payments to individuals. The 1982 budget submitted by President Carter estimates total 1981 outlays at $662.7 billion, an increase of $30.3 billion above the ceiling of $632.4 billion in the Second Concurrent Resolution on the Budget for Fiscal Year 1981 (see Table 13). It appears likely that the Congress will have to adjust the second budget resolution spending ceilings for 1981 in order to accommodate supplemental appropriations for certain mandatory entitlement programs and the cost of the October 1980 federal payraises. The ceilings would have to be increased even further to accommodate various Carter Administration supplemental appropriation proposals for food stamps, disaster loans, defense, and other programs.

TABLE 13. TOTAL UNIFIED BUDGET SPENDING FOR FISCAL YEARS 1981 AND 1982 (In billions of dollars)

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request a/	CBO Baseline Projection a/	Pres. Budget Request	CBO Estimate of Pres. Request a/
Budget Authority	694.6	726.5	723.3	801.0	809.8	809.4
Outlays	632.4	662.7	663.3	742.9	739.3	745.0

a/ Preliminary, subject to change.

The Carter Administration budget for 1982 proposes outlays of $739.3 billion, an increase of 11.6 percent from the estimated 1981 level. This represents a slowing in the growth of federal spending from the 17.4 percent growth experienced in 1980 and the 14.3 percent growth expected in 1981. After adjusting for inflation, however, this would allow some real growth in federal spending (about 1 percent). The Carter Administration proposes that real growth be limited primarily to defense programs, and that nondefense spending be held constant in real terms.

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This chapter provides an overview of President Carter's latest spending estimates for 1981 and his proposals for 1982. The chapter begins with a discussion of the 1981 budget estimates and proposals, and then moves to a discussion of the Carter Administration proposals for 1982. The chapter also includes a discussion of indexed benefit payments, off-budget outlays, and the federal debt. Chapter V provides further details and analyses of the President's spending proposals and estimates within each major functional category.

FISCAL YEAR 1981 ESTIMATES AND PROPOSALS

The Carter Administration's 1982 budget presents new spending estimates for fiscal year 1981 that indicate the second budget resolution spending ceilings will be exceeded by a wide margin, largely because of events beyond the control of the Congress. The President's budget proposes $726.5 billion in new budget authority and $662.7 billion in outlays for 1981. These proposals exceed the second budget resolution ceilings approved on November 20 by $31.9 billion in budget authority and $30.3 billion in outlays.

CBO's preliminary review of the Administration's latest estimates for 1981, using CBO's current economic assumptions and estimating methodology, indicates that the estimates for total spending are reasonable. CBO's analysis suggests that there are some estimating differences for individual programs, but their net effect on total estimated outlays for 1981 will be quite small (less than $1 billion).

Current 1981 Spending Estimates

At the close of the 96th Congress, action had been completed on most of the 1981 budget. Nine of the thirteen regular appropriation bills had been enacted, and spending for areas in the other four appropriation bills was covered through June 5, 1981 by a second continuing resolution. As shown in Table 14, outlays resulting from these actions, plus spending for certain entitlements and other mandatory items requiring further appropriation action, were estimated to be $630 billion, slightly below the second budget resolution ceiling of $632.4 billion. If the second continuing resolution is extended to September 30, the end of the fiscal year, however, an estimated additional $10.1 billion in outlays would result.

Since the adoption of the second budget resolution in November, the economic outlook has changed and new programmatic information has become available (such as the recent Penn Central settlement). The most striking change in the economic outlook is higher interest rates. Inflation is also expected to be somewhat higher during fiscal year 1981 than was assumed for the second resolution, and unemployment somewhat lower.

TABLE 14. SPENDING ESTIMATES FOR FISCAL YEAR 1981 (In billions of dollars)

	Budget Authority	Estimated Outlays
Enacted at the Close of the 96th Congress, with the Continuing Resolution Through June 5	682.0	623.8
Entitlements and Other Mandatory Items Requiring Further Appropriation Action (mostly pay supplementals)	6.3	6.2
Subtotal, current level at close of 96th Congress	688.4	630.0
Additional Spending if Continuing Resolution Is Extended to September 30	15.6	10.1
CBO Preliminary Reestimates due to Change in Economic Outlook and Other Developments	12.5	19.9
Subtotal, current level adjusted	716.5	660.0
Carter Administration Proposals		
Program supplementals under existing law not included above	5.2	2.6
Other supplementals and proposals requiring new authorizing legislation	2.9	1.3
Rescissions of previously enacted budget authority	-1.3	-0.6
Subtotal, Carter Proposals	6.9	3.2
Total spending	723.3	663.3

Using this new economic outlook and new programmatic information, as well as an analysis of actual spending patterns in 1980, CBO has reestimated 1981 outlays upwards by \$19.9 billion, bringing bring total estimated outlays to \$660 billion for 1981. The Carter Administration's 1982 budget requests a number of program supplementals that would add further to the 1981 spending levels. The Administration's budget also contains new information about 1981 spending that will result in additional CBO reestimates. Based on information currently available, including actual federal outlays in the first quarter of the fiscal year (October-December), it is reasonable to expect that 1981 outlays will fall within the range of \$660 to \$665 billion.

CBO Preliminary Reestimates

About half of the CBO outlay reestimates (\$9.4 billion) can be attributed to the recent rapid increase in interest rates, which are expected to be very volatile but remain at relatively high average levels throughout fiscal year 1981. This is expected to add \$7.8 billion for net interest. In addition, the higher interest rates will raise the costs of the student loan insurance program by almost \$300 million, and reduce the expected sales of government-held mortgages and loans by \$1.3 billion. (see Table 15.)

The remaining \$9 billion in outlay reestimates is predominantly based on new information about spending trends and other programmatic developments. Defense spending has been reestimated upward by \$1.5 billion, mainly for higher fuel costs. The 1981 defense appropriation bill contained about \$8.2 billion for fuel. More recent estimates indicate that fuel price increases will require an additional \$1.2 billion in budget authority and \$1.0 billion in outlays. The Administration has requested only two-thirds of this additional amount in a proposed supplemental appropriation bill. Without appropriation action, the Defense Department could invoke Feed and Forage Authority (Revised Statutes 3732) to fund these higher fuel costs.

The Penn Central settlement will add \$2.1 billion to federal spending in 1981. Federal payments will be made to creditors of the Penn Central Transportation Company on debts arising from the 1976 federal conversion of the bankrupt railway into the Consolidated Rail Corporation. Recent legislation allows the Department of Transportation to borrow the necessary funds directly from the Treasury, without prior appropriation action.

Medicare costs have been reestimated upwards by \$1.4 billion, largely because of a higher than normal increase in the utilization of hospital and other medical services in 1980, a trend which is expected to continue in 1981. The normal annual increase in hospital days for Medicare patients has been about 3 percent. The actual increase in 1980 was over 6 percent. CBO estimates assume that the increase in 1981 will be about 4.5 percent.

TABLE 15. CBO SPENDING REESTIMATES FOR FISCAL YEAR 1981 (In billions of dollars)

Reestimates	Budget Authority	Outlays
Interest rate related reestimates		
Net interest	7.8	7.8
Student loan insurance	0.3	0.3
Lower asset sales by Farmers Home Administration, GNMA, and VA	--	1.3
Subtotal	8.1	9.4
Other reestimates		
Defense Department	1.5	1.5
Penn Central settlement	2.1	2.1
Medicare	0.6	1.4
Trade adjustment assistance	1.1	1.0
Federal Savings and Loan Insurance Corporation	--	0.9
Federal-aid highways (trust fund)	--	0.8
Energy programs	1.6	1.0
Veterans' readjustment benefits	0.5	0.5
All other	-3.0	1.3
Subtotal	4.4	10.5
Total	12.5	19.9

Trade adjustment assistance outlays in 1981 are also expected to be at least $1 billion higher than those contained in CBO's earlier scorekeeping estimates. Since March, many workers in automobile, steel and tire/rubber factories have been certified for trade adjustment assistance benefits. Delays in paying these benefits in fiscal year 1980 will result in higher 1981 outlays. In addition, the automobile industry's continuing economic problems are expected to cause currently certified workers to suffer more frequent and lengthier layoffs than originally anticipated.

Outlays by the Federal Savings and Loan Insurance Corporation (FSLIC) are also expected to be higher in 1981 because certain large payments anticipated in 1980 did not materialize. These payments--to purchase the assets of failing savings and loan associations--are now expected to occur in 1981. Additional assistance is also expected to be needed for other thrift institutions experiencing problems during fiscal year 1981 because of high interest rates. The total effect is estimated to add about $950 million to 1981 outlays.

Outlays have also been reestimated upwards for several education, training; and social services programs in function 500, based on actual fiscal year 1980 spending patterns, continued growth in the student loan insurance program, and actual student assistance grants already distributed to students for the 1980-81 school year. These reestimates total $941 million.

First quarter (October-December) obligations from the highway trust fund occurred at a much higher rate than expected, reflecting pent up demand by states that had been constrained by the 1980 obligation ceiling. The shift of obligations to early in the fiscal year will result in higher 1981 outlays. CBO's current estimate of outlays for the federal-aid highways program is $8.5 billion, including $150 million for emergency relief. This is $840 million higher than CBO's previous scorekeeping estimate.

Outlays for various energy programs are expected to be almost $1 billion above previous estimates. Receipts from the sale of power by the Bonneville Power Administration and from the sale of oil from the naval petroleum reserve (NPR) are now expected to be about $300 million lower than previously estimated, in part because the sale price of NPR oil in exchange for oil for the strategic petroleum reserve has been lower than assumed for the second resolution. Uranium enrichment outlays also are expected to be about $200 million higher because receipts from uranium enrichment activities are now expected to be lower, and spending on constructing the gas centrifuge plant is proceeding more quickly than originally estimated. Strategic petroleum reserve outlays are also expected to be about $300 million higher under the Administration's fill schedule than previously estimated.

The fall 1980 school enrollment by veterans was much higher than expected, which will raise the estimated costs of fiscal year 1981 readjustment benefits by about $500 million.

Proposed 1981 Supplemental Appropriations, Rescissions, and Other Spending Initiatives

The Carter Administration's 1982 budget includes proposals for 1981 supplemental appropriations totalling $15.7 billion in net new budget authority. Over half of this amount ($8.9 billion) is for entitlement programs and other mandatory items subject to further appropriation action. The major items included in this category are proposed supplementals for the cost of the October 1, 1980 federal payraise ($6.2 billion) and for the October 1980 cost-of-living adjustment for veterans' compensation benefits ($1.0 billion). Most of this amount was anticipated in the CBO budget estimates shown in Table 14.

Under existing legislation, the 1982 budget proposes supplementals of $1.9 billion for the Defense Department, primarily for higher fuel costs and increased costs related to military personnel and readiness initiatives. The budget also includes supplement requests of $0.8 billion for student financial assistance $0.8 billion for SBA disaster loans; and $2.5 billion for various other programs.

The Carter Administration proposes a supplemental appropriation of $1.4 billion for the food stamp program to pay the full estimated program costs. This will require new authorizing legislation to lift the current ceiling of $9.7 billion for 1981. Authorizing legislation will also be required for the proposed $1.1 billion contribution to the International Development Association.

President Carter also submitted $1.3 billion in rescission proposals that would reduce 1981 outlays by about $600 million. The rescission proposals are largely for various health and education programs, and a $250 million rescission in the 1981 payment to the Postal Service.

FISCAL YEAR 1982 ESTIMATES AND PROPOSALS

The Carter Administration budget for 1982 proposes to hold total spending close to the 1981 levels after adjustments for expected inflation, population growth, and other increased costs resulting from previous policy decisions. After adjusting the Administration's spending estimates for differences in economic assumptions and estimating methods, the President's proposed 1982 outlays would be about $3 billion above CBO's baseline projections of current law spending policies.

The major spending initiative in President Carter's budget for 1982 is increased spending authority for national defense programs. The budget proposes new budget authority of $200 billion for the national defense function, which CBO estimates would represent real growth of about 4 percent above 1981 levels. The proposed real growth for defense operations, construction, and research masks a significant real decline in the number of major weapons to be procured. Fewer aircraft, ships, and tanks would be purchased at significantly higher costs per unit in 1982 than previously planned.

CBO estimates that the 1982 defense purchases are underfunded by over $5 billion in President Carter's budget. As a result of higher inflation assumptions for defense purchases than used by the Carter Administration, CBO estimates that an additional $2 billion in new budget authority will be required for projected fuel consumption, $2 billion for full funding of proposed weapon purchases, and $1 billion for defense supplies and other purchases. Further details on CBO's analysis of the proposed defense budget are provided in Chapter V.

New Authorizing Legislation

A limited number of spending proposals in the Carter Administration 1982 budget would require new authorizing legislation. The major proposals include the following items.

Refundable Investment Tax Credit. The Carter Administration proposes the enactment of a refundable investment tax credit to provide investment incentives to firms that have little or no earnings, and to assist new firms and those experiencing structural adjustment problems. Under the Administration's proposal, up to 30 percent of the earned but unused credit for investments placed in service after December 31, 1980, would be refundable. This proposal is estimated to have relatively little effect on receipts, but would increase outlays by $2.3 billion in 1982.

Refundable Social Security Tax Credit. The Carter budget also proposes an income tax credit equal to 8 percent of paid Social Security taxes that would be refundable to state and local governments, nonprofit organizations, and businesses, but not to individuals. Assuming an effective date of January 1, 1982, this proposal is estimated to increase outlays by $1.9 billion in fiscal year 1982. It would also reduce receipts by an estimated $7.5 billion.

Youth Education and Training. The Carter Administration renews its proposal for a major increase in spending by the Departments of Labor and Education to provide basic education and training for educationally disadvantaged, particularly minority youth, who are poorly prepared for employment. The 1982 budget contains new budget authority of $2.0 billion and $925 million in estimated outlays for these programs.

Low-Income Energy Assistance. The Carter budget contains an extension of the energy assistance program to moderate the impact of rising energy costs on low-income families. The Administration proposes that the funding for this program continue at the 1981 level of $1.85 billion.

Veterans' Benefits. The 1982 Carter budget proposes a 12.3 percent cost-of-living increase for veterans' compensation benefits, effective in October 1981. These inflation adjustments are not automatic under current law as they are for most disability benefit programs. The last cost-of-living adjustment for veterans' compensation was effective in October 1980 and increased benefits by 14.3 percent for veterans rated 50 percent disabled or more, and 13 percent for other disabled veterans. No cost-of-living adjustment for veterans readjustment benefits is recommended in the Carter budget for 1982. Last year, the Administration proposed and the Congress enacted a 10 percent increase in GI bill education benefits to be effective January 1, 1981.

Social Security Financing. President Carter again proposes that the three major Social Security trust funds be authorized to borrow from each other when needed to assure the timely payment of benefits. The largest of the three trust funds for old age and survivors insurance is projected to have a cash flow problem in 1982, and to be totally depleted in 1983 under current law. CBO estimates that interfund borrowing will be sufficient to solve the financing problems of Social Security for only the next two to three years. Some additional action will have to be taken before the end of fiscal year 1984 to provide additional funds to the trust funds or to curtail projected costs, or both. 1/

Proposed Legislative Savings and Budget Reductions

The Carter Administration budget also proposes a number of reductions in federal spending programs for 1982, many of which would require changes in existing law. The most prominent of the legislative savings proposals 2/ are federal employee compensation reform and changes in the indexing formulas for selected benefit programs.

The federal employee compensation reform proposals have been made previously by the Carter Administration but have not been acted upon by the Congress. They would broaden the principal of comparability to take into account both pay and benefits instead of only pay, and to include data from state and local governments as well as data from private industry; they would also modify the federal wage-board system for blue-collar workers. Comparability, as currently defined, would require an October 1981 pay increase estimated at 13.5 percent. Under the proposed changes, the comparability increases would be an estimated 9.1 percent for military employees and 8.6 percent for civilian employees. The budget estimates that the pay reform proposals would save $3.5 billion from the projected current law comparability levels in 1982 (see Table 16).

1/ For further details on CBO's estimates and options for solving this financing problem, see Congressional Budget Office, Financing Social Security: Issues and Options for the Short Term, (forthcoming).

2/ Legislative savings is a term denoting changes to existing law to achieve reductions in otherwise mandated spending.

TABLE 16. ESTIMATED OUTLAY SAVINGS FROM CARTER ADMINISTRATION LEGISLATIVE PROPOSALS (By fiscal year, in millions of dollars)

Proposal	1981	1982	1983	1984
Federal Compensation Reform				
Department of Defense	--	-2,275	-2,950	-3,267
Civilian agencies	--	-1,219	-1,386	-1,529
Subtotal	--	-3,494	-4,336	-4,796
Change in Indexing Formulas				
Shift to annual indexing of federal personnel retirement	-97	-1,132	-979	-1,010
Shift to annual indexing for dairy price supports	-138	-86	-86	-86
Permanently shift to annual indexing for child nutrition programs	--	-102	-87	-74
Keep food stamps indexed to actual, not projected, costs	--	-419	-647	-497
Subtotal	-235	-1,739	-1,799	-1,667
Unemployment Benefit Programs				
Change unemployment insurance extended benefit trigger calculation	--	-2,088	-405	-424
Eliminate mandatory coverage for public service employment workers	--	-122	-225	-210
Subtotal	--	-2,210	-630	-634
Other Proposals				
Eliminate bonus to hospitals for provision of routine nursing services to Medicare beneficiaries	-35	-250	-285	-350
Repeal Medicare/Medicaid expansions included in the Omnibus Reconciliation Act	-55	-228	-254	-286
Other health program savings proposals	-25	-205	-162	-183
Target child nutrition subsidies to the most needy	--	-327	-358	-382
Reform and simplify AFDC program and improve the child support enforcement program	--	-531	-543	-557
Other income security program proposals	--	-122	-165	-235
Eliminate GI bill benefits for correspondence courses and general flight training and other savings in veterans' benefits	--	-79	-73	-67
Increase stockpile sales	-210	-210	-217	-430
Other savings proposals	-15	-55	-57	-65
Subtotal	-340	-2,007	-2,114	-2,555
Total	-575	-9,450	-8,879	-9,652

Source: The Budget of the United States Government, Fiscal Year 1982, p. 13. Many of these estimates are sensitive to changes in economic assumptions and will be reestimated by CBO.