The Carter Administration proposes a shift to annual cost-of-living increases for all indexed federal programs that are currently adjusted more than once a year. Under this proposal, the September increase for federal employee retirement programs would be eliminated for an estimated saving of $1.1 billion in 1982. Annual adjustments for dairy price supports and child nutrition programs would save an additional $0.2 billion in 1982. A change is also proposed in the way food stamp benefits are adjusted for inflation that would save about $400 million in 1982 (see Table 16).

President Carter also proposes legislation to change the trigger rate calculation for the unemployment insurance extended benefit program to exclude extended benefit claimants. The Carter Administration attempted to make such a change through administrative action, but this was not upheld in the courts. The amount that would be saved by the proposed legislation is very sensitive to the assumed unemployment rate. The 1982 budget estimates that this would save $2.1 billion in 1982, but an increase of only one quarter of 1 percent in the assumed unemployment rate would eliminate the savings. Under CBO's assumptions, the estimated savings would be only $1.4 billion.

Other legislative savings proposals, totaling another $2 billion in estimated outlay reductions, include a number of proposals previously made by the Carter Administration but not accepted by the Congress. These include eliminating bonus payments to hospitals for the provision of routine nursing services to Medicare beneficiaries, targeting child nutrition subsidies to the most needy, and eliminating GI bill benefits for correspondence courses and general flight training. The Carter Administration also proposes legislation to increase the interest rate for water and waste disposal system loans from the present 5 percent statutory ceiling to the average level on municipal bonds sold for the same purpose.

The most notable omission from the Administration's previous cost savings proposals is hospital cost containment legislation, which was rejected by the 96th Congress. Instead, the 1982 budget assumes voluntary efforts and various administrative approaches to hold down federal health care costs.

The Carter Administration budget proposes a number of outlay reductions to be achieved through the appropriations process and administrative action in addition to the legislative savings proposals shown in Table 16. Continuing a long-standing tradition, the 1982 budget proposes a reduction in impact aid payments to schools in federally affected areas for a savings of over $400 million in outlays from the estimated current service levels. The Administration proposes several reforms in the student loan insurance program through appropriation language to save an estimated $878 million in 1982.

In addition to a proposed $250 million rescission in 1981 for payment to the Postal Service, the Carter budget proposes to reduce the 1982 payment for public service subsidies by $394 million. The Carter 1982 budget also proposes a 5.5 percent limit on the federal civilian employee payraise for October 1, 1981, compared to 8.6 percent estimated under the Administration's proposed federal compensation reforms. The 5.5 percent outlays limit is estimated to provide $1.3 billion in outlays in 1982. The details on these and other proposals are discussed in Chapter V.

CBO Baseline Projections

In analyzing the President's spending proposals for 1982, it is useful to compare the budget to projections of federal spending if the policies embodied in current law were simply continued and discretionary adjustments were made for expected inflation. These projections serve as a useful baseline for analyzing the effects of policy changes that are proposed by the President.

CBO's preliminary baseline projections for 1982 are based on action completed to date by the Congress on the 1981 budget, plus anticipated supplementals for certain entitlements such as veterans' compensation and readjustment benefits, and the federal payraise that became effective on October 1, 1980. The baseline projections also include the 1982 effects of most of the preliminary CBO spending reestimates for 1981, and assume that the Congress will lift or remove the 1981 authorization ceiling for the food stamp program, as well as approve the supplemental request for the Small Business Administration disaster loans. The projections do not include any other discretionary supplementals or rescissions for 1981 that are proposed by President Carter for programs such as student and financial assistance and urban mass transportation. The 1981 base for the CBO projections total $718 billion in budget authority and $660 billion in outlays.

Under current law policies, spending adjusted for inflation is projected to rise to $743 billion in 1982. About half of the projected $83 billion increase in estimated outlays can be attributed to cost-of-living adjustments and population growth for various benefit payment programs that are directly or indirectly indexed for inflation. These account for $40 billion, or 48 percent, of the total increase. Defense spending, other than for retirement pay and projected payraises, is estimated to increase by $10 billion in 1982 as a result of decisions made by the 96th Congress. Net interest costs are also projected to rise by about $10 billion in 1982. The remaining increase is almost entirely accounted for by discretionary inflation adjustments for defense and other federal programs, and projected payraises for federal civilian and military employees. These adjustments would add an estimated $21 billion in outlays in 1982. Comparisons between the President's request for 1982 and the CBO baseline projections are discussed in Chapter V.

CBO Preliminary Reestimates

CBO's preliminary review of the 1982 budget proposals suggests that outlays could be about $6 billion higher than projected by the Carter Administration, if all of the Administration's spending proposals were approved by the Congress. This would result in outlays of about $745 billion in 1982.

The economic assumptions used for the Carter budget and by CBO for its analysis are fairly similar, at least with respect to those economic factors that most affect spending estimates for 1982. The principal difference in the assumptions for 1982, as shown in Table __, are interest rates, which are very difficult to forecast under present monetary policy. CBO also assumes somewhat lower inflation in 1981 and, therefore, lower cost-of-living adjustments for indexed benefit programs. The most notable other difference for the budget estimates is that CBO assumes higher fuel price increases in 1982 for the budget estimates than for the Administration does. For example, the defense budget estimates are based on fuel price increases of only 9.7 percent between 1981 and 1982, while CBO assumes that fuel costs will increase by about 25 percent.

TABLE 17. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS FOR SPENDING ESTIMATES (By calendar year)

Major Economic Variables	1980	1981	1982
GNP Deflator, Fourth Quarter over Fourth Quarter (percent change)			
Administration	10.0	10.4	8.8
CBO	10.1	10.3	9.7
Consumer Price Index, Fourth Quarter over Fourth Quarter (percent change)			
Administration	12.8	12.6	9.6
CBO	12.6	10.0	9.7
Unemployment Rate, Annual Average			
Administration	7.2	7.8	7.5
CBO	7.2	7.8	7.4
Interest Rate, 91-day Treasury Bills, Annual Average			
Administration	11.5	13.5	11.0
CBO	11.5	11.8	12.2

CBO's upward reestimates of outlays of $3.3 billion, because of assumed higher interest rates and fuel prices in calendar year 1982, are partially offset by CBO's lower inflation assumption for 1981. This reduces projected 1982 payments for indexed benefits by about $2 billion from the level estimated by the Administration. Other estimating differences between the Administration and CBO amount to about $5 billion for 1982 and are concentrated largely in four program areas: defense, disaster loans, Medicare, and various income security programs (see Table 18).

CBO estimates that defense procurement outlays in 1982 could be over $1.5 billion above the level estimated by the Administration, based on recent spending patterns. CBO also estimates that net budget outlays for disaster loans will not occur as fast as assumed by the Carter Administration from its 1981 budget requests. This results in about $800 million lower outlays in 1981, and higher outlays of about $900 million in 1982 than assumed for the Carter budget.

TABLE 18. CBO PRELIMINARY REESTIMATES OF PRESIDENT CARTER'S SPENDING TOTALS FOR FISCAL YEAR 1982 (In billions of dollars)

Reestimates	Budget Authority	Outlays
Carter Administration Estimates	809.8	739.3
CBO Preliminary Reestimates		
Different economic assumptions		
Higher fuel prices	1.7	2.1
Higher interest rates	1.1	1.2
Lower inflation in 1981	-1.8	-2.2
Other differences	-1.0	-0.3
Other estimating differences		
Defense procurement	--	1.7
SBA disaster loans	--	0.9
Medicare	-0.4	1.4
Social Security, assistance payments, and other income security	1.1	1.6
All other, net	-1.1	-0.7
Subtotal, CBO preliminary reestimates	-0.5	5.7
Carter Budget Reestimates	809.4	745.0

CBO estimates that Medicare costs in 1982 will be about $1.4 billion higher than assumed by the Carter Administration. The higher estimate results from different assumptions about the effectiveness of the Administration's voluntary guidelines for hospital cost increases, projected utilization rates for hospital and other medical services, and the effectiveness of the professional standards review organizations.

Finally, CBO has a number of estimating differences for Social Security, assistance payments, and other income security programs that amount to about $1.6 billion in higher outlays. Most of the differences result from different assumptions about projected growth in program participants.

These spending reestimates are subject to change as CBO analyzes President Carter's budget in greater detail during the next few weeks, and discusses the reestimates with the Budget and Appropriations Committees. CBO is also preparing a new economic forecast for use by the Budget Committees in March as they formulate the first budget resolution for 1982. This could result in some new spending estimates if the new economic forecast differs substantially from the assumptions used for this analysis.

INDEXED BENEFIT PAYMENTS

Benefit payments for most of the federal retirement and disability programs are now automatically indexed to changes in the Consumer Price Index (CPI). For fiscal year 1982, the aggregate outlays for these indexed benefit programs under current law are estimated to be $213 billion, approximately 29 percent of total spending as estimated by CBO in its baseline projections. As shown in Table 19, federal outlays for indexed retirement and disability programs are expected to grow by $28 billion in 1981 and $26 billion in 1982.

Benefits for certain other entitlement programs, while not tied explicitly to the CPI, also increase directly as a result of inflation. These include the food stamp and child nutrition programs which are indexed to various food price indexes. Black lung benefits for disabled coal miners are also adjusted automatically each year by the amount of the October payraises for federal civilian employees. In addition, the benefit levels for unemployment insurance and aid to families with dependent children (AFDC) are periodically increased by most states for changes in the cost-of-living. Finally, the cost of providing benefits in the Medicare and Medicaid programs rises with inflation as well, since it is the level of services and not a fixed dollar amount that is guaranteed to eligible beneficiaries. Outlays for these programs in 1980 were $88 billion and accounted for 15 percent of total outlays. CBO estimates that outlays for these programs will rise to

$118 billion in 1982 under current law. Together with benefits that are tied directly to the CPI, payments for individuals that respond more-or-less automatically to inflation are estimated to account for about 45 percent of total budget outlays in fiscal year 1982 as projected by CBO.

TABLE 19. FEDERAL RETIREMENT AND DISABILITY PROGRAMS WITH BENEFITS INDEXED TO CHANGES IN THE CONSUMER PRICE INDEX (By fiscal year, outlays under current law in billions of dollars)

Program	Frequency of Adjustment	1980	CBO Estimates b/ 1981	1982
Social Security	Annual (July)	117.1	138.5	159.0
Civil Service Retirement	Semiannual (April, October)	14.7	17.3	19.7
Military Retirement	Semiannual (March, September)	11.9	13.8	15.4
Railroad Retirement	Annual (July)	4.7	5.3	6.1
Supplemental Security Income	Annual (July)	6.4	7.4	8.1
Veterans' Pensions	Annual (July)	3.5	3.8	4.1
Other a/		0.7	0.9	0.9
Total		159.2	187.0	213.4

a/ Includes Department of Labor special benefits (workman's compensation), Coast Guard retirement pay, Foreign Service retirement, Public Health Service officer's retirement, and contributions for annuity benefits for certain members of the Secret Service.

b/ CBO estimates include administrative and other program expenses not indexed to the CPI.

Concerns About Indexing

Automatic indexing has become a matter of particular concern recently, as the inflation rate has moved into double digits. Both the Congress and the public have called for a reduction in the growth of federal spending. The outlay increases that automatically follow double-digit inflation for some programs will probably result in real declines in other programs, or will continue to frustrate the achievement of a smaller federal sector.

An additional concern is that the automatic indexing of many federal programs may itself contribute to inflation. The direct and indirect indexing provisions that cover almost 90 percent of federal benefit payments for individuals may reinforce inflation and serve as an example to the private sector. Also, if the economy is operating at full capacity, the extra spending may either provide unnecessary extra fiscal stimulus or make attempts at fiscal restraint very difficult to implement. Finally, indexing may help create imbalances in the composition of federal spending by increasing transfer payments at the expense of purchases, investment, or research. In the long run, this may aggravate productivity and inflation problems.

Although automatic indexing has removed all flexibility in the timing and amount of cost-of-living adjustments, it may not have resulted in greater federal spending than otherwise would have occurred. For example, prior to the introduction of automatic indexing, Social Security benefits were adjusted through periodic legislation at a rate that exceeded the increases in the CPI. Since the start of automatic indexing in July 1975, no major Social Security increases have been approved beyond the cost-of-living adjustment. On the other hand, the automatic benefit increases for Social Security recently have been quite large--14.3 percent in 1980 and 9.9 percent in 1979. The President's budget estimates assume that the benefit increase for Social Security will be 12.3 percent in 1981 and 11.3 percent in 1982. It is possible that the Congress would not enact such large increases if they were not automatic.

Alternative Indexing Proposals

In recent years, the specific index used to calculate cost-of-living adjustments for Social Security and other programs has come under increasing scrutiny because of the manner in which the costs of shelter are treated. The index used is strongly affected by changes in housing prices and mortgage interest rates. The Carter Administration recommends that an alternative index be used that increases the weight given to rent and eliminates housing prices and mortgage interest. The Administration does not expect that substituting the alternative index would result in any budgetary costs or savings. While this may be true over the longer-run, it is possible that the use of an alternative index could result in budgetary costs or savings in any one year. For example, the alternative index recommended by the Carter Administration has been increasing at a slower rate than the CPI for urban wage earners and clerical workers. By the first quarter of 1981, the different growth rates from the first quarter of 1980 between the two indexes is projected at about 1.7 percentage points. As a result, using the substitute index recommended by the Carter Administration for the 1981 Social Security cost-of-living adjustment could result in savings of about $2 billion in fiscal year 1982.

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Other suggestions also have been made to modify the way federal benefits are indexed for inflation. One suggestion is to provide less than the full amount of the cost-of-living adjustment. For example, the benefit increases might be limited to 85 percent of the increase in the CPI, or some other amount less than 100 percent. This approach would be analogous to the Carter Administration proposal to limit federal employee payraises below the comparability levels. The approximate savings under this approach for the major indexed retirement and disability programs would be an estimated $3.6 billion in 1982, and could rise to as much as $20 billion in 1986. Capping the annual cost-of-living adjustments could be done on a discretionary basis, is easily understood, and spreads the reductions evenly across a broad population. On the other hand, it is an arbitrary process and, over sustained time periods, could lead to a serious erosion in real benefits.

Another suggestion is to substitute the use of a wage index for the annual cost-of-living adjustments when wages are rising more slowly than prices. During recent periods, wages have not grown as rapidly as prices. Fully indexing benefits in retirement and disability programs for price increases has meant that beneficiaries have gained relative to workers. Indexing to the lower of the increase in average hourly wages or prices would save an estimated $4.2 billion in fiscal year 1982, rising to a saving of $7.2 billion by 1986. This approach would assure that workers and benefit recipients receive similar increases during periods when prices are rising more rapidly than wages. On the other hand, this approach would permanently lower benefit levels and pressure could build to raise benefit levels beyond those automatically provided.

OFF-BUDGET OUTLAYS

The budget does not include a number of fiscal activities of the federal government that result in spending similar to budget outlays. The major exclusions are the outlays of off-budget federal entities that are federally owned and controlled, but whose transactions have been excluded from the budget totals under provisions of law. Their fiscal activities are not reflected in either budget outlays or the budget deficit; appropriation requests for their programs are not included in the totals of budget authority for the budget; and their outlays are not subject to the ceilings set by the Congressional budget resolutions. As discussed below, however, the outlays of the off-budget federal entities are added to the unified budget deficit to derive the total government deficit that has to be financed by borrowing from the public or by other means. When off-budget outlays are financed by Treasury borrowing, the additional debt is subject to the statutory debt limit.

The estimated outlays of the off-budget federal entities are shown in Table 20. Most off-budget outlays are accounted for by the Federal Financing Bank (FFB). The FFB itself does not operate any programs. Rather, it assists other government programs by purchasing loan assets from them, or making loans for which the agencies guarantee repayment.

TABLE 20. OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

Off-Budget Federal Entity	Actual 1975	Actual 1980	Admin. Estimates 1981	Admin. Estimates 1982
Federal Financing Bank	6.4	14.5	23.1	18.2
Rural Electrification and Telephone Revolving Fund	0.5	-a/	0	0
Rural Telephone Bank	0.1	0.2	0.2	0.2
Postal Service Fund	1.1	-0.4	0.2	-0.1
U.S. Railway Association	a/	a/	-.3	a/
Synthetic Fuels Corporation	0	0	0	0
Total	8.1	14.2	23.2	18.3

a/ Less than $50 million.

Sales of loan assets to the FFB are treated in the unified budget as offsets to the outlays of the agency that sells them. This has the effect of shifting the budget impact of direct loans from on-budget agencies, such as the Farmers Home Administration, to off-budget outlays by the FFB. The Administration estimates that the FFB will make net purchases of $6.7 billion in loan assets in 1982, a decrease of $6.2 billion from the 1981 level, as shown in Table 21. The decrease is entirely due to lower sales of certificates of beneficial ownership (CBOs) by the Farmers Home Administration to the FFB, primarily from the agricultural credit insurance fund.

The FFB also functions as an off-budget lender for some agencies. If an agency issues to a private borrower a 100 percent guarantee of repayment of principal and interest, the borrower can obtain an off-budget direct loan from the FFB on the basis of the guarantee. The interest rate charged is only slightly above Treasury's own borrowing costs, so the borrower receives an indirect interest subsidy as well as the guarantee. Because guaranteed loans are not counted in the budget as budget authority or outlays, a nonbudgetary transaction by an on-budget agency can lead to off-budget direct loans. For fiscal year 1982, the Administration estimates that FFB outlays for direct loans net of repayments would total $11.5 billion. This represents an increase of $1.4 billion from 1981 and $4.7 billion from 1980. As shown in Table 21, the largest component of FFB direct loans are for loans guaranteed by the Rural Electrification Administration (REA). Including loan asset sales, the REA accounts for $5.8 billion, or 32 percent, of estimated FFB outlays in 1982.

TABLE 21. DISTRIBUTION OF FEDERAL FINANCING BANK (FFB) OUTLAYS (NET) (By fiscal year, in millions of dollars)

Description	1980 (Actual)	1981 (Estimate)	1982 (Estimate)
Purchases of Agency Loan Assets			
Farmers Home Administration	6,881	12,420	6,056
Rural Electrification Admin.	689	516	624
Other	2	26	33
Subtotal	7,572	12,962	6,713
Direct Loans (Purchase of Agency Guaranteed Loans)			
Rural Electrification Admin.	2,498	4,258	5,129
Foreign military sales credit	1,932	2,010	2,220
Student Loan Marketing Ass'n.	1,070	1,095	1,923
Low rent public housing	119	1,457	942
Other	1,173	1,289	1,279
Subtotal	6,792	10,109	11,493
Interest, Transfer of Surplus and Administrative Expenses	148	-6	-23
Total FFB Outlays	14,513	23,065	18,183

FEDERAL DEBT

President's Carter's 1982 budget estimates that the federal debt will grow by $143 billion during 1981 and 1982, and will exceed $1 trillion by the end of this period. During the past ten years, the federal debt has grown by $532 billion, from $383 billion in 1970 to $914 billion by the end of 1980. This represents an average annual growth of 9.1 percent, or somewhat less than the average growth in the GNP and in federal spending.

The Congress customarily has placed statutory limitations on federal debt, and estimates of federal debt are included in the Congressional budget resolutions. The current limitation on federal debt--$935.1 billion--was enacted on December 19, 1980 and expires on September 30, 1981. Federal debt subject to limit exceeded $930 billion at the end of December 1980, and is expected to reach the statutory ceiling by February 1981. The President's budget estimates that debt subject to limit will reach $987.3 billion by the end of fiscal year 1981, or $55.2 billion above the current limitation. For 1982, the budget projects another increase of $66.4 billion in federal debt subject to limit.

Four elements enter into the calculation of the amount by which the statutory debt limit must be changed: the unified budget deficit or surplus, the investment of trust fund surpluses in federal securities, the deficit of off-budget federal entities, and various means of financing other than borrowing. Table 22 shows the estimates for these elements underlying the appropriate public debt level projected by the Administration for 1981 and 1982. Even if the unified budget were balanced, the debt subject to limitation would increase because of the investment by trust fund surpluses in debt securities and the deficit of the off-budget entities. Shifting outlays off-budget by loan asset sales to FFB and using FFB to make off-budget loans guaranteed by federal agencies are financing activities that increase the federal debt subject to limit while decreasing the unified budget deficit.

TABLE 22. ESTIMATES OF THE LEVEL OF PUBLIC DEBT SUBJECT TO STATUTORY LIMIT (By fiscal year, in billions of dollars)

	(Actual)	Administration Estimates	
	1980	1981	1982
Increase in Debt Subject to Limit			
Unified budget deficit	59.6	55.2	27.5
Trust fund surplus	8.8	4.5	19.2
Deficit of off-budget federal entities	14.2	23.2	18.3
Means of financing (other than borrowing) and other adjustments	-1.5	-4.3	1.3
Total increase	81.1	78.5	66.4
Debt Subject to Limit, Beginning of Year	827.6	908.7	987.3
Debt Subject to Limit, End of Year	908.7	987.3	1,053.6

CHAPTER IV. THE CREDIT BUDGET

The credit budget, instituted in the 1981 budget, is an attempt to bring together and focus attention on new lending activity of the federal government. The credit budget records estimates by program of new direct loan obligations and new loan guarantee commitments. To control program levels, a series of requests for annually appropriated limitations on this new activity accompanies the credit budget.

As estimated in President Carter's 1982 budget, during 1981 new extensions of credit will rise sharply from $131.2 billion to $165.4 billion, or by 26 percent. They are expect to decrease in 1982, to $152.6 billion, or by 8 percent (see Table 23).

TABLE 23. THE CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	1980 (Actual)	Administration Estimates	
		1981	1982
New Direct Loan Obligations			
Unified budget	37.8	42.1	34.1
Off-budget	23.6	32.2	26.1
Total, direct loans	61.4	74.2	60.2
New Loan Guarantee Commitments			
Gross	134.2	164.3	166.7
Less secondary	-64.4	-73.2	-74.3
Total, primary loan guarantees	69.8	91.1	92.4
Total, credit budget	131.2	165.4	152.6

All components of the credit budget are expected to contribute to the dramatic increase between 1980 and 1981. A reduction in new direct loan obligations, both on- and off-budget, will account for the decrease in 1982, while new loan guarantee commitments are virtually unchanged.

Adjustment for Loan Asset Purchases. The large fluctuations in direct lending between 1980 and 1982 are not caused by changes in the amount of credit extended to the public. Rather, they result primarily from intergovernmental loan asset transactions, especially those between the Farmer's Home Administration (FmHA) and the off-budget Federal Financing Bank (FFB). These loan asset sales and repurchases between federal entities represent a financing mechanism for direct loans federal agencies have already extended to private borrowers. These transactions are counted twice in the President's credit budget: the direct loans FmHA makes to private borrowers are recorded as new on-budget lending, and the loan assets, composed of pools of those private loans are also recorded as new off-budget lending when the FFB purchases them. If an adjustment is made for this double counting, much of the variation in direct loan totals in the credit budget is eliminated (see Table 24).

TABLE 24. THE CREDIT BUDGET TOTALS, ADJUSTED FOR DOUBLE COUNTING IN DIRECT LOANS (By fiscal year, in billions of dollars)

Credit Activity	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations	61.4	74.2	60.2
Less New FFB Purchases of Loan Assets	-12.1	-16.6	-8.2
Total, direct loans, adjusted	49.3	57.6	52.0
New Loan Guarantee Commitments	69.8	91.1	92.4
Total, credit budget, adjusted	119.1	148.7	144.4

The adjusted credit budget figures are a more accurate depiction of credit extended by the federal government to nonfederal borrowers than those shown in the Administration's budget. CBO recommends that the adjusted figures be used as the basis for future Congressional action on the credit budget. Further tables in this chapter will be based, to the extent possible, on the adjusted figures.

A similar adjustment is made for budget outlays. Sales of loan assets by the Farmers Home Administration to the FFB are recorded as negative outlays, or offsetting receipts, in the unified budget, and as off-budget outlays by the FFB. 1/

1982 CREDIT PROGRAM PROPOSALS

The credit budget totals, even with the above adjustment, retain the pattern of rising in 1981 and falling in 1982. If this decrease is achieved in 1982, it will be a major departure from the steady upward movement in credit activity, which has grown about a third faster than outlays for direct spending during the past decade. If 1981 is an accurate indicator, however, the savings planned in advance in the budget may not materialize. As originally estimated, the fiscal year 1981 credit budget also showed restrained growth following a higher growth rate in the preceding year. By the time the second budget resolution was passed, the 1981 estimate had risen by $14.2 billion, and, in the 1982 budget it is another $9.1 billion higher, for a total increase of 16 percent over its original value. Though economic pressures in 1982 are not expected to be as severe as in 1981, it is likely that the 1982 credit budget also will exceed its current estimate.

In 1982, the Administration expects to achieve a $5.6 billion decrease in new direct loans obligations to nonfederal borrowers, primarily through reductions in the disaster loan programs of the Farmers Home Administration and the Small Business Administration (SBA) (see Table 25). The reduction reflects the transfer of agricultural economic emergency responsibility from FmHA to the Commodity Credit Corporation as well as low amounts estimated for natural disaster relief. The disaster estimates do not attempt to anticipate disaster needs accurately; they simply include a minimal level of new activity. Therefore, the 1982 direct loan total is a possible source of underestimate in 1982. The $1.5 billion decrease in Government National Mortgage Association (GNMA) mortgage purchase assistance activity in 1982 depends on adoption of a legislative proposal to convert this program from a loan to a cash subsidy mechanism. The proposal would simplify federal accounting and reduce loan outlays, though it would not affect the size or purpose of the GNMA tandem plan.

The Administration expects to hold the level of total loan guarantee commitments stable during 1982 because increases in housing programs are

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1/ For a more detailed discussion of these loan asset sales and the role of the FFB, see Congressional Budget Office, Loan Guarantees: Current Concerns and Alternatives for Control, A Compilation of Staff Working Papers (January 1979).

offset by decreases in energy and student loan programs. The alternate fuel production program is expected to make all its new commitments for guarantees in 1981, and none in 1982. The student loan insurance program is expected to drop in 1982 because of legislation proposed to end in-school interest subsidies and to institute a needs test for eligibility.

TABLE 25. MAJOR FEDERAL CREDIT PROGRAMS AND MAJOR ACTIVITY CHANGES BETWEEN FISCAL YEARS 1981 AND 1982 (In billions of dollars)

Program	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982	Change Between 1981 and 1982
New Direct Loan Obligations				
Commodity Credit Corporation	4.9	3.6	4.6	1.0
FmHA disaster loans	4.5	6.1	2.0	-4.1
GNMA mortgage purchase assistance	2.2	1.8	0.3	-1.5
Export-Import Bank	4.4	5.9	5.0	-0.9
National Credit Union Administration	0.3	2.2	3.7	1.5
SBA disaster loans	1.2	2.9	0.5	-2.4
Guaranteed loans purchased by the FFB				
Rural electrification	2.5	4.3	5.1	0.8
Tennessee Valley Authority	2.4	3.4	4.5	1.1
All other direct loans	26.8	27.4	26.3	-1.1
Total, direct loans adjusted a/	49.3	57.6	52.0	-5.6
New Loan Guarantee Commitments				
Student loan insurance	4.8	7.2	5.7	-1.5
Alternate fuels production	--	4.5	--	-4.5
Federal Housing Admin.	29.1	39.0	44.0	5.0
Low-rent public housing	17.0	18.4	20.1	1.7
Synthetic Fuels Corporation	--	1.5	2.0	.5
All other loan guarantees	7.2	20.5	15.2	0.1
Total, loan guarantees	69.8	91.1	92.4	1.3

a/ Adjusted to exclude double counting of loan assets sold to the FFB.

The complexity of issues involved in budgeting for loan programs has prompted the President to recommend the creation of a commission of financial experts to investigate federal credit. The commission would study budget treatment, program management, and special issues such as the role of the FFB.

CREDIT PROGRAM APPROPRIATION LIMITATIONS

Control of credit activities is achieved through annually appropriated limits on program levels for direct and guaranteed loan programs. For all but a few programs, the limitation request is the same as the estimated program level which is included in the credit budget totals. In the first and second budget resolutions for 1981, the Congress endorsed the credit control limits through sense-of-the-Congress language requesting that limitations be enacted in appropriations. In most cases, the Appropriations Committees acted to limit programs for which a limit was requested, although the committees often altered the size of the limit (see Table 26).

TABLE 26. CONGRESSIONAL ACTION ON LIMITATION REQUESTS FOR FISCAL YEAR 1981 (Amounts in billions of dollars)

	Presidential Request (July, 1981)	Congressional Action
Number of Programs Limited	52	38
Number of Programs Exempt	28	42
Amount of Limitation	91.8	68.5
Amount Exempt	54.5	96.7 a/

a/ Direct loan obligations and loan guarantee commitments in the second budget resolution, minus amount of limitation.

Limitations have not been requested for all programs in the credit budget. In both 1981 and 1982, the Administration exempted from the credit control limits programs for which it believed annual limitations were unenforceable or contrary to the nature of the program. In 1982, for example, limits were requested neither for the student loan insurance program, on the grounds that it may be considered an entitlement, nor for disaster loan programs which need flexibility to respond quickly and effectively in emergencies. As credit control limitations are still new, the Administration and the Congress have not yet thoroughly reviewed and agreed upon the criteria for exemption from annual limitations.

In his 1982 budget, President Carter proposed limitations on 45 percent of all direct loan obligations and 80 percent of all loan guarantee commitments. Of the total credit budget, limitations are proposed for 67 percent (see Table 27). The disparity between the proportions of direct and guaranteed lending that are subject to limitation results in part from the treatment of direct loans made off-budget by the FFB but guaranteed by on-budget agencies (65 percent of all off-budget direct loans). These loans are limited by controlling the new guarantee commitments of the originating agency, not the direct loans of the FFB.

TABLE 27. LIMITATIONS REQUESTS IN THE FISCAL YEAR 1982 BUDGET (In billions of dollars) a/

	Credit Budget Total	Administration Limitations Request	Percent Limited
Direct Loan Obligations, Adjusted	52.0	23.6	45
Loan Guarantee Commitments	92.4	73.8	80
Total, credit budget, adjusted	144.4	97.4	67

a/ Adjusted to exclude double counting of loan assets sold to the FFB.

THE 1981 CREDIT BUDGET

In its second budget resolution for fiscal year 1981, the Congress established targets on the aggregate amounts of new federal credit activity--$73.5 billion for direct loan obligations, $82.8 billion for primary loan guarantee commitments, and $53.0 billion for secondary loan guarantee commitments. The 1981 estimates in the President's 1982 budget exceed each of these aggregates, as Table 28 shows. As the credit targets are not binding, there is no sanction if they are exceeded, except when individual programs are subject to appropriated limits.

TABLE 28. THE CREDIT BUDGET TOTALS FOR 1981 (In billions of dollars)

	Second Budget Resolution	Administration's Latest Estimate	Difference
Direct Loan Obligations, Unadjusted	73.5	74.2	+0.7
Primary Loan Guarantee Commitments	82.8	91.1	+8.3
Secondary Loan Guarantee Commitments	53.0	73.2	+20.2

While the increase for direct lending is not large, loan guarantees are substantially above budget resolution levels. The growth in primary loan guarantees, that is, those guarantees newly extended on privately made loans, occurs in several programs, most notably the Federal Housing Administration's (FHA) mortgage insurance program and the Export-Import Bank. For the FHA program, which is under an appropriated limit of $32.4 billion for new 1981 guarantees, a $4.8 billion supplemental increase in the limitation is being requested. The Export-Import Bank is requesting a $1.0 billion supplemental increase in its limitation also.

Secondary loan guarantees consist largely of Government National Mortgage Association (GNMA) guarantees of securities backed by FHA and Veterans Administration insured mortgages. A $19 billion supplemental increase in the limitation for 1981 has been requested to allow the level of these guarantees to increase from $53 billion to $72 billion. Both the FHA and GNMA programs are expected to increase because of unusually heavy dependence on federally insured mortgages during periods of high interest rates and limited credit availability, such as are forecast for 1981.

THE CREDIT BUDGET IMPACT ON FEDERAL OUTLAYS

The unified budget records outlays for direct loans by on-budget agencies; it does not record off-budget loans and includes outlays for loan guarantees only in cases of default. The treatment of on-budget lending in the credit budget differs from that in the unified budget in two ways. First, the credit budget records direct lending in the form of new direct loan obligations--the point of obligation or commitment, when the federal government becomes bound to advance the funds. The unified budget records direct loan at the point when the funds are actually disbursed by the Treasury as outlays. Second, the credit budget lists new extensions of credit on a gross basis, while the unified budget deducts repayments, recording only net credit extended.

Net outlays for on-budget direct loans, the contribution of the credit budget to the unified budget total, are estimated to be $6.0 billion in 1982, less than one percent of all budget outlays (see Table 29). This represents the change in financial condition of the federal government because of on-budget lending. The $18.5 billion in net loan outlays by off-budget agencies (primarily by the FFB) does not appear in the unified budget totals but contributes to the public debt and the combined deficit as discussed in Chapter III. These outlays have the same effect on the government's balance sheet as do on-budget loans, but are hidden because of their off-budget status.

TABLE 29. NET LOAN OUTLAYS (By fiscal year, in billions of dollars)

	1980 (Actual)	Administration Estimates	
		1981	1982
On-Budget Direct Loans a/	8.8	3.4	6.0
Off-Budget Direct Loans b/	14.7	23.2	18.5
Total	23.5	26.6	24.5

a/ Contribution of credit budget to unified budget.

b/ Contribution of credit budget to public debt.