

development request is approximately 7 percent below CBO's estimate of funding required to maintain these programs at their 1981 program levels.

## AREA AND REGIONAL DEVELOPMENT

Although the President has requested a 9 percent increase in budget authority for area and regional development, the budget anticipates no real growth in program levels for any of the programs over which the administration has total control. (Area and Regional Development includes the budget accounts for American Indian Trust activities administered by the Department of the Interior. These accounts can vary substantially year-to-year but do not result in costs to the federal government over time).

The President has proposed four major changes to programs in this area that could reduce funding significantly for several programs. For fiscal year 1981, the President wants to rescind \$177 million appropriated in fiscal year 1981 to the Tennessee Valley Authority to start a coal gasification demonstration project. The Administration asserts that this project would duplicate Department of Energy activities.

The President proposes to end federal support for the regional commissions created by Title V of the Public Works and Economic Development Act of 1965, as amended. The federal government now pays approximately half of the administrative costs of 8 existing commissions and provides planning and technical assistance grants to the commissions. Approximately \$44 million was appropriated in fiscal year 1981 for these activities. The President argues that legitimate federal responsibilities in the area of multistate planning can be handled through existing programs administered by the Economic Development Administration (EDA) and other agencies. Funding for the Appalachian Regional Commission, created under separate authorizing legislation, would continue in fiscal year 1982 at approximately the same level as in 1981 under the President's proposed budget.

In addition to eliminating the two programs discussed above, the President proposes major changes to Farmers Home Administration (FmHA) rural assistance programs. Funding for rural water and water disposal systems grants and loans would be reduced significantly and loan terms changed. The President wants to replace the 5 percent interest ceiling on loans made by FmHA for rural water and waste systems with a rate that approximates the market rate for municipal bonds placed in the open market for similar projects. If enacted, this proposal would raise the effective rate on loans from 5 percent to between 9 and 13 percent in 1982, thus reducing the federal subsidy. The President has also requested that total funding for

these two programs be reduced to \$100 million in grants and \$575 million in loans in fiscal year 1982, approximately 30 percent lower than program levels for fiscal year 1981 and the lowest since fiscal year 1975.

The FmHA's authority to guarantee rural business and industrial development loans would also be reduced under proposals included in the budget. The President has asked for \$500 million in loan guarantee authority--32 percent less than fiscal year 1981 and 53 percent lower than guarantees issued in fiscal year 1980.

Along with these major program changes the President has again proposed to end federal funding for Rural Development Grants and Rural Fire Protection Grants and to eliminate direct federal lending by the Rural Communication Development Fund (RCDF), a fund that provides direct and guaranteed loans for rural community television antenna facilities. Proposals to eliminate the two small grant programs have been included in several budgets in recent years but have not been enacted. The President's proposed change to the RCDF would allow borrowers to compete for federally guaranteed loans under existing business and industrial development loan guarantee authority, but would eliminate the deeply subsidized direct lending now available for nonprofit facilities.

Most other area and regional development programs are funded at or near fiscal year 1981 levels, including activities of the Economic Development Administration. The Administration has not repeated earlier attempts to expand EDA program activity, but has asked for continuation of EDA funding in 1982 at the fiscal year 1981 level of \$625 million.

#### DISASTER RELIEF AND INSURANCE

The \$739 million requested for disaster relief and insurance is substantially less than the funds needed for these programs in recent years. 1980 appropriations for these programs reached \$2.4 billion and the President has requested a total of \$2.5 billion for fiscal year 1981. These programs have spent over \$1.0 billion annually since fiscal year 1978.

The President bases his optimistic request for 1982 on the assumption that changes made to federal disaster loan programs will end Small Business Administration disaster loans to farm operators by the beginning of fiscal year 1982. Projected program levels for flood insurance, disaster relief and SBA disaster loans to homeowners and nonfarm businesses are also considerably lower than recent experience would suggest. Since fiscal year 1978 the President's budget request has underestimated actual funding requirements in this highly volatile program area by at least 50 percent.

## CREDIT ACTIVITIES

As discussed above, the President's fiscal year 1982 budget proposes to reduce and restructure lending activities in function 450. Direct lending is projected to decrease from \$3.3 billion in fiscal year 1980 to less than \$2.0 billion in 1982. At the same time, loan guarantee levels are expected to remain constant at between \$2.3 and \$2.4 billion. These estimates assume enactment of program reforms within the FmHA and the ending of all SBA farm lending in fiscal year 1981. Neither is certain to occur.

## OFF-BUDGET SPENDING

In addition to these credit activities, three programs in this function sell loan assets to the Federal Financing Bank (FFB) that they acquire through normal program activities. These sales are used to offset other program outlays and therefore act to understate total federal outlays for community and regional development programs by the value of assets sold. Off-budget outlays would add approximately \$1.5 billion to unified budget outlays in both fiscal year 1981 and 1982. In fiscal year 1982 the FmHA's Rural Development Insurance Fund will sell \$1.1 billion in loan-backed assets to the FFB; the Rural Telephone Bank will record net FFB sales of \$168 million, and the Department of Housing and Urban Development will record net sales of \$232 million in community development loans. The recent activity of these three programs is summarized below:

Off-Budget Outlays: (In Billions of Dollars)

	<u>Actual</u> 1980	<u>Administration Estimates</u>	
		1981	1982
Off-Budget Outlays			
Rural Development Insurance (FmHA)	1.0	1.0	1.1
Rural Telephone Bank	0.2	0.2	0.2
Community development loans	<u>a/</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	<u>1.2</u>	<u>1.4</u>	<u>1.5</u>
Unified Budget Outlays	<u>10.1</u>	<u>11.1</u>	<u>9.1</u>
Total Outlays	<u>11.3</u>	<u>12.5</u>	<u>10.5</u>
Off-Budget Outlays As Percent of Total Outlays <u>b/</u>	12.8	15.3	15.1

a/ less than \$50 million

b/ Excludes outlays impact of disaster programs on unified budget outlay totals to more clearly represent off-budget activity trend

In summary, the President's budget for fiscal year 1982 would allow many programs in the area of community and regional development to continue at or near current funding levels. Inflation and proposed program changes would reduce the real level of support for these programs, many of which provide capital assistance to private businesses. Development assistance for state and local governments would decline in real terms and direct lending would decline across all program areas. Finally, the incidence of disasters and the demand for federal assistance is optimistically expected to return to pre-1978 program levels.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES  
(FUNCTION 500)

This function provides federal funds for education, training and employment, and other social services. The new Department of Education administers 47 percent of the funds; another 33 percent support the training and employment programs in the Department of Labor. The remaining funds cover other social services programs primarily administered by the Department of Health and Human Services.

Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	31.6	31.8	31.9	37.7	36.3	36.4
Outlays	29.8	31.7	32.1	34.9	34.5	34.5

a/ Preliminary, subject to change.

Overall, the President has requested a \$4.5 billion (14 percent) increase in budget authority for education, training, employment, and social services programs in 1982. The President's request proposes:

- o \$1.4 billion for new initiatives including \$1.15 billion for new youth education and training programs and \$200 million in new tax credits for nonprofit institutions.
- o \$2.5 billion for increases in current programs. This increase, in total, does not cover expected inflation in 1982 for all these programs. Programs such as elementary and secondary education, education for the handicapped, public service employment and head start are maintained in real dollar terms. Programs such as Pell grants, summer youth programs and rehabilitation services, however, receive increases that only partially compensate for expected inflation. Other programs such as college work study,

employment and training programs and vocational education were held to 1981 levels. The impact aid program and the guaranteed student loan program are substantially cut back from 1981 levels.

- o \$600 million increase in the grants to states for social services. This is a one-time technical adjustment that does not impact on program levels.

The \$2.8 billion increase in the Administration's 1982 outlay estimates is primarily due to the proposed increases in budget authority.

In 1981, the President also requests an \$800 million supplemental appropriation to cover insufficient funds for Pell grants. It also proposes \$300 million in rescissions of previously enacted budget authority for impact aid payments and several small discretionary grant programs. Finally, the budget recommends a legislative initiative to reduce the guaranteed student loan program beginning in July 1981.

## EDUCATION

In fiscal year 1982, the Administration requests \$17.2 billion in budget authority and \$15.8 billion in outlays for education programs. This is an increase of \$1.5 billion (9.6 percent) in budget authority and \$900 million in outlays over the 1981 program level. Even with this increase, overall funding for education programs will not keep pace with inflation.

The proposed change in budget authority includes a \$900 million increase to fund a new youth education program, a \$66 million increase to raise the maximum Pell grant, and a \$700 million increase to partially compensate for expected inflation. It also includes a \$250 million decrease in impact aid. The 1982 budget authority for student loans is only \$100 million higher than that in 1981, reflecting \$900 million of proposed legislative savings.

CBO's 1981 estimates exceed Administration estimates by \$100 million in both budget authority and outlays. CBO's 1982 budget authority estimates exceed the President's by \$100 million. All of the differences reflect CBO's higher estimates of the guaranteed student loan volume earning in-school interest subsidies.

Education Estimates: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	14.3	15.7	15.8	19.3	17.2	17.3
Outlays	13.8	14.9	15.0	16.7	15.8	15.8

a/ Preliminary, subject to change.

The President's proposed \$100 million increase in budget authority in the guaranteed student loan (GSL) program actually masks major reductions in the program. The Administration's proposal would target the GSL program on lower income students by limiting the amount of loans to the students' assessed financial need. It would further reduce the cost of the program by eliminating all in-school interest subsidies. In addition, interest on parent loans would be made comparable to that paid on small commercial bank loans. This will essentially eliminate any type of federal subsidy for those loans. Implementation is assumed to be July 1981, and accordingly, the President proposes a rescission of \$78 million in 1981 budget authority. In 1982 savings of \$900 million in budget authority and \$800 million in outlays are estimated from these proposals.

The Administration's 1982 higher education request includes a \$66 million increase in the funding for Pell grants, under the assumption that this would bring the maximum Pell grant up \$50 to \$1,800. CBO estimates that an additional \$250 million in budget authority over the President's 1982 request is needed to fund that award level.

The President's 1982 budget proposes a \$250 million reduction from the requested 1981 level for impact aid. The 1981 level includes a rescission of \$150 million. The 1982 reduction combined with the 1981 proposed rescission eliminates impact aid payment for "3b" children and eliminates payments for all "3a" children except for those in highly impacted areas.

The funding request for the elementary and secondary education programs includes a major youth education and training initiative of \$900 million in budget authority in 1982 and an additional \$800 million in both

1983 and 1984. This initiative, which was proposed in the 1981 budget, would provide supplementary basic education and vocational training grants to school districts with a high concentration of disadvantaged junior and senior high school students.

### EMPLOYMENT, TRAINING AND SOCIAL SERVICES

In fiscal year 1982, the Administration requests a total of \$19.2 billion (19 percent) in budget authority and \$18.7 billion in outlays for employment, training, and social service programs. This is an increase of \$3.1 billion in budget authority and a \$1.9 billion increase in outlays above the 1981 request. The majority of the increase is to maintain some existing programs in real dollar terms while the remainder is to fund new initiatives.

The budget authority increase includes a \$1 billion increase for public service employment in the CETA programs. It also includes a \$500 million increase for three new legislative initiatives, one in youth employment, another in tax credits for nonprofit institutions and the third for a training program for displaced workers. The budget authority increase also includes a \$600 million technical adjustment, a \$100 million increase in the Title XX ceiling, and a \$900 million increase to partially compensate for expected inflation.

The Administration's 1982 budget authority request is \$800 million higher than CBO's baseline projection. Although the Administration has projected a slightly lower inflation rate, the President's budget includes three new legislative initiatives and a higher average public service job level.

Employment, Training and Social Services Estimates: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	16.3	16.1	16.1	18.4	19.2	19.2
Outlays	17.0	16.8	17.1	18.2	18.7	18.7

a/ Preliminary, subject to change.

The President's budget authority request for CETA and other labor programs in fiscal year 1982 is \$1.8 billion above the 1981 level. The Administration requests an increase of \$1 billion to fund 340,000 public service jobs in fiscal year 1982. The increase reflects a higher average job level and a legislated increase in the average wage for public service employment. Of the job level proposed in 1982, 240,000 jobs are for the structurally unemployed (Title IID) and 100,000 are countercyclical public service jobs (Title VI). The 1982 job level would be a 9 percent increase over the average of 312,000 jobs funded in 1981. Currently there are 310,000 jobs but the Administration plans to increase this level to 340,000 jobs by the end of fiscal year 1981.

The Administration's request also includes an increase of \$300 million for new legislative initiatives. This includes \$250 million for the employment and training portion of the new youth initiative and \$50 million for a training program for displaced workers. In addition, the President's budget authority request includes an increase of \$500 million to partially compensate for inflationary increases between 1981 and 1982. The Administration has included in the budget request \$100 million in deferrals for 1981. The deferrals are for the summer youth program and the young adult conservation corps (YACC). The Administration plans to phase out YACC by the end of 1982.

The Administration's 1982 budget request for social services is \$1.3 billion above the 1981 levels. The budget includes an increase of \$200 million for a new proposed 8 percent social security tax credit to nonprofit institutions. There is a \$600 million budget authority increase in 1982 in grants to states for social services (Title XX). This does not represent an increase in the program level but results from a \$600 million reduction in 1981 budget authority to eliminate partial advance funding. There is also a \$100 million increase in the Title XX ceiling to a \$3.0 billion total for 1982.

CBO's 1981 outlay estimates exceed the President's estimates by \$300 million because of projected higher spending in several social services programs due to 1980 shortfalls.

## HEALTH (FUNCTION 550)

Spending in this function pays for health care, delivers health services, supports health research, trains health personnel, and promotes the health and safety of consumers and workers. Medicare and medicaid, programs that finance health care for individuals entitled to benefits, account for 87 percent of outlays in the health function in 1982, up from 77 percent a decade ago.

### Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	68.55	71.8	71.0	83.2	86.1	84.9
Outlays	63.15	65.9	65.9	77.6	74.6	76.0

a/ Preliminary, subject to change.

The President requests \$86.1 billion in budget authority and \$74.6 billion in outlays for fiscal year 1982. Requested outlays are \$8.7 billion higher than in 1981, a 13 percent increase. Health outlays are more than four times greater than a decade ago and account for about 10 percent of the President's 1982 budget. The steep rise in health spending is attributable to soaring medical care prices and to increasing demand for institutional health services as the population ages.

The President's budget includes both regulatory actions and legislative proposals intended to reduce spending for health programs. Regulatory actions are estimated by the President to save over \$1 billion in 1981 and \$2.2 billion in 1982. The principal regulatory actions are voluntary guidelines for increases in hospital expenditures, reduced reimbursements for hospital malpractice insurance, and improved performance by professional standards review organizations (PSROs).

As estimated by the President, proposed legislation would save a net of \$130 million in 1981 and \$710 million in 1982. The legislative package, however, includes both spending and savings proposals. The Administration's estimates of the savings proposals alone are \$180 million and \$990 million in 1981 and 1982, respectively. The proposed savings include rescissions of 1981 budget authority, repeal or modification of certain provisions of P.L. 96-499, the Omnibus Reconciliation Act of 1980, and elimination of the medicare routine nursing cost differential. Hospital cost containment legislation, proposed in the last three Carter budgets, is omitted. The main spending proposal is a child health assurance program costing \$50 million in 1982 and over \$1 billion by 1986. Although the President's budget mentions the high priority President Carter places on national health insurance, funding is not requested.

CBO's estimate of outlays for the President's 1982 request exceeds the Administration's estimate by \$1.4 billion. Based on CBO estimates, health spending would rise 15 percent in 1982. The difference between CBO and Administration estimates consists of a \$1.5 billion increase in outlays for medicare hospital insurance (HI) offset partly by small decreases in outlays for medicare supplementary medical insurance (SMI) and for medicaid. The HI increase, discussed in detail below, is explained largely by higher assumed use of hospital care and lower estimates of savings from the President's voluntary guidelines for hospital expenditures and from his proposed performance standards for PSROs.

## MEDICARE

Medicare is a health insurance program for people 65 and older and for some people under 65 who are disabled. Medicare hospital insurance (HI) helps pay for inpatient hospital care, for care in a skilled nursing facility, and for home health care. About 95 percent of HI benefit payments go for hospital care. Medicare supplementary medical insurance (SMI) helps pay for physicians' services, outpatient hospital care, home health care, and certain other medical services. About 70 percent of SMI benefit payments go for physicians' services and about 20 percent for outpatient hospital care.

Medicare Outlay Estimates: In Millions of Dollars

	1981 Estimates			1982 Estimates		
	Pres. Latest Request	CBO a/ Est. of Budget Request	Difference	Pres. Budget Request	CBO a/ Est. of Budget Request	Difference
HI	26,950	27,380	430	31,600	33,140	1,540
SMI	12,980	12,670	-310	14,990	14,870	-120
Total	39,930	40,050	120	46,590	48,010	1,420

a/ Preliminary, subject to change.

The President's 1982 budget projects almost a 17 percent increase in medicare spending over 1981. Based on CBO's outlay estimates, however, that increase is nearly 20 percent. HI will grow 21 percent and SMI over 17 percent. Continuing steep rises in medical care prices drive those increases, although a growing covered population and increasing demand for hospital care as the population ages also push up costs. The increase in HI spending is boosted artificially by a one-time shift of \$700 million in outlays from fiscal year 1981 to 1982 pursuant to a provision of the Reconciliation Act deferring for three weeks reimbursement of some hospitals by medicare. Without that deferral, HI outlays would rise just over 16 percent.

The President's budget assumes substantial savings in medicare from regulatory changes. Most of the assumed savings, however, are from actions taken in 1980, not from new initiatives. Such actions include reducing reimbursements for hospital malpractice insurance costs, with estimated savings of \$360 million in 1981 and \$540 million in 1982, and tightening of reasonable cost limits for hospitals and home health agencies, with estimated savings of \$90 million and \$130 million in 1981 and 1982, respectively.

The President's 1982 legislative package includes proposed increases of \$190 million and proposed decreases of \$630 million. The main spending proposals include increased payments for outpatient psychiatric services (rejected by the 96th Congress), coverage under HI without coinsurance of some services now covered under SMI with coinsurance, and changes in the way medicare pays health maintenance organizations. The main savings

proposals are repeal of certain provisions of P.L. 96-499, the Reconciliation Act; and of P.L. 96-611, providing medicare coverage for pneumococcal pneumonia vaccine; and elimination of the routine nursing salary cost differential in determining payments to hospitals. A version of the latter proposal was dropped from the Reconciliation bill before final passage by the 96th Congress.

Differences between CBO and Administration Estimates of HI Outlays: In Millions of Dollars

	1981 Outlays	1982 Outlays
President's Budget Request	26,950	31,600
CBO Reestimates:		
Higher use	450	720
Voluntary revenue guidelines	280	830
P.L. 96-499 estimating differences	-300	-200
PSRO standards	--	190
Subtotal	430	1,540
CBO Estimate of Pres. Request <u>a/</u>	27,380	33,140

a/ Preliminary, subject to change.

As shown in the table above, CBO's estimates of HI outlays exceed the Administration's estimates by \$430 million in 1981 and by \$1,540 million in 1982. CBO's higher assumed growth in use of hospital services, based on the experience of hospitals in the last year, accounts for much of each increment. In addition, increases of \$280 million in 1981 and \$830 million in 1982 are attributable to differing expectations for the success of the President's proposed voluntary guidelines for hospital expenditures. The President assumes savings of those amounts as hospitals hold expenditure increases below limits of 14.0 percent and 12.9 percent set by the President for 1981 and 1982, respectively. In 1980, however, when the President's guideline was 13.5 percent, hospital expenditures rose 16.5 percent. CBO's estimates of HI spending assume that the hospital industry's own voluntary

effort to control hospital costs will continue to be about as effective as it has been. CBO believes that the additional savings assumed by the President are unlikely to materialize. The President also assumes savings of \$190 million in 1982 from a doubling of the effectiveness of PSROs in response to proposed performance standards. CBO expects instead that PSROs will be no more effective than in the past. Because of differences in estimates of the costs of the Reconciliation Act (P.L. 96-499), CBO's estimate of net savings in 1982 from the President's legislative proposals is \$90 million lower than the President's estimate. Those differences also reduce CBO's estimates of HI outlays under current law.

### MEDICAID

Medicaid pays for medical care for poor individuals who are aged, blind, or disabled, or members of families with dependent children. Recipients of aid to families with dependent children (AFDC) and most recipients of supplemental security income (SSI) automatically qualify for medicaid. Each state but Arizona operates its own medicaid program by rules that vary widely within broad federal limits. Medicaid is funded jointly by the federal government and the states, the federal share being about 56 percent. About 30 percent of medicaid benefit payments go for hospital care, and over 40 percent go for nursing home care. Medicaid pays nearly half the nation's bill for nursing home care.

#### Medicaid Outlay Estimates: In Millions of Dollars

1981 Estimates			1982 Estimates		
Pres. Latest Request	CBO a/ Est. of Budget Request	Difference	Pres. Budget Request	CBO a/ Est. of Budget Request	Difference
16,450	16,320	-130	18,120	18,090	-30

a/ Preliminary, subject to change.

Medicaid outlays rose over 12 percent in 1980 and are estimated to grow by almost 17 percent in 1981 and 11 percent in 1982. Continuing inflation of medical care prices, rising demand for nursing home care, and a growing covered population drive these increases. The larger population follows from renewed expansion of the AFDC caseload, a function of high unemployment. The bulge in the rate of increase in outlays in 1981 is attributable largely to the 6 percent increase in the AFDC caseload forecast by CBO.

The President's legislative package for medicaid consists of proposed increases of \$80 million and proposed decreases of \$170 million. Much of this legislation was proposed in the previous Congress and failed passage. Such proposals include the child health assurance program, a proposal to recover immediately upon disallowance payments to states for medicaid claims subsequently disallowed, and numerous management reforms. The only major new proposal would require that states provide case management services for medicaid eligibles with chronic mental illness.

CBO's estimates of medicaid spending do not differ significantly from the President's budget request. The estimates assume savings of \$150 million in 1981 and \$200 million in 1982 from improvements in financial management of the program and from the regulatory changes in medicare discussed earlier, which also reduce medicaid payments to hospitals. CBO's estimates of the President's legislative proposals are \$70 million for proposed increases and \$150 million for proposed decreases.

#### OTHER HEALTH PROGRAMS

Health programs other than medicare and medicaid include the Public Health Service programs in the Department of Health and Human Services as well as programs--mainly promoting consumer and occupational health and safety--in the Agriculture Department, the Labor Department, and other agencies. The President requests \$10.4 billion in budget authority for these programs in fiscal year 1982 with estimated outlays of \$9.9 billion. This is not quite an 8 percent increase over the funding level requested by the President for 1981, contrasted with the 17 percent increase in spending for the entitlement programs. Since 1972, spending for other health programs has increased 9 percent annually, just enough to offset price increases.

The President proposes rescinding about \$330 million in budget authority for other health programs in 1981. About half that cut would come from health manpower training programs, in particular, from capitation and other grants to institutions. The President also requests supplemental appropriations for 1981 of \$40 million for sanitation facilities for Indians and for anticipated defaults on loans to health maintenance organizations (HMOs).

For 1982 the President requests a 10 percent increase in funding for nonentitlement health services programs, an 8 percent increment for health research, a 21 percent reduction for training of health personnel, and a 6 percent boost for promoting the health and safety of consumers and workers. Substantial increases are proposed for a few selected programs, including the National Health Service Corps, the community health centers program, and alcohol and drug abuse services. Even with the large proposed increase in 1982, however, alcohol and drug abuse services would be funded below 1980 levels, as would prevention programs and the health planning program.

Several major health programs face reauthorization in 1981. They include most health manpower training programs (currently unauthorized), the HMO grant program, alcohol and drug abuse programs, the community and migrant health centers programs, and numerous preventive health programs.

## INCOME SECURITY (FUNCTION 600)

Income security programs accounted for over 33 percent of total federal outlays in 1980. Under the President's 1982 budget request they will increase to over 34 percent in 1982. The function is dominated by social security, which accounted for over 60 percent of income security outlays in fiscal year 1980. Other major income security trust fund accounts include civil service retirement, unemployment insurance, railroad retirement and black lung. The remainder of the function provides cash and in-kind benefits, primarily to low income individuals, through a number of public assistance programs. These include: aid to families with dependent children, supplemental security income, food stamps, school lunch and other nutrition programs, housing assistance, low income energy assistance, and the refundable portion of the earned income credit.

### Function Totals: In Billions of Dollars

	1981 Estimates			1982 Estimates		
	2nd Bud. Res.	Pres. Latest Request	CBO Estimate of Pres. Request <u>a/</u>	CBO Baseline Projection <u>a/</u>	Pres. Budget Request	CBO Estimate of Pres. Request <u>a/</u>
Budget Authority	248.8	255.1	252.8	286.3	279.6	279.3
Outlays	225.55	231.6	231.9	259.5	255.0	254.9

a/ Preliminary, subject to change.

The President's outlay estimate for fiscal year 1982 is \$255 billion, \$23.4 billion above his 1981 estimate. This increase, mostly in mandatory entitlement programs, results primarily from the changes in economic conditions and eligible populations that strongly influence their patterns of growth. For example, benefit levels in social security, supplemental security income, civil service retirement, school lunch and food stamps are indexed to changes in specific consumer price indexes. Recent increases in prices have resulted, and will continue to result, in rapid increases in

program expenditures. The anticipated July 1981 12 percent increase in social security benefits estimated as a result of recent increases in the Consumer Price Index will increase 1982 benefit payments by \$16 billion. In addition, caseloads in unemployment insurance, food stamps, social security, and the unemployed father component of the aid to families with dependent children program are somewhat sensitive to unemployment and labor market conditions.

The rapid benefit increase in programs such as social security threatens the solvency of the current payment system. The President is proposing actions to deal with the projected cash flow problem in social security in 1982 and 1983. Proposals to lessen potential funding difficulties in railroad retirement are also included in this budget. Further, the President is proposing legislative changes in the major entitlement programs in the income security area that the Administration estimates would reduce spending by almost \$4.6 billion in fiscal year 1982. The 1982 savings from these proposed reductions are listed in the table below.

ESTIMATED BUDGETARY EFFECTS OF LEGISLATIVE PROPOSALS IN INCOME SECURITY, BY PROGRAM, INCLUDED IN THE PRESIDENT'S BUDGET: FISCAL YEAR 1982, IN MILLIONS OF DOLLARS

Program	Budget Authority	Outlays
Social Security	247	-23
Railroad Retirement	118	-186
Civil Service Retirement	-698	-655
Unemployment Insurance	-1,957	-2,210
Food Stamps	-487	-482
Child Nutrition Programs	-453	-429
Supplemental Security Income	-45	-45
AFDC and Related Assistance	-531	-531
	<u>-3,806</u>	<u>-4,561</u>

The President's request also includes a proposed change from the current index used for the social security program. The current index is heavily influenced by house prices and home mortgage interest rate changes whereas the proposed index would be tied more closely to rental price changes. The Administration's budget estimates include no savings (or costs) related to this proposal.

The legislative proposals are discussed in detail in the individual program sections of this chapter. The amount of the savings in 1982 are highly dependent on the final enactment date of the legislation. The Administration's estimates assume enactment before the beginning of fiscal year 1982.

In 1982, CBO's estimates of outlays for the President's request are below Administration estimates by \$100 million. This is the net of several large but offsetting differences. CBO outlay estimates for Old Age Survivors Insurance, Disability Insurance, Supplemental Security Income, Railroad Retirement, and Civil Service are below Administration estimates because of the lower cost-of-living increases included in the CBO economic assumptions. The cost-of-living increases assumed in July 1981 and July 1982 are 12.0 percent and 8.9 percent, respectively. This compares to the Administration's assumed 12.3 percent and 11.3 percent increases. These cost-of-living differences result in lowering estimated outlays by \$1.7 billion. On the other hand, CBO has increased estimated outlays primarily for larger anticipated caseloads by \$1.6 billion in social security and other entitlement programs. The net reestimate is, therefore, only \$100 million.

The President's 1981 request includes supplemental appropriation funding requests for food stamps (\$1.4 billion), low income housing (\$100 million), and smaller requests for several other programs.

## SOCIAL SECURITY

The budget contains two major legislative proposals affecting Social Security: allowing interfund borrowing between the three social security trust funds and basing the annual cost-of-living increase for benefits on an alternative price index. In addition, there are a number of minor legislative proposals, mostly of a technical nature.

The first of the major legislative proposals, inter-fund borrowing, in this budget has no cost implications to the federal government as a whole in 1982, but has important structural consequences for the Social Security trust funds. The largest of the three trust funds, Old Age and Survivors Insurance (OASI), is projected to have a cash flow problem in 1982, and to be totally depleted in 1983 under current law. The President is proposing that the OASI fund be allowed to borrow from the other two funds—Disability Insurance (DI) and Hospital Insurance (HI). A similar proposal was made in the 1981 budget. The extent of this borrowing would be determined by the

Trustees of the Social Security system. The Administration forecasts that borrowing only from the DI fund will be required in fiscal year 1982. CBO, under what is thought to be a minimal borrowing scenario, estimates that there will be need for some borrowing by the OASI fund from the HI fund in 1982 as well. The total transfer to OASI for 1982 from DI and HI could amount to more than \$7 billion.

Beyond 1982, the Administration suggests that additional action be implemented to ensure the uninterrupted payment of benefits through the decade. The approaches suggested include provisions for general fund borrowing, financing a portion of HI from general funds and realigning part of the payroll tax rate from HI to OASI, and increasing the payroll tax rate. Benefit reductions are opposed by the Administration. These options are suggested because the interfund borrowing proposal alone is estimated to maintain the solvency of the OASI program for only the next two to three years. CBO concurs with this estimate; some additional action will have to be taken by the Congress before the end of fiscal year 1984 to ensure the continued timely payment of OASI benefits.

The other major legislative budget proposal would shift to another price index to adjust benefits for inflation in OASI and DI each July. Currently, the Consumer Price Index (CPI) is used for this purpose. Because it is thought that the CPI miscalculates housing costs, the Administration is proposing a modified index (CPI-X1) that uses a rental equivalent for housing costs commencing with the July 1982 benefit increase. If the shift to the CPI-X1 were made in July 1981, savings in fiscal year 1982 are estimated to be approximately \$2 billion. For the last 11 months, the rate of increase in the CPI-X1 has been 1.7 percentage points below the CPI. This differential is expected to continue for the next several months. The difference could, however, reverse itself in 1982. It is extremely difficult to forecast the differences in these two indexes. If the rise in housing costs and mortgage interest rates decline over the next year, then the CPI could rise by less than the modified index. The Administration has not forecast any outlay impacts for moving to the modified index in July 1982.

The President also proposes a few minor legislative initiatives affecting OASI and DI expenditures that would save \$23 million in 1982. The major savings provisions apply to the workers compensation offset for disability benefits. These proposals would alter the timing of these offsets--starting them sooner and extending them until a disabled worker reaches age 65. These provisions would result in \$37 million in savings in 1982. Additional savings of \$9 million would result from provisions to round benefits to the nearest dime and to reimburse SSA for certain administrative costs. These savings are offset by provisions which would have small costs in 1982.