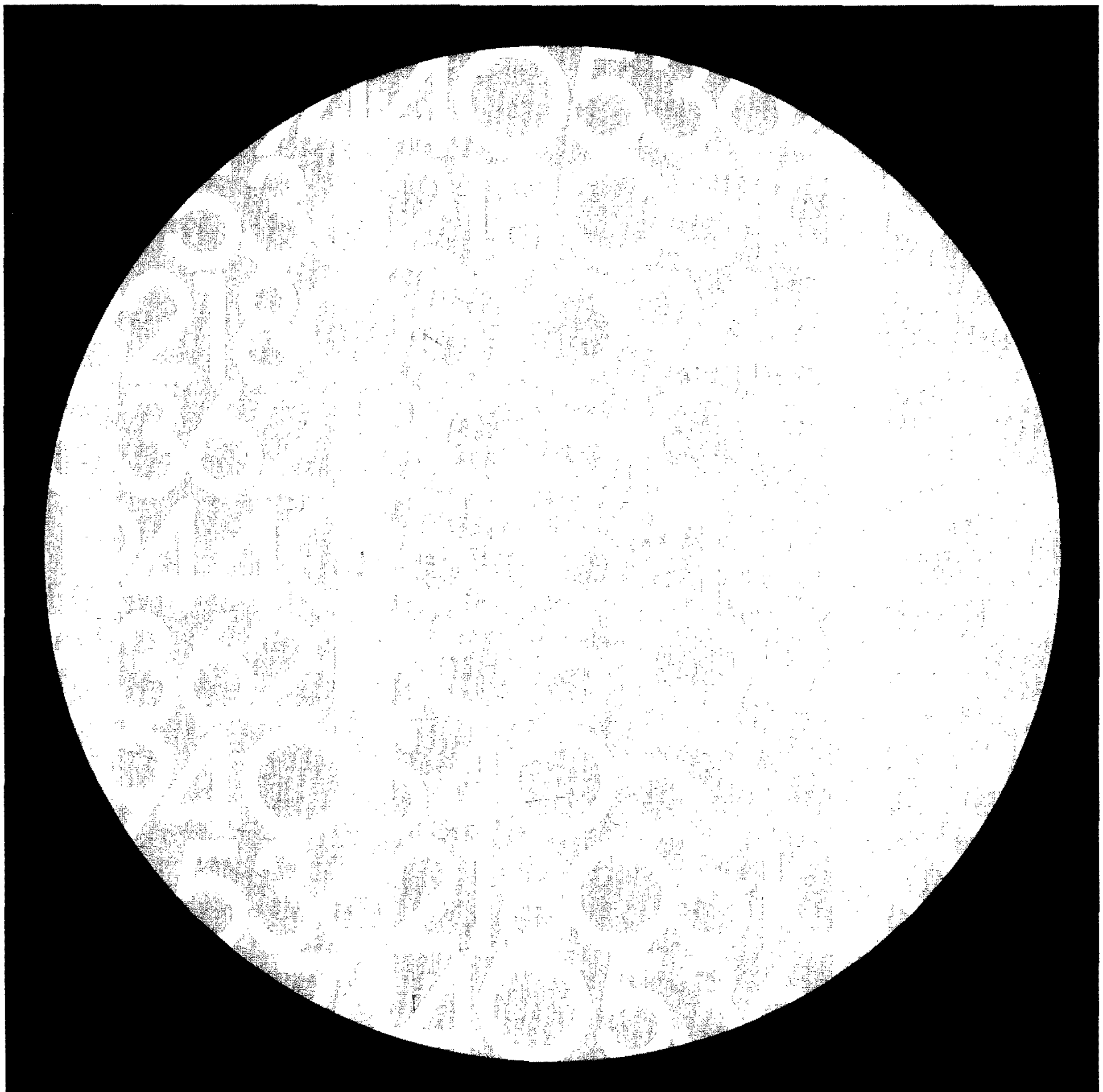
FIVE-YEAR BUDGET PROJECTIONS: FISCAL YEARS 1979-1983

December 1977

As required by Public Law 93-344



CONGRESS OF THE UNITED STATES

CONGRESSIONAL BUDGET OFFICE

FIVE-YEAR BUDGET PROJECTIONS:
FISCAL YEARS 1979-1983

The Congress of the United States
Congressional Budget Office

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NOTES

Unless otherwise indicated, all years referred to are fiscal years. For 1976 and before, fiscal years ran from July 1 through June 30 and were referred to by the years in which they ended. The Congressional Budget Act of 1974 changed the fiscal year to begin on October 1 and end on September 30. The interim between the old and new fiscal years, July 1 through September 30, 1976, is called the transition quarter; fiscal year 1977 began on October 1, 1976.

Details in the text, tables, and figures of this report may not add to totals because of rounding.

PREFACE

As required by section 308(c) of the Congressional Budget Act of 1974 (Public Law 93-344), this report by the Congressional Budget Office projects total new budget authority, outlays, and receipts for each fiscal year between 1979 and 1983. The act requires the report on federal budget projections to be issued as soon as practicable after the beginning of each fiscal year.

The primary purpose of these projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations about the next annual budget. A longer-term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run but can significantly influence relative budget priorities over a period of several years.

The projections presented in this report are based on the estimated budget revenues and outlays specified in the Second Concurrent Resolution on the Budget for Fiscal Year 1978 (H. Con. Res. 341). This report contains estimates of expenditures and revenues under a current policy, or "no new policy change" concept for 1979-1983. In addition, the report includes estimates of the fiscal stimulus that would be required if the economy is to grow at an annual rate of 4.8 percent until the unemployment rate reaches 4.5 percent in 1983.

The Congressional Budget Act also requires the Congressional Budget Office to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

Alice M. Rivlin
Director

December 5, 1977

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SUMMARY

This report presents projections of federal spending and revenues over fiscal years 1979-1983. Federal spending and revenues are projected under the assumption of the continuation of current policies. In addition, estimates are made of the tax cuts or spending increases that would be needed in order to sustain the economic growth objective contained in the Second Concurrent Resolution on the Budget for Fiscal Year 1978.

Under current tax laws, projected receipts rise by 13.2 percent per year, from $457 billion in fiscal year 1979 to $751 billion in fiscal year 1983. As a percent of the gross national product (GNP), receipts rise from 20 to 22 percent. This increase is dominated by individual income tax receipts. Current policy outlays rise more slowly, from $495 billion in fiscal year 1979 to $655 billion in fiscal year 1983. Social security, medicare, and medicaid are responsible for almost half the increase in outlays. As a percent of GNP, outlays decline from 22 to 19 percent. This disproportionate rise in receipts as compared to outlays occurs because of the progressive nature of individual income taxes.

The projections of current policy receipts and outlays were estimated assuming real GNP growth of about 4.8 percent per year until the unemployment rate reaches 4.5 percent. If current policies are followed unchanged during the next five years, however, the federal budget will exert a restrictive influence on the economy because the receipts the government is taking out of the economy will rise much faster than the outlays it is putting back into the economy in the form of wages, purchases, and payments to individuals. For the economic assumptions to be realized, therefore, fiscal and monetary policy would in all likelihood have to be used to offset the fiscal drag exerted by the projected current policy budgets.

The magnitude of tax cuts or spending increases needed to offset the fiscal drag would depend on the strength of demand in the nonfederal sectors of the economy. Stronger nonfederal demand would mean that smaller tax cuts and spending increases would be needed to achieve the assumed growth rates. Under the assumption that nonfederal demand is slightly stronger than the average since World War II, roughly $120 billion annually in additional budget stimulus -- tax cuts or spending increases -- would be needed by fiscal year 1983.

The projected budget deficit is estimated by comparing the additional budget stimulus needed to offset fiscal drag to the current policy margin

generated by the excess of current policy receipts over outlays. As long as the fiscal drag offset is greater than the current policy margin, the budget is projected to remain in deficit. As shown in the table, the fiscal drag offset would be greater than the current policy margin throughout the five-year period. By fiscal year 1983, the projected deficit would be $19 billion.

(By fiscal years, in billions of dollars)

	1978 Second Concurrent Resolution	Projections				
		1979	1980	1981	1982	1983
Current Policy Receipts	397.0	457	519	590	668	751
Current Policy Outlays	458.25	495	529	565	606	655
Current Policy Margin	-61.25	-38	-10	25	62	96
Fiscal Drag Offset	--	29	51	74	101	115
Deficit (-) or Surplus	-61.25	-67	-61	-49	-39	-19

The projection of the deficit described above assumes nonfederal demand that is slightly stronger than the average over the past thirty years. This is not the only possible outcome. For example, if a business investment boom developed, either spontaneously or in response to expansionary monetary policy, or if growth in economic activity in the rest of the world stimulated United States exports, the need to offset the fiscal drag would be smaller and the size of the deficit would decline more rapidly, perhaps to a point of budget balance. On the other hand, if nonfederal demand grew very slowly, more expansionary policies and an increasing budget deficit might be needed to reach the assumed output and unemployment goals.

CHAPTER I. INTRODUCTION AND OVERVIEW

As a preparatory step toward the review of new budget proposals for fiscal year 1979, it is important to consider the probable future size and shape of the federal budget for fiscal years 1979 through 1983 if current policies are not changed. This report includes fiscal years 1979-1983 projections of federal spending and revenues under the assumption that current policies will continue. The current policy projection for fiscal year 1979 provides a baseline against which to measure the budgetary effects of policy changes proposed by the President or the Congress. The projections for fiscal years 1980-1983 provide insight into the long-run implications of current policies. In addition, this report illustrates the additional spending or tax cuts likely to be required to sustain the economic growth objectives adopted in the Second Concurrent Resolution on the Budget for Fiscal Year 1978.

The budget totals presented in this paper should not be construed as recommendations. Rather, they are intended to provide a glimpse of the probable long-run shape and direction of the budget under current policies, and to indicate approximately how much new spending or tax cuts will be needed if the economy is to continue to grow and move toward full employment.

ECONOMIC ASSUMPTIONS

Inflation, unemployment, and other levels of economic activity have major effects on revenues and outlays. For example, a declining unemployment rate will lead to lower outlays for unemployment compensation. On the receipts side of the budget, under current law a high rate of economic growth will lead to a more than proportional increase in revenues, because of the progressive nature of individual income taxes. In order to develop budget projections, therefore, explicit assumptions must be made about economic trends over the next several years.

The major economic assumption underlying the five-year budget projections in this report is a continuing recovery with declining unemployment. For 1977 and 1978 the economic assumptions, shown in Table 1, are taken from the conference report on the second concurrent resolution for 1978. For 1979-1983, the assumptions represent an extrapolation of the economic growth objectives in the second concurrent resolution, with real economic growth -- as measured by the rate of growth in the gross national product (GNP) in constant dollars -- holding at approximately 4.8 percent through 1982 and dropping to 3.7 percent in 1983 as the unemployment rate reaches 4.5 percent (see Figure 1).

TABLE 1. AGGREGATE ECONOMIC ASSUMPTIONS: BY CALENDAR YEARS

Selected Economic Variables	1977	1978	1979	1980	1981	1982	1983
Gross National Product (GNP)							
Current dollar GNP (in billions of dollars)	1,898.0	2,107.0	2,333.8	2,582.2	2,853.9	3,156.4	3,465.2
Real GNP (in billions of 1972 dollars)	1,338.0	1,402.7	1,467.9	1,538.4	1,612.2	1,688.3	1,751.4
Growth rate of real GNP	5.0	4.8	4.7	4.8	4.8	4.7	3.7
Unemployment Rate (percent)	7.0	6.5	6.2	5.7	5.2	4.7	4.5
Consumer Price Index (percent change)	6.5	5.6	6.0	5.7	5.5	5.7	5.9

This growth path is consistent with the economic assumptions used for the previous budget projections of the Congressional Budget Office (CBO). With respect to inflation, the consumer price index (CPI) is assumed to rise at an annual rate of 5.5 to 6.0 percent between 1977 and 1983. The assumed inflation rates do not include the possible effects of pending energy or social security legislation.

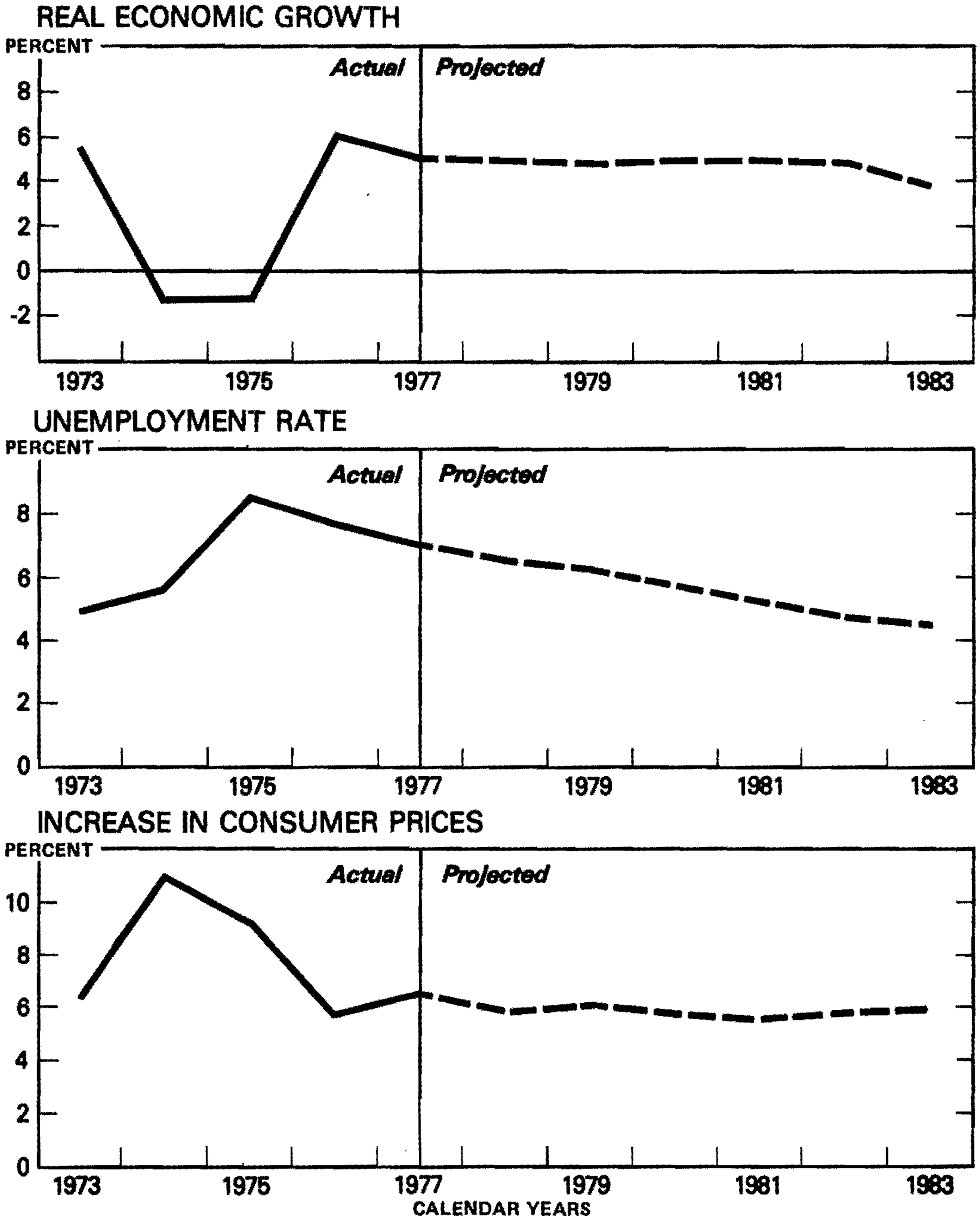
The economic assumptions for 1979 through 1983 should not be construed as an economic forecast in the sense of being the best estimate of how the economy is likely to behave. Rather, they should be viewed as one of many possible long-run targets for the economy. The assumed growth path could be described as optimistic, but not unrealistic. The average rate of growth sustained since World War II has been 3.3 percent. During 1961 to 1966, the economy grew at an average annual rate of 5.4 percent. The assumed inflation rates might also be described as moderately optimistic. They are considerably above long-run historical experience but lower than the average inflation of the last several years.

BUDGET IMPLICATIONS OF THE ECONOMIC ASSUMPTIONS

Under current spending and tax policies, the budget implications of the economic assumptions are shown in Table 2. Receipts increase by about 13.2 percent per year under current law from $457 billion in fiscal year 1979

Figure 1.

MAJOR ECONOMIC ASSUMPTIONS



to $751 billion in fiscal year 1983. Current policy outlays rise at about half that rate, approximately 7.3 percent per year, from $495 billion in fiscal year 1979 to $655 billion in fiscal year 1983. As a percent of GNP, current policy receipts increase from 20 to 22 percent, while outlays decline from 22 to 19 percent. The dramatic rise in receipts as compared to outlays occurs because of the progressive nature of individual income taxes.

TABLE 2. FIVE-YEAR BUDGET PROJECTIONS a/: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978 Second Concurrent Resolution	Projections				
		1979	1980	1981	1982	1983
Current Policy Receipts	397.0	457	519	590	668	751
Current Policy Outlays	458.25	495	529	565	606	655
Current Policy Margin	-61.25	-38	-10	25	62	96
Fiscal Drag Offset	-- b/	29	51	74	101	115
Deficit (-) or Surplus	-61.25	-67	-61	-49	-39	-19

a/ For definitions of current policy margin, fiscal drag offset, and deficit, see page 5 of this report.

b/ It is assumed that the spending ceiling and revenue floor in the second concurrent resolution are consistent with the fiscal stimulus needed for the economy to grow at the rate of 4.8 percent in fiscal year 1978. If more or less fiscal stimulus is required, corresponding adjustments would have to be made in the estimates of the fiscal drag offset for fiscal years 1979-1983.

Under current policy assumptions, the receipts that the federal government would take out of the economy would be rising much faster than the outlays it would be putting back into the economy in the form of wages, purchases, and payments to individuals. Hence, the federal budget would be exerting a fiscal drag on the economy, making it unlikely, if not impossible, to achieve the growth assumptions shown in Table 1. For the target growth assumptions to be realized, therefore, fiscal and monetary policies would, in all likelihood, have to be used to offset this natural tendency of projected current policy budgets to move in a restrictive direction.

If tax cuts or spending increases were used to offset the fiscal drag, their necessary magnitude would depend on the strength of the nonfederal sectors of the economy -- namely, the four major components of nonfederal demand: consumption, investment, state and local government purchases, and net exports. Stronger nonfederal demand would mean that smaller tax cuts or spending increases would be required to achieve the assumed economic growth rates. Conversely, weaker nonfederal demand would require larger tax cuts or spending increases to achieve the growth rates. To illustrate the requirement for additional spending or tax cuts, this report chooses one possible scenario for the growth in nonfederal demand, which is assumed to be moderate by historical standards -- stronger than the average of the post-World War II years, but somewhat weaker than the peak period of 1961-1966. 1/

THE PROJECTED DEFICIT

As noted earlier, if the economy were to follow the growth target assumed in this report, receipts would rise faster than outlays, exerting a drag on the economy that would itself tend to reduce economic growth. Assuming moderate nonfederal demand, approximately how much would taxes have to be cut or expenditures increased to offset the drag and keep the economy on the target growth path?

Rough answers to this question are shown in Table 2 and in Figure 2. The current policy margin indicates the excess of receipts over outlays that would develop if the target growth path were realized. The fiscal drag offset indicates a rough estimate of the amount by which taxes would have to be cut or spending increased to keep the economy on the growth path, if

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1/ The personal saving rate (a reflection of consumption behavior) is assumed to average 5.9 percent. Real investment is assumed to grow at an average of 7 percent. State and local government purchases in real terms are assumed to grow at an average annual rate of 3 percent. Net exports are assumed on average to be nearly balanced over the five-year period. (See Closing the Fiscal Policy Loop, CBO Technical Analysis Paper, December 1977, for a detailed discussion of these major components of nonfederal demand.) Monetary policy is assumed to be sufficiently accommodative so as not to preclude the attainment of the nonfederal demand scenario.

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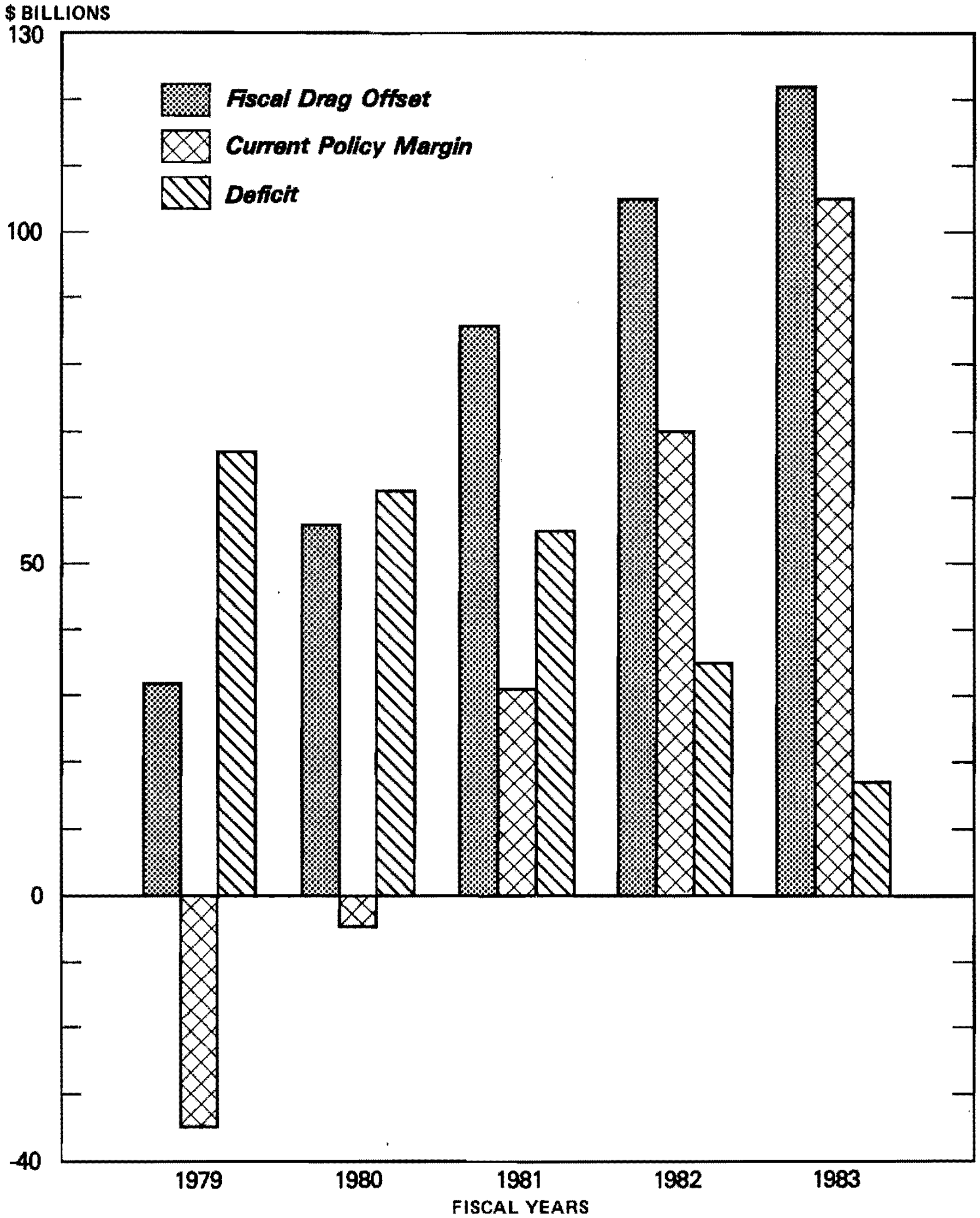
Figure 2.

THE FISCAL DRAG OFFSET, CURRENT POLICY MARGIN, AND DEFICIT



the nonfederal demand were "moderate" as defined earlier. As long as the current policy margin is less than the fiscal drag offset, the budget would remain in deficit. For example, in fiscal year 1981 the current policy margin would be $25 billion, the required fiscal drag offset would be $74 billion, and the projected deficit would be $49 billion. In fact, the current policy margin would be less than the required offset throughout the projection period. Consequently, under the economic assumptions specified earlier, the budget is projected to be still in deficit by fiscal year 1983.

The scenario just decribed is a plausible set of projections of the deficit over the next five years; it is by no means the only possible outcome. If monetary policy became more expansionary, if a business investment boom developed spontaneously, or if growth in economic activity in the rest of the world stimulated exports from the United States, the need to offset the fiscal drag in a current policy budget might be much less than under the above assumptions. This, in turn, could lead to a more rapid decline in the deficit than shown here. On the other hand, if the economy were subject to shocks of the kind it experienced in the early 1970s, or if business investment failed to grow sufficiently, more expansionary policies and an increasing deficit might be needed to reach the output and unemployment goals assumed earlier.

Furthermore, even if the assumptions about nonfederal demand turned out to be correct, the dollar amount of fiscal action required to meet the output and unemployment goals could vary, depending on which items in the budget were altered to meet the needs of fiscal policy. Generally speaking, purchases of goods and services have more impact per budget dollar on output and employment than broadly based tax changes or changes in income support programs. Public employment programs tend to have more impact on jobs than other instruments of fiscal policy. Specially designed tax changes, such as the investment tax credit, can have powerful effects on output and jobs after a lag of one or two years. These and many other special characteristics of the budget need to be taken into account in designing a detailed fiscal policy strategy. Not surprisingly, consideration of all the alternative economic assumptions and combinations of fiscal instruments leads to a range of possible budget outcomes in the next five years. For example, as shown in Appendix B, if nonfederal demand became strong -- comparable to the rapid growth of the early 1960s -- the budget could be balanced by fiscal year 1982 and still attain the economic growth assumed above.

MULTIYEAR TARGETS

At present, budget resolutions are adopted by the Congress for one year at a time. Since a large part of any given year's budget is determined by decisions made in prior years, the Congress is faced each year with a budget largely composed of spending and receipts that have not been subject to review within an integrated framework. As suggested in a recent CBO report on advance budgeting, 2/ one way of dealing with this problem is to have budget targets set by the Congress in advance. Five-year budget projections shed light on how the Congress might proceed with formulating multiyear targets. Projections such as those found in this report provide a baseline on which to build plans for future spending and receipts. In addition, they provide a rough estimate of how much room is available for net increases in spending or tax reductions.

Several key questions are involved in the setting of multiyear targets. What are the goals for the economy and for the deficit? How much should be allocated for tax cuts or spending increases? What is the appropriate level for federal spending and receipts in relation to the economy?

Many possible goals exist for the economy and the deficit. The projections in this report suggest that an unemployment rate of 4.5 percent and a deficit of $19 billion could be achieved by 1983, assuming an accommodative monetary policy and slightly above average performance by the nonfederal sectors of the economy. If the Congress were to adopt the 4.5 percent unemployment target, but to set a more ambitious goal of a balanced budget by fiscal year 1983, performance by the nonfederal sectors would have to be stronger than assumed here.

In addition to setting goals for the economy and the deficit, the Congress might want to set goals for the level of spending or for the level of receipts in relation to the economy. For example, the Congress might set as a goal a level of federal spending as a percent of GNP. At present, spending is 21.2 percent of potential GNP (defined as the value of GNP if the economy were at a 4.5 percent unemployment rate). Current policy projections of outlays in this report show the federal goverment's share of potential GNP falling to 18.8 percent by fiscal year 1983. If the Congress were to set as a goal the maintenance of the current federal share of potential GNP, a sizable part of the fiscal drag offset alluded to earlier would be used for spending increases. As an alternative to maintaining the current federal share of potential GNP, the federal income tax system might be indexed, so that effective rates would not rise because of inflation. This would cut taxes below current policy from year to year, since the progressive income tax system implicit in current policy has a more than proportional response to inflation. As a result, indexing would commit a

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2/ Advance Budgeting: A Report to the Congress, CBO Report, February 1977.

portion of the fiscal drag offset for these automatic tax cuts. The remainder would be available either for further tax cuts or for spending increases.

An important element in decisions about multiyear targets is program needs and costs. These range from welfare reform to national health insurance to the integration of corporate and individual income taxes. The needs and costs for new programs will be discussed in the context of multiyear budget targets in the forthcoming CBO annual report, Budget Options for Fiscal Year 1979.

CHAPTER II. PROJECTIONS OF CURRENT POLICY SPENDING

In addition to considering the size of the federal budget over the next five years, the Congress will also address the question of the appropriate long-run composition of the budget to reflect national needs and priorities. Before the Congress begins to consider these problems, it is important to review the composition of the federal budget under the assumption of a continuation of current policies. This chapter presents details on the current policy projections of federal spending. 1/ The chapter opens with a presentation of the specific assumptions and methodologies used for the projections, followed by a discussion of the major components of the projected increases in current policy spending. The next section on advanced budgeting shows what fraction of future spending is basically predetermined under alternative assumptions about advanced budgeting. The chapter ends by comparing the projected composition of federal spending under current policy assumptions and the composition of the budget in the past.

SPENDING PROJECTION ASSUMPTIONS

Projections of spending rely on a specific set of assumptions about the meaning of current policy for federal spending programs. The guiding principle is to maintain current programs in a manner consistent with the Second Concurrent Resolution on the Budget for Fiscal Year 1978. Implementation of this principle results in several different methodologies being used in preparing projections. For example, economic stimulus programs are projected by different methods than are ongoing energy or defense programs. In addition, federal spending for the past two fiscal years has fallen well below the levels in the concurrent resolutions on the budget. For this reason, the components of the spending shortfall for fiscal year 1977 have been enumerated and its effects on the projections, if any, identified.

1/ The discussion in this chapter is confined to the unified budget. It should be noted, however, that certain activities of the federal government are not reflected in the unified budget. Outlays for so-called off-budget agencies were over $8 billion in fiscal year 1977.

Methodological Assumptions

The following are the major methodological assumptions underlying the spending projections 2/:

- o The costs of a few federal programs (notably general revenue sharing) are specified by existing law. There are also statutory ceilings on outlays for some programs, such as social services grants. For these programs, the projections are based on current laws.

- o Some federal programs -- such as social security, medicare, unemployment insurance, and interest on the public debt -- are open ended; that is, their costs are determined primarily by population changes or economic factors and are not reviewed annually by the Congress through the appropriations process. Other federal programs -- such as medicaid, public assistance, and veterans' pensions -- are also open ended in the same sense, even though funds are appropriated annually. Projections for these programs are based on specific economic assumptions (shown in the first chapter) and anticipated population changes.

- o Although the statutory authority for many federal programs will expire during the five-year projections period, authorizations are assumed to be renewed routinely, except for programs that are clearly of a one-time nature, such as temporary study commissions. In general, for federal programs with authorizations that expire during the projection period, the projections extrapolate into fiscal years 1979 through 1983 the same level of resources assumed for the second concurrent resolution. In most cases, the provision of the same level of real resources was interpreted to mean the same level of real budget authority. Outlays for these discretionary programs were estimated by applying spendout rates to the budget authority levels. 3/ With

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2/ A detailed discussion of projections methodology, on a program-by-program basis, can be found in Five-Year Budget Projections: Fiscal Years 1978-1982, Technical Background, CBO Staff Working Paper, December 1976. Any methodological changes since the publication of that report will be treated in the forthcoming Five-Year Budget Projections: Fiscal Years 1979-1983, Technical Background, CBO Staff Working Paper, December 1977.

3/ For programs that do not receive new budget authority every year, the "same level of resources" was interpreted to be the same level of obligations. Outlays were estimated by applying spendout rates to the obligation levels.

few exceptions, the projections do not include funding for specific needs or projects, such as the cruise missile. Rather, they hold constant the resources, such as procurement funds, that are devoted to general needs, like national security. No attempt was made in this analysis to determine what specific projects could be funded under these assumptions. 4/

- The major exceptions to the above rule are programs that are assumed to be of a temporary nature and are projected to be phased out over the projections period. For example, the temporary employment assistance program, which provides funds for public service jobs at state and local government levels, is assumed to phase down as the unemployment rate falls.

- The projections assume no change in military or civilian federal employment. Federal pay scales are assumed to be adjusted annually in accordance with the Federal Pay Comparability Act of 1970. The costs for such pay increases each year are initially estimated under the category "allowances for payraises" and then are distributed among federal programs the following year, as is customary in federal budget presentation.

- Existing laws provide for various automatic cost-of-living adjustments of some sort for virtually all federal programs providing direct benefit payments to individuals. (Veterans' benefits are a major exception.) The benefit levels for some programs, such as public assistance and unemployment insurance, are set by state and local governments under federal guidelines. It is assumed that the benefits under these programs will also keep pace with inflation. Outlays for certain other programs, such as medicare and medicaid, are indirectly indexed for inflation since the federal government pays part of the costs. Together, benefit payment programs that respond automatically to inflation comprise nearly one-half of the federal budget.

- As discussed above, for most federal programs with authorizations due to expire during the projections period, the projections contain a constant real funding level. For these programs,

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4/ CBO is in the process of estimating alternative defense force structures that fit within current policy constraints, using the Defense Resource Model. A discussion of the model can be found in Real Growth and Decline in Defense Operating Costs: Fiscal Year 1978, CBO Staff Working Paper, July 1977.

however, the funding level is discretionary; that is, outlays depend on the amount the Congress chooses to authorize and appropriate. There is no statutory requirement that appropriations for such programs receive inflation adjustments. Since much of the budget responds automatically to inflation, however, it seems useful to show the costs of inflation adjustments for these programs as well in order to have a relatively consistent baseline against which to measure changes in both discretionary and nondiscretionary programs. Thus, for programs in which funding levels are discretionary, two projections are made. The first holds funding constant in current dollar terms, while the second holds it constant in real terms.

Economic Stimulus Programs

In the spring of 1977, the Congress enacted a number of economic stimulus programs for fiscal years 1977 and 1978. In making budget projections, estimates were made for three types of programs: one-time programs, countercyclical programs, and permanent programs.

No new budget authority was projected in fiscal year 1979 for one-time programs. Any fiscal year 1979 outlays for these programs represent the spendout of fiscal year 1977 budget authority. An example of a one-time program is the local public works program, for which $6.0 billion was appropriated for fiscal year 1977.

Countercyclical programs are for the most part those stimulus programs that are assumed to decline as the unemployment rate falls. New budget authority and outlays have been projected for these programs. Since the national unemployment rate is projected to decrease, the current policy budget authority and outlays for temporary programs, such as countercyclical revenue sharing and temporary employment assistance, decrease.

Permanent stimulus programs were projected to remain at their 1978 levels in real terms in fiscal years 1979-1983. These are programs that were interpreted as being designed to fight structural unemployment.

The following list of the individual programs includes a description of how the programs were handled in the current policy projections:

- Local Public Works -- one-time. No new budget authority is projected for fiscal year 1978. The outlays in 1979 through 1981 represent outlays from 1977 budget authority.

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- Antirecession Fiscal Assistance -- countercyclical. The program decreases in fiscal years 1979 and 1980 as the unemployment rate declines. Using formulas in the authorization for this program, outlays drop to zero by 1981.

- Temporary Employment Assistance (TEA) -- countercyclical. As the assumed unemployment rate falls, projected outlays for TEA, Title VI of the Comprehensive Employment and Training Act (CETA), are phased down from $4.4 billion in fiscal year 1978 to $40 million in 1983. Title VI was enacted in December of 1974 as a response to dramatic increases in the national unemployment rate. It has been extended as the unemployment rate remained at high levels, and funds have been targeted for the chronically unemployed and low-income individuals. If Title VI were extended in the future primarily as a structural unemployment program, and funding were to remain at fiscal year 1978 levels adjusted for increases in the minimum wage, outlays would be $800 million higher in fiscal year 1979 than projected in this report, and would rise to $5.7 billion in 1983. Title VI, or some similar program, is an obvious candidate for additional fiscal stimulus to achieve the assumed economic growth, as discussed in Chapter I.

- Employment and Training Assistance (ETA), other CETA titles -- permanent. The remaining CETA titles were interpreted as permanent programs to combat structural unemployment. For these titles, budget authority was held constant in real terms at levels consistent with the second concurrent resolution. Outlays were estimated by spending out new and prior budget authority.

- Older Americans Community Service Employment -- permanent. The funds for this program were interpreted to be for structural unemployment problems. Consequently, they were carried into fiscal years 1979-1983.

The Shortfall in Spending for Fiscal Year 1977

Total spending for fiscal year 1977 was $401.9 billion. This total was well below the level of $417.45 billion contained in the Third Concurrent Resolution on the Budget for Fiscal Year 1977, passed in February of this year, and the $409.2 billion level contained in the amendment of the third concurrent resolution, adopted in May. A spending shortfall of this magnitude calls into question estimates of projected outlays.

Table 3 shows the components of the changes that account for the differences between the 1977 third concurrent resolution, that resolution as amended, and actual spending. Over $3 billion of the $15 billion difference between the third resolution and actual spending was because of the withdrawal of the $50 rebate proposal. The remaining $12 billion in changes was composed of the following (in billions of dollars):

Financial Transactions	-1.0
Farm Price Supports	1.8
Economic Stimulus Programs	-2.0
Payments for Individuals	-2.3
Construction Programs	-2.0
Department of Defense, Military	-2.3
Other Changes	-4.5

TABLE 3. CHANGE IN FISCAL YEAR 1977 OUTLAYS FROM THIRD CONCURRENT RESOLUTION THROUGH ACTUAL SPENDING: IN BILLIONS OF DOLLARS

Major Programs	Third Resolution/ Resolution As Amended	Resolution as Amended/ Actual Spending	Total Change
Withdrawal of $50 Rebate	-3.2	--	-3.2
Financial Transactions			
Farmers Home Administration	--	1.4	1.4
Net interest	--	0.5	0.5
Military sales trust fund	-0.7	-- a/	-0.7
GNMA special assistance functions fund	-0.5	-0.2	-0.7
Export-Import Bank	-0.3	-0.3	-0.6
Federal Home Loan Bank Board	-0.4	-0.1	-0.5
Federal Housing Administration	--	-0.3	-0.3
OCS rents and royalties and other	0.5	-0.6	-0.1
Subtotal	-1.4	0.4	-1.0
Farm Price Supports (CCC)	1.5	0.3	1.8

a/ Less than $50 million.

(Continued)

TABLE 3. (Continued)

Major Programs	Third Resolution/ Resolution As Amended	Resolution as Amended/ Actual Spending	Total Change
Economic Stimulus and Related Programs			
Employment and training program	-1.2	0.1	-1.1
Antirecession financial assistance	--	-0.5	-0.5
Local public works	-0.1	-0.3	-0.4
Subtotal	-1.3	-0.7	-2.0
Payments for Individuals			
Social security	0.6	-0.3	0.3
Unemployment compensation	-1.4	-- a/	-1.5
Medicare and medicaid	-0.3	-0.4	-0.7
Public assistance and related	-0.3	0.1	-0.2
Veterans' compensation, pensions, and benefits	--	-0.3	-0.3
Other	0.1	0.1	0.2
Subtotal	-1.3	-1.0	-2.3
Department of Defense, Military	-0.5	-1.9	-2.3
Construction Programs			
EPA construction grants	--	-0.7	-0.7
Major water and power projects	-0.4	-0.3	-0.6
Community development grants and urban renewal	-0.2	-0.3	-0.5
Other	-0.1	-0.1	-0.1
Subtotal	-0.7	-1.4	-2.0
All Other Outlay Changes			
Military assistance and foreign aid	-- a/	-1.0	-1.0
HEW Education Division	-0.3	-0.5	-0.8
Agriculture -- general operations and receipts	--	-0.7	-0.7
Federal Energy Administration	-0.1	-0.4	-0.5
ERDA	-0.5	0.2	-0.4
Disaster relief	--	-0.2	-0.2
Social services grants	-0.2	-- a/	-0.2
Other	-0.2	-0.6	-0.7
Subtotal	-1.4	-3.1	-4.5
TOTAL	-8.3	-7.3	-15.6

a/ Less than $50 million.

The change in the category of financial transactions is composed of a number of increases and decreases. One of the significant decreases was in the foreign military sales trust fund. For estimating trust fund gross outlays and receipts, CBO has recently devised a new methodology, which is reflected in the most recent estimates for fiscal year 1978 and in the projections for fiscal years 1979-1983. 5/ Most of the other changes reflect the difficulty in estimating outlays for agencies involved in the financing and credit activities of the federal government. Estimates for this category will probably continue to be a problem in the future.

The change in farm price supports reflects the problem of large crops and falling market prices, as well as the higher dairy support rate effected by the Administration on April 1, 1977. Most of this change was anticipated in the amendment to the third concurrent resolution.

Changes in the economic stimulus programs are the result of several factors. First, the appropriation for the programs was approved later than anticipated in the third concurrent resolution. Also, original estimates for these programs were overly optimistic about the time necessary for actual implementation. Finally, part of the change in antirecessional fiscal assistance stems from the lower than anticipated unemployment rate in the first quarter of 1977. CBO's scorekeeping estimates for fiscal year 1978 and projections for 1979-1983 have been adjusted somewhat to reflect these factors. For all of the economic stimulus programs, CBO estimates for 1978 are less than or equal to those of the Administration.

Changes in the unemployment compensation category, explained by the unexpectedly rapid rate of economic growth and the decline in the unemployment rate in the first half of 1977, account for the difference in payments for individuals. If the economy performs better in 1978-1983 than has been assumed in Chapter I, projected outlays for unemployment benefits would be too high. If the economy does not grow at the assumed rate of 4.8 percent per year, however, actual outlays would exceed the estimates.

The changes in construction programs, Department of Defense, Military, and other spending programs reflect the pervasiveness of shortfall phenomena throughout the budget. In July 1977 CBO reestimated outlays for fiscal year 1977 at $402.6 billion. Since July, CBO has reestimated total

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5/ For details on the projections methodology for the foreign military sales trust fund, see the forthcoming Five-Year Budget Projections: Fiscal Years 1979-1983, Technical Background, CBO Staff Working Paper, December 1977.

outlays for 1978 downward by over $2 billion. Outlays for 1978 are reestimated downward by another $3.5 billion in the CBO Scorekeeping Report Number 5 for 1978, released the same week as this projections report. These reestimates reflect widespread adjustment of the spendout rates used to estimate outlays for most accounts, and were used for the estimates in this report.

Based on analysis of past trends, spending for 1978 may fall below current scorekeeping estimates. 6/ Outlays for fiscal year 1978 will again be reestimated shortly after the submission of the President's budget. New spending projections will be made in the early spring of 1978 and will reflect the fiscal year 1978 reestimates.

PROJECTED INCREASES IN FEDERAL SPENDING

Current policy outlays are projected to increase to $655 billion by fiscal year 1983. The average rate of increase is approximately 7.3 percent annually. Table 4 shows the components of the increases in federal spending from CBO's current estimate for fiscal year 1978, given current policy assumptions. The largest component of the increase is social security payments, which by fiscal year 1983 would total $156 billion, $60 billion above the current estimate for fiscal year 1978. The next largest increase is for medicare and medicaid benefits ($33 billion by fiscal year 1983). These increases would be tempered, however, by cost-control legislation anticipated in the second concurrent resolution. As shown in the table, this legislation is projected to save $10 billion by fiscal year 1983.

For many federal programs the funding levels are discretionary. The Congress may choose not to index these programs to inflation, in contrast to others like social security for which indexing is specified by law. The cost of inflation increases for discretionary programs is demonstrated in Figure 3. Of the discretionary inflation increases, over 40 percent is for defense while the remainder is for grants to state and local governments, veterans' benefits increases, and other federal operations.

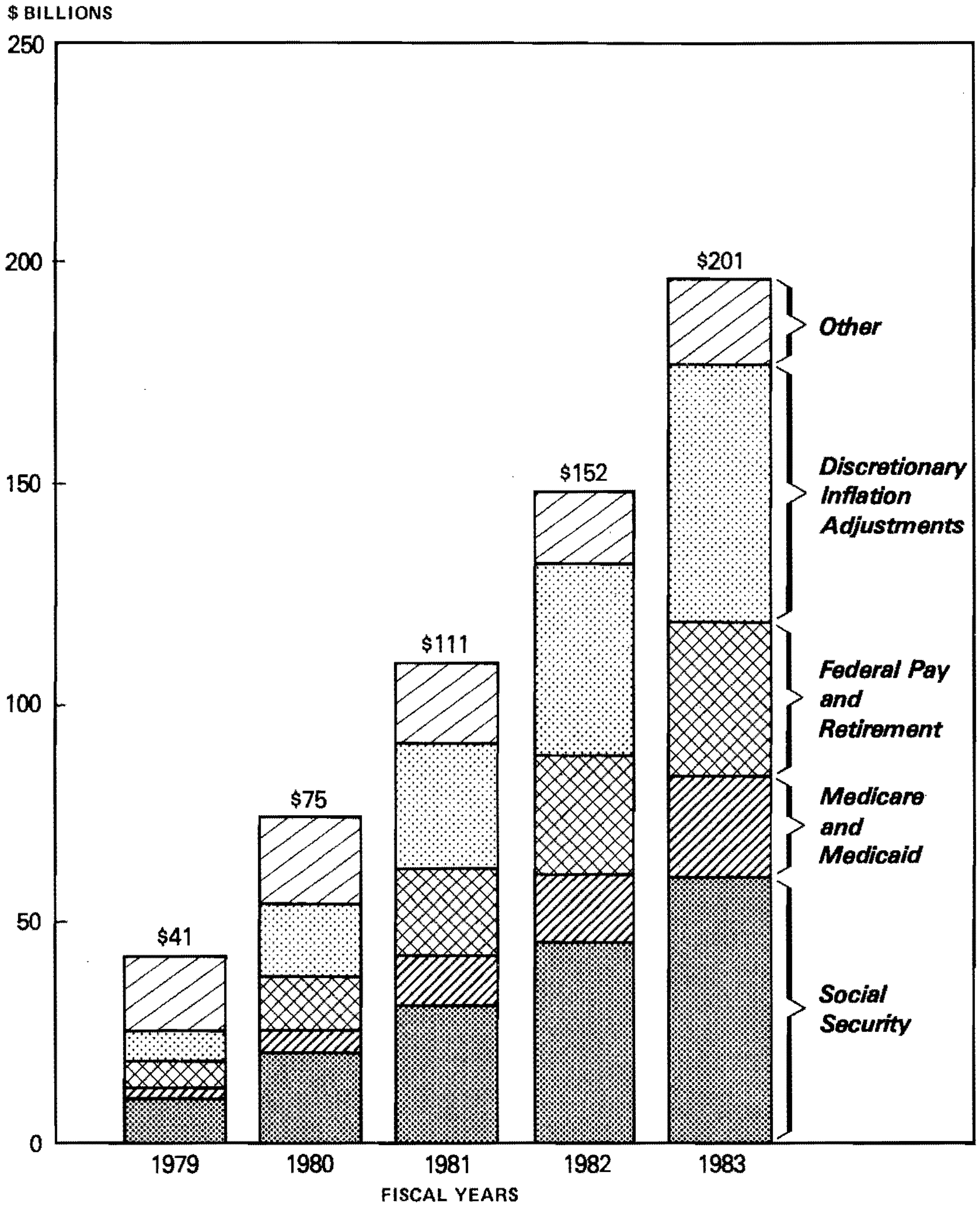
6/ Since the 1950s, year-to-year increases in federal outlays have averaged about 8 percent. The increase implicit in the current CBO scorekeeping estimate is almost 13 percent. Although it is likely that the increase for 1978 may be above the average, with some of the economic stimulus programs beginning to spend out, there is some chance that the percent increase in outlays will be only about 11 percent, which would mean a shortfall of $6 to $8 billion from the current estimate.

TABLE 4. PROJECTED INCREASES IN FEDERAL OUTLAYS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983
CBO Current Estimate for 1978	454	454	454	454	454
Add: Increases Mandated under Existing Law					
Social security	10	20	31	44	60
Medicare and medicaid	5	10	18	25	33
Pay increases for federal employees	4	9	13	18	23
Retired military and civil service retirement	2	4	7	9	12
Net interest	3	6	8	9	9
Defense purchases	2	4	6	7	8
All other spending (net)	9	7	1	--	--
Subtotal	489	514	538	566	600
Add: Further Adjustments for Inflation					
Maintain 1978 level of defense purchases	2	6	11	17	23
Maintain 1978 level of grants and other federal purchases	3	9	16	27	36
Cost-of-living increase for Veterans' benefits	1	2	2	3	4
Subtotal	495	531	567	613	663
Add: Legislation Anticipated in Second Concurrent Resolution					
Medicare and medicaid cost control	-3	-4	-6	-9	-10
Other legislation	2	2	2	2	2
TOTAL	495	529	565	606	655

Figure 3.

COMPONENTS OF INCREASES IN CURRENT POLICY OUTLAYS



A considerable amount of federal spending over the next five years is mandated by current law. In the absence of changes in these laws, the outlays fall outside the control of the annual budget process. For example, benefit payments for social security are determined by formulas in the authorizing legislation for the program. Table 5 shows committed outlays for permanent appropriations, trust funds, offsetting receipts, and entitlements; these comprise approximately 50 percent of current and projected outlays. A second source of commitments is outlays resulting from appropriations made in fiscal 1978 and prior years. Unless the Congress were to rescind the budget authority for these previously funded programs, the outlays shown in Table 5 would have to be considered as uncontrollable when reviewing spending in fiscal years 1979-1983. Finally, Table 5 shows the outlays from legislation for fiscal year 1978 that was anticipated in the second concurrent resolution. If this legislation is enacted as assumed, the outlays shown will be determined before the start of fiscal year 1979. Outlays mandated under current law become the base for consideration of new spending commitments in fiscal years 1979-1983.

If the Congress does not change commitments made in 1978 and prior years, the outlays subject to control under current procedures in fiscal years 1979-1983 are those from new commitments. This represents only 28 percent of projected outlays for fiscal year 1979; the percent rises to about 45 percent for fiscal year 1983. In the absence of other changes in the budget reviewing procedures of the Congress, however, the increase in control would not occur unless the Congress adopts an advanced budgeting or advanced targeting approach to federal spending. As shown in Table 5, the portion of the budget that is subject to control in fiscal year 1979 is only about $140 billion because of commitments made in fiscal year 1978 and prior years. If the Congress waits until next year to review the fiscal year 1980 budget and continues to use a one-year planning horizon, the outlays from 1979 commitments will be, for all practical purposes, beyond the control of the budget process, and only about $150 billion will be subject to control.

Table 6 shows the percent of budget outlays that fall under the control of the budget process under alternative assumptions about advanced targeting. As shown in the table, if the Congress continues to set spending targets for one year at a time, a constant 28 percent of outlays falls under the control of the budget process. On the other hand, if the Congress were to set five-year targets starting with fiscal year 1979, an increasing share of projected outlays would fall under the control of the budget process. The table also demonstrates that a large part of the increased control resulting from advanced targeting can be derived by using a two-year planning horizon.

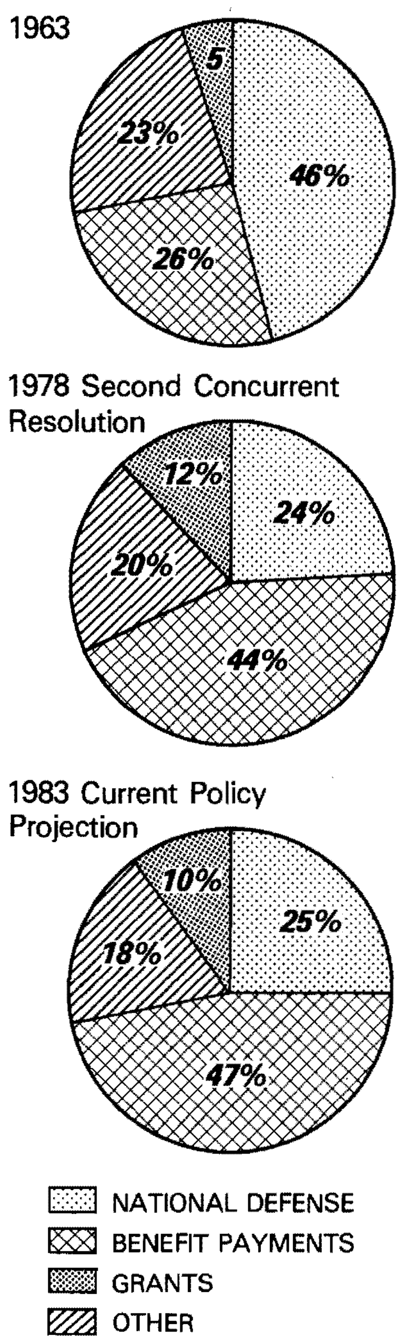
TABLE 5. CURRENT POLICY PROJECTIONS BY YEAR OF COMMITMENT: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1979	1980	1981	1982	1983
Amounts Committed in 1978 and Prior Years					
Permanent appropriations, trust funds, offsetting receipts, and entitlements	252	270	293	318	347
Outlays from 1978 and prior year authority	103	51	32	26	26
Net outlays from anticipated legislation assumed in the second concurrent resolution	-1	-2	-5	-8	-9
Subtotal	354	319	320	336	364
Amounts Assuming Current Policy for New Commitments in 1979	140	61	23	9	6
Amounts Assuming Current Policy for New Commitments in 1980-1983	--	149	221	261	285
TOTAL	495	529	564	606	655

TABLE 6. PERCENT OF OUTLAYS CONTROLLABLE THROUGH THE BUDGET PROCESS, UNDER ALTERNATIVE ASSUMPTIONS ABOUT MULTIYEAR TARGETING: BY FISCAL YEARS

	1979	1980	1981	1982	1983
One-year Planning Horizon	28	28	28	28	28
Five-year Planning Horizon (starting in 1979)	28	40	43	45	45
Two-year Planning Horizon (starting in 1979)	28	40	40	40	40

Figure 4.
RELATIVE SHARES OF TOTAL FEDERAL OUTLAYS



THE COMPOSITION OF FEDERAL SPENDING

In fiscal year 1963, outlays for national defense comprised 46 percent of federal spending, while benefit payments for individuals represented 26 percent of the total. Grants to state and local governments for other than benefit payments were only 4.5 percent of total federal outlays.

Major Spending Components

During the past 15 years, the composition of the budget has changed considerably. Of the $458 billion ceiling in the 1978 second concurrent resolution, only 24 percent is assumed to be for national defense, while 44 percent is for benefit payments. The dramatic rise in the share for benefit payments seen in Figure 4 results primarily from increases for contributory benefit payment programs like social security. The share of the budget appropriated for grants to state and local governments has more than doubled since 1963 as new grant programs such as Environmental Protection Agency construction grants, general revenue sharing, and antirecession grant programs have been enacted.

Under current policy assumptions, the composition of federal spending would change slightly by fiscal year 1983. The increase in national defense generally corresponds with inflation increases. The share of the budget for benefit payments for individuals would increase to 47 percent because, in the absence of policy changes, these programs would be influenced both by inflation and by changes in the size and characteristics of the population receiving benefit payments. The share for grants would decline to about 10 percent, primarily because of the phaseout of antirecession programs as the unemployment rate declines. Because the rate of change of interest on the public debt is related to the deficit (projected to decline through 1983), the share for other parts of the budget declines to 18 percent.

In addition to showing the composition of current policy outlays by year, Table 7 also shows current policy outlays as a percent of current dollar or nominal GNP. On a current policy basis, federal outlays would decrease as a percent of GNP from 22.3 percent in fiscal year 1978 to 19.3 percent in fiscal year 1983. The decline would occur because GNP is assumed to increase with both inflation and real economic growth, while current policy outlays increase with inflation only, except for the real growth caused by population changes in benefit payments programs. As discussed in Chapter 1, some combination of spending increases above current policy or tax cuts below current policy would be necessary if the economy were to grow at the rates assumed for these projections.

Major Functional Categories

Another important classification of federal spending is by the major functions. The functional classification is a means of presenting budget authority and outlays in terms of the principal purposes that federal programs are intended to serve, regardless of the methods used to carry out the activities. The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and budget outlays for each function in its annual budget resolutions.

The relationship between the six spending categories used above and the functional classification is as follows:

- The national defense category is the same for both classifications.

- The bulk of the health, income security, and veterans' benefits functions are carried out through benefit payments to individuals (that is, the sum of contributory and noncontributory benefit payments).

- Grants to state and local governments (other than grants for payments to individuals) are concentrated largely in functions 300, 400, 450, 500, and 850.

TABLE 7. MAJOR COMPONENTS OF BUDGET OUTLAY PROJECTIONS: BY FISCAL YEARS

Major Component	1977 Estimate	1978 Second Concurrent Resolution	Current Policy Projections				
			1979	1980	1981	1982	1983
	In Billions of Dollars						
National Defense	97	110	119	128	139	150	161
Contributory Benefit Payments for Individuals	136	148	161	176	194	213	238
Other Benefit Payments for Individuals	46	49	53	57	60	64	68
Grants to State and Local Governments	47	57	57	58	58	60	63
Net Interest	30	33	37	39	41	42	42
Other Federal Operations	47	62	68	72	73	77	82
TOTAL	402	458	495	529	565	606	655
	As a Percent of Total Outlays						
National Defense	24	24	24	24	25	25	25
Contributory Benefit Payments for Individuals	34	32	33	33	34	35	36
Other Benefit Payments for Individuals	11	11	11	11	11	11	10
Grants to State and Local Governments	12	12	12	11	10	10	10
Net Interest	7	7	7	7	7	7	6
Other Federal Operations	12	13	14	14	13	13	13
TOTAL	100	100	100	100	100	100	100
	As a Percent of GNP						
TOTAL	21.8	22.3	21.8	21.0	20.3	19.7	19.3

- Net interest consists of the interest function and the interest received by trust funds, which comprise approximately one-half the undistributed offsetting receipts function.

- Other federal operations are distributed throughout all functional categories except national defense and interest.

Tables 8 and 9 present the projections of outlays and budget authority by the 17 major functions used for the Congressional budget resolutions in fiscal years 1976 through 1978. The projections for 1979-1983 include discretionary inflation adjustments.

Since the inflation adjustments used for the projections are relatively uniform for most federal programs, the percent breakdown of projected total outlays by functional category changes little between fiscal years 1978 and 1983. Increases for social security in the income security function are offset by projected decreases in unemployment compensation. The projected declining shares for the general revenue sharing and the education, training, employment, and social services functions are caused by the phasing out of certain antirecession programs. The declining share for veterans' benefits and services results from the projected decline in the number of veterans receiving benefits.

TABLE 8. BUDGET AUTHORITY PROJECTIONS BY FUNCTION: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Function	1978 Second Concurrent Resolution	Current Policy Projections				
		1979	1980	1981	1982	1983
National Defense (050)	116.4	128	138	148	158	169
International Affairs (150)	8.0	9	10	11	11	12
General Science, Space, and Technology (250)	4.9	5	6	6	7	7
Natural Resources, Environment, and Energy (300)	24.6	22	21	20	23	25
Agriculture (350)	2.1	5	7	7	6	7
Commerce and Transportation (400)	20.4	21	24	26	27	28
Community and Regional Development (450)	8.2	10	11	11	12	12
Education, Training, Employment, and Social Services (500)	26.3	26	28	29	30	32
Health (550)	47.7	53	58	68	77	85
Income Security (600)	178.6	193	210	225	242	261
Veterans' Benefits and Services (700)	19.9	21	22	23	24	26
Law Enforcement and Justice (750)	3.8	4	4	5	5	5
General Government (800)	3.8	4	4	4	5	5
Revenue Sharing and General Purpose Fiscal Assistance (850)	9.6	9	9	9	9	10
Interest (900)	41.7	47	50	53	55	56
Allowances (920)	0.9	1	1	1	1	1
Undistributed Offsetting Receipts (950)	-16.8	-18	-19	-21	-23	-24
TOTAL	500.1	541	582	624	669	717

TABLE 9. OUTLAY PROJECTIONS BY FUNCTION: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Function	1978 Second Concurrent Resolution	Current Policy Projections				
		1979	1980	1981	1982	1983
National Defense (050)	110.1	119	128	139	150	161
International Affairs (150)	6.6	7	8	8	9	9
General Science, Space, and Technology (250)	4.7	5	6	6	6	7
Natural Resources, Environment, and Energy (300)	20.0	22	24	21	23	24
Agriculture (350)	6.3	7	6	7	7	7
Commerce and Transportation (400)	19.6	21	22	23	24	26
Community and Regional Development (450)	10.6	11	10	11	11	11
Education, Training, Employment, and Social Services (500)	26.4	27	28	28	29	30
Health (550)	44.2	48	52	58	63	71
Income Security (600)	146.1	161	175	190	208	230
Veterans' Benefits and Services (700)	20.2	21	22	23	24	25
Law Enforcement and Justice (750)	4.0	4	4	5	5	5
General Government (800)	3.85	4	4	4	5	5
Revenue Sharing and General Purpose Fiscal Assistance (850)	9.7	9	9	9	9	10
Interest (900)	41.7	47	50	53	55	56
Allowances (920)	1.0	1	1	1	1	2
Undistributed Offsetting Receipts (950)	-16.8	-18	-19	-21	-23	-24
TOTAL	458.25	495	529	565	606	655

CHAPTER III. PROJECTIONS OF CURRENT POLICY REVENUES

Equally as important as the composition of federal spending is the composition of federal revenues over the next five years. What share of federal revenues should be raised by individual income taxes as opposed to corporate income taxes? How would the composition of revenues over the next five years be affected by legislation to increase social insurance taxes and make the social security trust fund solvent? As a prelude to Congressional consideration of the long-run makeup of federal taxes, this chapter discusses projections of federal revenues assuming the continuation of existing laws. The chapter opens with a discussion of the assumptions underlying the revenue projections and then moves on to the current policy projections of federal revenues. The basic result shown by the projections is that under current law the share of revenues raised by individual income taxes would increase, because of the progressive nature of federal individual income tax, from 44 percent in fiscal year 1978 to 52 percent in 1983.

REVENUE PROJECTION ASSUMPTIONS

Current policy revenue projections assume a current dollar gross national product (GNP) that grows at an average rate of 10.5 percent annually under the economic assumptions in Chapter I. It is also assumed that wages and salaries grow at an average annual rate of 10.5 percent, corporate profits at an average annual rate of 10.6 percent, and taxable personal income at an average annual rate of 10.7 percent. These assumptions reflect a gradual approach to 4.5 percent unemployment by 1983, with real economic growth of 4.8 percent annually through 1982 and 3.7 percent for 1983, as discussed in Chapter I.

The current policy assumptions under which the revenue estimates are made include extension of those provisions of the Tax Reform and Simplification Act of 1977 that would expire if not renewed. The only exception to this assumption is the jobs credit, which is assumed to expire without extension in 1978. The earned income credit is treated as a revenue reduction, and is assumed to be extended through fiscal year 1983. Social security tax revenues are forecast assuming steady increases in the wage base from $15,300 in 1977 to $25,800 by 1983. Social security tax rates are assumed to rise from 5.85 percent in 1977 (employees share only) to 6.3 percent for 1981 and subsequent years as specified in current law. 1/ In addition, the projections assume the scheduled 1978 increase in the wage base for unemployment insurance payroll taxes.

1/ The social security wage base and tax rates apply to calendar years, although the revenue estimates are presented by fiscal year.

Both the House and the Senate have passed energy tax bills that would affect revenues significantly during the projection period. One of their common features is the extension throughout the projection period of the excise tax on gasoline. This extention is assumed in the revenue projections. In most other respects, the bills have major unresolved differences. The House bill combines energy tax credits and excise taxes that have not been included in the five-year revenue projections. The Senate bill contains a substantial number of refundable energy tax credits that have also not been included in the five-year revenue projections. The conference probably will produce a bill that compromises the differences between the two bills. Table 10 shows the separate five-year revenue impacts of the House and Senate bills on the revenue projections contained in this chapter.

TABLE 10. EFFECTS OF HOUSE-PASSED AND SENATE-PASSED ENERGY BILLS ON FIVE-YEAR PROJECTIONS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978	1979	1980	1981	1982	1983
House Version	-1	--	9	12	4	1
Senate Version	-2 a/	-5	-6	-7	-7	-7

a/ Individual provisions of the Senate bill add to -$2.014 billion for fiscal year 1978, but the bill contains a provision that the total revenue loss should not exceed $972 billion for fiscal year 1978.

Congressional action on social security tax revision is not yet complete, but the general outlines of the likely changes have begun to crystalize. The House and Senate have separate measures to deal with the problem of the solvency of the trust fund; the differences have not yet been resolved in conference. Although each house has separate measures, the revenue impact will probably fall within a range bounded by the two alternatives. If the conference reaches agreement on some proposal between the two alternatives, the effect from social security changes would be an increase in revenues for the social insurance category in the range shown in Table 11.

TABLE 11. EFFECTS OF SOCIAL SECURITY LEGISLATION ON TOTAL REVENUES: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

1979	1980	1981	1982	1983
6-8	8-10	17	21-23	23-26

REVENUE PROJECTIONS

The total federal receipts projections by source are shown in Table 12. Total federal revenues under current law are projected to rise at an average annual rate of 13.2 percent, from $356.9 billion in fiscal year 1977 to $751 billion in fiscal year 1983. The projected revenue increase of $394.1 billion from 1977-1983 is primarily attributable to individual income taxes (59 percent), corporate income taxes (13 percent), and social insurance taxes (24 percent). Together, individual income and social insurance taxes are expected to provide 79 percent of fiscal year 1983 receipts. Of the projected $394.1 billion in revenue growth from 1977 to 1983, more than half reflects increases caused by inflation.

Under current law, all three major tax sources are projected to yield revenues that rise more rapidly than the growth rate for GNP. Individual income taxes grow most rapidly. After adjusting for changes in the standard deduction and personal credits, the estimates of individual income tax liabilities have an elasticity of 1.4; that is, each percent growth in GNP is associated with 1.4 percent growth in individual income tax liabilities. Under current law, both corporate income and social insurance taxes grow slightly faster than corporate profits and GNP, respectively.

FEDERAL REVENUES: A HISTORICAL PERSPECTIVE

Federal revenues have grown more than fourfold since 1958 -- from $79 billion in fiscal year 1958 to nearly $360 billion for fiscal year 1977. Relative to the size of the economy, federal taxes have increased very little -- from 17.7 percent of GNP in 1958 to 18.8 percent of GNP in 1977. While there has been some fluctuation in receipts, stability of taxes as a

TABLE 12. PROJECTIONS OF CURRENT POLICY RECEIPTS BY SOURCE: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

Source	1977 Estimate	1978 Second Concurrent Resolution	Current Policy Projections				
			1979	1980	1981	1982	1983
Individual Income Taxes	156.7	175.0	213	250	290	338	389
Corporation Income Taxes	54.9	59.0	67	76	86	95	106
Social Insurance Taxes and Contributions	108.6	124.4	137	150	166	186	203
Excise Taxes	17.5	20.3	20	21	22	24	25
Estate and Gift Taxes	7.3	5.6	6	7	8	8	8
Customs Duties	5.2	5.4	6	7	8	9	10
Miscellaneous Receipts	6.5	7.3	8	8	8	8	8
TOTAL	356.9	397.0 a/	457	519	590	668	751

a/ The Second Concurrent Resolution on the Budget for Fiscal Year 1978 assumed energy legislation would add $1.1 billion in receipts in fiscal year 1978.

percent of GNP is the most apparent feature over the last two decades. This result has not been automatic, but rather has been achieved only through legislative action to reduce taxes from time to time. These reductions have offset the tendency of the progressive tax system to take an increasing share of income, as inflation and real economic growth produce higher incomes. The variations in taxes as a share of GNP since 1958 are shown in Table 13 and Figure 5. Under current policy assumptions total receipts would grow to $750.6 billion -- or 21.7 percent of GNP -- by fiscal year 1983. This is well above the average over the past twenty years. Thus, long-run stability of federal taxes as a percent of GNP over the projection period will be maintained only if the Congress acts to reduce taxes. In addition, as pointed out in Chapter I, tax cuts or spending increases or both are needed if the budget projections are to be consistent with the economic assumptions.

Table 13 also shows the share of revenues provided by each source. With the help of several tax policy changes, the share of revenues provided by individual income taxes has remained nearly constant since 1958. The share of total revenues provided by corporate income taxes has fallen over the last two decades. Since 1958 corporate profits have declined as a share of GNP, and business tax credits and deductions have expanded. Social insurance taxes have contributed an increasing share of total revenues and will exceed 30 percent by 1978.

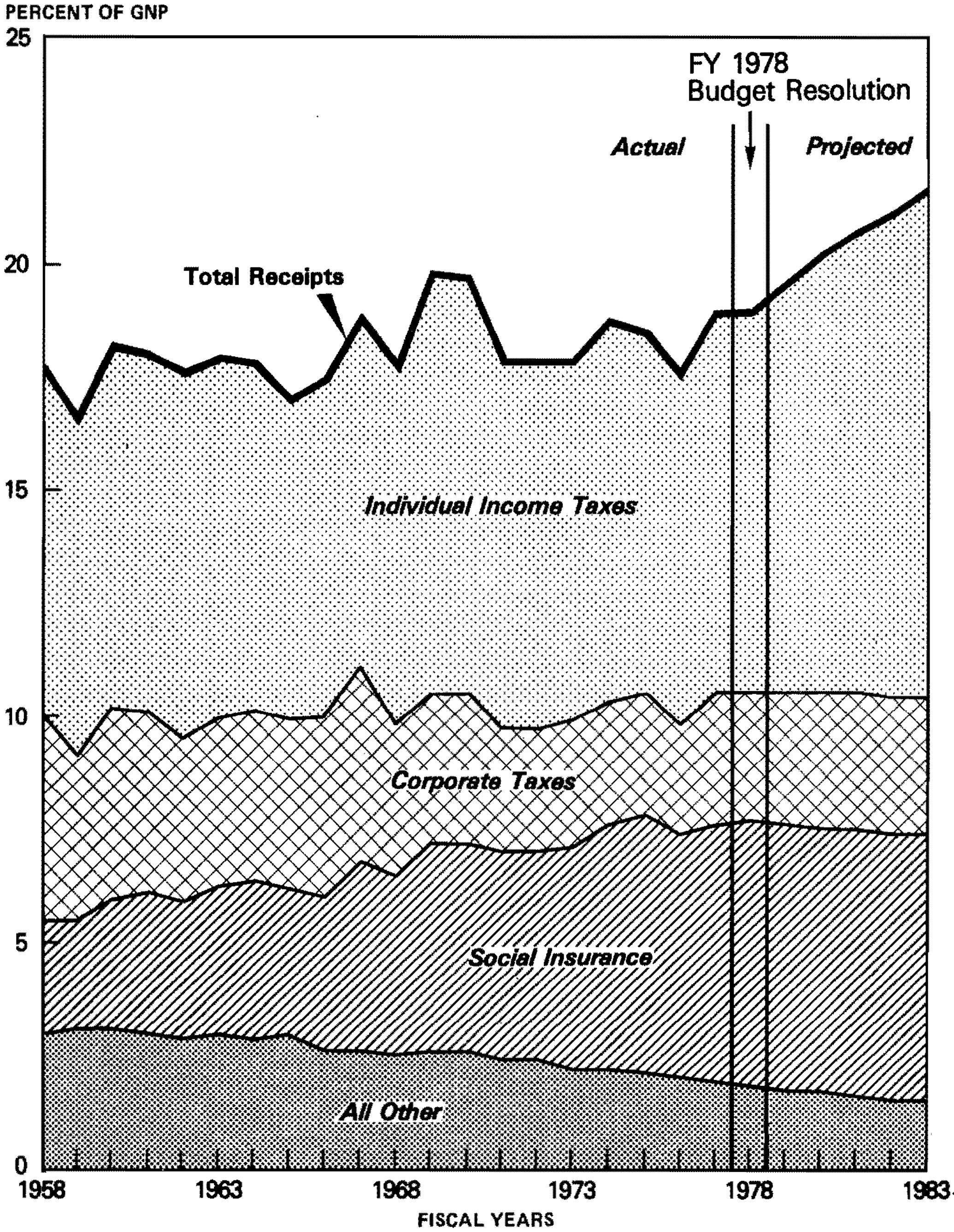
TABLE 13. COMPOSITION OF FEDERAL RECEIPTS: BY FISCAL YEARS

Source	1958	1963	1968	1973	1978	1983
	As a Percent of GNP					
Individual Income Taxes	7.7	8.0	7.9	7.9	8.3	11.2
Corporate Income Tax	4.5	3.6	3.3	2.8	2.8	3.0
Social Insurance Taxes and Contributions	2.5	3.3	4.0	4.9	5.9	5.9
Other Taxes and Receipts	3.0	3.0	2.5	2.2	1.8	1.5
TOTAL	17.7	17.9	17.7	17.8	18.8	21.7
	As a Percent of Total Budget Receipts					
Individual Income Taxes	43.6	44.6	44.7	44.5	44.1	51.9
Corporate Income Tax	25.2	20.2	18.6	15.6	14.9	14.1
Social Insurance Taxes and Contributions	14.1	18.5	20.7	28.0	31.3	27.0
Other Taxes and Receipts	17.0	16.5	14.0	12.2	9.7	7.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

If tax policies are not changed, the individual income tax will continue to take a larger share of personal income as inflation and real growth propel taxpayers into higher tax brackets. In the absence of policy changes, corporate taxes will remain at about the same share of GNP as in 1977. Without changes in present policy, social insurance taxes will rise to a slightly larger share of GNP. It should be noted that all three major tax categories are likely objects of significant revision within the five-year forecast period. While it is not possible to predict the form of specific

Figure 5.

FEDERAL REVENUES AS A PERCENT OF GNP



proposals, there are actuarial deficits in the social insurance trust funds. If these deficits are to be reduced through increased social insurance taxes, it is likely that social insurance taxes will become a larger share of total revenues. Revisions in corporate and individual income taxes are also likely, probably resulting in net tax reductions, especially if tax cuts are used to generate the economic stimulus needed for the economy to grow at a 4.8 percent annual rate.

APPENDIXES

As pointed out in Chapter I, inflation, unemployment, and other levels of economic activity have a major impact on revenues and outlays. This appendix presents the effects of less vigorous economic growth on projections of the budget. The results show that current policy receipts are affected much more by alternative assumptions about real economic growth than are current policy outlays. The results also suggest that it might be possible to balance the budget by fiscal year 1982 if a lower target were assumed for real economic growth.

BUDGET IMPLICATIONS OF LESS VIGOROUS ECONOMIC GROWTH

The target for economic growth in Chapter I was relatively optimistic in light of historical experience. Suppose a less optimistic target of a 4 percent annual rate of growth in real gross national product (GNP) were assumed (see Table A-1). What would be the effect on projected current policy revenues and outlays?

TABLE A-1. AGGREGATE ECONOMIC ASSUMPTIONS UNDER LESS VIGOROUS ECONOMIC GROWTH: BY CALENDAR YEARS

Selected Economic Variables	1977	1978	1979	1980	1981	1982	1983
Gross National Product (GNP)							
Current dollar GNP (in billions of dollars)	1,898.0	2,107.0	2,321.7	2,547.1	2,787.0	3,047.2	3,329.5
Real GNP (in billions of 1972 dollars)	1,338.0	1,402.7	1,460.9	1,519.3	1,580.1	1,643.3	1,709.0
Growth rate of real GNP	5.0	4.8	4.2	4.0	4.0	4.0	4.0
Unemployment Rate (percent)	7.0	6.5	6.3	6.1	5.9	5.7	5.4
Consumer Price Index (percent change)	6.5	5.6	6.0	5.6	5.3	5.2	5.1

If the economy were to grow at only 4 percent per year from fiscal years 1979 through 1983, current policy receipts would increase by 12 percent annually -- from $456 billion in fiscal year 1979 to $722 billion in fiscal year 1983. As a share of GNP, receipts would grow from 20 to 22 percent. As shown in Table A-2, current policy outlays would grow from

$493 billion in fiscal year 1979 to $651 billion in fiscal year 1983. As a percent of GNP, outlays would decline from 21 to 20 percent. The projections of current policy receipts and outlays demonstrate that, while the level of current policy receipts is highly sensitive to the rate of real economic growth, the level of current policy outlays changes very little. The sensitivity of receipts exists because of the progressive nature of the individual income tax; the lack of sensitivity of outlays is the result of offsetting changes. Under less vigorous economic growth, the unemployment rate would decline more slowly. Therefore, outlays for programs like unemployment compensation and various income supplements would be higher than they would be under more optimistic economic assumptions. The lower inflation rates assumed in Table A-1, however, indicate that projected cost-of-living increases would be smaller.

TABLE A-2. FIVE-YEAR BUDGET PROJECTIONS, UNDER LESS VIGOROUS ECONOMIC GROWTH: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978 Second Concurrent Resolution	Projections				
		1979	1980	1981	1982	1983
Current Policy Receipts	397.0	456	514	579	648	722
Current Policy Outlays	458.25	493	529	565	605	651
Current Policy Margin	-61.25	-37	-15	14	43	72
Fiscal Drag Offset	-- a/	11	21	41	63	70
Deficit (-) or Surplus	-61.25	-48	-36	-27	-20	2

a/ It is assumed that the spending ceiling and revenue floor in the second concurrent resolution are consistent with the fiscal stimulus needed for the economy to grow at the rate of 4.8 percent in fiscal year 1978. If more or less fiscal stimulus is required, corresponding adjustments would have to be made in the estimates of the fiscal drag offset for fiscal years 1979-1983.

THE PROJECTED DEFICIT UNDER LESS VIGOROUS ECONOMIC GROWTH

Under current policy assumptions, the receipts the federal government would be taking out of the economy would rise faster than the outlays it would be putting back into the economy in the form of wages, purchases, and payments to individuals. The fiscal drag exerted by the federal budget would itself tend to reduce economic growth. Consequently, for the economic assumptions to be realized, fiscal and monetary policy would, in all likelihood, have to be used to offset the fiscal drag.

As discussed in Chapter I, if tax cuts or spending increases were used to offset the restrictive effects of current policy budgets, the size of the offset would depend on the strength of nonfederal demand. Under the so-called "moderate" scenario for nonfederal demand used in that chapter, approximately $74 billion in tax cuts or spending increases would be required by fiscal year 1983 to offset the fiscal drag and keep the economy on the growth path. As seen in Table A-2, the current policy margin is approximately equal to the fiscal drag offset by fiscal year 1983, which implies that, under less vigorous economic growth and the moderate scenario for nonfederal demand, it might be possible to balance the budget by fiscal year 1983.

APPENDIX B. ALTERNATIVE SCENARIOS FOR NONFEDERAL DEMAND

The so-called "moderate" scenario for nonfederal demand assumed in Chapter I and Appendix A represents a plausible set of economic conditions over the next five years. It is by no means, however, the only possible outcome. Expansionary monetary policy or autonomous factors could give rise to a boom in the nonfederal sectors. On the other hand, external shocks such as an oil embargo or other factors might result in weaker growth in nonfederal demand than is assumed for the moderate scenario. This appendix provides rough estimates of the effect of alternative assumptions of nonfederal demand on projections of the deficit.

NONFEDERAL DEMAND: A MORE OPTIMISTIC SCENARIO

As discussed in Chapter I, stronger nonfederal demand would require less budget stimulus in the form of tax cuts or spending increases to achieve the assumed 4.8 percent growth rate. Table B-1 shows the effect of more optimistic assumptions of nonfederal demand on the fiscal drag offset. 1/ By fiscal year 1983, the offset would be only $64 billion, compared to about $115 billion under the moderate scenario. Because of the smaller fiscal drag offset, the budget is projected to be in balance by fiscal year 1982, when the current policy margin would be equal to the required offset.

NONFEDERAL DEMAND: A MORE PESSIMISTIC SCENARIO

If nonfederal demand were weaker than in the moderate scenario, larger tax cuts or spending increases would be required to offset fiscal drag. Table B-2 shows the effect of more pessimistic assumptions about nonfederal demand 2/ on the tax cuts and spending increases needed to

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1/ For this scenario, the personal saving rate is assumed to average 5.8 percent, and the annual growth in real investment to average 8.0 percent. The assumed annual increase in real state and local government purchases is 3.5 percent per year and real net exports are assumed to average $3 billion annually.

2/ Under the weaker nonfederal demand scenario, the personal saving rate is assumed to average 6.3 percent, and the annual growth of real investment to average 5.6 percent. The assumed growth rate of real state and local purchases is 2.25 percent annually. Net exports are assumed to be nearly balanced over the five-year period.

achieve the growth path used in Appendix A. 3/ Under this weaker nonfederal demand scenario, the current policy margin would be smaller than the fiscal drag offset throughout the projection period. The deficit would remain between $60 and $70 billion between fiscal years 1979 and 1983.

TABLE B-1. FIVE-YEAR BUDGET PROJECTIONS, ASSUMING STRONG NONFEDERAL DEMAND: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978 Second Concurrent Resolution	Projections 1979	1980	1981	1982	1983
Current Policy Receipts	397.0	457	519	590	668	751
Current Policy Outlays	458.25	495	529	565	606	655
Current Policy Margin	-61.25	-38	-10	25	62	96
Fiscal Drag Offset	-- a/	17	31	46	62	64
Deficit (-) or Surplus	-61.25	-55	-41	-21	--	32

a/ It is assumed that the spending ceiling and revenue floor in the second concurrent resolution are consistent with the fiscal stimulus needed for the economy to grow at the rate of 4.8 percent in fiscal year 1978. If more or less fiscal stimulus is required, corresponding adjustments would have to be made in the estimates of the fiscal drag offset for fiscal years 1979-1983.

3/ If nonfederal demand were as weak as in this scenario, it is unlikely that the economy would grow at the 4.8 percent rate assumed in Chapter I. Consequently, the results are only reported for the 4.0 percent growth path used in Appendix A.

TABLE B-2. FIVE-YEAR BUDGET PROJECTIONS, UNDER LESS VIGOROUS ECONOMIC GROWTH, ASSUMING WEAK NON-FEDERAL DEMAND: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978 Second Concurrent Resolution	Projections				
		1979	1980	1981	1982	1983
Current Policy Receipts	397.0	456	514	579	648	722
Current Policy Outlays	458.25	493	529	565	605	651
Current Policy Margin	-61.25	-37	-15	14	43	71
Fiscal Drag Offset	-- a/	32	53	81	110	136
Deficit (-) or Surplus	-61.25	-69	-68	-67	-67	-64

a/ It is assumed that the spending ceiling and revenue floor in the second concurrent resolution are consistent with the fiscal stimulus needed for the economy to grow at the rate of 4.8 percent in fiscal year 1978. If more or less fiscal stimulus is required, corresponding adjustments would have to be made in the estimates of the fiscal drag offset for fiscal years 1979-1983.

APPENDIX C. FEDERAL EXPENDITURES ON A NATIONAL INCOME ACCOUNTS BASIS

The unified budget and the federal sector of the national income accounts (NIA) both measure receipts and expenditures of the federal government. The national income accounts, however, focus on current income and production, and are, therefore, the most widely used indicator of aggregate economic activity.

The distinction between the unified budget and the NIA federal sector arises principally from netting and grossing differences, coverage differences, timing differences, and the NIA exclusion of financial transactions. Thus, both additions to and subtractions from the unified budget are required to obtain the national income accounts measure. The federal government's expenditures on a national income accounts basis are divided into several categories: defense and nondefense purchases, domestic and foreign transfers, grants-in-aid to state and local governments, domestic and foreign interest, and subsidies less the current surplus of government enterprises.

DIFFERENCES BETWEEN THE UNIFIED BUDGET AND FEDERAL EXPENDITURES ON A NATIONAL INCOME ACCOUNTS BASIS

Since the national income accounts focus on current income and production, they exclude transactions such as lending and borrowing that are merely asset and liability transfers. These activities certainly influence production and income but are not appropriately included in their measurement. The interest expended or earned as a result of financial transactions is, however, included in the NIA under the net interest category.

Just as lending and borrowing are excluded as exchanges of assets, so are bonuses paid on Outer Continental Shelf (OCS) oil leases and the purchase and sale of land. The unified budget treats OCS bonuses as proprietary receipts which are offset against outlays. This and other procedural differences mean that the federal surplus or deficit varies, depending on whether it is measured in unified budget or NIA terms.

Other differences between the federal sector of the NIA and the unified budget arise from certain netting and grossing adjustments. All such adjustments involve the subtraction or addition of identical amounts to both unified budget outlays and receipts. Thus, while netting and grossing operations affect the magnitude of receipts and outlays, they have no impact on the surplus or deficit. One example of a grossing adjustment involves government contributions for employee retirement. In the unified budget, these contributions are not reflected in the totals since they are offset by intragovernmental transactions. In the NIA, however, government contributions for employee retirement are included as part of employee compensation, a practice comparable to private sector accounting. On the expenditure side of the budget, these payments fall into nondefense purchases unless they are made by government enterprises, in which case they are reflected in the current deficit of government enterprises. On the receipts side, they are included in contributions for social insurance. Other netting and grossing items include imputed contributions for social insurance for unemployment compensation and for workman's compensation, receipts from certain government life insurance programs, and other transactions that are more properly classified as budget receipts rather than as budget expenditures or offsets to these. Finally, expenditures for the earned income tax credit, which appear as negative receipts in the unified budget, are treated as transfers in the NIA.

Timing differences account for another class of adjustments. Except for interest on the public debt (which is recorded on an accrual basis) unified budget outlays are recorded on a cash basis. In the NIA, various timing bases are used. In general, transfers and grants are recorded on a cash basis; interest, subsidies, and the current surplus/deficit of government enterprises are recorded on an accrual basis; and purchases are recorded on a delivery basis. Major timing differences occur in the defense area, in which the unified budget records outlays as they are made but the NIA record them at time of delivery.

Coverage differences comprise a final category of adjustments. Such differences involve the NIA geographical exclusion of transactions with Puerto Rico, the Virgin Islands, and other U. S. territories, and inclusion of certain foreign currency transactions not in the budget. Also included here are transactions of off-budget entities.

For an indication of the magnitude of the various kinds of adjustments, Table C-1 shows adjustment values for 1977 through 1983. 1/

1/ It is important to note that the adjustment categories given in Table C-1 are not directly comparable with those given in the Survey of Current Business (SCB). The principal difference arises from the methods used to include the transactions of off-budget entities. The SCB tables usually reflect total outlays of off-budget entities under "Coverage -- other"; adjustments to these totals then appear in the appropriate categories. The CBO method involves the addition of the relevant off-budget transactions only.

The projected growth in the adjustments for government contributions is reasonable, since these adjustments are heavily dependent on federal wage levels. Among other things, the growth in the other netting and grossing category reflects a projected increase in rents and royalties from the Outer Continental Shelf, treated in the NIA as budget revenues rather than as offsets to expenditures. Though the negative adjustment for net lending is projected to grow, it is important to note that the actual adjustment for a given year could easily deviate from the expected pattern if loan repayments or other transactions that have a positive impact upon net lending are higher than anticipated. The adjustment for defense timing is extremely volatile and can be expected to change. Likewise, variations in the OCS bonuses may occur. Though the "Other" category remains relatively stable, it includes two offsetting trends: an increase in geographical exclusions (a negative impact) and an increase in the estimated outlays of off-budget entities, mainly the Postal Service.

TABLE C-1. ADJUSTMENTS BETWEEN THE UNIFIED BUDGET AND FEDERAL EXPENDITURES IN NATIONAL INCOME ACCOUNTS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1977 Estimate	1978 Second Concurrent Resolution	Current Policy Projections				
			1979	1980	1981	1982	1983
Unified Budget Outlays	401.9	458.3	494.8	529.3	564.9	606.1	654.9
Lending and financial transactions	-1.7	-4.2	-6.1	-6.9	-7.1	-7.4	-7.5
Government contribution to employee retirement (grossing)	6.6	7.0	7.7	8.4	9.1	9.9	10.7
Other netting and grossing	3.3	3.8	4.0	4.4	4.8	5.3	5.9
Defense timing adjustment	3.1	0.4	0.3	0.3	0.3	0.3	0.3
Bonuses on Outer Continental Shelf land leases	1.7	2.0	1.7	1.7	1.9	2.3	1.3
Other a/	-2.8	-2.3	-2.2	-2.0	-2.1	-2.0	-1.8
Federal Sector, NIA Expenditures	412.1	465.0	500.2	535.2	571.8	614.4	663.8

a/ Includes nondefense timing adjustments, geographical adjustments, the appropriate transactions of off-budget entities, and so forth.

THE CBO NIA MODEL

The CBO national income accounts model is a simple tabulator which basically makes adjustments to the unified budget at the account level. A new feature of this model is a bridge component that enables it to keep track of the various reasons behind each adjustment that is made.

In general, four operations are carried out for each account: (1) a numerical adjustment (a fixed percentage of the unified budget) is calculated; (2) the adjustment is added or subtracted from the unified budget number to produce outlays on an NIA basis; (3) the resulting NIA number is spread by fixed percentages over the appropriate categories (purchases, transfers, and so forth); and (4) the adjustment is divided by fixed percentages among the relevant bridge items (lending, netting and grossing, and so forth).

The fixed percentages used in these calculations are based on detailed information describing the adjustments and spreads for 1974 and 1975. Wherever possible this adjustment pattern has been updated with the information provided in the 1977 and 1978 budget appendix, as well as with information from CBO program specialists. Items that are included in the NIA but not in the unified budget are computed by hand.

The basic NIA model has been functioning for slightly over a year; the bridge component was only recently completed. The model has been used to translate many different "budgets": the President's budget, House and Senate resolutions, and CBO budget estimates. In those instances in which the same budget is translated by the Bureau of Economic Analysis (BEA) or the Office of Management and Budget (OMB), the validity of the CBO model is measured by its ability to produce translations that are close to those of BEA and OMB. In this respect, the model now appears to be operating at a relatively high level of accuracy.

FEDERAL EXPENDITURES, NATIONAL INCOME ACCOUNTS, FISCAL YEARS 1978 TO 1983

Table C-2 displays national income account expenditures produced with the aid of the CBO NIA model. The underlying unified budget numbers, as well as the reconciliation between unified budget and NIA totals, are those presented in Table C-1. It is important to note that estimates of NIA totals and their distribution among categories are sensitive to numerous economic and budget assumptions. Variations in such assumptions can produce quite different NIA estimates.

The projected growth in purchases is close to the inflation rate that has been assumed for the projection period. The projected expenditures for transfers reflect both inflation and an increase in the number of social security recipients. The relatively small growth in grants is due to an assumed phaseout of the antirecession programs. The lack of change in the net interest category is attributable to the assumption that the budget deficit will decline during the projection period and the large increase in

TABLE C-2. ESTIMATES OF FEDERAL EXPENDITURES IN NATIONAL INCOME ACCOUNTS: BY FISCAL YEARS, IN BILLIONS OF DOLLARS

	1978 Second Concurrent Resolution	Current Policy Projections				
		1979	1980	1981	1982	1983
Purchases	160.9	172.0	184.7	196.0	211.3	226.7
Defense	101.7	109.5	118.4	128.3	138.3	149.0
Nondefense	59.2	62.5	66.3	67.7	73.0	77.7
Transfer Payments	183.9	201.3	218.2	238.1	259.2	286.3
Domestic	180.6	197.5	214.0	233.7	254.5	281.3
Foreign	3.3	3.8	4.2	4.4	4.7	5.0
Grants	78.1	78.0	79.8	81.4	84.6	88.9
Net Interest	33.7	36.6	39.0	40.5	41.7	41.9
Subsidies less Current Surplus	8.4	12.3	13.5	15.8	17.6	19.9
Subsidies	7.3	10.3	11.3	13.3	14.7	16.6
Less: current surplus	-1.1	-2.0	-2.2	-2.5	-2.9	-3.3
TOTAL	465.0	500.2	535.2	571.8	614.4	663.8

subsidies less the current surplus is influenced by, among other things, assumptions about the outlay pattern of the Commodity Credit Corporation, the Postal Service, and housing payments. Clearly, variations in assumptions about inflation, the size of the recipient population for transfer programs, the continuation of antirecession programs, and so on, would produce somewhat different estimates than those given in Table C-2.

THE SHORTFALL IN THE NATIONAL INCOME ACCOUNTS

Table C-3 compares BEA's translation of Carter's February budget (also the Third Concurrent Resolution on the Budget for Fiscal Year 1977) with an average of BEA's quarterly translations for fiscal year 1977. Based on this comparison there has been a significant shortfall in expenditures. This shortfall is most pronounced in transfers and grants, but is also quite evident in both defense and nondefense purchases.

TABLE C-3. FISCAL YEAR 1977 SHORTFALL ON A NATIONAL INCOME ACCOUNTS BASIS: IN BILLIONS OF DOLLARS

	Carter Budget/ Third Concurrent Resolution a/	1977 Actuals b/	Shortfall
Unified Budget Outlays	417.4	401.9	15.5
NIA Totals	426.3	412.1	14.2
Purchases	145.0	140.9	4.1
Defense	94.8	91.9	2.9
Nondefense	50.2	49.0	1.2
Transfer Payments	174.5	170.3	4.2
Domestic	171.2	167.1	4.1
Foreign	3.3	3.2	0.1
Grants	70.3	65.8	4.5
Net Interest	29.1	28.8	0.3
Subsidies less Current Surplus	7.4	6.3	1.1

a/ Numbers taken from U. S. Department of Commerce, Survey of Current Business, May 1977, p. 2.

b/ This column represents an average of the quarterly translations prepared by the Bureau of Economic Analysis. Data for the first three quarters of fiscal year 1977 were obtained from the Survey of Current Business, September 1977, Table 12, p. 12. Data for the final quarter are those that were released October 17, 1977.

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