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A REVIEW OF THE FY 1980 BUDGET RESOLUTION

The House and Senate have approved a FY 1980 First Resolution which reduces the FY 1979 deficit, offers a FY 1980 deficit lower than President Carter's, and projects a balanced budget in FY 1981. Unfortunately this achievement is not the result of incisive and sizable cuts in spending. Congress chose instead to rely on the expansion of tax revenues through inflation.

THE RESOLUTION

The first budget resolution sets as non-binding FY 1980 targets: revenues of $509 billion, budget authority of $604.4 billion, outlays of $532 billion, and a deficit of $23 billion. By comparision, President Carter's budget, revised March 15, calls for revenues of $503.9 billion, budget authority of $615 billion, outlays of $532.3 billion, and a deficit of $28.4 billion.

Under the budget process created in 1974, Congress sets targets not only for the aggregates but also for the functional categories. The latter figures serve as guidelines for the Appropriations Committees' line item spending decisions. Congress' functional allocation closely resembles that proposed by President Carter. (Table 1)

Major differences between House and Senate resolutions were lower defense spending and greater budget authority for Education, training, employment, and social services in the House. The House also voted to eliminate general revenue sharing for the states. The conferees, however, increased defense spending and restored $1.9 billion of the $2.3 billion in revenue sharing cuts. Although the original conference report cut the House's budget authority for education, $350 million was added after the House voted down the conference bill.

Congress' recent budget action also contains a revision of the FY 1979 Second Resolution. The current deficit is reduced from $38.8 billion to $33.5 billion. This seemingly auspicious

Table I

FY 1980 FUNCTIONAL CATEGORIES

	Budget Authority	Outlays
	(in millions)	
National Defense	136,600	124,200
International Affairs	12,600	7,900
General Science, Space, and Technology	5,700	5,500
Energy	18,800	6,800
Natural Resources and Environment	12,600	11,700
Agriculture	5,000	5,400
Commerce and Housing Credit	6,900	3,200
Transportation	19,450	18,200
Community and Regional Development	8,900	8,100
Education, training, employment and social services	30,850	30,500
Health	58,100	53,600
Income Security	214,800	183,300
Veterans Benefits and Services	21,200	20,600
Administration of Justice	4,200	4,400
General Government	4,400	4,300
General Purpose Fiscal Assistance	8,100	8,100
Interest	56,000	56,000
Allowances	-100	-100
Undistributed Offsetting Receipts	-19,700	-19,700

event is attributable entirely to the higher revenue estimates due to inflation. The revision actually increases FY 1979 budget authority by $3.6 billion and outlays by $7 billion. (Table 2.)

During debate on the debt limitation ceiling, Senator Russell Long (D.-La.) proposed, and Congress accepted, an amendment requiring the Budget Committees to prepare alternative budgets projecting a balance in either FY 1981 or FY 1982. Congress has within the first resolution indicated its preference for a balanced budget in FY 1981, a course which precludes a tax cut. Under this scenario outlays will rise 16.8 percent from FY 1979 to 1981. In contrast total revenues will rise over 26 percent. A tax cut affecting FY 1982 is foreseen.

Table II

BUDGET AGGREGATES

	FY 1979 (revised)	FY 1980	FY 1981	FY 1982
Revenues	461.0	509.0	583.3	621.0
Budget Authority	559.2	604.4	640.3	691.6
Outlays	494.45	532.0	577.7	616.9
Deficit/Surplus	33.45	23.0	+5.6	+4.1

SPENDING

During the past several years the U.S. economy has been blessed with exceptional real growth and plagued by increasingly virulent inflation. The classic economic prescription is a restrictive fiscal policy. Yet Congress has failed to follow such a course. The first budget resolution, while modest, is not so severe as economic circumstances dictate. FY 1979 outlays rise 9.7 percent. During FY 1980 outlays increase another 7.6 percent. The deficit of $23 billion brings the five year total to $216.7 billion, all while the economy was growing at a strong pace.

A test of Congress' budget cutting fervor may be provided by its action, or inaction, on several "legislative savings" assumptions built into the conference report. Failure to enact all of the recommendations may result in another $4.3 billion in 1980 outlays.

<u>Hospital Cost Containment</u>: Congress anticipates an outlay savings of $1.4 billion in Medicare and Medicaid expenses upon passage of cost containment legislation.

<u>Medicare and Medicaid</u>: It is assumed that various reform measures, such as requiring states to audit Medicaid providers, will produce FY 1980 savings of $404 million.

<u>Veterans Benefits</u>: Congress expects to save $262 billion in outlays from legislation requiring private insurers to pay for the non-service-related health care treatment received at veterans hospitals.

<u>Child Nutrition Program</u>: The House Budget Committee has projected a savings of $509 million through a tightening of various eligibility requirements.

<u>Aid to Families with Dependent Children</u>: An estimated $208 million is expected to be saved if legislation tightening income requirements and work expenses is enacted. A further $74 million is to be saved if the child support enforcement proposals are passed.

<u>Food Stamps</u>: It is assumed that changes in the food stamp program, offered by the administration, will produce FY 1980 savings of $152 million.

<u>Additional savings</u>: Include Wage Board salary reform, reducing cost of living increases for federal retirees to once a year, and cutting the impact aid program.

Several of these measures have been included in past Budget Committee reports. Their return attests to the uncertainty of their implementation. This year, in an effort to more closely pursue the legislative savings, House standing committees are to report to the Budget Committee, by July 1, on their actions. At that time it will be possible to better judge the sincerity of Congress in cutting spending.

REVENUES

The tremendous concern about budget austerity is motivated by the desire to use fiscal policy as an anti-inflation tool. Ironically, the austerity of the budget, as measured by a smaller deficit, is largely the result of inflation's multiplicative effect on federal revenues. Salaries or wages, adjusted for inflation, are pushed into higher tax brackets. Federal revenues thus grow at a rate faster than inflation. It is estimated that "bracket creep" will add an additional $8 billion in federal revenues in FY 1980.

The decision to forego any tax cuts in both FY 1980 and FY 1981 has caused critics to charge that Congress is "balancing the budget on the public's back." The combined effect of less purchasing power, "bracket creep," and higher social security taxes have caused a decline in real, after tax income over the past few years.

A family of four, with one wage earner, has over the past five years, lost $241 in real after tax income, despite tax cuts in 1977 and 1979 (Table 3). Similar losses have been experienced by a variety of taxpayer permutations. The performance of real after tax income appears even more discouraging when contrasted with real economic growth rates of 5.7 percent (1976), 4.9 percent (77), 4.0 percent (78) and conference estimates of 3.3 percent (79) and 2.1 percent (80). Congress has placed a higher priority on a balanced budget in 1981, without substantial cuts in spending, than on protecting the taxpayer's real spendable income.

CONCLUSION

Congress has been under intense scrutiny during the development of its budget. The threat of a constitutional amendment mandating a balanced budget and the ever worsening inflation provided Congress with an unprecedented impetus toward genuine budget stringency. Congress' response has been inadequate. Spending cuts have been minor, and in several cases problematical. Most disappointing has been Congress' decision to attain a balanced budget through the hidden tax of inflation. As a result the taxpayer will, over the next two years, continue to experience a decline in real spendable income.

Eugene J. McAllister
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EFFECT OF INFLATION AND FEDERAL TAXES ON THE REAL INCOME OF

REPRESENTATIVE HOUSEHOLDS, 1976-80

(1976 = 100)

Household:	1976	1977	1978	1979	1980
Household I:					
Gross Income............	$13,000	$13,884	$15,134	$16,602	$17,830
Legislated Tax..........	-2,717	-2,707	3,070	3,514	3,897
Cumulative Inflation....	(2)	-712	-1,700	-2,839	-3,829
Net Real Income.......	10,283	10,467	10,364	10,249	10,104
Household II:					
Gross Income............	15,000	16,020	17,462	19,156	20,688
Legislated Tax..........	2,672	-2,761	-3,124	-3,613	-4,001
Cumulative Inflation....	(2)	-844	-2,020	-3,371	-4,586
Net Real Income.......	12,328	12,415	12,318	12,169	12,101
Household III:					
Gross Income............	17,000	18,156	19,790	21,710	23,446
Legislated Tax..........	-2,817	-2,821	-3,236	-3,756	-4,220
Cumulative Inflation....	(2)	-976	-2,332	-3,894	-5,284
Net Real Income.......	14,183	14,359	14,222	14,060	13,942
Household IV:					
Gross Income............	20,000	21,360	23,282	25,541	27,584
Legislated Tax..........	-4,075	-4,067	-4,788	-5,296	-5,935
Cumulative Inflation....	(2)	-1,101	-2,606	-4,391	-5,950
Net Real Income.......	15,925	16,192	15,888	15,854	15,699
Household V:					
Gross Income............	25,000	26,700	29,103	31,926	34,480
Legislated Tax..........	-5,313	-5,513	-6,290	-6,891	-7,701
Cumulative Inflation....	(2)	-1,349	-3,214	-5,430	-7,360
Net Real Income.......	19,687	19,838	19,599	19,605	19,419

1 Household I, a single wage earner; household II, a family of 2 with 1 wage earner; household III, a family of 4 with 1 wage earner; household IV, a family of 2 with 2 wage earners; household V, a family of 3 with 2 wage earners.

2 Not applicable.