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THE FY 1980 BUDGET: SEVERAL QUESTIONS

INTRODUCTION

On September 19th, the Senate passed its Second Budget Resolution for FY 1980. Eight days later the House, on the second attempt, passed its counterpart. A conference committee will now reconcile the two bills. This task however promises to be rather controversial as the Senate and the House differ on several substantial points. Key elements of disagreement will likely be Senate defense spending, House revenue estimates, and the question of directing substantive committees to make cuts in existing or approved outlays.

THE RESOLUTIONS

Both Senate and House resolutions have grown substantially in relation to the non-binding resolution agreed to four months earlier. Outlays for instance rise from the \$532 billion of May to \$546.3 billion (Senate) and \$548.2 billion (House). Of this increase, \$7.4 billion is attributable to the worsened economic prognosis and the anticipated rise in unemployment compensation and inflation-indexed benefits, such as social security benefits. New outlays within the 2nd Resolution include funds for energy, targeted fiscal assistance to communities, and an accommodation to the recently recommended 7 percent federal pay raise.

The deficit increases from the May estimate of \$23 billion to \$31.6 billion (Senate) and \$28.9 billion (House). The amount of red ink might be a point of contention as the House rejected the Budget Committee's first recommendation ostensibly because the \$29.2 billion deficit was too large.

Table 1

	FY 1979	FY 1980	1st Resolution	FY 1980 Senate	2nd Resolution House
Budget Authority	559.2		604.4	636.6	631.8
Revenues	461.0		509	514.7	519.3
Outlays	494.45		532.0	546.3	548.2
Deficit	33.45		23.0	31.6	28.9

(All figures above in billions of dollars)

During floor debate, both Houses rejected amendments to include within the budget room for the much anticipated 1980 election year tax cut. Opponents of the cuts claimed that such an action would only add fuel to the inflationary fires. It was also charged that such a cut might miss entirely the apparently shallow recession and instead take effect during the upswing.

Proponents of the tax measures argued that Congress should not resign itself to the pessimistic forecasts offered by the Budget Committees. (Table 2) The House Republican Budget of Hope offered by Congressman Delbert Latta (R-Ohio) and defeated 187-230, contained supply side tax cuts and nearly \$20 billion in proposed spending cuts. Designed as an alternative, the Republican tax cut, although unspecified, left room for personal income tax cuts to offset the real income reducing effects of inflation, acceleration in depreciation rates to stimulate business investments, and to reduce inflationary pressures, a cancellation of the scheduled social security tax increase. A similar measure in the Senate, offered by Senator William Armstrong (R-Colo.), was defeated 38-61.

Table 2

Economic Assumptions	1980 Calendar Year
Real G.N.P. Growth Rate	0.9%
Inflation (C.P.I.)	9.3%
Unemployment	7.2%

DEFENSE

The Senate Budget Committee recommended FY 1980 defense budget authority of \$136.8 billion and outlays of \$127.4 billion. On the floor, however, the Senate, by a vote of 78-19, accepted an amendment by Senator Ernest F. Hollings (D-S.C.) to increase the Budget Committee outlay recommendation by \$3.2 billion and authority by \$4.4 billion. The second portion of the Hollings amendment, a resolution to increase FY 1981 and 1982 real defense spending by 5 percent each year was approved 55-42. Since one Congress cannot bind another, the out year increases merely serve as recommendations.

Table 3
Defense Budget

	FY 1980		FY 1981		FY 1982	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Senate	141.2	130.6	159.8	145.6	180.4	163.3
House	138.2	128.6				

(All figures above in billions of dollars)

The House resolution calls for FY 1980 defense budget authority of \$138.2 billion and outlays of \$128.6 billion. These are \$3 billion and \$2 billion below the Senate's allocations. Separate amendments to increase FY 1980 defense outlays by \$0.4 billion and \$4.7 billion, were offered by Congressmen Samuel S. Stratton (D-NY) and Eldon Rudd (R-Arizona) respectively. The Stratton amendment was defeated 191-221 and the Rudd proposal by an unrecorded vote.

REVENUE

Since last May the Senate has revised its FY 1980 revenue estimates up from \$509 billion to \$514.7 billion. The additional \$5.7 billion results in part (\$3.7 billion) from inflation pushing incomes into higher tax brackets. The remaining \$2 billion is expected to follow from current legislation such as the windfall profits tax and restrictions against mortgage subsidy bonds. Included within the \$2 billion are the revenues resulting from President Carter's proposed cash management policies.

Although the House deficit is \$2.7 billion below the Senate's, the difference is entirely attributable to the more generous House revenue estimates. The Senate has actually allocated less in outlays than has the House. The House resolution assumes a revenue level of \$519.25 billion, \$4.55 billion more than the Senate. The source of the additional revenue is the House's much more optimistic assumptions concerning the short-run effects of current initiatives. Based on the same actions from which the Senate expects to net a \$2 billion revenue increase, the House anticipates \$6.8 billion.

Although refusing to make room for a general tax cut in the FY 1980 budget, the House did accept, by a 221-176 vote, an amendment presented by Congressman Lawrence Coughlin (R-PA) to reduce revenues by \$250 million in anticipation of a tuition tax credit.

RECONCILIATION

Just as the term "balanced budget" dominated the development of the First Budget Resolution, the term "austerity" has permeated

the second. Unfortunately, Congress appears more willing to impose austerity on the taxpayer than on itself. Contained within the Budget Resolution approved in May was an assumption that legislative committees would make substantive changes in law and thereby effect \$5.6 billion in savings. To date less than 30 percent of these measures have been enacted.

Under the Congressional Budget and Impoundment Control Act of 1974, Congress may direct the legislative committees to make spending cuts in order to comply with the budget resolution. The Senate Budget Committee included within its resolution, reconciliation language directing seven committees to reduce aggregate spending by \$4 billion and budget authority by \$3.15 billion.

After a series of caucuses with Senate majority leadership, a compromise to the reconciliation directions, permitting the Appropriations Committee to decide from which bills to make the cuts, was achieved. The Finance Committee was permitted to exclude \$300 million of the \$1.7 billion in cuts contained in the Budget Committees' directions. The Veterans Affairs Committee was also spared \$100 million in Budget Committee-mandated cuts. The compromise, offered as an amendment by Budget Committee Chairman Edmund S. Muskie (D-Maine) was accepted by a floor vote of 90-6. A counter-amendment offered by Senators Pete V. Domenici (R-N.M.) and Budget Committee ranking minority member Henry Bellmon (R-Okla.) would have required the Appropriations Committee to hold the remaining appropriations bills until all were passed. At that time, if the sums allocated surpassed the Budget Resolution, Appropriations would have to immediately report a rescission or reconciliation. The proposal was defeated 37-59.

The House Budget Committee, while acknowledging the discrepancy in appropriations and legislative savings in its report, did not include reconciliation language within the budget approved by the House.

CONCLUSION

The FY 1980 Second Budget Resolution poses some serious questions about the effectiveness of the budget process. In 1977, Congress enacted what were effectively four budget resolutions, as it accommodated President Carter's proposed, and later withdrawn, tax rebate. Should Congress readjust the Second Resolution to fit a tax cut, the effectiveness and discipline of the budget process will be undermined.

A second test of the budget process is the reconciliation provision included in the Senate resolution. If the conference committee or the House reject the Muskie compromise, an opportunity to strengthen the process will have been missed.

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