



### The 1977 Budgets: President, Congress and Health (1976)

Pages  
57

Size  
8.5 x 11

ISBN  
0309346541

Turen, Milton; Institute of Medicine

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The 1977 Budgets: President, Congress,  
and Health

A Staff Paper

by Milton Turen

July 1976

National Academy of Sciences

Washington, D.C.

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## INTRODUCTION

The budget for the Fiscal Year 1977, beginning October 1, 1976 was prepared by the Administration and is being considered by Congress under new procedures and timetables laid down by the Congressional Budget Act of 1974. A major new requirement of that law is a "concurrent resolution" to be adopted by Congress no later than May 15. The resolution establishes upper limits for revenues, expenditures, and the size of the deficit, which are to guide the Congress and its committees in subsequent detailed action on the Budget. The resolution also divides total expenditures among major functional areas, such as defense and health, sets guidelines for the revenue-raising committees on total receipts required, and even suggests tax revisions.

The first concurrent resolution, adopted on May 13 this year, is not the final word. Congress, recognizing that changes should be possible before the fiscal year begins October 1, made provisions for a second concurrent resolution, to be enacted in September, which will be binding.

Three additional aids to fiscal planning also are mandated by the Congressional Budget Act: the current services budget, five-year projections, and "tax expenditure" estimates. The current services budget (CSB) is an estimate of receipts and expenditures if existing laws and policies were to continue, but taking into account alternative possibilities for such economic factors as unemployment and inflation. The comparison of a proposed budget with the CSB highlights the differences caused by recommended changes in policies, and differentiates them from changes in economic assumptions. The five-year projection shows the trend expected from policies and decisions made for the coming fiscal year. Estimates of tax expenditures describe the loss of revenue caused by special exemptions or exceptions in the application of the "normal" tax laws. A policy or objective often can be attained through a tax expenditure as well as through a federal program and outlay. New procedures and timetables stipulated by the Congressional Budget Act are in Table A of the Appendix.

This Institute of Medicine staff report on the 1977 budget takes into account the new Budget process and compares the presidential recommendations with the guidelines Congress has set for itself in the first concurrent resolution.

The President submitted his 1977 Budget recommendations on January 21, 1976, estimating 1976 expenditures at \$373.5 billion with a deficit of \$76.0 billion, and recommending 1977 expenditures of \$394.2 billion with a deficit of \$43.0 billion. On March 21, however, the President submitted revised estimates, adding almost another billion dollars to the 1976 and the 1977 expenditures and their resulting deficits. The increases stemmed mainly from larger than expected 1976 congressional appropriations enacted after January 21, particularly for health and education, but also reflected an upward revision in the cost of the President's proposal to expand Medicare coverage of catastrophic medical costs. Although noting favorable

economic developments since January, the March revision did not make any significant changes in estimates of budget receipts or in long-term projections of receipts and expenditures after 1977. In the text and table of this paper, dollar amounts in the President's (Administration's) budget generally will follow the March revisions for 1976 and 1977 and the January figures for projections beyond 1977.

The following pages highlight the overall 1977 budget, the trend for the next five years, and discussion on the health programs in the budget. Unless otherwise indicated, all years are fiscal years, which prior to 1977 began July 1 and ended June 30. Beginning in 1977, the fiscal year runs from October 1 to September 30.

A special three-month budget covers the period July 1 to September 30, 1976. This is a transitional budget; for ease of presentation in this paper, the pertinent total figures for this period are shown below and excluded from the text and tables in the subsequent sections.

	<u>President</u>	<u>Congress</u>
	<u>(dollars in billions)</u>	
Total receipts	\$81.9	\$ 86.0
Total outlays	98.5	102.2
Deficit	-16.6	-16.2

Rounding the numbers in the tables may preclude their adding to the stated totals. The estimated numbers are as of the middle of May 1976. Developments after that may result in revisions and re-estimates, but, unless they are due to changes in policy choices, the revisions are not expected to change the major points of the analysis in this report.

The last page of this report contains a self-addressed questionnaire. We ask you to cut it out, complete it and return it to the Institute of Medicine. Your replies will help us in publishing future papers of the most possible benefit to you.

## Part I: THE OVERALL BUDGET

### The Budget and the Economy

The budget, particularly in its recommendations for change, reflects the social and political objectives in two regards. As a fiscal plan, its spending and taxing proposals are designed to affect the general state of the economy. As a resource allocation plan, it apportions the nation's resources between public and private direction and distributes them within the federal area.

As a fiscal plan, the President's 1977 budget is mildly restrictive. It posits that the economy is sufficiently on the rise so that the large federal stimulation conducted in fiscal year 1976 is no longer required. The budget projects that growth in the private sector of the economy can be expected to continue and will remove the slack that prevailed in calendar years 1974 and 1975. As shown in Table 1, the Administration forecasts that Gross National Product (GNP) in constant dollars will begin in calendar 1976 to exceed the calendar 1974 level. The Administration's fiscal plan is based on accelerating the decline in the rate of inflation rather than the decline in the unemployment rate. The Administration projects that the annual increase in the consumer price index will be down to 4 percent by 1981 and the rate of unemployment down to 4.9 percent.

The 1977 budget projects a budget deficit of \$44.6 billion, as against \$77 billion in 1976 (Table 2). Budgets proposed by President Ford in prior years have indicated his view that the federal fiscal plan should be a countervailing influence, and particularly that it should stimulate a depressed economy. An analytical tool to assess that effect is the full employment budget, which measures receipts and expenditures under conditions of "full" employment--not more than 4 percent unemployment. Changes in the full employment surplus or deficit from one year to the next provide a measure of the budget's impact on the economy. A move toward surplus shows restraint; towards deficit, stimulation. As shown in Table 2, under the President's tax and spending proposals there is a shift from a full employment deficit of \$16 billion in 1976 to a surplus of \$3 billion in 1977. This surplus shift of \$19 billion contrasts sharply with the deficit shift of \$22 billion from 1975 to 1976 and indicates clearly the decision that economic recovery and growth should rely more on the private sector of the economy and that the federal fiscal plan should aim at restraint rather than add to private stimulation. In part, the 1977 budget also embodies a basic policy to reduce the federal share of GNP. This policy is discussed in later sections.

The congressional budget is less sanguine about the private sector's recovery, more concerned with achieving a faster decline in the rate of unemployment, and not committed to reducing the federal share of GNP.

Table 1

Economic Indicators - 1974-1977  
(Calendar years. \$ in billions)

<u>Indicator</u>	<u>Actual</u>		<u>Forecast</u>			
	1974	1975	<u>President</u>		<u>Congress</u>	
			1976	1977	1976	1977
Gross National Product						
Current Dollars	\$1,407	\$1,499	\$1,684	\$1,890	\$1,685	\$1,885
Constant (1972) dollars	1,211	1,187	1,260	1,332	1,262	1,338
Unemployment rate (%)	5.6	8.5	7.7	6.9	7.4	6.5
Percent annual change in Consumer Price Index	11.0	9.1	6.3	6.0	6.0	5.5

Source: The Budget F.Y. 1977, pp. 25-26.

Conference Report, First Concurrent Resolution on the Budget, F.Y. 1977,  
House Report No. 94-1108, p. 6.

Table 2

Overall Budget Recommendations - 1977 Budget

(\$ in billions)

	<u>Actual</u>	<u>Estimate</u>	<u>1977 Recommendations</u>	
	1975	1976	<u>President</u> 1976	<u>Congress</u> 1977
	<u>Regular Budget</u>			
Budget Receipts	\$281.0	\$297.5	\$351.3	\$362.5
Budget Outlays	324.6	374.4	395.8	413.3
Deficit or Surplus	-43.6	-76.9	-44.6	-50.8
Budget Authority	412.1	409.8	431.2	454.2
	<u>Full Employment Budget</u>			
Receipts	323	347	389	394
Outlays <sup>1/</sup>	317	363	386	405
Surplus or Deficit	6	-16	3	-11

<sup>1/</sup> Lower than the outlays under the regular budget because of a decline in outlays for unemployment assistance and other related programs.

Source: Budget F.Y., 1977, pp. 2,28,31,35 and Spring Update issued March 25, 1976 by the Office of Management and Budget.  
House Report No. 94-1108 and conversations with staff of House Budget Committee.

Though not shown in Table 1, the congressional view is that under the President's plan the 1977 economic recovery would be slower, that GNP would be lower and that unemployment would be significantly higher than 6.9 percent. Accordingly, the congressional budget proposes higher 1977 budget outlays of \$413.3 billion and a deficit of \$51 billion. As shown in Table 2, under the full employment budget criteria, the congressional recommendation is only slightly stimulative as the full employment deficit drops from \$16 billion to \$11 billion. The congressional approach tempers its fiscal objective by its desire to keep the regular deficit near the \$50 billion level. While this budget proposes almost \$18 billion more in outlays than the President's, it also rejects some of the President's tax reduction proposals and thus adds \$11 billion more in federal receipts. As the fiscal impact stems from the difference between receipts and expenditures, the higher \$6 billion deficit indicates that the congressional fiscal plan is aimed more at rejecting the President's restraining thrust than at significant stimulation of the economy.

Furthermore, the higher congressional deficit is attributable to the \$6 billion included for programs to create about one million jobs. Should actual economic developments over the ensuing months come closer to the President's projections, the Congress may reconsider the needed level for job stimulus and in effect approach the President's proposed deficit. The key congressional budget decision relates to the long term--rejecting the presidential policy objectives to reduce the federal share of GNP, and unlike the President's plan, seeks to reduce rather than add to tax-expenditure benefits now provided in our income tax laws.



## Deriving the Base for the 1977 Budget

The budget document highlights the funding differences, up or down, between the current year's program and those proposed for the coming year. The following spending table summarizes the major differences between the budgets of the President and the Congress. Although the latter does not specify its 1976 base, the deliberations of the House and Senate budget committees indicate that the Congress would generally agree with the revised 1976 estimates submitted by the President in March.

	<u>1976</u>	<u>1977</u>	<u>1977</u>
		<u>President</u>	<u>Congress</u>
		(dollars in billions)	
Total spending	\$374.4	\$395.8	\$413.3
Defense	92.8	101.1	100.8
Human Resources	199.9	207.5	219.7
Physical Resources	42.5	42.2	47.7

Because the Administration expects prices to rise a little more than 6 percent, its proposed 5.7 percent increase in total expenditures indicates a drop in real federal spending, and is a marked reduction from the 15 percent increase between 1975 and 1976. The President's budget also reflects a policy decision to increase the amounts spent for defense (9 percent over 1976) while holding spending for human resources and social programs to a 3.8 percent rise over 1976.

The congressional budget proposes a 10.6 percent increase in total spending and, while endorsing almost 9 percent increase for defense, allows for a 10 percent increase in social programs.

Comparisons of budget proposals with the current year's base, however, are not completely satisfactory. They do not easily differentiate among the changes that are due to policy proposals, economic assumptions, built-in program trends, or the revisions due to more current experience. Accordingly, the Congressional Budget Act of 1974 has required the use of a new tool--the current services budget (CSB). This budget provides estimates of funding requirements based on the assumption that current laws and policies will be unchanged, that allowances will be made for price increases except where existing law imposes a ceiling, and that programs of rights and benefits (such as Social Security and Veterans benefits) will respond to assumed population and economic trends and will be honored in ensuing budget outlays. On November 10, 1975, the Administration submitted a CSB for 1977. The Congressional Budget Office released its 1977 CSB on January 26, 1976.

Two points should be emphasized concerning the CSB. First, it is not a recommended budget, nor a prediction of what the figures will turn out to be, nor a prediction that the underlying economic assumptions will be made

Table 3

Comparison of Congressional and Administration  
1977 Current Services Budgets  
(outlays; \$ in billions)

	<u>Administration</u> (OMB)	<u>Congress</u> (CBO)
TOTAL	\$414.5	\$424.9
National Defense	103.1	103.4
International Affairs	6.4	6.8
Human Resources	<u>220.2</u>	<u>223.4</u>
Income Security	<u>146.1</u>	<u>145.6</u>
Health	37.7	37.7
Education, Manpower & Social Services	18.4	21.4
Veterans Benefits & Services	18.0	18.7
Natural Resources, Environment & Energy	14.1	14.2
Commerce and Transportation	18.1	18.4
Community and Regional Development	6.2	7.6
Agriculture	2.2	2.3
Interest	41.9	42.2
All other functions	18.7	19.7
Contingency Allowances	4.8	2.2
Undistributed Offsetting Receipts	-21.2	-15.3
Economic Assumptions for Calendar Year 1977		
Unemployment rate (percent)	7.4	7.5
Percent change in CPI index	6.9	6.9
GNP in billions of current dollars	\$1.893	\$1.845

Source: Current Services Estimate, Office of Management and Budget,  
November 10, 1975 (Path I)  
Five Year Budget Projections, Fiscal Years 1977-81,  
Congressional Budget Office, January 26, 1976 (Path B)

to prevail; the CSB only seeks to present a "neutral" estimate against which recommended changes or choices can be compared. Second, while the CSB attempts to be neutral, it is not an automatic accumulation of agreed-upon figures; it can differ depending upon different assumptions, such as those about prices or unemployment.

Public understanding of the President's January budget document would have been enhanced had it included a table and a discussion relating his November CSB, and its total expenditures of \$414.5 billion, to his January 1977 proposals, which recommended \$394.2 billion. (Appendix Table B, developed by the Institute of Medicine provides the relationship.) And, although the Congressional Budget Office developed two CSBs based on two sets of economic assumptions, neither one used the assumptions employed by the Administration. Again, public understanding would have been improved if the Congressional Budget Office had prepared one CSB that followed the Administration's economic assumptions.

Nevertheless, it is possible to compare the CSB prepared by the Administration with one prepared by the Congressional Budget Office and find assumptions of almost identical economic trends. This is shown in Table 3. The congressional version is \$10.4 billion larger mostly because it (1) includes \$7.5 billion more for all programs to keep pace with inflation, whereas the Administration model only adjusted those programs for which legislation or contracts explicitly provided adjustments; and (2) estimates lower receipts to offset selected expenditures and provides a smaller allowance for contingencies, resulting in a \$3.3 billion increase in spending.

## Resource Allocation Proposals

A comparison of the 1977 current services budget with the budget recommendations reveals the major proposed policy changes as well as those changes that are due to re-estimates based on more current experience or changes in economic projections. The overall pertinent figures are:

	<u>CSB base</u>	<u>Recommendations</u> (in billions)	<u>Difference</u>
President's estimate	\$414.5	\$395.8	\$-18.7
Congressional estimate	424.9	413.3	-11.6

Although both budget recommendations for 1977 propose some individual increases above the CSB, principally in selected defense and energy programs, the net overall effect of these recommended budgets is a reduction.

The presidential and congressional recommendations are based on more favorable economic assumptions than underlay the respective CSB developed some months earlier. In each CSB the unemployment rate was 7.4 or 7.5 percent and the annual change in the consumer price index was 6.9 percent; in the later recommendations, the President assumed 6.9 and 6.0 percent respectively, and the congressional recommendation was based on 6.5 and 5.5 percent. As shown in Table B in the Appendix, these more favorable economic projections coupled with other re-estimates based on more current experience yielded an outlay savings of \$7 billion in the President's budget; a similar analysis of the congressional budget by Institute of Medicine staff showed similar savings of about \$6.5 billion.

Both budget recommendations also propose policy changes that yield reductions from the CSB. The major savings from policy changes in the Administration's budget are detailed in Table 4. Because this table shows the recommended policy reductions but omits selected increases, it shows a larger total than the net figures listed in Table B in the Appendix.

The congressional budget also proposes policy changes that would reduce spending about \$6 billion below its CSB. The items marked by asterisk on Table 4 are those areas for which the first concurrent resolution has suggested policy changes to guide its legislative and appropriation committees. For these items the congressional budget agrees with the President that program changes are needed to reduce spending, though not the same dollar reductions, nor necessarily the same policy changes as recommended by the President.

In summary, the congressional budget, like the President's (1) provides for discretionary increases in defense and energy programs; and (2) proposes changes to contain the built-in increases in federal, civilian and military pay and retirement benefits, in various federal income maintenance programs and in Medicare and Medicaid. But the Congress rejected the President's major reductions in his proposal for block grants in health, education, and child nutrition. Finally, unlike the President's, the congressional budget includes over \$6 billion for job stimulus programs and provides for increases to adjust for inflation, particularly for veterans benefits and for grants to states. A more detailed comparison of the presidential and congressional budget is shown in Table C in the Appendix.

Table 4

Major Savings\* from Recommended Policy Changes  
in Fiscal Year 1977  
(\$ in billions)

I.	Letting existing programs or special provisions expire as scheduled under existing law and recommending against their extension.	
A.	Those providing benefits to or for the unemployed	
	1. federal extended unemployment benefits and allowances	\$ 0.9
	2. temporary employment, training, and assistance grants	1.2
	3. public works employment and economic development grants	0.2
B.	Special earned income credit (negative income tax) for low income individuals with dependents	0.6
C.	Special transitional grant to the Postal Service to help meet the postal deficit	0.3
II.	Proposed new legislative or regulatory changes to reduce existing programs.	
A.	Federal civilian and military employees	
	*1. lower rate of increase than would occur under existing regulations	3.6
	*2. eliminate provisions that increase annuities by one percentage point more than CPI increase and other changes in military retired pay	0.2
B.	Income Maintenance and Veterans Benefits Programs	
	*1. tighten eligibility requirements in Food Stamps Program	2.6
	*2. tighten eligibility requirements in the program providing welfare payments to families with dependent children	0.2
	*3. changes in the Social Security program <sup>1/</sup>	0.8
	4. reduced housing subsidy grants by tighter income eligibility criteria	0.1
	5. tighten eligibility requirements in various child nutrition programs	0.7
	6. curtail selected aspects of veterans benefits and require third party insurers to reimburse for medical care provided in VA facilities	0.8
C.	Health	
	*1. changes in Medicare providing for coverage of catastrophic costs, more cost sharing by patients, and ceiling on increase to be paid to hospitals and physicians	2.2
	2. Health Service Block Grant to replace Medicaid and 15 other grant programs	0.8
D.	Other	
	1. new Education Block Grant and revision in existing Federal "impact" aid program.	0.6
	TOTAL	\$ 15.8

\* See text for meaning.

<sup>1/</sup> Substitute an annual for the monthly retirement test; phase out benefits to student dependents; correct the existing double inflation adjustment to future benefits of current workers; remove current lump sum payment which acts as incentive to early retirement.

Source: Developed by Institute staff. Note that table is based on January Budget not the March revision. For the latter, total savings would be about \$1 billion lower.

## Trends in Budget Spending Priorities

Federal spending over the past 15 years has undergone a marked shift in emphasis from defense to human resources and social programs. Spending on defense declined from 48 percent of the total in 1961 to about 25 percent in 1976. Human resource spending rose from 30 to 53 percent in that same period, principally because of growth in spending for Social Security, food stamps, Medicare, and Medicaid. This trend shows up when expressed either as spending in current dollars (Table 5), which reflect price increases as well as shifts in real resources, or in constant dollars as shown in Table D in the Appendix. Arranged another way the figures in Table 5 would show that of every dollar increase in federal spending from 1961 through 1975, 18 cents went for defense and 61 cents for human resources--mainly health (13 cents) and income support (39 cents). For each dollar increase from 1975 to 1981, the President proposes to allocate 30 cents for defense and 50 cents for human resources. The congressional budget as projected by the Institute of Medicine to 1981 would, for the 1975-1981 period, spend twenty-five cents for defense and 55 cents for human resources.

The shift in federal spending emphasis has been accompanied by an increase in the share of GNP taken and directed by the federal government. As a percentage of GNP, total federal spending rose from 18 percent in 1955 to 22 percent in 1975. In 1976, it is expected to approach 24 percent because of high unemployment, which increased federal benefit outlays and lowered GNP.

These trends have raised concerns that the federal budget is uncontrollable and that more and more of the future GNP will be directed by the federal government. The President's 1977 budget attempts to reverse this trend in three ways. The first is to reduce federal income tax receipts, making less funds available to support growth in federal programs. The second is to seek legislative and regulatory revisions, detailed earlier in this paper, to slow the growth of existing human resource programs so that by 1981 they will have dropped slightly to 51 percent of the total budget. The third measure proposed by the President is to back away from welfare reform or national health insurance, which otherwise would accentuate the growth in both the total federal budget and the growth in the share for human resources. These three approaches reflect the President's basic policy choice to reduce the federal share of GNP and to let more of our resources, except for defense, remain in the private sector. Federal spending, which reached 22.5 percent of GNP in 1975, would, as indicated in Table E in the Appendix, decline to 18 percent in 1981.

The congressional budget does not accept all the large program cut-backs proposed by the President nor his general thrust to reduce the federal share of GNP. But the congressional budget also does not include



Table 5

Federal Outlays by Functions Selected Years 1961-77 and Projections for 1981  
(\$ in billions)

	Actual		Estimated			Projected	
	1961	1975	1976	1977P	1977C	1981P	1981C
<b>Total</b>	<b>\$97.8</b>	<b>\$324.3</b>	<b>\$374.4</b>	<b>\$395.8</b>	<b>\$413.3</b>	<b>\$509.9</b>	<b>\$541.0</b>
Defense	46.6	86.6	92.8	101.1	100.8	142.8	144.0
International Affairs	3.2	4.4	5.7	6.9	6.6	8.0	8.0
Human resources, total	<u>29.1</u>	<u>168.0</u>	<u>199.9</u>	<u>207.5</u>	<u>219.7</u>	<u>260.9</u>	<u>287.0</u>
Health	.9	27.6	32.7	35.5	37.9	47.0	52.0
Income security	21.4	108.6	129.0	137.1	139.3	182.9	190.0
Education, Training, Em- ployment & Soc. Services	1.1	15.2	19.2	17.6	23.0	15.3	24.0
Veterans Benefits and Services	5.7	16.6	19.0	17.2	19.5	15.7	21.0
Physical resources and general science <u>1/</u>	11.6	35.5	42.5	42.2	47.7	46.2	53.5
Interest, general govern- ment and all other <u>2/</u>	<u>7.3</u>	<u>29.8</u>	<u>33.8</u>	<u>38.1</u>	<u>38.6</u>	<u>52.0</u>	<u>52.0</u>
	<u>Percent Distribution</u>						
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Defense	47.6	26.7	24.8	25.5	24.4	28.0	26.1
International affairs	3.3	1.3	1.5	1.7	1.6	1.6	1.5
Human resources, total	<u>29.7</u>	<u>51.8</u>	<u>53.3</u>	<u>52.4</u>	<u>53.1</u>	<u>51.2</u>	<u>53.0</u>
Health	.9	8.5	8.7	9.0	9.1	9.2	9.6
Income Security	21.9	33.5	34.4	34.6	33.7	35.9	35.1
Education, Training, Em- ployment & Soc. Services	1.1	4.7	5.1	4.4	5.6	3.0	4.4
Veterans Benefits and Services	5.8	5.1	5.1	4.3	4.7	3.1	3.9
Physical resources and general science <u>1/</u>	11.8	10.9	11.4	10.7	11.5	9.1	9.8
Interest, general government and all other <u>2/</u>	<u>7.5</u>	<u>9.2</u>	<u>8.9</u>	<u>9.6</u>	<u>9.3</u>	<u>10.2</u>	<u>9.6</u>

--P is President's recommendation; C is congressional.

1/ Includes agriculture; natural resources, environment and energy, commerce and transportation; general science, space and technology; and community and regional development.

2/ Includes law enforcement and justice, revenue sharing and general purpose fiscal assistance, allowances, and deduction for undistributed off-setting receipts.

Source: The Budget F.Y. 1977, pp. 35, 360-365 as revised on March 25, 1976; an OMB special tabulation for 1961 data; House Document No. 94-1108; and Congressional projections for 1981 developed by IOM staff based on HR 94-1080 and the January 26, 1976 report of the Congressional Budget Office.

welfare reform or national health insurance. Accordingly, the 1977 congressional budget, when projected to 1981, would exceed the President's by \$31 billion (Table 5), primarily due to larger spending for human resource programs. Thirty-one billion dollars is a little more than one percent of the expected 1981 GNP, so that if the President's spending proposals account for 18 percent of GNP, the congressional spending would be between 19 and 20 percent depending upon whether the President's estimate of 1981 GNP or the lower congressional estimate (Appendix Table E) was used. This suggests two major conclusions. First, an increasing share of GNP is not built into existing federal programs as long as the economy can be expected to grow at an annual average rate of about 4 or 5 percent. Second, major new programs such as welfare reform or national health insurance would require larger federal spending and would increase the federal share of GNP.

The first point highlights the significance of improved economic growth. The second point shows that the real issue is not inevitability or uncontrollability, but choice--choice about new program decisions and whether to increase or decrease the scope of federal programs.



## Trends in Budget Receipts

The past 15 years have produced a marked shift in budget receipts as well as in expenditures. Social insurance taxes and contributions rose six-fold, from \$14.7 billion, in 1960, or about 16 percent of total receipts, to \$92.6 billion currently, which is 31 percent of total receipts. Over the same period, individual and corporate income taxes rose three-fold, from \$61.2 billion, or 67 percent of the total, to the current level of \$170.9 billion, which is 57 percent of the total (Table 6). Federal receipts over this period, however, unlike federal spending, have remained at a relatively level 19 percent of the GNP, reflecting periodic reductions in the income tax rates, which tended to offset expected increases in receipts as GNP and income levels rose.

Under continuation of existing law, however, by 1981 total federal receipts could rise to 22 percent of GNP. Income taxes would rise with the growth both of real income and inflation. Social Security taxes will also increase significantly as the combined employer and employee tax rate rises from the current 11.7 percent on annual earnings up to \$15,300 to 12.6 percent in 1981 on annual earnings of about \$24,000. Yet, because the yield from these taxes would not rise as rapidly as those from the income taxes, the social insurance taxes would, under current law, account for less than 30 percent of total federal income in 1981. But some additional revisions in Social Security financing are needed in order to keep that system sound. The President has proposed a series of changes that would reduce benefit outlays, as well as an additional 0.6 percentage point increase in the combined employer-employee tax effective at the beginning of 1977. In addition, the President has proposed an increase, also effective in 1977, in the employer tax rate (from 0.5 percent to 0.65 percent) and in the annual wage base (from \$4,200 to \$6,000) on which unemployment insurance taxes are collected. Along with these social insurance revisions, the President has proposed continuation of last year's \$17 billion reductions in the federal, individual and corporate income taxes and an additional \$11 billion income tax reduction linked to his proposed reductions in federal spending.

By 1981, the effect of these presidential revisions would increase social insurance taxes by \$11.5 billion and reduce income tax receipts by \$55 billion. Total federal tax receipts, mainly because of the reductions in the income taxes, would be a lower proportion of GNP than under existing law.

The 1977 congressional budget takes a different approach. It recommends against the revisions in the Social Security tax at this time, and also the additional reduction in individual and corporate income taxes. Further, the first concurrent resolution directs the tax committees of Congress to reduce existing tax expenditures and thereby add \$2 billion to income tax receipts. The reports of the House and Senate budget

Table 6

Federal Budget Receipts by Source, Selected Years 1960-1977\*  
(\$ in billions)

Source of Receipts	Actual			Estimate		
	1960	1970	1975	1976	1977P	1977C
	Amount					
Total	\$92.5	\$193.7	\$281.0	\$297.6	\$351.3	\$362.5
Individual Income Taxes	40.7	90.4	122.4	130.8	153.6	160.9
Corporation Income Taxes	21.5	32.9	40.6	40.1	49.5	57.4
Social Insurance Taxes and Contributions <u>1/</u>	14.7	45.3	86.4	92.6	113.1	107.1
Excise taxes (incl. Highway and Airport trust funds)	11.7	15.7	16.6	16.9	17.8	17.8
Estate and gift taxes	1.6	3.6	4.6	5.1	5.8	6.0
Custom duties	1.1	2.4	3.7	3.8	4.3	4.3
Reduction in tax expenditures	--	--	--	--	--	2.0
Miscellaneous	1.2	3.4	6.7	8.3	7.2	7.0
	Percent Distribution					
Total	100	100	100	100	100	100
Individual Income Taxes	44.0	46.7	43.6	43.9	43.7	44.6 <sup>2/</sup>
Corporation Income Taxes	23.2	17.0	14.4	13.5	14.1	16.1 <sup>2/</sup>
Social Insurance Taxes and Contributions	15.9	23.4	30.7	31.1	32.2	29.5
Excise taxes (incl. Highway and Airport trust funds)	12.6	8.1	5.9	5.7	5.1	4.9
Estate and gift taxes	1.7	1.9	1.6	1.7	1.7	1.7
Custom duties	1.2	1.2	1.3	1.3	1.2	1.2
Miscellaneous	1.3	1.7	2.4	2.8	2.0	1.9

--P is President's estimate; C is congressional.

1/ Includes--Employment taxes and contributions for OASDI, Medicare, Railroad Retirement, Unemployment Insurance, and Federal employee retirement systems

2/ Includes one billion of tax expenditure reduction.

\*For 1981 projections see Table E in the Appendix.

Source: The Budget for F.Y. 1977, pp. 358, 29 and, for 1960 data, The Budget for F.Y. 1970, p. 526.

First Concurrent Resolution on The Budget - Fiscal Year 1977  
House Reports Nos. 94-1108 and 94-1030.

committees argue that the additional income tax cuts proposed by the President go primarily to upper income individuals and corporations while increases in payroll taxes fall primarily on lower and middle income taxpayers. The committees regard this result as inequitable. In part, the budget committees also felt that the social security financing problem could be safely deferred for another year. At that time any required tax increase would have less adverse impact on the economy.

Table F in the Appendix presents current data on revenues foregone because of "tax expenditures." These are revenue losses resulting from special provisions in the individual corporate income tax law that reduce customary tax liability. Tax expenditures represent public policy decisions that often are comparable to decisions for direct federal spending, but do not show up in the budget numbers. Table F indicates that almost three fourths of these tax expenditures benefit individuals; one fourth benefit corporations.

For 1977, the congressional budget estimates revenues \$11 billion higher than the President's. Table E in the Appendix, which shows receipts projected to 1981, has a congressional estimate \$35 billion below the President's projection of \$585 billion. The lower estimate is due to a lower GNP projection. At the same level of GNP, assumed by the President, the revenue yield of the congressional approach would be higher--and still higher if the Congress continues to chip away at tax expenditures and adopts payroll tax increases to undergird the social security program. Although revenues are heavily dependent on the state of the economy, it is nevertheless clear that the congressional approach is to provide more revenues to be available for new program emphasis and expansion choices in federal expenditures.

## Grants to States and General Revenue Sharing

Under the President's program, federal aid to state and local governments will almost level off in 1977, \$61.5 billion compared with \$60.2 billion in 1976. The congressional budget would have the grants continue to rise to \$71.6 billion. Table 7 presents the data on this federal aid for the current budget years, for 1973 and for 1964 when it first reached \$10 billion.

The sharp annual increase in 1976 over 1975 was a product of the recession, which caused increases in Federal grants to support state-administered income maintenance and employment assistance programs, and assistance for highway mass transit construction. The President's leveling off in 1977 reflects, (1) proposals to cut back grants in the same areas, (2) no allowances for price increases in programs for which the inflation adjustment is not mandated by law, (3) the impact of the President's proposed four block grants, which yield lower expenditures than under the original separate categorical grants, (4) an offsetting increase to fulfill prior federal commitments to local governments to assist them in constructing waste water treatment plants. The congressional budget rejects almost all of these cutbacks, provides for expected price and cost increases, and includes an additional \$2.2 billion for job creation and other economy-countering aid to state and local governments.

The most significant grant-in-aid increase since 1972 has been the general revenue sharing program, which has automatically provided funds to state and local governments with few restrictions on their use. The President has proposed, and the congressional budget has endorsed, extension of this program, which otherwise expires in 1976. Each has included \$6.5 billion in the 1977 budget for general revenue sharing.

These general revenue grants have been a significant factor in enabling state and local operating budgets to swing from deficits to surpluses in 1972 and 1973. The operating budget is the total state and local revenue and expenditure account minus the transactions of state and local social insurance funds. The accumulation in these latter funds is earmarked to pay for future social insurance liabilities and are therefore not available to pay for deficits in other operations. Thus the operating account is a more pertinent measure of the state and local budget conditions. In 1974 and 1975, because of the economic recession, the states and localities drew down these surpluses and their operating accounts returned to a deficit basis. (Table G in the Appendix.) To counter this recent trend and to minimize job cutbacks by state and local governments, the congressional 1977 budget provides a special \$2.2 billion allowance.

The congressional budget, particularly in the reports of the House and Senate budget committees, does not indicate an outright rejection of the President's block grant proposals. Rather, the budget committees seem to endorse the idea--particularly for health--but doubt that the President's specific proposals could be enacted this year. More important, the Congress questions the use of the block grant as a device to make quick and significant budgetary reductions.

Table 7

Federal Grants to State and Local Governments 1975-1977 and Selected Prior Years  
(\$ in billions)

	Actual			Estimate		
	1964	1973	1975	1976	1977P	1977C
Total	\$10.1	\$41.8	\$49.7	\$60.2	\$61.5	\$71.6
Income Security <u>1/</u>	3.5	9.0	9.3	11.2	11.4	12.5
Health	.5	6.0	8.8	10.0	10.2	11.8
Education, Training, Employment and Social Services	.8	8.8	11.6	14.4	12.5	17.4
Commerce and Transportation	3.7	5.4	5.9	8.2	9.0	9.3
Revenue sharing and general purpose fiscal assistance	.2	7.2	7.0	7.2	7.4	7.4
Natural resources, environment, and energy	.2	1.1	2.5	3.1	4.5	4.9
Community and Regional development	.5	3.3	3.3	4.0	3.9	4.5
Undistributed <u>2/</u>	--	--	--	.5	1.0	2.2
All other <u>3/</u>	.7	1.0	1.3	1.6	1.6	1.7

Federal grants as percent of state and local expenditure	14.6	24.3	23.4	25.2	23.0	N.A.
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P is President's estimate; C is congressional.

1/ Figures from 1975-77 have been adjusted to reflect the 1977 reclassification of the food stamp bonus from federal grants to direct federal payments. Figures shown include Federal payments to state and local governments to pay for administration of the food stamp program.

2/ For 1976 and 1977P represents IOM staff estimate of increase in grants primarily for health resulting from March 25, 1976 revision in the President's budget. For 1977C represents amount shown in House Report No. 94-1030 adjusted after conversations with House staff to reflect impact of First Concurrent Resolution.

3/ Includes national defense, agriculture, veterans benefits and services, law enforcement and justice, and general government.

Source: Special Analysis 0 of the 1977 Budget, pp. 259, 264 for 1975-77 data; Special Analysis 0 of the 1976 Budget for 1973 data. For 1964 special tabulation by the Office of Management and Budget. First Concurrent Resolution on the Budget - F.Y. 1977. House Reports Nos. 94-1030, 94-1108 and Senate Report No. 94-731.



## Part II. THE HEALTH BUDGET

### Health Spending: National and Federal

Total national expenditures for health reached \$118.5 billion in 1975; they were \$38.9 billion in 1965 (Table 8). These current dollar figures published by the Social Security Administration show a rise from 5.9 percent of GNP in 1965 to 8.3 percent in 1975. The federal share of these health expenditures rose from 13 to 28 percent over the ten-year period.

The increase in national and federal expenditures is primarily due to increased expenditures for personal health care--service and supplies for specific individuals--from \$33.5 billion in 1965 to \$103.2 billion in 1975. Of this \$69.7 billion rise, the Social Security Administration calculates that 8.7 percent was due to population growth, 38.3 percent resulted from changes in technology and utilization, and 53 percent was the result of price increases. Accompanying these increases was a growth of personal health care expenses paid through third-party systems--from 47 percent of personal health care spending in 1965 to 67 percent in 1975. Among third-party payment systems, the most growth occurred in federal programs, notably Medicare and Medicaid.

The federal budget documents use two definitions of health expenditures. Both are somewhat broader than the Social Security Administration's definition because they include "medical training and education." The definition used in the budget document excludes health-related outlays covered in other functions, such as "defense" and "veterans benefits." But the health definition used in the Special Analysis accompanying the budget document includes these health-related expenditures. Table H in the Appendix shows the estimated expenditures for 1977 (and selected prior years) under the broader definition, and includes for 1976 and 1977 the effect of changes being proposed by the President. (Figures for 1976 and 1977 in Table H do not take into account the March 26, 1976 revisions.) These federal health and health-related expenditures are estimated at \$44.7 billion or 11.7 percent of total federal expenditures. In 1965 the comparable figures were \$5.2 billion and 4.4 percent of the total federal budget. Although there has been significant growth in all health spending, Table H shows that the major growth in recent years has been in federal programs to finance medical care and to support training and education. The growth in these two components, coupled with the trends shown in Table 8, has aroused federal concern about the containment of costs in medical care, the problems of access to and quality of medical care, the supply and distribution of health workers, the support of health planning, and research in the organization and delivery of health care.

The congressional budget follows the more restricted functional definition used in the President's budget and also excludes defense and veterans medical care in its health component. Accordingly, the remainder of this report also uses the budget document definition.

Table 8

Total Health Expenditures and Personal Health Care Expenditures  
Selected Fiscal Years, 1940-75

<u>Types of Expenditures and</u> <u>Source of Funds</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>
<b>Total Health Expenditures:</b>						
Amount (billions of dollars)	3.9	12.0	25.9	38.9	69.2	118.5
Percent of GNP	4.1	4.5	5.2	5.9	7.2	8.3
Percent funded by public	10.1	25.5	24.7	24.5	36.5	42.2
<b>Personal Health Care Expenditures:</b>						
Amount (billions of dollars)	3.4	10.4	22.7	33.5	60.1	103.2
Percent distribution by source of funds:						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Direct payments	82.0	68.3	55.3	52.5	40.4	32.6
Third party payments	18.0	31.7	44.6	47.5	59.7	67.4
Private insurance	---	8.5	20.7	24.7	24.0	26.5
Other private	2.7	3.0	2.3	2.0	1.5	1.2
Federal	3.9	9.4	9.2	8.5	22.3	27.7
State and local	11.4	10.8	12.4	12.3	11.9	12.0
Per capita amount (dollars)	25.47	67.75	124.50	170.32	289.76	476.40
<b>Non-personal Health Expenditures</b> (in billions of dollars):						
Research	*	0.1	0.6	1.4	1.8	2.8
Medical facility construction	0.1	0.7	1.1	1.8	3.3	4.5
Government public health activities	0.2	0.4	0.4	0.7	1.4	3.5
Expenses for prepayment and administration	0.2	0.3	0.8	1.2	2.1	4.6

\* Less than 10 million

Source: Social Security Bulletin, February 1976.

## Total Federal Budget for Health

The President's 1977 budget emphasizes revisions in Medicare, substitution of a block grant for Medicaid and 15 other health services programs, reduction in health manpower training and education programs, some increases in biomedical research, transfer of St. Elizabeth's and the 8 public health hospitals to local communities. The President's proposed outlay for health is \$35.5 billion in 1977. Congress recommends \$2.4 billion more, or a total of \$37.9 billion. The major differences between these two recommendations are summarized in the following Table (in billion dollars):

	President	Congress
Total	<u>\$35.5</u>	<u>\$37.9</u>
Medicare	20.3	21.4
Medicaid	9.0	9.3
All other	6.2	7.2

The following sections discuss these differences in greater detail. This section concentrates on the relations of the two 1977 budget recommendations to the 1977 current services budget (CSB) and their projected effects on 1981 outlays.

The 1977 CSB, published by the Administration last November and by the Congressional Budget Office last January, estimated that under existing laws and policies the CSB outlays for health would be \$37.7 billion. Table 9 develops the bridge between the CSB and the Presidential and congressional estimates.

The congressional budget does not accept the President's block grant proposal nor his proposed Medicare revisions, especially the emphasis on increased cost sharing by Medicare patients. The congressional budget, however, does stress the need to contain costs in these two programs, and accordingly, it includes an \$0.8 billion reduction (\$0.5 billion in Medicare and \$0.3 billion in Medicaid) and directs the House Ways and Means, Interstate and Foreign Commerce and the Senate Finance committees to propose legislation to accomplish these cost reductions.

In health programs other than Medicare and Medicaid, the congressional budget appears to agree with some proposed presidential reductions, but it also emphasized increases for biomedical research, and for programs to improve the effectiveness and efficiency of delivering health care, such as for health planning and Professional Standards Review Organizations.



Table 9

Proposed Presidential and Congressional Changes in 1977 Health Outlays  
from the Current Services Budget

	Fiscal Year (in billion dollars)	
	<u>President</u>	<u>Congress</u>
Current Services Budget Estimate	\$37.7	\$37.7
Non policy reestimate of increase in prices and number of beneficiaries in Medicare and Medicaid	+ .4	+ .4
Higher base resulting from higher 1976 appropriations	+ .4	+ .8
Proposed Policy Changes:		
Medicare revisions (catastrophic cost coverage, increased cost- sharing, and limits on reimburse- ment)	-1.5	---
Unspecified legislation to control costs in Medicare and Medicaid	---	- .8
Net reduction in Medicaid and other health service grants expected under shift to block grant	-1.0	---
Net reduction in Health Research and Education	- .2	
Net Reduction in Other Health Programs	- .3	- .4
Increases for Medicare (unspecified)	---	+ .2
Recommended 1977 Health Outlays	35.5	37.9

Source: Developed by IOM staff based on Administration and Congressional budget reports and on conversations with budget staffs.

The House Budget Committee, though not the Senate's, initially included \$50 million for developmental and start-up funds under "national health insurance legislation." However, in the final action by the Congress, as indicated by the Conference Report (House Document No. 94-1108), this was changed to \$0.2 billion for "legislation which could provide program initiatives for Medicare beneficiaries."

The President's January budget document estimates that, under his proposed 1977 changes, health outlays would be \$47 billion in 1981. The March 1976 revision would probably raise the 1981 outlay by another billion. A projection of the congressional budget for 1981 would exceed \$52 billion--even without national health insurance.

## Budget Proposals for Medicare

Under existing law, Medicare beneficiaries pay for the first day of hospitalization based on the national average daily cost, currently \$104, and then pay 10 percent of the costs after 60 days or after 20 days in a skilled nursing home. For physician services, beneficiaries pay a fixed annual deductible of \$60 and then are covered for 80 percent of the remaining reasonable or customary charges.

The Administration proposes changes that would (1) begin the 10 percent cost-sharing for hospitalization or nursing home care immediately rather than after 60 or 20 days, (2) convert the fixed \$60 deductible for physician services to one that rises with increases in Social Security cash benefits, and (3) charge beneficiaries 10 percent of physician services provided by hospital-based physicians. To offset these increases, cost-sharing payments by Medicare beneficiaries would be limited to \$500 per year for covered hospital and nursing home care and to \$250 annually for covered physician services. This, in effect, is a form of catastrophic insurance not related to the beneficiary's income.

In addition to changes in beneficiary cost-sharing, the Administration proposes a 7 percent limit on annual increases in daily hospital costs and a 4 percent limit on increases in physician fees. Costs or charges above 7 or 4 percent would not be reimbursed by Medicare.

These proposals would reduce Medicare outlays by \$1.5 billion in 1977 from what they otherwise would have been. These changes and their proposed impact are shown on Table 10, which also indicates that the catastrophic protection offered to Medicare beneficiaries is more than offset by increases in cost-sharing. While being spared \$1,238 million in catastrophic costs, beneficiaries are required to assume \$1,860 million in added cost-sharing. In addition, the 4 percent limit on increase in charges for physician services may ricochet onto the patient, who may be billed by the physician for the higher charges that Medicare will not pay. In recent years there has been a decline in "assignments", under which the physician agrees to be paid directly by Medicare and not bill the patient above Medicare's determination of the reasonable or customary charge. Somewhat less than 50 percent of Medicare physicians currently are accepting assignments. The 4 percent limit probably would contribute further to this declining rate.

Hospital costs above the 7 percent limit cannot be shifted to the patient because hospitals and nursing homes file their claims with and are reimbursed directly by Medicare. But here the cost problem may be the lack of ways to minimize the use of expensive tests or technology, which then will be included in catastrophic costs. Past experience has shown that the existence of third-party systems ready to meet bills

encourages excessive or improper utilization of high-cost technology. In addition, extending catastrophic costs to nursing homes presents new problems and requires new techniques to distinguish medical care from other care. At present Medicare's coverage of nursing homes is designed as an alternative, or as a limited 100 day supplement, to hospital care. This acts to limit the cost impact of long stays, which entail residential or custodial care rather than primarily medical attention. Introducing catastrophic coverage and removing the limit on covered days in nursing homes would open a new area to be financed by Medicare and may possibly entail much larger costs than can be estimated now from insufficient experience.

These concerns about excessive utilization and long-term nursing care suggest that cost estimates on catastrophic coverage generally may be understated. If so, there may be a favorable trade-off to Medicare beneficiaries between catastrophic coverage and cost-sharing; and to society there may be a favorable shift of costs from Medicaid to Medicare. But Medicare will need increased financing to meet these net additional costs.

The congressional budget agrees that cost containment is necessary and it assumes a \$500 million saving from legislative action that may be patterned after the President's percentage limitation. The budget committees clearly expect the substantive program committees to make these cost savings. But the congressional budget rejects the President's proposal to shift, by increased cost-sharing, a larger portion of Medicare's cost to the programs' beneficiaries. The reports of the House and Senate budget committees also recognize that some coverage of catastrophic costs may be sought by the substantive program committees. Accordingly, the congressional recommendation provides \$200 million for benefit improvements which could be so used and which may also be available for start-up work on national health insurance.

Table 10

Proposed Changes in Medicare and its Impact on 1977 Outlays  
 (\$ in millions)

	1977 Outlays			
	President			Congress
	Hospital Insurance	Supplementary Medical Insurance	Total	Total 1/
<u>Medicare</u>				
Under existing law	\$15,411	\$6,466	\$21,877	\$21,700
Proposed legislation: President				
Catastrophic coverage	+1,030	+208	+1,238	---
Increased cost-sharing by patient	-1,730	-130	-1,860	---
Limits on rise in reimbursable costs	- 730	-179	- 909	---
Proposed legislation: Congress				
Cost containment, unspecified				- 500
Benefit improvements, unspecified				+ 200
Subtotal	-1,430	-101	-1,531	- 300
Revised 1977 estimate	13,981	6,365	20,346	21,400

1/ The congressional recommendations discuss the total rather than the two parts of Medicare. Similarly, the House Report No. 94-1030 indicates a lower base for 1977 under existing law.

Source: Based on information in the March 26, 1976 Spring Update of the 1977 Budget, in Special Analysis K, and in House Report No. 94-1030, 94-1108 and in Senate Report No. 94-1108.

## Medicaid, Other Grants, and the Block Grant

The Administration proposes a new block grant to substitute for Medicaid and other special categorical grants. The programs to be replaced are detailed in Table 11, which also shows the 1977 funding level proposed by the Administration under existing law and the alternative funding level when these programs are replaced by the block grant.

The Administration contends that the block grant would (1) substitute one formula for the existing variety of matching and distribution formulas, (2) eliminate the existing variety of federal regulations and guidelines as to the use of these funds, (3) allocate federal grants based on the extent of low income in the states instead of existing methods that are influenced by state and local grantsmanship, state matching efforts, etc., (4) allow each state to set its own priorities for health programs based on its assessment of the needs of its low-income population and its resources rather than in reaction to the varied inducements of specific federal grants, and (5) continue the block grant approach developed in recent years in other functional areas such as manpower training.

In addition, three other major factors are implicit in the block grant proposal: (1) blocks are broad enough to provide future federal assistance when new areas reach national attention, and thus avoid the creation of new special or categorical grants; (2) the grants hand to the states the detailed concern over program objectives and methods for reaching the objectives; and (3) the blocks set dollar limits on federal support, and replace the open-ended matching approach of Medicaid, which automatically requires federal grants as state outlays rise.

Detailed tables throughout the budget and its supporting documents indicate that under existing law, the Administration proposes 1977 budget authority of \$10.2 billion--\$9.3 billion for Medicaid and \$0.9 billion for the other grant programs. The corresponding outlays would be \$9.6 billion--\$9.3 billion for Medicaid and only \$0.3 billion for the other grants. This \$0.3 billion is unrealistically low. Under the block grant the Administration proposes to replace the above figures with budget authority of \$10.0 billion and estimates that outlays would drop to \$9.0 billion. That also is an unrealistically low figure, particularly as past experience indicates that Medicaid alone would entail outlays of at least \$9.0 billion. Thus the President's budget estimates a \$1.0 billion reduction in spending as a result of the block grant.

The congressional budget rejects the President's block grant proposal as unlikely to be adopted. It also rejects the President's arithmetic and provides larger 1977 outlays for the grant programs that the President proposes to phase out. The exact amounts are not in the congressional budget recommendations but are in the total of \$7.2 billion for all health programs other than Medicare and Medicaid. The reports of the House and

Table 11

Presidential 1977 Proposal for Medicaid and Other Grants  
Before and After the Block Grant  
(\$ in millions)

<u>Program</u>	<u>1977</u> <u>Budget Authority</u>
<u>Under Existing Law</u>	
Comprehensive health grants to states	---
Community health centers	155.2
Maternal & child health	211.4
Family planning	79.4
Migrant health	19.2
Payment to Hawaii	1.2
Emergency medical services	25.1
Disease control grants (for venereal disease, rat control, immunization lead base paint)	33.7
Community mental health centers	134.5
Community alcoholism programs	80.1
Health planning	90.0
Construction of health facilities	---
Medicaid	9,292.2
Development disabilities	55.0
	<u>1/</u>
TOTAL	10,177.0
 <u>Under Proposed Block Grant</u>	
All of above categorical grants- proposed rescission	-10,200.0 <sup>2/</sup>
New block grant	10,001.0 <sup>3/</sup>

1/ Budget document attributes \$9.6 billion in outlays with this Budget Authority.

2/ Includes Federal program direction costs associated with above grants and is thus larger than \$10,177.

3/ Budget document estimates \$9.0 billion outlays with this Budget Authority.

Source: Developed by IOM from various tables in the 1977 Budget Document.

Senate budget committees suggest that the \$7.2 billion would provide for increases in some programs but would also require holding the line and cutting back in others. The specific allocations were left to the appropriation committees. The congressional budget earmarks \$9.3 billion for Medicaid and states that this was \$0.3 billion below the current services budget estimate because the substantive committees are asked to achieve this saving through cost containment legislation.

The House Budget Committee, however, did endorse the concept of grant consolidations and urged the House Interstate and Foreign Commerce Committee, which has jurisdiction on most health programs other than Medicare, to give "serious consideration to combining comparable categorical health programs" (House Report No. 94-1030, page 58).

This suggests that the President's proposal, is vulnerable not only because of money-saving, but also because (1) it did not embody any clear guiding principle in selecting the grants to be put together in a block (for example, the block grant replaces existing grants for programs to combat alcohol abuse but not drug abuse), and (2) failed to indicate criteria to decide which health programs are of such national import as to require federal supervision as well as funding. The Senate Budget Committee report, for example, clearly indicates national concern about local health planning and other programs aimed at improving the delivery of health care. Furthermore, folding Medicaid into a block grant implies a decision against federalizing it. In rejecting this decision, the congressional budget, though it makes no specific statement, leaves available the approach developed when welfare payments to the aged, blind, and disabled were federalized in 1974 under the Supplementary Security Income Program.



## Budgets for Health Other than Medicare and Medicaid

The congressional recommendations adopted in the first concurrent resolution provide \$7.2 billion to cover spending for all health programs other than Medicare and Medicaid, leaving the distribution up to the appropriations committees. Although the reports of the House and Senate budget committees indicate a desire that increases be provided for selected programs in biomedical research, for improving the efficiency of health delivery, and for containing cost increases, they do not specify programs or budget targets.

It is thus not feasible to contrast the details in the President's budget recommendations for this portion of health, with the congressional budget. Consequently, except for the paragraphs immediately following, the remainder of this section will concentrate on the President's health proposals in the January budget document.

The Senate Budget Committee's report, as well as the January 26, 1976 report by the Congressional Budget Office, indicates that the 1977 spending under the current services budget for "all other" health programs would be about \$7.6 billion. The President's budget proposes \$6.2 billion for a reduction of \$1.5 billion, of which about \$0.6 billion stems from his block grant proposal and another \$0.4 billion from his assumption that the Congress would have enacted a lower 1976 base for these programs. The remaining \$0.5 billion reduction stems from a combination of recommended program policy changes and from a decision not to provide funds to keep up with price increases affecting these programs.

The congressional budget is \$0.4 billion below the 1977 current services budget. The reports of the Senate and the House budget committees suggest two major reasons for this reduction: (1) selective downward adjustments in programs that no longer have high priority status or that have not demonstrated capacity to achieve their objectives, and (2) a judgement that not all programs need to be given automatic price increases to continue their current services level. The result is, therefore, that the congressional budget is recommending to the substantive and appropriation committees cutbacks in these programs to more than offset unspecified increases recommended in other high priority areas. Finally, while the congressional recommendation is \$1 billion above the President's, the true program difference is only about \$0.4 billion, the rest is required to adjust for the rejection of the President's block grant arithmetic and to reflect the higher 1976 appropriations base.

Biomedical Research and Health Manpower. Probably the most striking thrust of the Administration's budget for the National Institutes of Health is the decision to hold the cancer program at the 1976 level and to propose increases for the Heart, Lung, and Blood Institute and the other components of NIH. This is shown in Table 12, which also shows the allocation of budget authority--the authority to incur program activities and outlays. In recent prior years, almost all of the proposed increases in budget authority affected the Cancer Institute and to some extent the Heart and Lung Institute, but ignored all the other institutes.

Table 12

Budget Authority for NIH and for Health Manpower Education  
in the January Budget Document

Budget Authority  
(dollars in millions)

	<u>1976 estimate in the 1977 Budget</u>	<u>1977 Budget Rec.</u>
Total NIH	<u>1,980</u>	<u>2,165</u>
National Cancer Institute	687	688
National Heart and Lung Institute	305	343
All Other	989	1,134
 Total Health Manpower Education	 <u>339</u>	 <u>319</u>
Health Professions: Institutional Assist.	120	120
Student Assist.	52	35
Nursing: Institutional Assist.	1/	1/
Student Assist.	15	10
Public and Allied Health	2/	2/
Special Education Programs	151	154
D.C. Medical Manpower Assist.	-	-

1/ Institutional assistance limited to capitation grants assumed for 1976 and proposed for 1977.

2/ No special support grant for these schools assumed for 1976 and proposed for 1977; instead, schools are expected to share in special education programs.

Source: Material supplied by the Office of Management & Budget

The health manpower education budget is intended to improve the specialty and geographical distribution of health professionals, particularly physicians, rather than further increase their total numbers. Accordingly, assistance to students and institutions emphasizes primary care and the sending of graduates to underserved areas. Capitation grants to schools of medicine, osteopathy, and dentistry are contingent upon agreement by the schools to ensure that 20 percent of their 1978 entering classes agree to placement in underserved areas. Schools also must promise that 40 percent of their 1978 residency positions will be in various types of primary care or general medicine. Special grants, amounting to \$154 million, will support primary care programs as well as train physician extenders and dental assistants.

Health manpower education legislation expired in June 1974 and appropriations for these programs are authorized under temporary continuing resolutions. Congressional deliberations suggest some agreement that the legislative emphasis also has shifted from further increases in supply to geographic and specialty distribution. (This distributional concern was highlighted by the recent IOM report entitled, Medicare-Medicaid Reimbursement Policies.)

Other Significant Health Proposals. Accompanying its block grant principle, the Administration has reiterated its proposals to transfer St. Elizabeth's to the District of Columbia Government. The Administration also proposes again to close or transfer its Public Health Service hospitals to the local communities in which they are located--Boston, Staten Island, Baltimore, Norfolk, New Orleans, Galveston, San Francisco, and Seattle. To accomplish the first transfer--St. Elizabeth's to the D.C. government--the Administration proposes increased appropriations in 1976 and 1977 to improve the staffing and to correct fire and safety hazards before the transfer. It proposes budget authority of \$133 million for 1977, compared with prior levels of about \$50 million. Similar pre-transfer improvements are not proposed for the PHS hospitals--in part because five of them are now in areas deemed to have excess hospital beds and because all are located in areas having community facilities available to provide the care needed by the PHS beneficiaries. The Administration probably prefers closure to transfer.

Both of these proposals have been made in prior years and both have been unacceptable to the Congress.

Finally, the Administration has proposed 1977 budget increases for:

- National Health Services Corps (\$10 million over the 1976 budget authority level of \$15 million)
- Indian Health Service (\$25 million over the 1976 level of \$330 million to construct an added hospital and to continue to enlarge this medical care program)
- Support of Community Drug Abuse Programs (\$22 million over the 1976 level of \$173 million to increase the number of individuals who can be treated and to assess the long-term effectiveness of treatment programs)

- Food and Drug Administration (\$17 million over the 1976 level of \$209 million for more inspections of high-risk food manufacturing plants, surveillance of medical devices, and studies of the bioequivalency of generic drugs)
- Occupational Health (\$5 million over the 1976 level of \$32 million to develop tolerance criteria on additional substances that are hazardous to people at their work place; these criteria guide the enforcement activities of the Department of Labor)
- Laboratory Testing Improvement (\$5 million over the 1976 level of \$10 million to test more laboratories so as to increase the reliability of their diagnostic findings)
- Professional Standards Review Organizations (\$14 million over the 1976 level of \$48 million to extend PSRO to all of 203 designated areas and to have about 120 PSROs operational in 1977; in addition, \$27 million will be derived from Medicare as payments for services performed by PSROs, a result of recent amendments to the Social Security Act.

## The 1977 Budget: Old Issues, New Outcomes?

Three basic themes have been discussed in this report. The first is that the budget manifests a choice of an overall fiscal policy to affect the state of our economy, particularly unemployment and inflation. The second is that the budget indicates long-range policies that affect the apportionment of our resources between the public and private sectors and the distribution among the various federal functional areas. The third is the budget's implications of policy choices for health.

During the 1960s there was general agreement on fiscal policy between the Executive and the Congress, and even between the two political parties, that the budget should have a countervailing effect on the economy. The budget should incur deficits to stimulate an economy marked by less than full employment, and amass a surplus if the economy is producing inflation.

Recent history, however, with its unusual conjunction of high inflation and high unemployment, has reopened debate about fiscal policy. From 1950 to 1970 annual changes in the rate of unemployment were offset by opposite annual changes in prices. This offset was so stable that the sum of these two indices fluctuated only between 5 and 8. Fiscal policymakers could therefore predict and choose the trade-off between unemployment and inflation. But since 1970 the sum of both indices has ranged between 9 and 17--too large to predict the trade-off between them and suggestive of a lower flash point for the ignition of inflation. A fear of inflation may have contributed to the congressional budget decision to keep the 1977 deficit close to that recommended by the President.

New or sharper criteria are being sought so that fiscal policy can aim at reducing unemployment to 5 or 6 percent by the middle of calendar year 1977 without adding to, and preferably with a lowering of, the rate of inflation. Experience in the calendar years 1976 and 1977 will provide empirical evidence to strengthen or revise existing fiscal policy guidelines.

Overall fiscal policy leaves open the distribution of total federal spending among functional areas of the federal budget, and specific programs in each functional area. Until recently many of these distributional decisions were made by the President, while the Congress concentrated on specific programs in which its individual members were interested or over which its committees had jurisdiction. Congressional dissatisfaction with the outcome of its own fragmented decisions, and the conflict with fund impoundment that resulted from Presidential decisions, brought about the new procedures of the Congressional Budget Reform Act of 1974. One part of the new congressional approach requires that an expenditure target be established for each functional area within the total spending ceiling set by congressional fiscal policy. Establishing and sticking to the functional targets will be a major test of the Congress' ability to direct its committees and to provide centralized leadership. Here, also, calendar years 1976 and 1977 will develop the empirical evidence.



The Administration's 1977 budget document warns that the size of uncontrollable expenditures poses problems of more growth in the future.

"The recent large increases and additions to domestic assistance programs have, to some extent, been offset by real reductions in direct federal operations, particularly defense. Thus, the rise in outlays for health and for income security-- to 45% of total outlays by 1981, compared to 33% in 1971-- indicates an increased response to human needs, but also a long-range budgetary problem of fundamental importance if these programs were to grow in the future at the same rate as they have in the past. The budget cannot accommodate the same rates of growth in the future, and maintain or increase defense and other direct federal activities unless the federal government assumes an ever-increasing portion of GNP through increased taxes." (The 1977 Budget Document, p. 33.)

Last year, in the 1976 budget document, the President said that a continuation of past trends would mean that by the year 2000 the total of all federal, state, and local government spending would account for one-half of our GNP. As indicated earlier, the President this year has made his budget recommendations to halt the growth in the public, especially the federal, portion of GNP. Any presidential vetoes of congressional appropriations for 1977 probably will not be directed so much against slight deficit increases as against failure to check and reverse long-term growth in federal spending.

Reports prepared by the Congressional Budget Office have emphasized that there is nothing inherent or inevitable in a continued rise of federal spending as a percentage of GNP. Projection of existing programs and laws, provided GNP continues to grow, would result in no increase in the federal share. In fact, growth in our economy and the resulting growth in GNP would increase federal receipts and make more funds available for increased or new federal expenditures without any significant increase in the share of GNP spent by the federal government.

Of course, sizeable new programs for energy, education, environmental hazards, housing, welfare reform, and national health insurance would increase the ratio of GNP taken or directed by the federal government. But these are choices for expanded growth, not increases inherent in existing laws and policies.

One choice may be between an emphasis on the public or private control of our resources. Other choices may be made on the basis of the efficacy and efficiency of governmental programs. The Congressional Budget Act of 1974 established new procedures and new staffs to provide these analyses to Congress. The Congressional Budget Office prepared for the Congressional Budget Committees a report on "Budget Options for the Fiscal Year, 1977," but this first attempt is mostly a discussion of the arithmetic differences in expenditures among different options rather than an analysis of the accompanying substantive and cost-effective differences of the various options.

Development of the efficacy and efficiency analysis, especially when coupled with the need for centralized congressional decisions on functional targets, may produce a consensus on the consequences of alternative policy choices between the staffs working for the President and the staffs servicing the Congress. This consensus will improve public policy decisions.

Implicit in most of the above discussion is that the Congress will be acting quite differently than in the past. As of mid-May 1976, the Congress has successfully implemented its centralized direction of total spending and the allocation of the total to functional areas. Centralized action on revenues and tax changes, particularly the reduction in "tax expenditures" has not been as successful. Action in the next few years will offer more conclusive evidence on the centralized congressional approach to spending and revenues. During these years one may also see further refinement and development of the new tools--the five year projections and the current services budget and discussion of alternative options.

The agenda of decisions in the health area revolve around a few central questions. When does national interest in an area of health mean a federally operated program? when a federal-state coalition? when merely federal revenues to assist state and local program choices and decisions? What are the strategies that would have an impact on the cost of health care--cost-sharing by the patient? price controls or economic incentives on providers? economic incentives? planning and fixed budget ceilings to force a framework within which health care must operate? What approaches are needed to ensure that health care spending concentrates on effective care and avoids care which is ineffective or harmful? What areas--aside from personal medical care--need to be pursued because they will produce significant improvements in the health status of our population?

These questions as well as the older issues about approaches to national health insurance, health manpower programs, and biomedical research are the major issues for the agenda in 1977 and soon thereafter.





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A P P E N D I X

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Table A

**THE CONGRESSIONAL BUDGET PROCESS**

INFORMATION GATHERING, ANALYSIS, AND PREPARATION OF 1ST BUDGET RESOLUTION		ADOPTION OF 1ST BUDGET RESOLUTION			CONGRESSIONAL ACTION ON SPENDING BILLS			ADOPTION OF 2ND BUDGET RES. AND RECONCILIATION				
OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER
President Final Year Budget (Sec. 80)	President Submits Current Services Budget (Sec. 80A)	J. Economic Committee Analyzes Current Services Budget to Budget Committee (Sec. 80A)	President Submits Budget (15 days after Congress opens) (Sec. 81, 81A, 81B)	BUDGET COMMITTEES BEGIN WORK ON 1ST BUDGET RESOLUTION (Sec. 201A)	All Committees in Congress Submit Estimates and Views to Budget Committee (Sec. 201A)	BUDGET COMMITTEES REPORT 1ST BUDGET RESOLUTION OR ON REFUSE APR. 15 (Sec. 201A)	CONGRESS COMPLETES ACTION ON 1ST BUDGET RESOLUTION (Sec. 201A)	CONGRESS ENACTS APPROPRIATIONS AND SPENDING BILLS CBO Issues Periodic Surveying Reports Comparing Congressional Action with 1st Budget Resolution (Sec. 201A)	As Possible CBO Cost Analyses and 5 Year Projections for Accompany All Requested Public BA, Except Appropriation BA, (Sec. 401)	BUDGET COMMITTEES PREPARE 2ND BUDGET RESOLUTION AND REPORT	CONGRESS COMPLETES ACTION ON 2ND BUDGET RESOLUTION (Sec. 210A, 211)	FISCAL YEAR BEGINS
CBO 5-Year Projection Report (As soon as possible after Oct. 1) (Sec. 201A)		CBO Report to Budget Committee (Sec. 201B)		HOUSE AND SENATE CONSIDER 1ST BUDGET RESOLUTION (Sec. 202)	CONFERENCE ACTION AND ADOPTION OF CONFERENCE REPORT (Sec. 203)	CONFERENCE REPORT Submitted Final Letter of Budget Action and Changes Among Committees (Sec. 202A)	Before Adoption of 1st Budget Resolution, Neither House May Consider New Budget Authority or Spending Authority BA, Revenue Changes, or Debt Limit Changes (except exceptions, and waiver procedures) (Sec. 202A) (a)	Before Reporting 1st Regular Appropriation BA, House Appropriations Committee to Extend Practicable, Marks up all Regular Appropriations BA and Submits Summary Report to House, Comparing Proposed Outlays and Budget Authority Levels with 1st Budget Resolution (Sec. 207)	If a Conference Reports New Expenditure Legislation that Exceeds Appropriation Allocations in Latest Budget Resolution, it Shall Be Referred to the Appropriations Committee with Instructions to Report its Recommendations Within 15 Days. (Sec. 401A)(2)	Thereafter, Neither House May Consider Any BA or Amendment, or Conference Report, that Results in An Increase Over Budget Authority or a Reduction in Revenue Authorizations in House Bill, Adopted in 2nd Resolution (Sec. 211A)	Congress May Not Adopt 2nd Budget Resolution until Reconciliation Matters, if Any (Sec. 210B)	

Source: "The Congressional Budget and Impoundment Control Act of 1974,"  
Committee of the Budget, U.S. House of Representatives, Dec. 1974.

Table B

Comparison of 1977 Outlays in The President's 1977 Budget  
and in The Current Services Budget  
(\$ in billions)

Function	Current Services Budget	1977 Budget Doc.	Total Change	Composition of Change	
				Policy	Reestimate or better economic Assumption
Total	\$414.5	\$394.2	\$-20.3	\$-13.4	\$-7.0
National Defense	103.1	101.1	- 2.0*	- 0.8	-1.2
Int'l Affairs	6.4	6.8	+ 0.4	+ 0.9	-0.5
Human Resources	220.2	205.3	-14.9	-11.7	-3.2
Income Security	146.1	137.1	- 9.0	- 5.8	-3.2
Health	37.7	34.4	- 3.3	- 3.7	+0.4
Education, training employment, and social services	18.4	16.6	- 1.8	- 1.8	-
Veterans benefit and services	18.0	17.2	- 0.8	- 0.4	-0.4
Natural Resources, Environment and Energy	14.1	13.8	- 0.3	+ 0.2	-0.5
Commerce and transportation	18.1	16.5	- 1.6	+ 0.1	-1.7
Community and regional development	6.2	5.5	- 0.7	- 0.2	-0.5
Agriculture	2.2	1.7	- 0.5	+ 0.1	-0.6
Interest	41.9	41.3	- 0.6	-	-0.6
All other functions <u>1/</u>	18.7	18.7	-	-	-
Contingency Allowances	4.8	2.3	- 2.5	- 2.0 <u>2/</u>	-0.5
Undistributed offset- ting receipts	-21.2	-18.8	+ 2.3	-	+2.3

1/ Includes general government, revenue sharing, law enforcement, justice and general science, space and technology.

2/ Primarily savings in civilian pay increase based on policy revisions yielding a 4.7% increase rather than the 11.5% increase required under existing procedure.

\* Because table shows net change, it tends to hide real policy increases which are important in the Defense function. The \$2.0 billion reduction is a net figure, including a \$4 billion reduction in military pay, retirement, and perquisites. For defense function a more appropriate figure is obligational authority which is \$114 billion under both CSB and the 1977 Budget document. As latter figure hits \$114 billion even after \$4 billion reduction, there is therefore a \$4 billion increase based on new policy decisions.

Source: Developed by Institute staff based on discussions with staff of the Office of Management and Budget. Note that this table compares the January estimate not the March revision.

Table C

Comparison of Presidential and Congressional Economic and Budget  
Budget Figures for 1977  
(\$ in billions)

	<u>President</u>	<u>Congress</u>
<b>A. <u>Economic targets of Assumptions</u></b>		
Real rate of growth in GNP	5.7(4-5) <u>1/</u>	5.6
Rate of unemployment	6.9	6.5
Inflation rate (CPI)	6.0	5.5
<b>B. <u>Overall Budget</u></b>		
Total receipts	351.3	362.5
Total outlays	395.8	413.3
Deficit	-44.6	-50.8
Budget authority	431.2	454.2
<b>C. <u>Functional Outlays</u></b>		
National defense	101.1	100.8
International affairs	6.9	6.6
Human resources, total	<u>207.5</u>	<u>219.7</u>
Health	<u>35.5</u>	<u>37.9</u>
Income security	137.1	139.3
Education, training, employment and social services	17.6	23.0
Veterans Benefits and Services	17.2	19.5
General science, space and technology	4.5	4.5
Natural resources, environment and energy	13.8	15.7
Agriculture	1.9	2.0
Commerce and transportation	16.4	17.7
Community and regional development	5.7	7.8
Law enforcement and Justice	3.4	3.5
Federal government	3.4	3.5
Revenue sharing and general assistance	7.4	7.4
Interest	41.3	40.4
Allowances and Contingency	1.5	1.2
Offsetting Receipts	-18.9	-12.4

1/ Range in parenthesis reflects House and Senate Budget Committee estimates of likely rate of growth under President's approach.

Source: House Report No. 94-1108. Spring Update - 1977 Budget, March 25, 1976, Office of Management and Budget.

Table D

Percentage Distribution Federal Budget Outlays in Constant DollarsSelected Fiscal Years 1960-1977. 1969-100

	Actual			Estimate	
	<u>1960</u>	<u>1969</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
National Defense	47.3	43.5	26.1	23.8	24.7
Non-defense	52.7	56.5	73.9	76.2	75.3
Payments for individuals <u>1/</u>	<u>22.8</u>	<u>28.4</u>	<u>46.4</u>	<u>47.8</u>	<u>48.5</u>
Net interest	10.9	6.9	5.6	6.0	6.6
All other	19.0	21.2	21.9	22.4	20.2

1/ Includes both direct payments made by the Federal Government (such as social security) and indirect payments made through grants to state and local governments (public assistance). These are predominantly outlays for "Human Resources."

Source: The Budget in Brief F.Y. 1977, p. 67.

Note: The 1976 and 1977 distributions are based on expenditures as estimated in the January 21, 1976 Budget Document.

Table E

Comparison of Key Budget Projections and Economic  
Assumptions for Fiscal Year 1981  
(Dollars in billions)

	<u>1981 Projections and Assumptions</u>			
	<u>President</u>		<u>Congress</u>	
<u>Basic Economic Assumptions</u>				
Gross National Product (GNP)	\$ 2,821		\$ 2,690	
Rate of Unemployment (%) <sup>1/</sup>	4.9		5.0	
Rate of Inflation in C.P.I. (%)	4.0		5.0	
<u>Total Federal Budget</u>				
Expenditures	\$ 510		\$ 541	
Percent of GNP	18		20	
Revenues	\$ 585		\$ 550	
Percent of GNP	21		20	
Surplus	\$ 75		\$ 9	
<u>Distribution of Total Budget</u>				
	<u>President</u>		<u>Congress</u>	
	<u>Total</u>	<u>Percent</u>	<u>Total</u>	<u>Percent</u>
	<u>Dollars</u>	<u>Distribution</u>	<u>Dollars</u>	<u>Distribution</u>
<u>Expenditures</u>				
Defense	142.8	28	141.0	26
Payments for Individuals	236.0	46	255.0	46
All Other	131.1	26	144	28
<u>Receipts <sup>2/</sup></u>				
Individual Income Tax	287.3	49	273	50
Corporate Income Tax	71.7	12	78	14
Social Insurance Taxes				
Contribution	181.6	31	159	29
All Other	44.9	8	40	7

<sup>1/</sup> For calendar year.

<sup>2/</sup> Figures in Presidential column reflect presidential legislative revisions which by 1981 reduced: individual income tax - \$35.6 billion; corporate income tax - \$19.2 billion; and which increased social insurance taxes - \$11.5 billion and other taxes - \$4.9 billion. Congressional column based on no legislative increase in social insurance taxes and lower income tax reductions.

Source: Presidential column: The 1977 Budget and material supplied by the Office of Management and Budget. Congressional column by IOM staff based on House Report No. 94-1-30, Senate Report No. 94-731 and "Five Year Budget Projections." Publication by the Congressional Budget Office, dated January 26, 1976.



Table F

1975 & 1977 Selected Tax Expenditure Estimates, By Function\*  
(in millions of dollars)

<u>Function</u>	<u>Corporations</u>		<u>Individuals</u>	
	<u>1975</u>	<u>1977</u>	<u>1975</u>	<u>1977</u>
National defense:				
Exclusion of benefits and allowances to Armed forces personnel	-0-	-0-	650	650
International affairs:				
Deferral of income of domestic international sales corporations (DISC)	1,130	1,560	-0-	-0-
Agriculture:				
Expensing of certain capital outlays	-	-	-	-
Capital gain treatment of certain income	30	40	455	565
Natural resources, environment & energy:				
Expensing of exploration & development costs	500	840	120	195
Excess of percentage over cost depletion	2,010	1,020	465	575
Commerce and transportation:				
\$25,000 corporate surtax exemption	3,345	4,180	-0-	-0-
Bad debt reserve of financial institutions in excess of actual	880	570	-0-	-0-
Deductibility of nonbusiness State gasoline taxes	-0-	-0-	820	600
Education, manpower and social services:				
Parental personal exemptions for student age 19 and over	-0-	-0-	670	715
Deductibility of contributions to educational institutions	-0-	-0-	440	500
Health:				
Exclusion of employer contributions to medical insurance premiums and medical care	-0-	-0-	3,275	4,225
Deductibility of medical expenses	-0-	-0-	2,315	2,095
Income security:				
OASI benefits for aged	-0-	-0-	2,740	3,525
Benefits for dependents & survivors	-0-	-0-	450	565
Exclusion of unemployment insurance benefits	-0-	-0-	2,300	2,855
Exclusion workmen's compensation benefits	-0-	-0-	505	640
Net exclusion of pension contributions and earnings:				
Employer plans	-0-	-0-	5,225	6,475
Plans for self employed and others	-0-	-0-	390	965
Exclusion of other employee benefits:				
Premiums on group term life insurance	-0-	-0-	740	895
Excess of percentage standard deduction over low income allowance	-0-	-0-	1,385	1,560
Additional exemption for over 65	-0-	-0-	1,100	1,220
Veterans Benefits and services:				
Exclusion of veterans disability compensation	-0-	-0-	540	595

\*All estimates are based on the tax code as of December 31, 1975, with the exception that the provisions of the Revenue Adjustment Act of 1975 regarding the standard deduction for individual income taxpayers are treated as if they were permanent. Excluded are tax expenditure items less than \$500 million for both corporations and individuals.

Table F, continued

<u>Function</u>	<u>Corporations</u>		<u>Individuals</u>	
	1975	1977	1975	1977
Revenue sharing and general purpose fiscal assistance:				
Exclusion of interest on State and local debt	2,675	3,150	1,130	1,390
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)	-0-	-0-	8,490	6,680
Interest: Deferral of interest on savings bonds	-0-	-0-	525	685
All Other:				
Business investment:				
Expensing of research and development expenditures	635	695	-0-	-0-
Expensing of construction period interest and taxes	985	1,065	525	570
Capital gain: corporate (other than farming and timber)	695	900	-0-	-0-
Investment credit	4,860	6,550	950	1,445
Personal investment:				
Capital gain: individual (other than farming and timber)	-0-	-0-	5,090	6,225
Exclusion of interest on life insurance savings	-0-	-0-	1,545	1,855
Deferral of capital gain on home sales	-0-	-0-	805	890
Deductibility of property taxes on owner-occupied homes	-0-	-0-	4,510	3,825
Deductibility of mortgage interest on owner-occupied homes	-0-	-0-	5,405	4,710
Other tax expenditures:				
Deductibility of charitable contributions (other than education)	385	525	4,385	3,955
Deductibility of interest on consumer credit	-0-	-0-	1,185	1,075

Note: Neither totals for functional areas nor a grand total are given since the combined effect on revenue could be greater or less than the sum of the estimates.

Source: Special Analysis F p. 126-27; The Budget F.Y. 1977

Table G

Receipts and Expenditures of the State and Local  
Sectors of the National Income and Product  
Accounts, 1969-1975p.  
(\$ in billions)

<u>Calendar</u> <u>Year</u>	<u>State &amp; Local Government (total)</u>			<u>Distribution of Surplus or Deficit</u>	
	<u>Receipts</u>	<u>Expend.</u>	<u>Surplus or</u> <u>Deficit</u>	<u>Surplus in Social</u> <u>Insurance Funds</u>	<u>Surplus or Deficit</u> <u>in Operating Account</u> <u>1/</u>
1969	\$ 119.7	\$ 117.6	\$ 2.1	\$ 5.9	\$ -3.7
1970	134.9	132.2	2.8	6.8	-4.0
1971	152.6	148.9	3.7	7.5	-3.8
1972	177.4	163.7	13.7	8.1	5.6
1973	193.8	180.9	12.9	8.8	4.1
1974	208.4	201.3	8.1	9.8	-1.7
1975 p.	232.4	222.4	10.0	11.0	-1.0

1/ Total surplus or deficit minus surplus in social insurance account yields surplus or deficit in operating account.

p - preliminary

Source: Economic Report of the President, January 1976, p. 249 for all but last two columns; the latter are from Special Analysis O, p. 265, of the Special Analyses F.Y. 1977.

Table H

Federal Health Related Outlays by Functions  
Selected Years 1965-1977  
(\$ in millions)

Function	Actual				Pres.	Estimate
	1965	1968	1972	1975	1976	1977
<u>Total All Health</u>	\$5,161	\$14,132	\$24,531	\$36,790	\$42,486	\$44,664
Health Research	1,040	1,547	1,776	2,459	2,826	3,048
Training & Education	317	687	1,110	1,384	1,477	1,217
Construction of facilities	450	470	867	949	1,082	1,309
Improving Organization & Delivery of Health Services <u>1/</u>	<u>1/</u>	100	528	-	-	-
Health Planning and Statistics <u>2/</u>	-	-	-	316	336	409
Providing Direct Medical Care	2,022	2,738	4,026	5,567	6,046	6,285
Financing Medical Care	914	8,025	15,413	24,883	29,370	32,396
Medicare	-	5,332	8,819	14,781	17,433	19,646
Medicaid <u>3/</u>	555	2,029	4,601	6,840	8,184	9,292
All Other <u>3/</u>	359	664	1,993	3,262	3,753	3,458
Prevention & Control	418	565	810	1,232	1,349	1,270

1/ Not identified separately in 1965. Deleted in 1977 Budget retroactive to 1975 and part of programs classified under "Planning and Statistics."

2/ New category created in 1977 retroactive to 1975.

3/ The 1977 distribution is imputed. The Budget proposes a block grant which would cover Medicaid and other financing grants.

Source: Special Analysis K of the 1977 Budget for 1975-77. Similar special analysis for other years.

Note: Figures for 1976 and 1977 have not been updated to include the March 26, 1976 revisions.



To the reader:

Each year, beginning with the Administration's FY 1974 Budget, the Institute of Medicine has published a staff paper highlighting the overall budget and presenting detailed discussions on the health programs in the budget. The following brief questionnaire has been designed to help us determine the usefulness of this activity. Please complete the questionnaire, cut, fold and seal it where indicated, and return it to the address shown on the reverse side. No postage is required.

- 1) Approximate date you received this report \_\_\_\_\_.
- 2) Did you find the report: a) \_\_\_premature; b) \_\_\_timely;  
c) \_\_\_too late.
- 3) Did the report present material not generally available to you?  
a) \_\_\_yes; b) \_\_\_no; c) \_\_\_don't know
- 4) Did you find the material in the report: a) \_\_\_too complicated;  
b) \_\_\_oversimplified; c) \_\_\_about right
- 5) Do you feel there was too much emphasis on the overall budget?  
a) \_\_\_yes; b) \_\_\_no. On the health budget? a) \_\_\_yes; b) \_\_\_no
- 6) Did you find the report useful to you? a) \_\_\_yes; b) \_\_\_no;  
c) \_\_\_undecided
- 7) Do you wish to be placed on the mailing list for next year's report?  
a) \_\_\_yes; b) \_\_\_no
- 8) Are you a member of the Institute of Medicine a) \_\_\_yes; b) \_\_\_no
- 9) Are you primarily interested in government health programs as:  
(select one)  
a) \_\_\_a researcher and/or a member of the academic community;  
b) \_\_\_a health program administrator and/or a health care practitioner;  
c) \_\_\_an official (or staff) whose task involves concern with national policies and/or monitoring health insurance programs;  
d) \_\_\_other (please specify): \_\_\_\_\_  
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Additional comments:

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