

Government: a new administration takes command

During 1977 the operations of the federal government proceeded, to a large extent, on the momentum of programs and plans initiated in earlier years. Although a new administration took over in January, the process of preparing new program plans is far from complete. Several new programs were either announced or were promised for early 1978. However, little was done that changed the course of federal action from the direction set during the former administration.

The government's continuation along the previous course was particularly true for the first three quarters of the calendar year, which were part of fiscal 1977. The new starting date of the government's fiscal year from July 1 to October 1 may actually have increased the difficulty experienced by any new administration in altering programs' directions early in its term of office. Decisions made and embodied into legislation now cover three-quarters of the new administration's first year rather than two quarters. On the other hand, there is more time to alter the proposed budget for the next fiscal year before it is implemented. The budget for fiscal 1977 was presented to Congress by the Ford Administration in January 1976. The outgoing administration also prepared the budget for fiscal 1978, presented in January 1977, together with some proposed changes for fiscal 1977. While the Carter Administration proposed still further changes in the 1978 budget shortly after taking office, the end results for fiscal 1977 were similar to the Ford proposals. The first budget fully incorporating the Carter Administration's plans will not take effect until October 1978, some 20 months after the change of administrations.

The vanishing rebate

During the last few months of 1976 the data on the economy were increasingly negative in tone. The unemployment rate rose sharply, and many economists forecast a new recession. As the new year began, much of the nation experienced record cold weather. Shortages of fuel, particularly natural gas, caused plants to close. The incoming administration felt that a substantial increase in fiscal stimulus was necessary to avoid a general economic decline. President Carter proposed a three-pronged program to stimulate the economy: tax reduction, public works and increased public employment, and a rebate on 1976 taxes. While the program was being debated, it became evident that the fears of a new recession were unwarranted. Unemployment began a rapid drop, industrial production increased sharply, and housing starts jumped back up to above a 2 million annual rate. As a result, while Congress did pass legislation increasing public service jobs and providing funds for subsidizing hiring by state and local governments as well as a modified form of the President's proposals for tax reduction, the rebate was dropped.

Fiscal 1977—a surprising outcome

In January 1976 President Ford proposed a fiscal 1977 budget with expenditures of \$394 billion and a deficit of \$43 billion.

These proposals were deemed too austere by Congress, and the second Congressional budget resolution proposed spending of just over \$413 billion and a \$50.6 billion deficit. In January 1977 the Ford-

prepared budget proposed broadening the deficit to \$57 billion, but Congress took no action until President Carter's proposals had been made. Then a third budget resolution was adopted changing proposed spending to \$418 billion and allowing for a \$70 billion deficit.

By late spring it was evident that spending was still running below the levels anticipated by Congress. At the same time receipts were higher in part because the rebate had been omitted from the stimulus program. The administration's spending estimate was reduced to about \$408 billion with an expected \$49 billion estimate for the deficit. By the time the fiscal year ended, spending turned out to be even lower, and the final figure for the deficit was \$45 billion, surprisingly close to the original proposal made in January 1976.

Fiscal 1978—currently on schedule, but changes to come.

The original budget proposals for fiscal 1978 were also prepared by the Ford Administration. The Ford budget received little attention from Congress until the Carter Administration was able to present modifications. These modifications raised spending about \$20 billion above the Ford proposal of \$440 billion, estimated revenues at about \$402 billion, and proposed a deficit of about \$58 billion.

President Carter's new proposals were basically those adopted in the second Congressional budget resolution last September. Spending was projected at \$458.3 billion, while revenues were expected to be \$397.0 billion, giving a projected deficit of \$61.3 billion. The principal difference in these Congressional estimates is that they are based on a slightly more pessimistic view of economic conditions during fiscal 1978. The Congressional estimate of revenues was several billion dollars lower than the administration's figure. Estimates of actual spending and revenue during the first quarter of the fiscal year (October-December 1977) are about what would be expected so far, but it is too early to forecast accurate final totals. Further-

more, the tax changes that will emerge from the energy program and the tax reduction program will have an unknown impact on both revenues and the deficit for the coming year.

Social Security—a half-century reprieve

Each year since 1972, when Congress incorporated automatic increases in Social Security benefits tied to the consumer price index and increases in the wage base tied to the change in average wages, it has been increasingly evident that the trust funds sustaining the system would be exhausted within a few years. The revisions of 1972 inadvertently adjusted benefits for inflation twice, since benefits were raised periodically (for new and future retirees) by both a wage and a price adjustment. In late December a new revision to the Social Security law was enacted. This change eliminated the double adjustment of benefits by tying future increases to wages only. In addition, the bill scheduled a series of increases in both the tax rate and the level of wages subject to the tax beginning in 1979 and continuing through 1987. This change will increase the tax paid by all covered workers and, in addition, will impose substantial increases on higher income workers. The maximum tax, matched by an equal tax on employers, will go from \$1,071 in 1978 to \$3,046 in 1987. The Congressional Conference Committee estimates that the trust fund for retirement benefits will remain in surplus for 50 years but that the disability trust fund will need further funding in about 30 years. Some committee members anticipate that the solvency of the disability fund can best be achieved by tightening eligibility requirements rather than by further funding.

Energy—still unresolved

In April 1977 President Carter presented his energy message to Congress. This program was intended to reduce total energy consumption growth to 2 percent a year or less as rapidly as possible and to shift consumption—

first from oil and gas toward coal and nuclear power, and eventually to newer, essentially inexhaustible resources such as solar energy. Heavy stress was placed on conservation. A series of taxes were proposed to increase the price of petroleum to the world price, encourage coal use over oil or gas, increase the cost of low-mileage automobiles, and increase the cost of gasoline if consumption were to rise above scheduled levels. Currently unregulated natural gas in intrastate commerce was to be brought under the same regulations as in interstate commerce, and gas pricing was to be designed to encourage home heating as its primary use. Accompanying the new taxes was a series of tax refunds and credits designed to encourage conservation measures by households and industry and to encourage industries to shift to coal.

When Congress adjourned in December, Senate-House Conference committees were attempting to develop a program implemented by two bills: one dealing with tax aspects and one dealing with non-tax aspects of the program. Several thorny problems involving pricing and regulation of both oil and natural gas and the amount and utilization of taxes to be imposed remained to be resolved at year-end.

The final form of the energy program to emerge from Congress in early 1978 is uncertain. Undoubtedly, however, the legislation will have an important impact on both businesses and personal lives in the years ahead and will differ in substantial details from the original proposals of last spring.

Federal expenditures—where the money went

Total federal government expenditures, as measured on the National Income Accounts Basis, were about \$422 billion in 1977, more than 9 percent above 1976. This growth was somewhat faster than had occurred the previous year. As in the past several years, only a little over one-third of this total—about \$147 billion—was spent on the purchase of goods and services. Defense purchases were about \$95 billion, a smaller share of both total purchases and total expenditures than in either 1975 or 1976.

By far the largest claim on the federal purse was for transfer payments to persons. These payments totaled \$170 billion, over 40 percent of all federal expenditures. About \$105 billion—\$10 billion more than total defense spending—was for Social Security benefits. While many other programs in this category—such as pensions to retired government employees and unemployment insurance benefits—each resulted in expenditures of \$10 billion or more, even in the aggregate they totaled substantially less than Social Security expenditures.

Grants-in-aid to state and local governments was one of the fastest growing segments of federal expenditures during 1977, primarily as a result of the jobs and public works programs aimed at stimulating the economy. This grant totaled about \$69 billion in 1977, up nearly 12 percent from 1976, and is scheduled to continue at a high level into 1978.