Uncontrollable Federal Budget Outlays

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Foreword

In 1951 the late Roswell Magill, then president of the Tax Foundation, reported to a joint committee of the Congress upon an analysis by the Committee on Federal Tax Policy which revealed that only about one-third of the President's $71.6 billion budget for fiscal year 1952 was "clearly and definitely under annual congressional review and control." Mr. Magill was referring to control of expenditures through the regular annual appropriation process.

In the quarter of a century since Mr. Magill's report, the spending control problem has become much more complex. Today about three-fourths of all Federal government spending — primarily domestic assistance outlays — are classified as "relatively uncontrollable" by either Congress or the Executive Branch under existing laws.

Some of the consequences of this condition are apparent. Fiscal policy flexibility, in times when such flexibility is desirable, is severely limited. Presidential and congressional options on new program initiatives are restricted. Efforts toward spending restraint must be concentrated in the declining proportion of budget outlays which are controllable. These and other effects increase the difficulties of avoiding large budget deficits, even though revenues are increased significantly.

In enacting the Congressional Budget and Impoundment Control Act of 1974, Congress provided for major reforms in its budgetary procedures designed to increase its control over Federal outlay and receipt totals. At the same time, by placing strict limitations upon his authority to impound or reserve appropriated funds, Congress has reduced the discretionary powers of the President, even with respect to the controllable portion of budget outlays. These reforms are still to be tested; but unless Congress, working with the Executive Branch, exerts a determined effort to regain effective annual control wherever possible over presently uncontrollable spending, and/or resist enacting new uncontrollable programs, the intended reforms may prove to be more shadow than substance.

To accept the proposition that three-fourths of Federal government outlays are actually and totally beyond control would, of course, bestow upon the programs involved a "sacred cow" status, and further erode public confidence in government. Fortunately, though the technicalities involved are imposing, most of these outlays are subject to varying degrees of annual control through the legislative process. A greater public awareness of this fact, and of the dimensions of the problem, can help in generating official actions looking to its solution.

Maynard H. Waterfield, Manager of the Foundation's Washington office, had primary responsibility for research and preparation of this report.

Tax Foundation is a publicly supported, non-profit organization founded
in 1937 to engage in non-partisan re-
search and public education on the fiscal
and management aspects of govern-
ment. Its purpose, characterized by the
motto "Toward Better Government
Through Citizen Understanding," is to
aid in the development of more efficient
and economical government. It also
serves as a national information agency
for individuals and organizations con-
cerned with problems of government ex-
penditures, taxation, and debt.

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## NOTES

1. Unless otherwise indicated, all years mentioned in this text refer to the Federal fiscal year. Currently that year extends from July 1 through the following June 30. The Congressional Budget and Impoundment Control Act of 1974 changes the fiscal year dates, beginning October 1, 1976 with respect to fiscal year 1977, to October 1 through September 30 of the following year.

2. All 1976 budget totals referred to in the following analysis are those contained in the budget as originally submitted to the Congress February 3, 1975, the latest available when this analysis was prepared. Congressional actions and economic and other factors will result in substantial revision of these totals; such revisions, however, will not affect the general findings of this analysis.
I. Background

Almost three-fourths (261 billion) of the expenditures projected in the original Federal budget for the year ending June 30, 1976 were classified by budget officials as "relatively uncontrollable"—i.e., not subject to annual control by either Congress or the Executive Branch. The actual spending total will no doubt differ, by several billions, from the original forecast. Moreover, these "relatively uncontrollable" outlays are almost certain to increase, largely because of worsening economic conditions and inflation, which will increase the number of individuals receiving Federal aid and trigger larger automatic cost-of-living escalators.

This "controllability" problem is by no means a recent phenomenon. However, the growth in so-called uncontrollable outlays has accelerated dramatically in recent years, to the point where such spending "has been rising at a faster rate than Federal receipts, and more rapidly than the rate of growth of the whole economy."

Table 1 traces the growth of total Federal budget outlays, and the "relatively uncontrollable" portion of the total, between 1967 and 1974, and includes the original estimates for 1976.

Under present practices and conditions, this disturbing growth in uncontrollable spending can be expected to continue. It is attributable not only to the normal growth patterns of Federal programs, but also to a variety of other factors. Some examples: fixed costs, such as interest on the public debt; special financing arrangements, such as provision of permanent appropriations; trust funds, for a variety of programs; increases in the number of persons becoming eligible for Federal benefit payments; automatic cost-of-living adjustments in social security and other retirement benefits, required by law; automatic price increase pass-throughs in such programs as Medicare and Medicaid; and provisions in formulas governing programs which require Federal

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Table 1
Trend of Total and Relatively Uncontrollable Federal Budget Outlays
Fiscal Years 1967-1976
(Dollar Amounts in Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total budget outlays</th>
<th>Relatively uncontrollable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>$158.3</td>
<td>$93.7</td>
</tr>
<tr>
<td>1968</td>
<td>178.8</td>
<td>107.2</td>
</tr>
<tr>
<td>1969</td>
<td>184.5</td>
<td>116.4</td>
</tr>
<tr>
<td>1970</td>
<td>196.6</td>
<td>125.7</td>
</tr>
<tr>
<td>1971</td>
<td>211.4</td>
<td>140.4</td>
</tr>
<tr>
<td>1972</td>
<td>231.9</td>
<td>153.5</td>
</tr>
<tr>
<td>1973</td>
<td>246.5</td>
<td>173.0</td>
</tr>
<tr>
<td>1974</td>
<td>268.4</td>
<td>194.5</td>
</tr>
<tr>
<td>1976a</td>
<td>349.4</td>
<td>260.7</td>
</tr>
</tbody>
</table>

Note: a. Estimated.

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matching of state-local funds, or which require payment when specified conditions are met.

In addition to such fixed costs and built-in increases, new uncontrollable programs, or expansions of existing ones, continue to be enacted. Example: the general revenue sharing program enacted in 1972, financed by "permanent" appropriations to a trust fund, increased uncontrollable spending by $6 billion annually over a five-year period.

**What Are “Relatively Uncontrollable” Outlays?**

There is an understandable confusion and lack of understanding in the public mind — and even on the part of many officials — as to the meaning of the term “relatively uncontrollable.” This confusion complicates efforts to control Federal spending or restrain spending increases, and to effectuate meaningful spending priorities. In the context of the budget the term “relatively uncontrollable” is applied to those budget outlays over which neither the Executive nor Congress can exercise effective control during the year ahead under existing law.

The word “relatively” is used because there is a certain degree of latitude in the budget classification. In some programs classified as uncontrollable, a portion of the outlays (such as administrative costs) may in fact be controllable. In such cases the entire program cost is usually included among the uncontrollables. Conversely, some outlays classified as controllable may include significant amounts which are in fact uncontrollable in the short run.

A better understanding of the meaning of the term “relatively uncontrollable” budget outlays can perhaps be gained by focusing upon these key phrases in the above definition: “during the year ahead” emphasizes the point that the classification of an outlay as uncontrollable relates to annual — i.e., short-term — control. Further, the classification of a given outlay is determined each year on the basis of statutory conditions or requirements governing the expenditure at the time the budget is formulated — thus “under existing law.”

Classification of any specific outlay, therefore, may change from year to year. Laws may be changed by Congress to bring future spending for certain programs under annual control. It is conceivable that statutory changes could be made in any given year which would shift outlays classified in the budget as uncontrollable into the controllable category during that year, or vice versa. In short, the Congress can, through legislative actions, affect the degree of current annual control which can be exercised over a variety of Federal spending programs.

It is something of a paradox however, that while Congress may vote to bring specific outlays under annual control, it now controls less than one-half of all budget outlays in a given year through its own budgetary review process. The 1976 budget estimated that only about $160 billion of the $349 billion projected outlay total would be from budget authority made available through current congressional action.

It is not widely understood that Congress does not normally act directly on budget outlays, but rather on requests for new budget (or spending) authority. Annual outlay totals result in part from
current action on spending authorizations, and in part on budget authority provided in prior years. In addition, huge amounts of spending authority become automatically available each year through permanent authorizations (such as for interest) not requiring action by Congress. It should also be noted that perhaps as much as $50 billion or more of new budget authority acted upon through the appropriations process (for veterans benefits, farm price supports, postal subsidies, etc.) is not really controllable by Congress.

The Congress in 1974 approved legislation designed to strengthen and improve its control over annual budget outlays. This law also limits the authority of the President to impound (or withhold from obligation) spending authority, and establishes new procedures for congressional review of any proposed rescissions or deferrals of such authority. Whether or not these budgetary reforms prove effective may in large measure depend, therefore, upon the extent to which uncontrollable spending can be restrained.

Implications

Referring to the growth of relatively uncontrollable spending, the Director of the Office of Management and Budget recently pointed out that the annual budget “is not so much any more a set of Presidential programs as it is a forecast of the inevitable consequences of programs put on the books in earlier years.”

Some of these consequences become immediately apparent. With so small a share of total spending subject to control, limitations are imposed on both the Executive Branch and Congress in proposing or considering new program initiatives, unless there is a willingness to provide tax increases to finance them. More importantly, perhaps, at a time when economic or other considerations require fiscal policy flexibility, such flexibility is limited so far as the outlay side of the budget is concerned. In a period when expenditure restraint may be desirable, the burden of such restraint must fall upon the declining portion of total outlays which are classified as “relatively controllable” — currently a little more than one-fourth of total budget outlays.

This inflexibility on the outlay side also means, of course, that the major burden in the fiscal policy equation is more likely to fall on the taxing side. Overall, therefore, loss of effective control of a growing proportion of total outlays tends to impair effective use of fiscal policy.

Moreover, there is the danger that the continuing emphasis upon “uncontrollable” spending lends itself to acceptance of the proposition that these programs and outlays are untouchable, bestowing upon them a “sacred cow” status.

The import of all this is clear: if steps are not taken, and soon, to establish a greater degree of control over these huge expenditures, prospects for future restraint on Federal spending increases are bleak.

Purpose and Scope of Study

This analysis seeks to throw some light on the problems, and explores the prospects for increasing annual control of Federal expenditures. For example,
some of the uncontrollables are more susceptible than others to increased control through statutory changes. The next section of this report attempts to classify the uncontrollable outlays, in terms of the extent to which they are amenable to annual control.

There are other factors — such as the recent trend toward putting certain Federal programs in an "off-budget" status, i.e., excluding them from budget totals altogether — which contribute to the controllability problem and tend to distort unified budget outlay totals. These matters are discussed in another section.

The study also examines the provisions of the new budgetary reforms adopted by Congress — the Congressional Budget and Impoundment Control Act of 1974 — which relate to the spending control problem.

Some possible approaches for increasing annual control over Federal budget outlays — or at least avoiding further increases in uncontrollable outlays — are also discussed.
II. Classifying Uncontrollable Outlays

As shown in the previous section (Table 1) the proportion of total outlays classified as relatively uncontrollable has increased dramatically over the past decade, from 59 percent in 1967 to 72 1/2 percent in 1974, and to an estimated 75 percent (about $261 billion) in 1976.

There has also been a significant change in the composition of those so-called uncontrollable outlays. In 1967 outlays to liquidate prior year contract obligations accounted for 23.4 percent of total budget outlays and 39.5 percent of outlays classified as uncontrollable; Federal payments for individuals in that year represented 26.4 percent of total outlays and 44.6 percent of the uncontrollables. In 1976 it is estimated that outlays for prior obligations will be 15.5 percent of total outlays and less than 21 percent of the uncontrollables, while payments for individuals account for more than 47 percent of total outlays and almost two-thirds of the uncontrollables.

Table 2 identifies the broad categories of budget outlays classified as relatively uncontrollable in the 1976 budget. Actual amounts are shown for selected years from 1967 through 1974, with es-

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual</th>
<th>Estimate</th>
<th>Percent of total outlays</th>
<th>Percent of total uncontrollables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, relatively uncontrollable outlays</td>
<td>$93.7</td>
<td>$125.7</td>
<td>$194.5</td>
<td>$260.7</td>
</tr>
<tr>
<td>Outlays from prior-year contracts and obligations, total</td>
<td>$37.0</td>
<td>$41.5</td>
<td>$43.3</td>
<td>$54.0</td>
</tr>
<tr>
<td>National defense</td>
<td>$21.2</td>
<td>$24.5</td>
<td>$20.9</td>
<td>$23.5</td>
</tr>
<tr>
<td>Civilian programs</td>
<td>$15.8</td>
<td>$17.0</td>
<td>$22.9</td>
<td>$30.5</td>
</tr>
<tr>
<td>Net interest</td>
<td>$10.3</td>
<td>$14.4</td>
<td>$21.5</td>
<td>$26.1</td>
</tr>
<tr>
<td>Postal service</td>
<td>$1.1</td>
<td>$1.5</td>
<td>$1.7</td>
<td>$1.5</td>
</tr>
<tr>
<td>General revenue sharing</td>
<td>—</td>
<td>$6.1</td>
<td>$6.3</td>
<td>$6.5</td>
</tr>
<tr>
<td>Farm price supports (CCC)</td>
<td>$1.7</td>
<td>$3.8</td>
<td>$1.0</td>
<td>$1.1</td>
</tr>
<tr>
<td>Payments for individuals</td>
<td>$41.8</td>
<td>$62.2</td>
<td>$115.4</td>
<td>$165.1</td>
</tr>
<tr>
<td>Other uncontrollables</td>
<td>$1.9</td>
<td>$2.3</td>
<td>$5.1</td>
<td>$7.1</td>
</tr>
</tbody>
</table>

timates for 1976. The percentage comparisons with total budget outlays and total uncontrollable spending, as between 1967 and 1976, highlight the shift in composition of the uncontrollable outlays. This table provides the background for the discussion and analysis which follows.

For information purposes, appendix Exhibit A-1 sets forth total 1976 outlays of major Federal departments and agencies, shows the portions regarded as controllable and uncontrollable, and provides comparable totals for 1972 and 1974 to indicate trends.

Uncontrollables Least Susceptible to Statutory Control

Certain of the uncontrollable spending categories in Table 2, involving substantial amounts, are clearly less susceptible to current control by statutory change than others. Outlays to liquidate prior year obligations and interest costs are the prime examples.

Outlays from Prior-Year Contracts And Obligations

These outlays (estimated at $54 billion for ’976) represent payments due as a result of commitments entered into in earlier years. Even though such outlays may in part result from controllable programs, once the obligation has been incurred payment is required. Although technically it might be possible to renegotiate some of these obligations, opportunities for current control are extremely limited.

Net Interest

Interest outlays also represent a contractual obligation which must be honored. The net interest total included in Table 2 reflects certain accounting technicalities. Interest on the public debt, on a gross basis, is estimated at $36.0 billion in 1976. However, offsetting reductions, primarily involving intragovernment transactions, reduce this to $34.4 billion. Another $8.3 billion of interest, paid from general funds on debt securities held by various Federal trust funds, involves interfund transactions which are “washed out” of both budget outlay and receipt totals, thus bringing "net interest" outlays to $26 billion.

Interest costs, of course, may be affected by changes in the amount of debt outstanding, and by changes in interest rates. Realistically, however, the possibilities of controlling these costs within a single fiscal year are minimal.

Uncontrollables More Susceptible to Statutory Control: General

All of the relatively uncontrollable outlays, except those to liquidate prior year obligations, are in budget parlance termed “open-ended programs and fixed costs”—i.e., outlays determined by statutory requirements rather than appropriations or other spending authority made available... Except for interest, just discussed, these outlays lend themselves to some degree of control through statutory change. The potential for such change in each case may be arguable, but it clearly exists.

Postal Service

The Postal Reorganization Act of 1970 established the U. S. Postal Service as an independent agency within the Executive Branch of government. Budget totals currently include only the Federal subsidy, estimated at $1.5 billion in 1976, primarily for public service costs, and reductions in postal revenues attributable to free or reduced rate mail.
The basis upon which this subsidy is computed is established by the 1970 Postal Act. Although some subsidy is doubtless inevitable, the basis for its computation could be adjusted through amendment of the 1970 law.

General Revenue Sharing

The general revenue sharing program established under the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) increased uncontrollable outlays by more than $6 billion annually, through December 1976. Quarterly payments to state and local governments are made from a trust fund, administered by the Treasury Department. However, unlike other Federal trust funds which are financed by special taxes or contributions, the state and local government fiscal assistance trust fund is financed by a "permanent" annual appropriation out of general revenues—in effect, a new "backdoor" spending device.

President Ford has recommended extension of the program for an additional 5 3/4 years, through 1982, presumably under the same financing arrangement, with some incremental increases in annual payments. In considering this recommendation, Congress will have the options of (1) terminating the program, (2) reducing (or increasing) program levels, or (3) adapting a new method of financing which will permit annual, or at least more frequent, review.

Farm Price Supports

Outlays for farm price support payments, financed through the Commodity Credit Corporation within the Department of Agriculture, are among the most volatile of uncontrollable budget outlays, depending on crop production conditions and food demands. Outlays for such payments, which exceeded $3.5 billion in 1973, declined to $1.0 billion in 1974, and are estimated to total $0.7 billion in 1976. Statutory changes governing such factors as acreage controls, commodity programs, and support levels could affect the controllability of these outlays.

Other Uncontrollable Outlays

Among the major items included in the "other uncontrollable" category in 1976 are estimated outlays of $1.2 billion for the Legislative and Judicial Branches (which, under law, must be presented in the President's budget as proposed by those branches), $0.2 billion in advances for foreign military sales, and $3.1 billion in grants for social and rehabilitation services for the needy and welfare recipients. Again, these programs are susceptible to statutory adjustment.

Uncontrollables More Susceptible to Statutory Control: Payments for Individuals

Discussion of relatively uncontrollable outlays for Federal payments to or on behalf of individuals has been left to last, since these outlays constitute by far the largest category of uncontrollables. As indicated in Table 2, such payments are estimated at $165 billion in 1976, or 47 percent of total budget outlays. Payments for individuals have more than tripled since 1967, and represent the most rapidly growing sector of the budget. Moreover, the 1976 budget projects a further 42 percent increase in such payments by 1980.

Although not so classified in the budget, for technical reasons, the $3.1 billion of social services grants and $0.7 of farm price support outlays, included among
### Table 3

Federal Benefit Payments for individuals, Direct and through the States<sup>a</sup>

Fiscal Years 1974 and 1976

(Billions)

<table>
<thead>
<tr>
<th>Program</th>
<th>1974 Actual</th>
<th>1976 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, payments for individuals</td>
<td>$115.4</td>
<td>$165.1</td>
</tr>
<tr>
<td>Direct Federal payments, total</td>
<td>97.6</td>
<td>133.6</td>
</tr>
<tr>
<td>Social Security (OASDI) and railroad retirement</td>
<td>57.6</td>
<td>76.6</td>
</tr>
<tr>
<td>Medicare</td>
<td>11.3</td>
<td>16.4</td>
</tr>
<tr>
<td>Civil Service and military retirement</td>
<td>10.8</td>
<td>15.7</td>
</tr>
<tr>
<td>Veterans benefits</td>
<td>10.0</td>
<td>11.9</td>
</tr>
<tr>
<td>Housing payments</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Supplemental security income</td>
<td>2.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Food stamps</td>
<td>2.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Disabled coal miners</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Payments financed through the states, total</td>
<td>17.7</td>
<td>31.6</td>
</tr>
<tr>
<td>Public assistance (AFDC)</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Medicaid</td>
<td>5.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Unemployment assistance&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6.5</td>
<td>18.6</td>
</tr>
</tbody>
</table>

<sup>a</sup> Details may not add to totals, due to rounding.

<sup>b</sup> A significant portion of these Federal payments represent return of state unemployment taxes deposited in the U.S. Treasury.


The "other uncontrollables" discussed above, may also be considered to be payments to or on behalf of individuals.

Table 3 lists the major programs providing payments for individuals, sets forth actual outlays for each in 1974 and estimated outlays for 1976, and identifies those involving direct Federal payments and those financed through grants to the states. Direct Federal payments totaled $97.6 billion in 1974 and are estimated to rise to $133.6 billion in 1976. Payments financed through the states, which amounted to $17.7 billion in 1974, are estimated to rise to $31.6 billion in 1976.

The phenomenal growth in the cost of these domestic assistance programs has brought about a significant change in the Federal government's role in our society, prompting one office to describe it as "a massive transfer agent, collecting dollars from some groups of people and then paying out those dollars to other groups of people." The magnitude of the claims which these transfer payments make upon budgetary resources clearly suggests the need for exploration of the possibilities for regaining effective control over these outlays, or at least for controlling future increases.

This task will not be easy to accomplish. These programs benefit millions of people and thus attract strong political support. In practice, their growth has been difficult to restrain. The programs are "open-ended." With the conditions

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for eligibility, benefit levels, etc., established by law, discretionary authority over annual outlays is severely limited. There are also built-in growth factors, such as increases in beneficiary population, which tend to exert constant upward pressures on outlays.

Technically, funds to finance benefits under these programs are provided through the regular congressional appropriation process; however, because basic statutes mandate payment of benefit entitlements, the Congress actually has little or no discretion in determining the amounts to be appropriated and expended in a single fiscal year.

Table 4 provides details on the outlays of the major benefit programs financed through trust funds, and those financed from general revenues. The table also shows recent cost trends and the estimated outlays for each program as set forth in the 1976 budget.

**Benefits Financed through Trust Funds**

A substantial proportion of total benefit payments to individuals (an estimated $120.4 billion, or 73 percent in 1976) are financed through Federal trust funds. Social security and railroad retirement benefits account for almost two-thirds of these trust fund payments. Federal civilian retirement, unemployment insurance, and Medicare payments also are financed in this manner. Appropriations for such payments become available automatically each year, in most cases without requiring action by Congress.

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### Table 4

**Federal Benefit Payments for Individuals, by Program and Means of Financing**

**Selected Fiscal Years, 1967-1976**

<table>
<thead>
<tr>
<th>(Billions)</th>
<th>Actual</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, payments for individuals</td>
<td>$41.8</td>
<td>$62.2</td>
<td>$115.4</td>
<td>$165.1</td>
<td></td>
<td></td>
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<tr>
<td>Payments financed through trust funds, total</td>
<td>30.7</td>
<td>44.8</td>
<td>81.1</td>
<td>120.4</td>
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<td></td>
</tr>
<tr>
<td>Social security and railroad retirement</td>
<td>22.5</td>
<td>31.3</td>
<td>57.6</td>
<td>76.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>3.4</td>
<td>7.1</td>
<td>11.3</td>
<td>16.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal civilian retirement &amp; insurance</td>
<td>2.0</td>
<td>2.7</td>
<td>5.7</td>
<td>8.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment assistance</td>
<td>2.8</td>
<td>3.7</td>
<td>6.5</td>
<td>8.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments financed from general revenues, total</td>
<td>11.3</td>
<td>17.3</td>
<td>34.2</td>
<td>44.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Veteran benefits</td>
<td>5.0</td>
<td>6.6</td>
<td>10.0</td>
<td>11.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>1.4</td>
<td>2.7</td>
<td>5.8</td>
<td>7.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing payments</td>
<td>0.3</td>
<td>0.5</td>
<td>1.8</td>
<td>2.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public assistance &amp; related programs</td>
<td>2.8</td>
<td>4.7</td>
<td>11.5</td>
<td>15.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Military retired pay</td>
<td>1.8</td>
<td>2.8</td>
<td>5.1</td>
<td>6.9</td>
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</tr>
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</table>

**Source:** The Budget of the United States Government, Fiscal Year 1976.
Social Security and Railroad Retirement. The social security and railroad retirement trust funds are financed by special taxes paid by employees and employers (and to a limited extent from general revenues). Benefits are paid to retired workers at age 62 and over with the required number of years in covered employment. Once eligibility is established, there is no discretion as to payment of benefits. The recent change in the Social Security Act providing automatic cost-of-living increases for beneficiaries further limits the current controllability of benefit outlays.

Medicare. Medicare is a two-part program, financed through separate trust funds:

(1) Benefit payments from the Federal Hospital Insurance Trust Fund, financed primarily by a special tax on employees and employers, provide protection for social security and railroad retirement beneficiaries against the costs of hospital and related services. Uninsured persons aged 65 and over can enroll in this program on a voluntary basis, but must pay the full cost of protection.

(2) The Federal Supplementary Medical Insurance Trust Fund is financed by premium payments from enrollees and matching Federal contributions from general revenues. Coverage under this part of the Medicare program, designed to afford protection against cost of physicians’ and related services, is elective. Again, there is no discretion as to payment of benefits on behalf of eligible individuals. The costs of these programs, however, can be affected to a relatively modest degree through adjustments in the premiums paid by uninsured persons enrolling in the hospital insurance program and those participating in the supplementary medical insurance program.

Federal Civilian Retirement. Retirement benefits of Federal civilian employees (or survivors) are paid from a trust fund financed through employee contributions and matching government contributions from general revenues. Eligible retirees must, of course, receive benefits to which they are entitled, including automatic cost-of-living adjustments comparable to those provided for certain employees of the government. Salary and price levels, and a growing beneficiary population are the principal factors controlling these outlays.

Unemployment Assistance. Unemployment assistance outlays, primarily for payments to the states for benefits to unemployed workers, will increase substantially in the present and coming years. In 1974 such outlays totaled $6.5 billion; they are budgeted to rise to $18.6 billion in 1976, and are likely to exceed that figure. Unemployment compensation payments are financed from the Unemployment Trust Fund. This fund, in turn, is financed by state and Federal payroll taxes on employers. Because of the high current levels of unemployment, Congress has enacted provisions extending the normal benefit payment period, with these extended benefits to be paid out of general revenues. Benefit payments are mandated by statute, with outlays essentially controlled by variations in beneficiary population dependent upon economic conditions.

5. Benefits are also made to dependents of retirees; survivors; and disabled workers covered under social security.
Payments Financed from General Revenues

Payments for individuals financed from general (or Federal) funds include: veterans benefits, Medicaid costs (providing reimbursements to the states for costs of medical services for public assistance recipients), subsidies for low-rent public housing and other housing assistance programs, public assistance and related benefits (including food stamps and special benefits for disabled coal miners), and military retired pay. Outlays for these programs are estimated to total $45 billion in 1976.

Veterans Benefits. Not all budget payments for veterans benefits and services are classified as uncontrollable. In 1976 such outlays are expected to total $15.6 billion, of which $11.9 billion is considered uncontrollable. Outlays classified as uncontrollable include compensation paid to veterans or dependents as a result of service-connected disability or death, pensions paid for non-service-connected disability or death, readjustment benefits (primarily education and training), and payments from the National Service Life Insurance and other Veterans' Administration insurance funds. Eligibility standards and benefit levels are set by law, with the annual costs largely determined by the beneficiary population. Short of changes in the statutory eligibility and benefit provisions, opportunities for control over these outlays are extremely limited.

Medicaid. Under the Medicaid program, which became effective in January 1966, Federal grants are made to the states to assist in providing medical care to welfare recipients and low-income families, under Federally approved plans. All recipients of aid to families with dependent children (AFDC) are eligible for Medicaid benefits. Supplemental Security Income recipients (aged, blind, and disabled) also are covered by Medicaid, although in 16 states such coverage is limited. In addition, 29 states have elected to cover other medically needy persons. Medicaid costs are susceptible to control both through regulatory and statutory change. The 1976 budget proposes legislative changes which would reduce the Federal matching rate from a floor of 50 to 40 percent, eliminate Federal matching for adult dental care, and other changes designed, in total, to reduce Medicaid outlays by more than $600 million in 1976.

Housing Payments. The housing payments identified in Tables 3 and 4 represent subsidies paid for low-rent public housing, homeownership and rental housing assistance, and certain other programs. These subsidies are paid under contractual commitments running for as long as 40 years, with costs increasing as new commitments are entered into. As a result, barring changes in present law, over the short term housing payments can be increased but not reduced.

Public Assistance and Related Outlays. The public assistance and related outlays included in Table 4 (estimated to cost $15.6 billion in 1976) encompass the Supplemental Security Income (SSI), food stamp, special assistance for disabled coal miners, and aid to families with dependent children programs (separately identified in Table 3).

The SSI program, which became operative in January 1974, replaced the formerly state-administered, Federally-assisted programs to aid the aged, blind, and disabled. The program pays monthly income benefits under uniform eli-
bility and payment support levels, with automatic cost-of-living increases also provided. States may supplement the Federal payments; in order to insure that such supplementation does not force states to pay costs exceeding those incurred under the previous Federal-state assistance programs, the Federal government makes a contribution toward state supplementation.

Food stamps provide a Federal food subsidy for low-income persons and families, where such assistance is requested by state social service agencies, and with those agencies certifying eligibility. Effective in October 1974 the Federal government also assumed 50 percent of state-local expenses related to this program; and effective in January 1975 provision was made for cost-of-living adjustments in food stamp allotments.

The so-called "black lung" benefits program mandates payments to coal miners disabled by that disease, under specified conditions.

Under the Aid to Families with Dependent Children program, the Federal government makes grants to the states to cover a designated Federal share of the cost of income maintenance benefits for such families. Federal matching for benefit payments currently averages 55 percent, with each state’s percent based on a per capita income formula; Federal grants also cover 50 percent of state-local administrative costs.

All of these public assistance programs, again, are of the "open-ended" variety, with eligibility standards and benefit levels set by existing law, and payments to eligible recipients mandated—leaving little or no discretion over annual outlay levels to either the Executive or Congress. A measure of control is possible by tightening up on eligibility determination, and other "quality control" efforts.

The 1976 budget also proposes that allowable increases to individuals, under programs linked by law to consumer price level increases, be limited to 5 percent until July 1, 1976. These automatic escalators, it is pointed out, account for one-third of the $12 billion increase in total income maintenance program outlays between 1975 and 1976.

Military Retired Pay. The military retirement system is non-contributory, with benefits financed from general revenues. Military retirees also receive cost-of-living adjustments comparable to those provided for retired civilian employees of the government. Salary and price levels, and a growing beneficiary population, are the principal factors affecting these costs.

Summary

The foregoing analysis points up the difficulties of controlling, in the short-term through the annual budget process, about three-fourths of total Federal budget outlays. Expenditures to liquidate prior contractual commitments and for interest are virtually beyond control. Payments for individuals which are financed through trust funds financed by special taxes or contributions are perhaps more difficult to deal with than other so-called uncontrollables which are paid for from general revenues. The enormous growth in expenditures for payments to or on behalf of millions of individuals, under a network of programs attracting broad-based political support, has created especially difficult problems.

To point to these difficulties, however,